

WHOLESALE INFLATION

14 February 2020

WPI edges up to 9-month high

WPI inflation inched up to 3.1% in Jan'20 from 2.6% in Dec'19 led by fuel & power inflation (3.4%) and manufactured inflation (0.3%). Food inflation on the other hand fell to 11.5% in Jan'20. Within food, protein based inflation inched up further. Given moderation in global commodity prices, WPI inflation is likely to moderate in the near-term. However, CPI inflation is likely to remain above RBI's target of 4% up to Q2FY21. We thus expect RBI to remain on hold and lower rates only when the inflation pressure eases.

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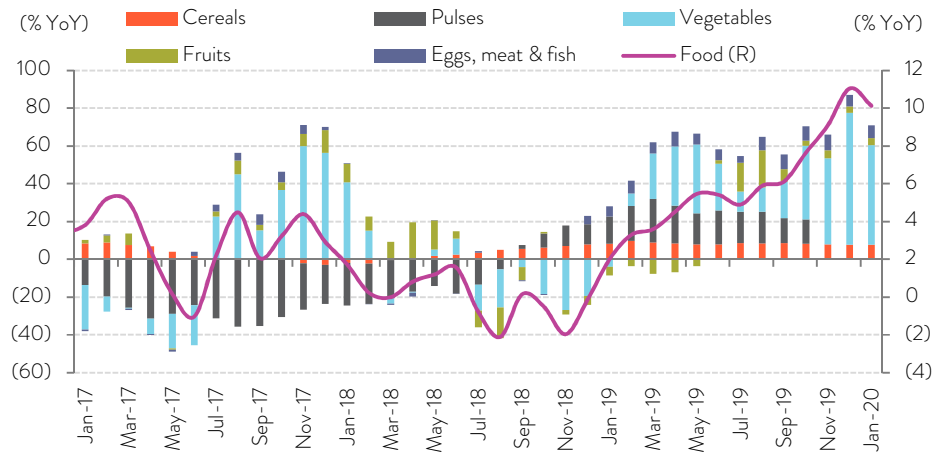
Food prices ease: Food inflation slipped to 11.5% in Jan'20 compared with 13.2% in Dec'19. The softer print was led by moderation in vegetable prices from 69.7% in Dec'19 to 52.7% in Jan'20 on the back of drop in onion prices. On the other hand, prices of paddy (4.2% in Jan'20 vs 4% in Dec'19) and wheat (8.9% in Jan'20 vs 8.4% in Dec'19) continued to rise at a steady pace in Jan'20. Prices of pulses dropped to 12.8% in Jan'20. Led by uptick in input cost, price of milk rose sharply to 3.7% in Jan'20 compared with 2.6% in Dec'19. Prices of protein based items such as meat, eggs and fish too inched up to 6.7% in Jan'20.

Fuel inflation rise sharply: Fuel and power inflation jumped by 3.1% in Jan'20 from (-) 1.5% in Dec'19. The spike is driven by higher mineral oil index which rose by 5.8% in Jan'20 compared with (-) 3.2% in Dec'19, led by higher crude prices. On the other hand, coal prices eased (2.3% vs 2.5% in Dec'19), while electricity prices remained unchanged at (-) 0.6%. International oil prices had risen again in Jan'20 on YoY basis, albeit less sharply (5.7%) compared with Dec'19 (12.9%). In Feb'20 however, prices have fallen steeply (MTD: -12.2%) on the back of faltering global demand owing to COVID-19 contagion.

Deflation in core continues: Deflation in core moderated to (-) 1% in Jan'20 from (-) 1.5% in Dec'19. Manufactured inflation rose by 0.3% in Jan'20 from (-) 0.3% in Dec'19. Sharpest rise was seen in other manufacturing items (5.8% vs -0.3%), basic metals, printing/record media and chemicals. On the other hand, prices of tobacco, pharma, non-metallic minerals and furniture products declined steeply. The decline in international commodity prices too eased in Jan'20 on a YoY basis to (-) 1.3% from (-) 1.8% in Jan'19. However in Feb'20 commodity prices have contracted at a faster pace at (-) 2.4%.

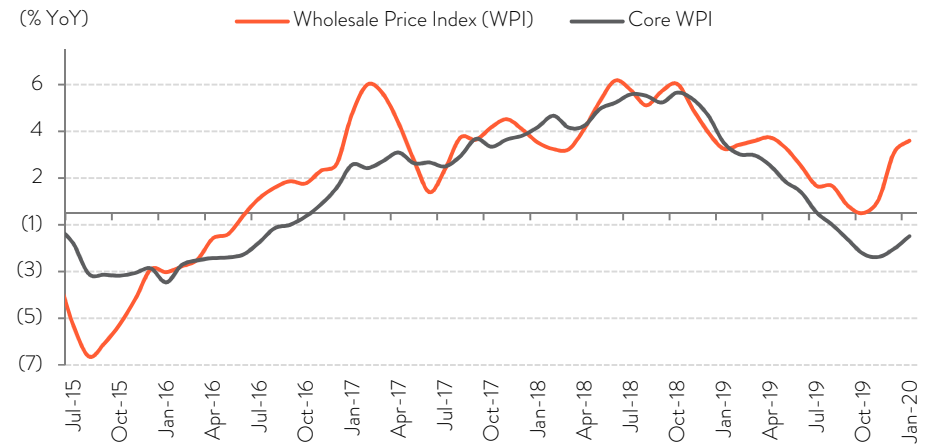


FIG 1 – WHOLESALE FOOD INFLATION EASES LED BY VEGETABLES



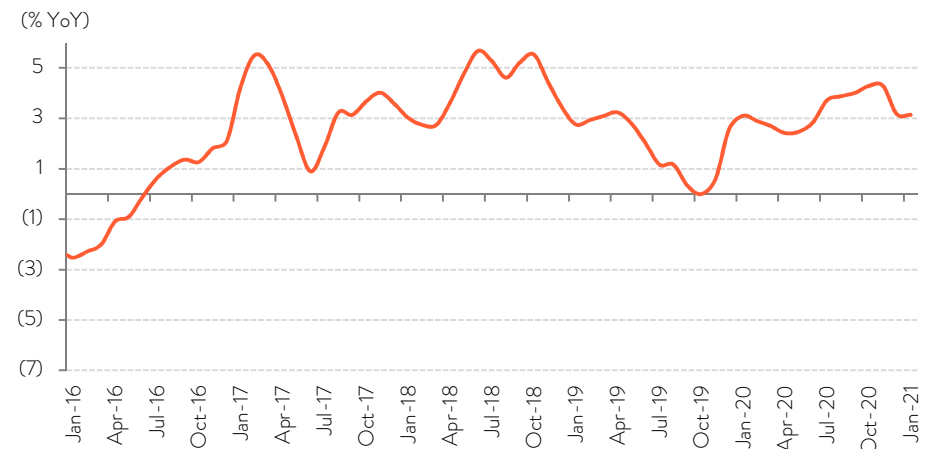
Source: CEIC, Bank of Baroda Research

FIG 2 – HEADLINE AND CORE INFLATION INCH UP IN JAN'20



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO COOL DOWN GOING FORWARD



Source: CEIC, Bank of Baroda Research

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