

WHOLESALE INFLATION

16 September 2019

Food prices rise, oil and commodity prices fall

WPI inflation remained unchanged at 1.1% in Aug'19. Food inflation rose to 5.8% in Aug'19 (4.5% in Jul'19), and its effect on headline WPI was offset by dip in fuel and power inflation at (-) 4% and lower manufactured products inflation. Within food, fruit and vegetable inflation rose by 15.7% in Aug'19. With recent pick-up in monsoon, food inflation is likely to ebb in the coming months. However, today's 10% jump in oil prices if sustains will pose a risk to inflation going ahead.

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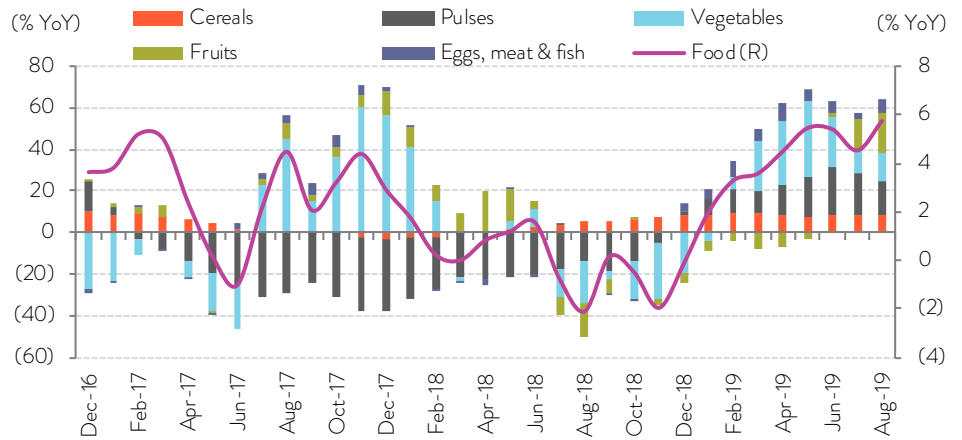
Food prices surge: WPI inflation at 1.1% in Aug'19 remained unchanged on YoY basis. Food inflation increased by 5.8% in Aug'19 compared with 4.5% in Jul'19 led by uptick in fruit and vegetable prices rising to a 3-month high of 15.7% in Aug'19 (12.5% in Jul'19) partly owing to base effect. Fruit prices rose to a 5-year high to 19.7% in Aug'19 from 15.4% in Jul'19. Prices of onion skyrocketed to 33% in Aug'19 from 7.6% in Jul'19. However, food grain prices moderated to 9.7% in Aug'19 with prices of both pulses and wheat easing to 16.4% and 5.3% in Aug'19. Going ahead, outlook on food inflation remains benign on the back of normal monsoon and pick up in sowing.

Deflation continues in fuel & power inflation: Fuel and power inflation was at a 3-year low of (-) 4% in Aug'19 vs (-) 3.6% in Jul'19. This was driven by steep decline in mineral oil index (-6.9% vs -6.3% in Jul'19) on account of (-) 19.4% fall in average international crude oil prices in Aug'19. On the other hand, coal prices remain steady (0.8%). The trend of benign oil prices might reverse in this month in the wake of attack on Saudi oil refinery as visible in a 10% jump in oil prices today.

Core inflation falls steeply: Both core and manufactured product inflation eased further in Aug'19. While core inflation entered deflationary zone for the first time in almost 3 years (-0.5% in Aug'19 from 0.2% in Jul'19), manufactured product inflation remained flat (0%) vs 0.3% increase in Jul'19. With the exception of leather, other non-metallic minerals, furniture and other transport equipment, prices of all other commodities fell. The decline was most visible in computer/electronic products, base metals and textiles. International commodity prices too declined by (-) 5.9% in Aug'19 on a YoY basis. In Sep'19 the trend is again downward at (-) 6.1%.

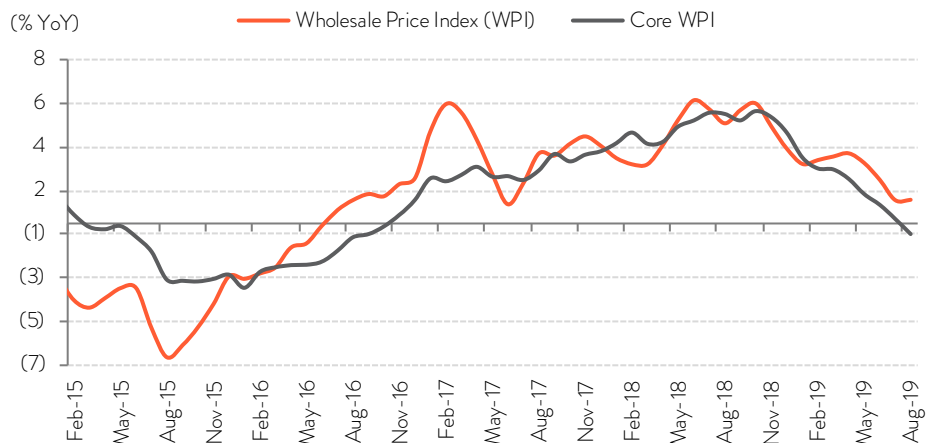


FIG 1 – WHOLESALE FOOD INFLATION JUMPS IN AUG'19



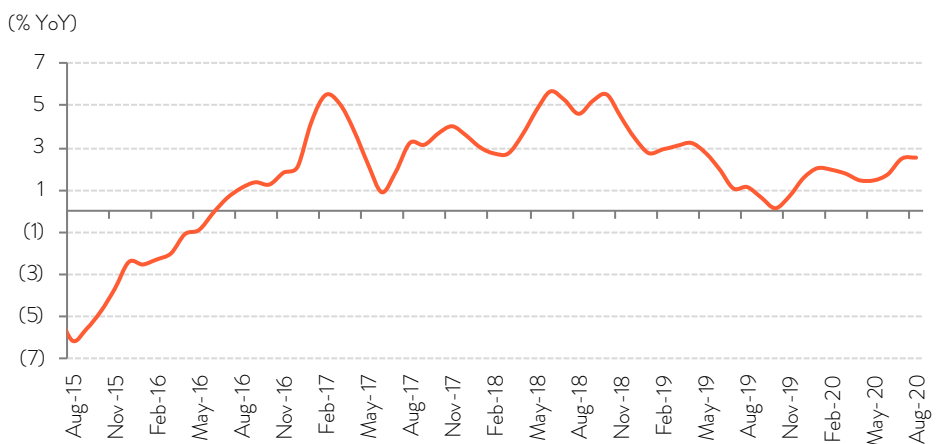
Source: CEIC, Bank of Baroda Research

FIG 2 – CORE INFLATION SLIPS TO 34-MONTH LOW IN AUG'19



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO PICK UP IN THE COMING MONTHS



Source: CEIC, Bank of Baroda Research

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