

WHOLESALE INFLATION

14 November 2019

WPI inflation eases to more than 3-year low

WPI inflation cooled off to 0.2% in Oct'19 from 0.3% in Sep'19 led by fuel and power index which declined by (-) 8.3% in Oct'19. Manufactured product inflation too dropped to (-) 0.8% in Oct'19. However, as was the case with CPI, wholesale food inflation also edged up to 7.6% in Oct'19 (6% in Sep'19) led by 142% increase in tomato prices. Subdued WPI inflation is symptomatic of current economic slowdown. Reviving growth is a bigger challenge and calls for lower real rates for which RBI will cut rates by 25bps in Dec'19.

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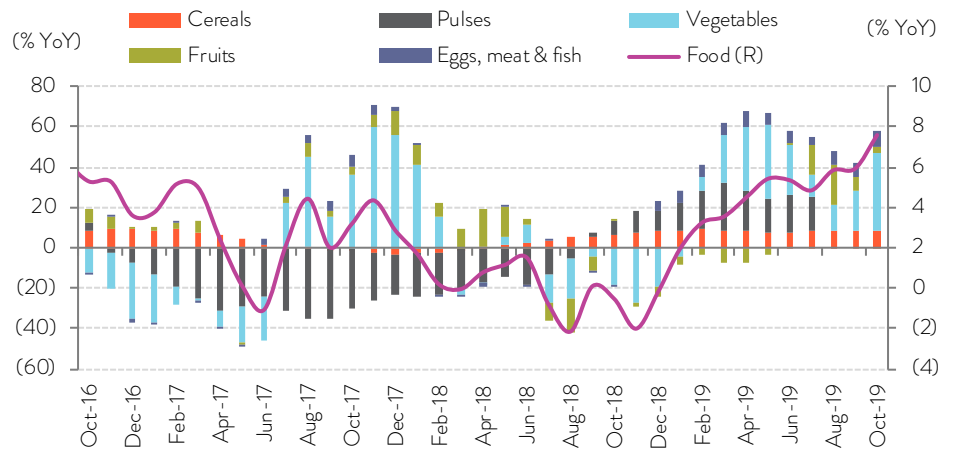
Uptick in Food prices: Food inflation accelerated to 7.6% in Oct'19 from 6% in Sep'19 on the back of fruits and vegetable inflation which edged up to 23% in Oct'19. Vegetable inflation rose by 38.9% in Oct'19 (19.4% in Sep'19). Led by supply disruption due to excess rains, prices of tomato surged by 142% in Oct'19 (55% in Sep'19). Prices of both paddy and wheat also increased by 4.5% and 6.3% respectively in Oct'19. Amongst protein based items, egg prices have also risen by 6.5% in Oct'19 compared with 4.1% in Sep'19 on account of seasonality.

Crude drags fuel prices down: Fuel & power inflation fell by (-) 8.3% in Oct'19 compared with (-) 7.1% decline in Sep'19. The 39-month low print was owing to both higher base (18.7% in Oct'18) and lower global crude prices (-26% YoY in Oct'19). Mineral oil index continued to lead the fall at (-) 13.6% versus (-) 11.2% in Sep'19. Electricity prices too declined, albeit less sharply. Coal prices have also begun to come off, a first since Apr'19. In Nov'19 as well, international oil prices remain lower at US\$ 62/bbl versus US\$ 71/bbl last year.

Deflation in core continues: Both core and manufactured product inflation declined further in Oct'19. While core inflation fell from (-) 1.1% in Sep'19 to (-) 1.6% in Oct'19, manufactured product inflation dropped to (-) 0.8% from (-) 0.4% in Sep'19. Of the 22 commodities, 9 witnessed upward momentum in prices led by tobacco, printing & reproduction of recorded media and motor vehicles. On the other hand, prices of basic metals, textiles, paper products, transport equipment and furniture items declined. International commodity prices too declined by (-) 6.4% in Oct'19 on a YoY basis. In Nov'19 the YoY trend is again downward at (-) 5.7%.

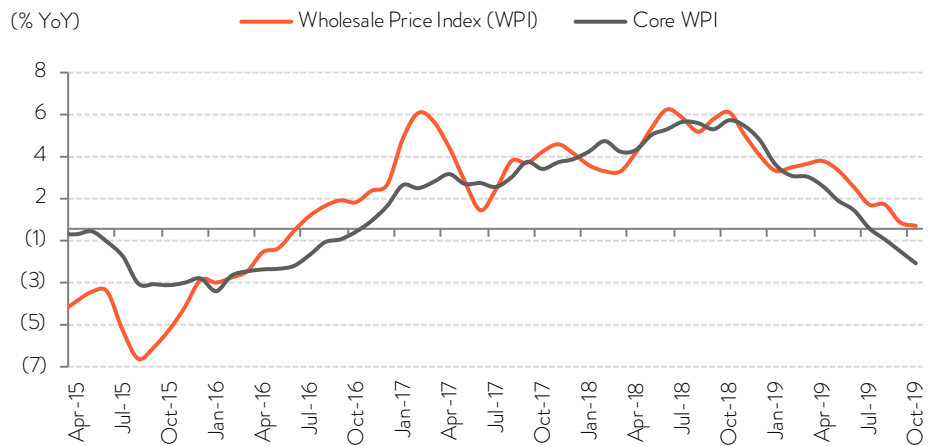


FIG 1 – WHOLESALE FOOD INFLATION PICKS UP IN OCT'19



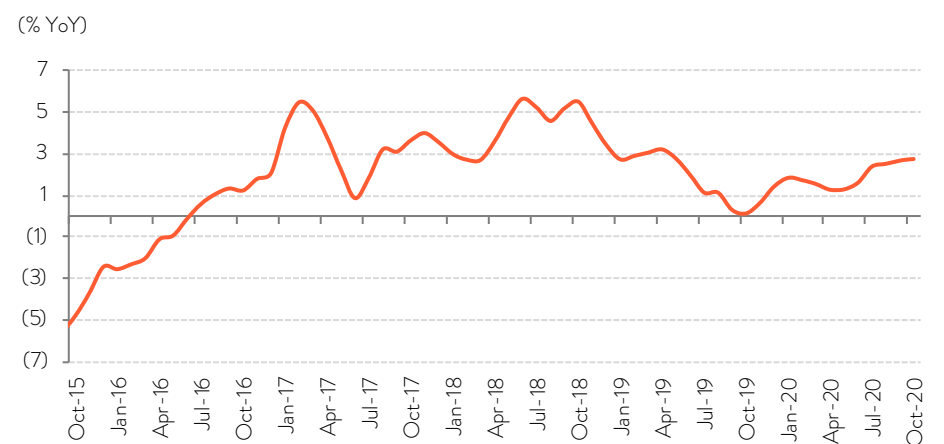
Source: CEIC, Bank of Baroda Research

FIG 2 – SLOWDOWN IN CORE INFLATION DEEPENS IN OCT'19



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO PICK UP IN H2FY20



Source: CEIC, Bank of Baroda Research

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