

**WHOLESALE INFLATION**

14 March 2019

**Food inflation drives WPI higher**

**WPI increased to 2.9% in Feb'19 from 2.8% in Jan'19 led by food inflation at 3.3% in Feb'19 (1.8% in Jan'19). Fuel and power inflation too rose by 40bps MoM to 2.2% in Feb'19. However, manufactured inflation softened to 2.3% in Feb'19 (2.6% in Jan'19). Weak global growth outlook will support lower commodity prices in coming months. However, food inflation may inch up from a low of 0.3% seen in FYTD19. Even so, inflation, in particular CPI, will be lower than RBI's target of 4% thus opening up room for easing in Apr'19.**

Sameer Narang

Jahnavi | Sonal Badhan

chief.economist@bankofbaroda.com

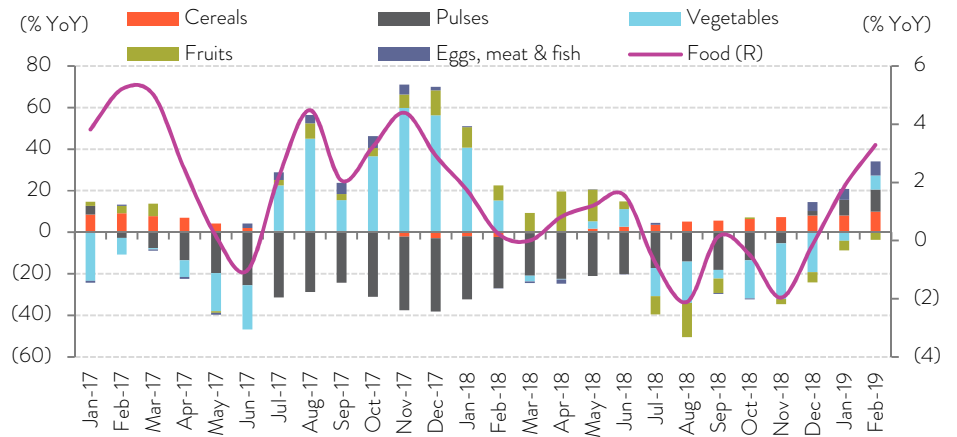
**Food inflation rises:** WPI food inflation rose to 3.3% in Feb'19 from 1.8% in Jan'19 on a YoY basis. The increase was broad based. Amongst food grains, inflation in pulses saw the sharpest jump, rising to a 26-month high of 10.9% in Feb'19 compared with 7.6% in Jan'19. Wheat prices accelerated by 12.3% in Feb'19 led by 25% YoY increase in international prices. Prices of vegetables increased by 6.8% in Feb'19 compared with decline of (-) 4.2% in Jan'19. In addition, most of the protein based items continued to see an uptick with prices of eggs rising by 3.8% in Feb'19 from 0.9% in Jan'19. However, milk prices eased to 1.6% in Feb'19.

**Fuel & power inflation ticks up:** Despite international oil prices falling by (-) 2% in Feb'19 on a YoY basis, fuel and power inflation inched up marginally, from 1.8% in Jan'19 to 2.2% in Feb'19. This was led by mineral oils (1.7% vs 0.1% in Jan'19). Coal and electricity prices continued to slip for the second consecutive month in Feb'19. A plausible explanation for the rise in fuel & power inflation is weakening rupee. Rupee fell by (-) 9.5% in Feb'19 on a YoY basis vs 4% appreciation seen in Feb'18. In Mar'19, with crude hovering around US\$ 66/bbl (MTD basis), we expect fuel inflation to remain muted.

**Core inflation cooling:** Both core and manufactured product inflation eased further in Feb'19 to 2.4% and 2.3% from 2.9% and 2.6% respectively in Jan'19. The decline was broad-based, led by basic metals, other manufacturing items, wearing apparel, leather, furniture and paper products. This was in-line with softening international commodity prices (-7% in Feb'19 vs -6.9% in Jan'19) on a YoY basis. Pharma, machinery/electrical equipment and motor vehicles saw increase in prices.

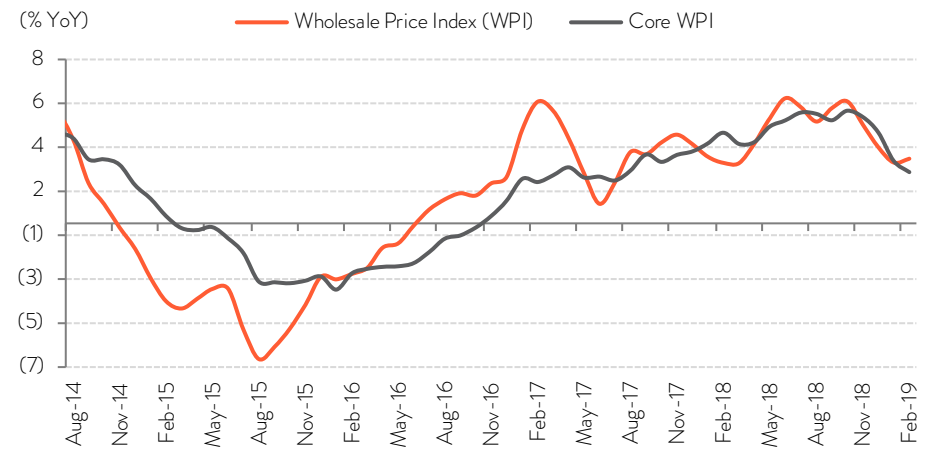


**FIG 1 – WHOLESALE FOOD INFLATION DRIVES WPI UP**



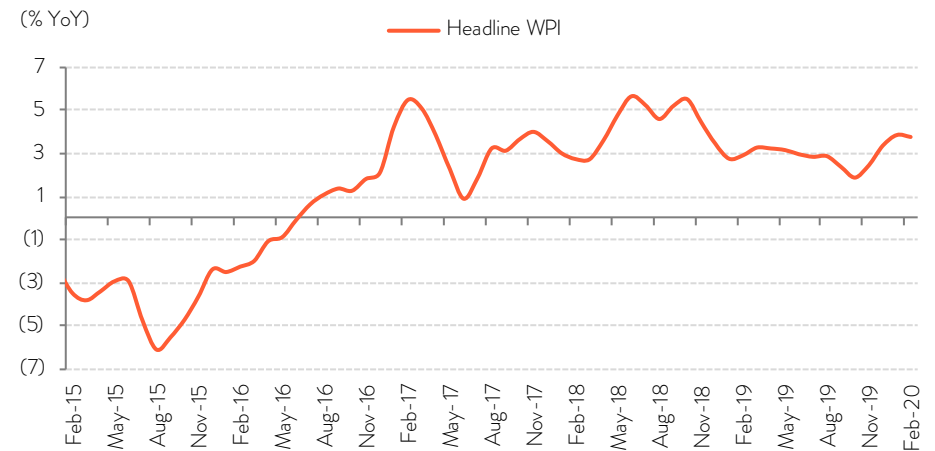
Source: CEIC, Bank of Baroda Research

**FIG 2 – CORE INFLATION SLIPS FURTHER**



Source: CEIC, Bank of Baroda Research

**FIG 3 – HEADLINE WPI TO INCH UP FURTHER IN NEXT FEW MONTHS**



Source: CEIC, Bank of Baroda Research

## Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at [www.bankofbaroda.com](http://www.bankofbaroda.com)



For further details about this publication, please contact:

### **Economics Research Department**

Bank of Baroda

[chief.economist@bankofbaroda.com](mailto:chief.economist@bankofbaroda.com)