

WHOLESALE INFLATION

15 July 2019

WPI slips to 2%

WPI inflation eased to 2% in Jun'19 from 2.5% in May'19 led by dip in fuel and power and manufactured inflation. Food inflation was 5% in Jun'19. Pick up in monsoon augurs well for kharif sowing. However, lag in sowing for some crops implies food inflation will remain relatively high. On the other hand, global and domestic slowdown implies inflation will remain moderate. With muted core CPI and lower international commodity prices, RBI has room to reduce rates in Aug'19 as CPI inflation is expected to remain below RBI's target of 4%.

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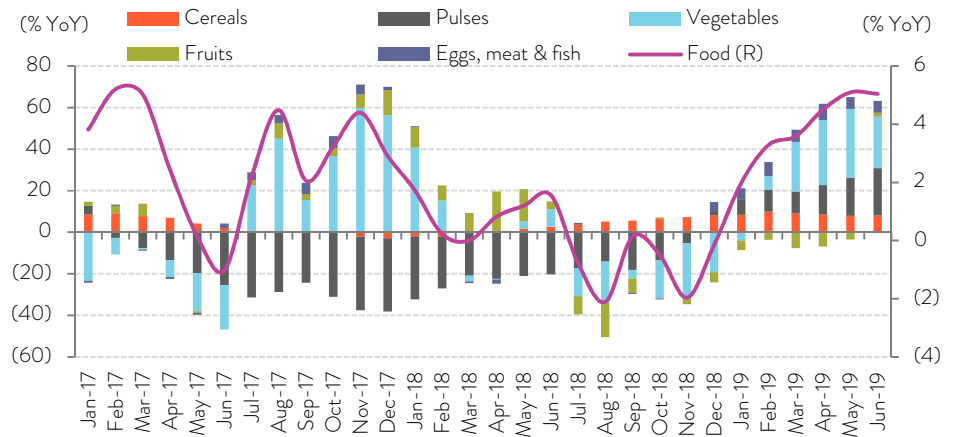
Food inflation was fairly stable: Food inflation decelerated to 5% in Jun'19 from 5.1% in May'19. However, food grain prices continued to edge up in Jun'19 at 10.2% from 9.6% in May'19 with prices of paddy and pulses rising by 2.9% and 23.1% respectively (2.2% and 18.4% in May'19). Increase in pulses prices is on account of lower sowing. While veggie prices moderated to 24.8% in Jun'19 from 33.2% in May'19, prices of fruits increased by 1.9% from (-) 3.5% in May'19. While monsoon is reviving, the lag in sowing for some crops implies prices will remain high.

Fuel & power prices decline steeply: Fuel and power inflation fell to 33-month low of (-) 2.2% in Jun'19 versus 1% in May'19 led by (-) 16.9% YoY decline in international crude prices in Jun'19. Amongst the sub-indices only coal continued to inch up (0.8% vs 0.5% in May'19). Mineral oil index declined the most at (-) 3.1% vs 3% in May'19. In Jul'19, while oil prices have started to increase marginally, current levels are still far lower than last year. Thus on a YoY basis, (-) 15% dip in oil prices and strengthening INR are likely to keep fuel and power inflation muted in the near term as well.

Core inflation at 31-month low: Both core and manufactured product inflation continued to ease in Jun'19. While core inflation fell to 0.8% in Jun'19 from 1.2% in May'19, manufactured product inflation slipped to 0.9% from 1.3% in May'19. The moderation was led by basic metals, fabricated metal products, electrical equipment and leather and textile products. Only 9 out of 22 items in manufactured products registered an increase as seen in transport equipment, motor vehicles, tobacco and pharma products. International commodity prices too declined by (-) 7.1% in Jun'19 on a YoY basis. In Jul'19 the trend is downward (-) 7%.

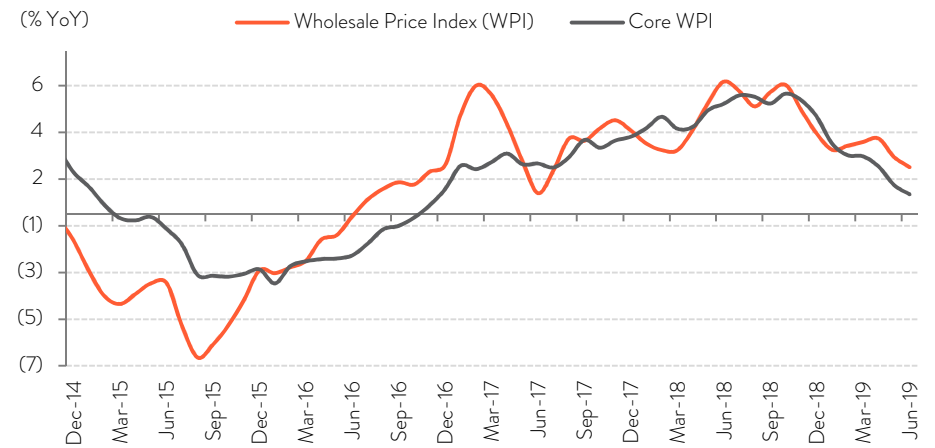


FIG 1 – WHOLESALE FOOD INFLATION AT 5% IN JUN'19



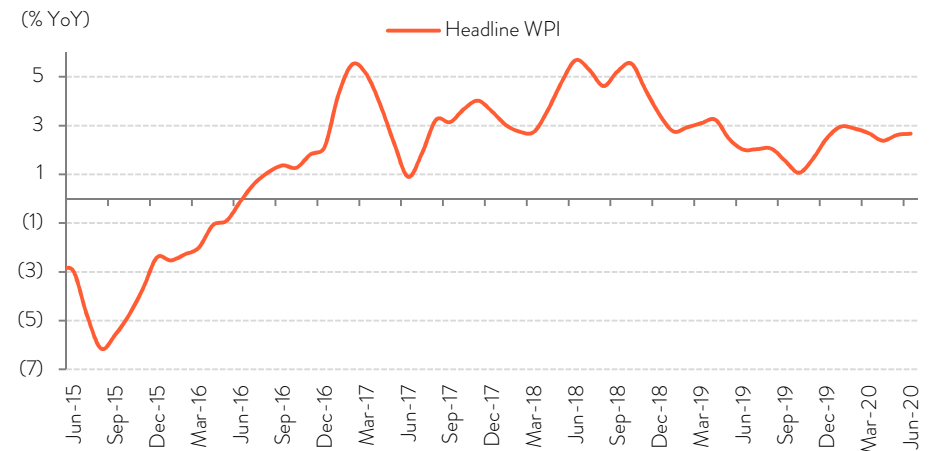
Source: CEIC, Bank of Baroda Research

FIG 2 – CORE INFLATION SLIPS TO 31-MONTH LOW IN JUN'19



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO REMAIN MUTED IN COMING MONTHS



Source: CEIC, Bank of Baroda Research

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