

WHOLESALE INFLATION

14 October 2019

WPI inflation eases to a 39-month low

WPI inflation eased to 0.3% in Sep'19 from 1.1% in Aug'19 driven by lower fuel and power inflation at (-) 7.1% in Sep'19 (-4% in Aug'19). Even manufactured product inflation fell to (-) 0.4% in Sep'19. On the other hand, food inflation increased marginally to 6% in Sep'19 from 5.8% in Aug'19 led by onions. The macro backdrop fits in with the lower than estimated WPI inflation as producer pricing power is limited. Even CPI inflation will continue to remain below RBI's target of 4% thus opening room for another 25bps rate cut in Dec'19.

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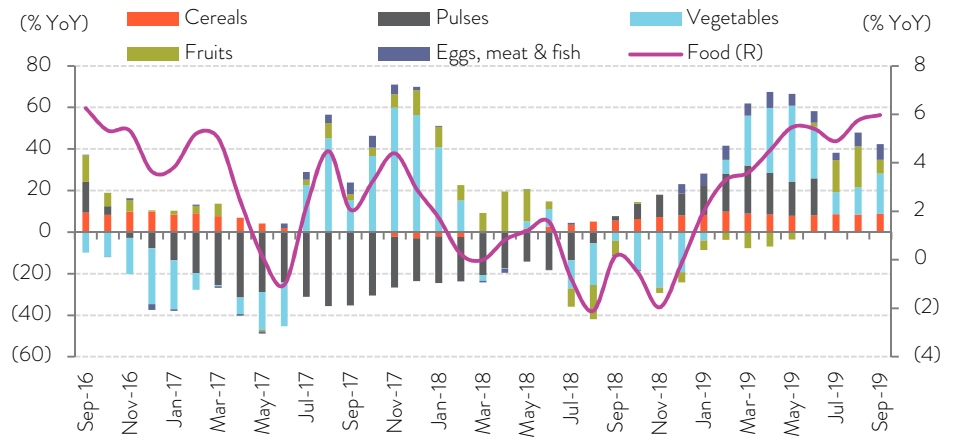
Food prices edge up: Food inflation inched up a bit to 6% in Sep'19 from 5.8% in Aug'19. The uptick was led by foodgrains and vegetables. While prices of former increased by 10.1% (9.7% in Aug'19), that of latter increased by 19.4% (13.1% in Aug'19). Within vegetables, onion prices spiked by 122% in Sep'19 (33% in Aug'19). Even amongst protein based items, prices of eggs, meat and fish rose by 7.4% in Sep'19 compared with 6.6% in Aug'19. However, fruit prices moderated to 6.7% in Sep'19 compared with 19.7% in Aug'19.

Fuel & power inflation slows further: Led by (-) 21.3% YoY decline in average crude prices, fuel and power inflation fell to more than 3 year low of (-) 7.1% in Sep'19 vs (-) 4% in Aug'19. The sharpest decline was visible in mineral oil index (-11.2% vs -6.9% in Aug'19). On the other hand, coal prices increased by 1.3% vs 0.8% increase in Aug'19. In Oct'19 as well there will be a large base effect as oil prices were at US\$ 84/bbl in Oct'18.

Deflation in core continues: Both core and manufactured product inflation declined further in Sep'19. While core inflation fell from (-) 0.5% in Aug'19 to (-) 1.1% in Sep'19, manufactured product inflation dropped to (-) 0.4% after being flat in Aug'19. Of the 22 commodities only 7 witnessed upward momentum in prices, led by apparels, pharma products and machinery equipment. On the other hand, prices of basic metals, leather, paper, furniture and other manufacturing items eased the most. International commodity prices too declined by (-) 6.6% in Sep'19 on a YoY basis. In Oct'19 the trend is again downward at (-) 6.1%.

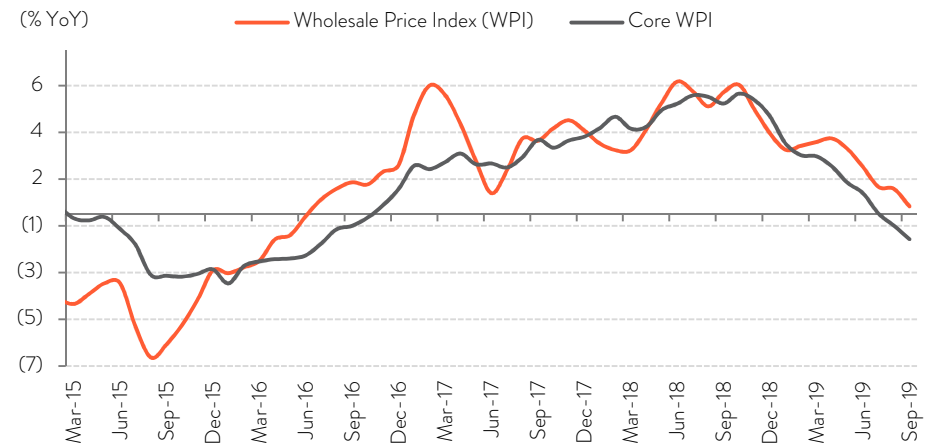


FIG 1 – WHOLESALE FOOD INFLATION EASES IN SEP'19



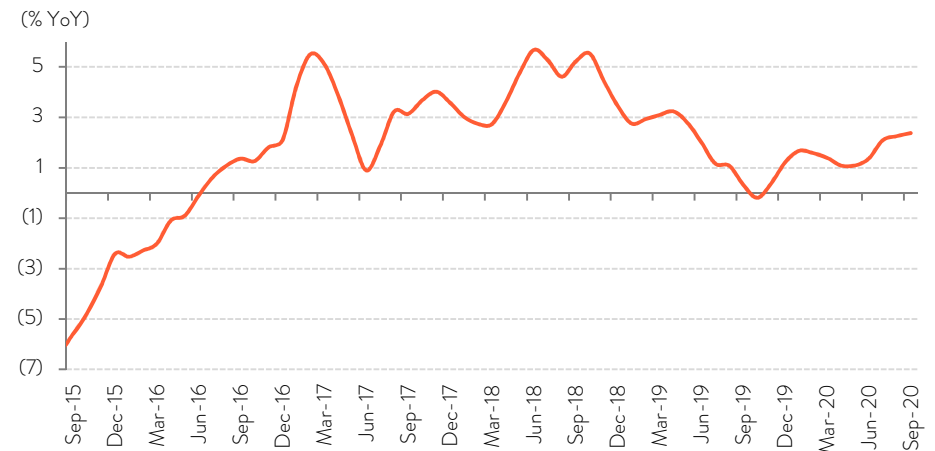
Source: CEIC, Bank of Baroda Research

FIG 2 – SLOWDOWN IN CORE INFLATION DEEPENS IN SEP'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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