

WHOLESALE INFLATION

16 December 2019

Food inflation drives WPI higher

WPI inflation inched up to 0.6% in Nov'19 from 0.2% in Oct'19 led by food inflation which rose to 9% in Nov'19 (7.6% in Oct'19). Fuel and power index continued to decline, albeit at a slower pace of (-) 7.3% in Nov'19 versus (-) 8.3% in Oct'19. Manufactured product inflation on the other hand remained unchanged (0.8% in Nov'19) while core fell further. High WPI and CPI food inflation implies RBI is unlikely to move on policy rates before Q1FY21 despite economic activity continuing to be below potential.

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Food prices soars: WPI food inflation surged to more than 5-year high at 9% in Nov'19 from 7.6% in Oct'19 on the back of uptick in vegetable prices which edged up to 45.3% in Nov'19 from 38.9% in Oct'19. Within vegetables, onion prices accelerate the most at 172.3% in Nov'19 (119.8% in Oct'19) on the back of supply disruptions. In addition, prices of other vegetables such as lady finger rose by 44.7% in Nov'19 from (-) 5.9% in Oct'19. On the other hand, cereal inflation moderated to 7.9% in Nov'19 compared with 8.3% in Oct'19 as price of paddy moderated marginally (4.2% in Nov'19 vs 4.5% in Oct'19). Protein based items continued to inch up at 8.2% in Nov'19 versus 7.6% in Oct'19.

Fuel inflation still low: Fuel & power inflation fell by (-) 7.3% in Nov'19 compared with (-) 8.3% in Oct'19. Electricity prices rose by 0.6% vs a decline of (-) 2.1% in Oct'19. Coal prices remained steady in Nov'19 (1.1%). Mineral oil index contracted by (-) 13.2% vs (-) 13.6% in Oct'19 because of 5.2% MoM increase in average international crude prices in Nov'19. In Dec'19 as well, international oil prices remain slightly higher (+1% MTD), indicating build-up of price pressure.

Deflation in core steepens: While core inflation dipped further in Nov'19 to (-) 1.9% from (-) 1.6% in Oct'19, manufactured inflation remained unchanged from Oct'19 at (-) 0.8% in Nov'19. Of the 22 commodities, 8 witnessed upward momentum in prices led by motor vehicles, transport equipment and furniture items. Prices of basic metals fell less sharply in Nov'19. On the other hand, prices of paper products, chemicals, rubber and electronic equipment declined steeply. International commodity prices too declined by (-) 6.4% in Nov'19 on a YoY basis. In Dec'19, the YoY trend is again downward at (-) 6.3%.



FIG 1 – WHOLESALE FOOD INFLATION SOARS IN NOV'19

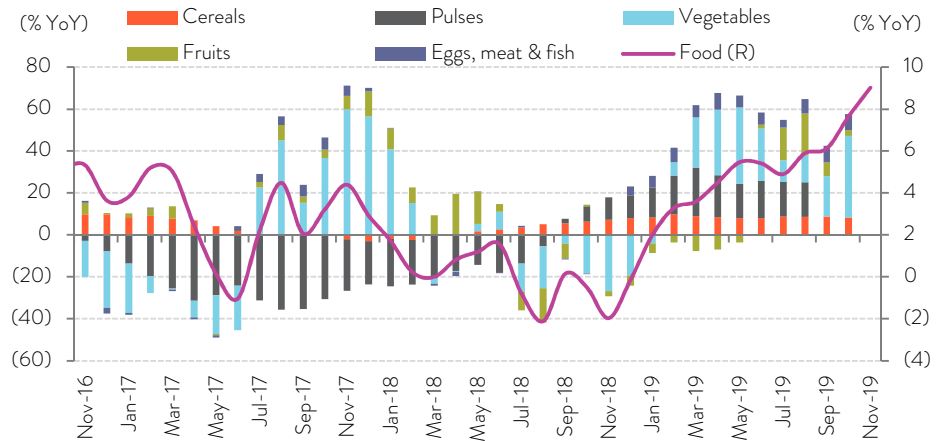


FIG 2 – CORE INFLATION FALLS FURTHER IN NOV'19

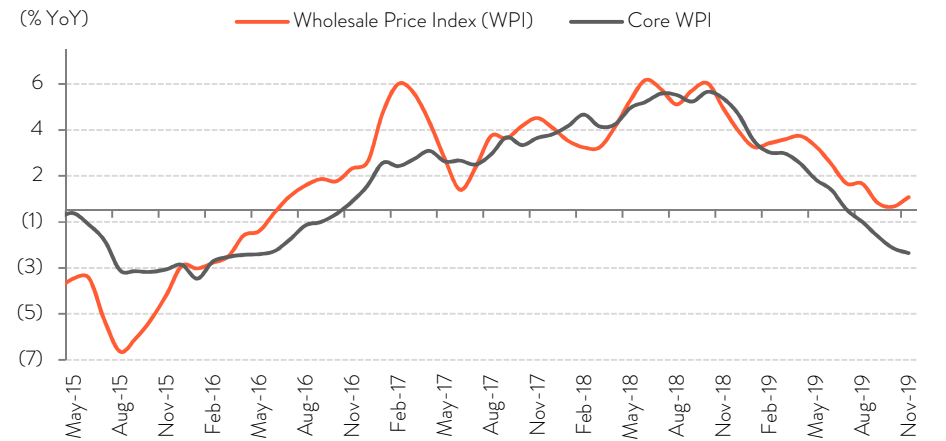
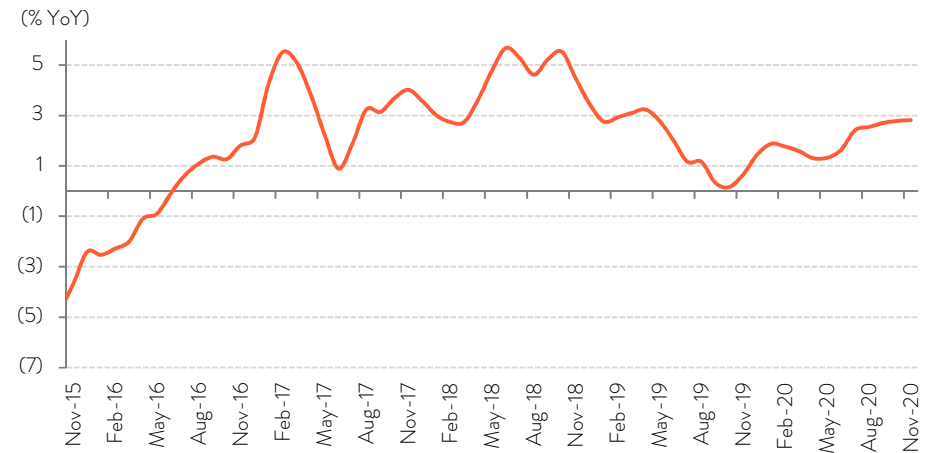


FIG 3 – HEADLINE WPI PICKING UP PACE IN H2FY20



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