

WHOLESALE INFLATION

14 August 2019

WPI inflation sees a steep fall

WPI inflation moderated to 1.1% in Jul'19 from 2% in Jun'19. All three categories of WPI reported a dip. Food inflation fell to 4.5% in Jul'19 (5% in Jun'19). Fuel and power index contracted by (-) 3.6% in Jul'19 (-2.2% in Jun'19) and manufactured product inflation fell to 0.3% in Jul'19 (0.9% in Jun'19). International oil and commodity prices have fallen further in Aug'19. Thus WPI inflation is likely to remain benign in the near-term. Outlook for CPI inflation is also favourable and it is expected to remain below RBI's target of 4%.

Sameer Narang

Jahnavi | Sonal Badhan

chief.economist@bankofbaroda.com

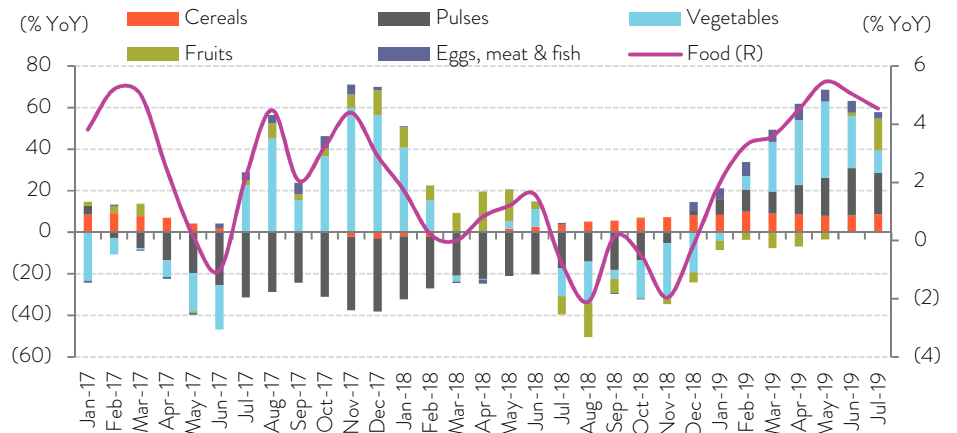
Food prices decline: WPI inflation dropped to 1.1% in Jul'19 (2% in Jun'19) led by dip in food inflation to 4.5% in Jul'19 compared with 5% in Jun'19. Softer food inflation was driven by moderation in veggie prices from 24.8% in Jun'19 to 10.7% in Jul'19. Even amongst protein based items, prices of milk as well as eggs, meat and fish moderated to 0.3% and 3.2% respectively in Jul'19 from 0.9% and 5.6% in Jun'19 respectively. However, cereal prices continued to rise at a steady pace at 8.6% in Jul'19 (7.9% in Jun'19) and prices of fruits surged by 15.4% in Jul'19 which can be explained by rains and a low base.

Fuel & power inflation dips further: Fuel and power inflation fell to nearly 3 year low of (-) 3.6% in Jul'19 vs (-) 2.2% in Jun'19. This was driven by second consecutive decline in mineral oil index (-6.3% vs -3.1% in Jun'19) on account of (-) 14.3% fall in average international crude oil prices in Jul'19. Coal prices on the other hand were steady (0.8%). In Aug'19, oil prices have declined further (-18.6% MTD). This will give a negative inflationary impulse in Aug'19 as well.

Core inflation at 33-month low: Both core and manufactured product inflation eased further in Jul'19. While core inflation fell to 0.2% in Jul'19 from 0.8% in Jun'19, manufactured product inflation slipped to 0.3% from 0.9% in Jun'19. With the exception of printing, computer and electronic products, and other manufacturing items, prices of all other items decreased on a YoY basis. The decline was most visible in fabricated metals, textiles, paper and leather products. International commodity prices too declined by (-) 6.9% in Jul'19 on a YoY basis. In Aug'19 the trend is again downward at (-) 5.1%.

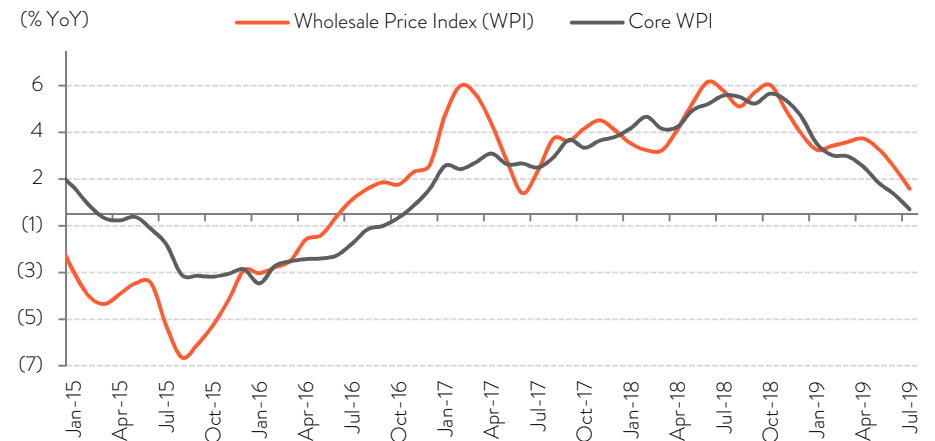


FIG 1 – WHOLESALE FOOD INFLATION SLIPS



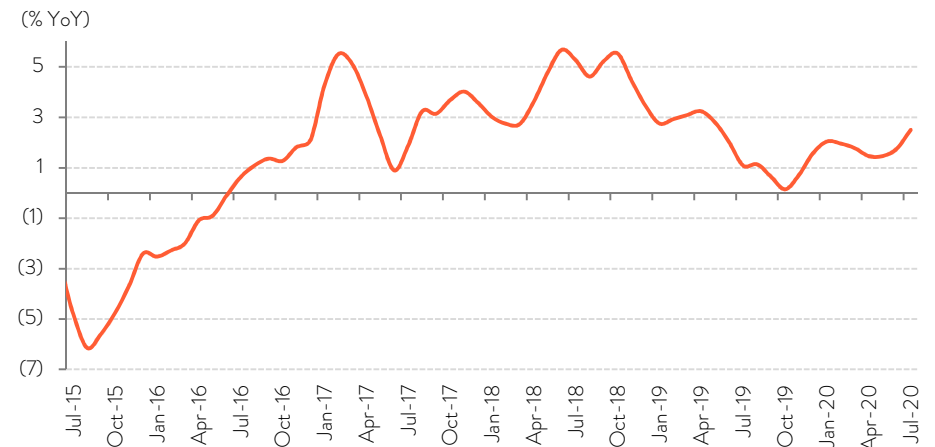
Source: CEIC, Bank of Baroda Research

FIG 2 – CORE INFLATION SLIPS TO 33-MONTH LOW IN JUL'19



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO REMAIN MUTED



Source: CEIC, Bank of Baroda Research

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Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com