

WHOLESALE INFLATION

14 January 2019

WPI inflation cools further

WPI inflation eased to 3.8% in Dec'18 from 4.6% in Nov'18. The drop was led by fuel and power inflation at 8.4% in Dec'18 (16.3% in Nov'18) and manufactured inflation at 3.6% (4.2% in Nov'18). However, food inflation increased to 0.1% in Dec'18 from (-) 2% in Nov'18. With a slowing global economy, pricing pressure in manufactured goods is likely to remain muted. Crude prices at current levels will also not add to inflationary pressure. Hence, inflation outlook is likely to remain benign in the coming months.

Sameer Narang

+91 22 6698 5713

chief.economist@bankofbaroda.com

Jahnavi

jahnavi@bankofbaroda.com

Sonal Badhan

sonal.badhan@bankofbaroda.com

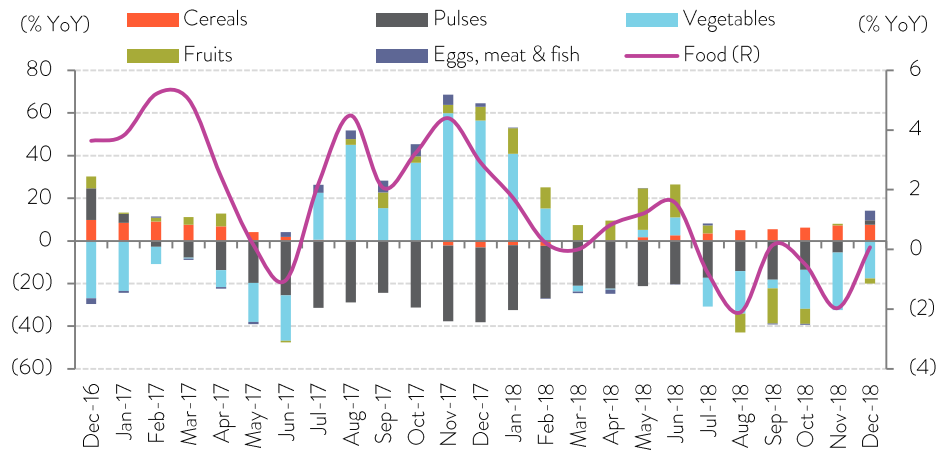
Food inflation rises: WPI food inflation rose by 0.1% in Dec'18 on a YoY basis after declining for two consecutive months. Food inflation had declined by (-) 0.5% and (-) 2% in Oct'18 and Nov'18 respectively. The increase is explained by only (-) 11.8% decline in prices of fruits and vegetables versus (-) 18.4% dip in Nov'18. In addition, food grain inflation surged to 6.6% in Dec'18 from 4.9% in Nov'18 led by higher cereal inflation at 7.6% in Dec'18 (7.2% in Nov'18). Prices of protein based items (ex-milk) rose by 4.5% in Dec'18. Seasonality and base effect are at play here.

Fuel & power inflation cools down: A 10% YoY decline in international oil prices from an average of US\$ 64/bbl in Dec'17 to US\$ 58/bbl in Dec'18, has led to softening of fuel and power inflation to 8.4% in Dec'18 from 16.3% in Nov'18. Mineral oils index fell sharply to 8.9% from 23.8% in Nov'18. On a MoM basis, overall fuel inflation declined by (-) 5.9% vs (-) 1.2% in Nov'18. Stronger INR (up by 1.5% in Dec'18 and 2.6% in Nov'18) also helped the trend. Given the current price of crude is lower than the average seen in Q4FY18, we do not expect it to pose upward pressure on WPI inflation.

Core inflation softens further: Both core and manufactured product inflation eased in Dec'18 to 4.2% and 3.6% from 4.9% and 4.2% respectively in Nov'18. The decline was broad based, led by tobacco, basic metals, leather and pharma products. This was in line with softening international commodity prices (-2% in Dec'18 vs -0.3% in Nov'18). Wearing apparels, machinery & equipment and rubber products on the other hand contributed positively to the manufactured inflation.

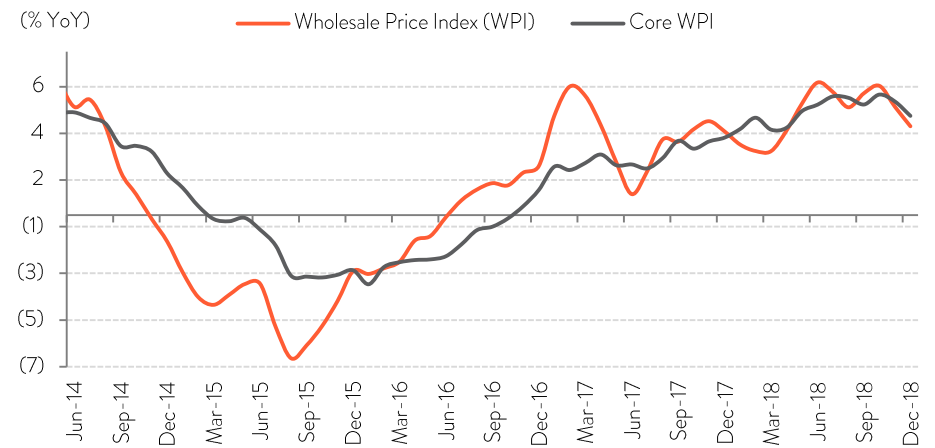


FIG 1 – WHOLESALE FOOD INFLATION INCREASES



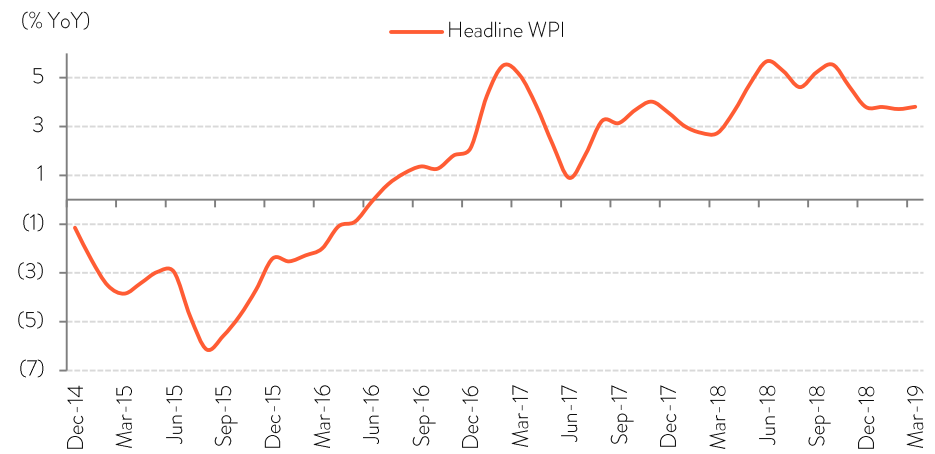
Source: CEIC, Bank of Baroda Research

FIG 2 – HEADLINE WPI AND CORE DIPS



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO REMAIN MUTED



Source: CEIC, Bank of Baroda Research

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com