

WHOLESALE INFLATION

15 April 2019

WPI inches up, but outlook is benign

WPI inflation increased to 3.2% in Mar'19 from 2.9% in Feb'19 driven by higher international oil prices which drove fuel and power inflation to 5.4% in Mar'19 (2.2% in Feb'19). Food inflation too rose to 3.9% in Mar'19 (3.3% in Feb'19) led by 28.1% jump in veggie prices. However, manufactured inflation softened a bit to 2.2% in Mar'19 (2.3% in Feb'19). With moderation in cereals inflation and a favourable base effect for international oil prices (average of US\$ 75/bbl in H1FY19), WPI inflation is likely to average at 3% in FY20 versus 4.3% in FY19.

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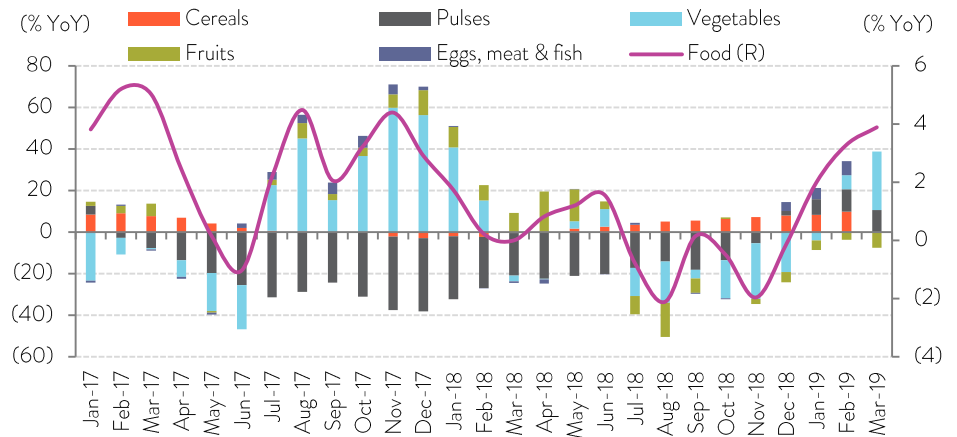
Veggie prices drive food inflation higher: WPI food inflation rose to a 16-month high at 3.9% YoY in Mar'19 from 3.3% in Feb'19. The increase was led by sharp uptick in prices of vegetables which rose by 28.1% in Mar'19 compared with 6.8% increase seen in Feb'19. However, inflation in food grains moderated to 9.2% in Mar'19 (10% in Feb'19) led by dip in inflation of paddy and wheat. While paddy prices rose by 2.6% in Mar'19 (3.4% in Feb'19), that of wheat rose by 10.1% in Mar'19 (12.3% in Feb'19). In addition, prices of protein based items (egg, meat & fish) also eased off at 5.9% in Mar'19 from 6.8% in Feb'19.

Fuel & power inflation accelerates: International oil prices have increased on a YoY basis by 0.5% in Mar'19. The same has driven fuel and power inflation higher to 5.4% in Mar'19 from 2.2% in Feb'19. Mineral oils index saw a sharp uptick at 7.3% in Mar'19 compared with 1.7% in Feb'19. Coal and electricity prices remained flat at 0.8% and 5% respectively in Mar'19. While on a CYTD basis international oil prices have increased materially, on a YoY basis prices are more or less flat. However, with INR depreciating by 6.4% in Mar'19 on a YoY basis, fuel inflation has risen. With a positive base effect—international oil prices averaged US\$ 75/ barrel in H1FY19—fuel inflation is likely to remain muted in the near-term.

Core inflation inches up: While core inflation rose to 2.5% in Mar'19 from 2.4% in Feb'19, manufactured product inflation on the other hand eased further in Mar'19 to 2.2% from 2.3% in Feb'19. The moderation was led by furniture, electric equipment, other non-metallic minerals products, basic metals and textiles products. International commodity prices too declined by (-) 5% in Mar'19 on a YoY basis. Thus commodity prices and thus manufactured product inflation is likely to remain muted in the near-term.

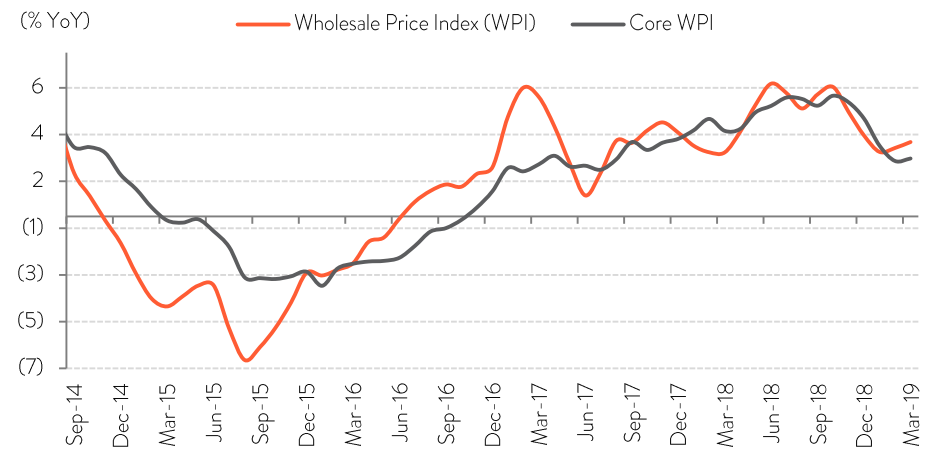


FIG 1 – WHOLESALE FOOD INFLATION TICKING UP



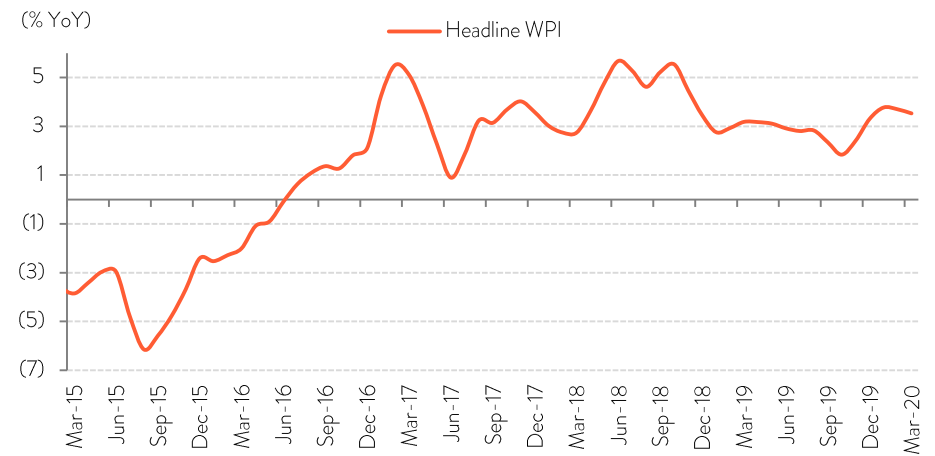
Source: CEIC, Bank of Baroda Research

FIG 2 – CORE INFLATION INCHES UP



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO REMAIN MUTED



Source: CEIC, Bank of Baroda Research

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