

## WHOLESALE INFLATION

14 January 2020

### WPI also inches up-Rate cut off the table

WPI inflation edged up to 7-month high of 2.6% in Dec'19 from 0.6% in Nov'19 led by food inflation which rose to 11% in Dec'19 (9% in Nov'19). At the same time, deflation in fuel and power index and manufactured products eased. We see WPI inflation increasing further in the months ahead as upward momentum in food and energy prices continue. In the above backdrop, we believe RBI will remain vigilant but on hold as growth impulses remain weak. A rate cut will have to wait for inflation pressures to ease, perhaps in H2FY21.

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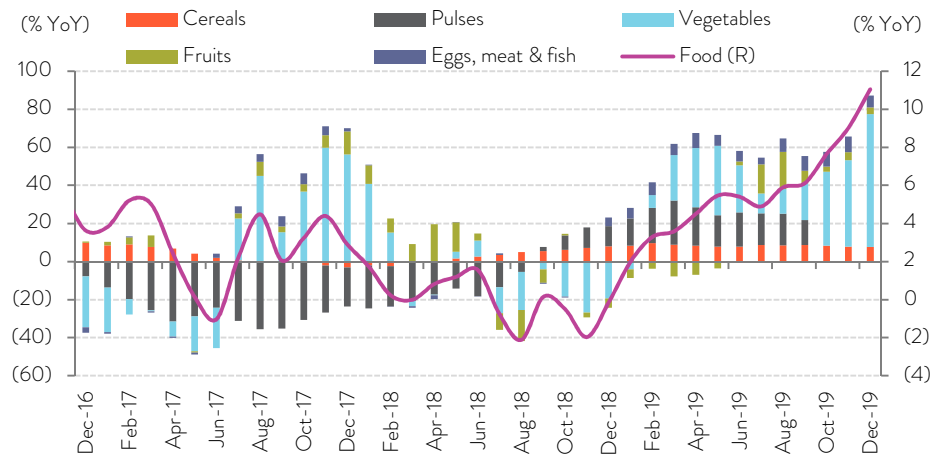
**Food prices spike:** In-line with sharp acceleration in food CPI inflation, even WPI food inflation soared to more than 6-year high of 11% in Dec'19 (9% in Nov'19). Vegetable prices at wholesale level increased by 69.7% in Dec'19 (45.3% in Nov'19) compared with 60.5% increase seen at retail level. Within vegetables, uptick in onion prices accelerated further to 455.8% in Dec'19 from 172.3% in Nov'19. On the other hand, cereal inflation eased marginally to 7.7% in Dec'19 compared with 7.9% in Nov'19 as prices of paddy decelerated (4% in Dec'19 vs 4.2% in Nov'19). Pulses prices also moderated to 13.1% in Dec'19 (16.6% in Nov'19). Prices of protein based items such as milk and eggs increased by 2.6% and 7.9% respectively in Dec'19.

**Fuel inflation feeling upward pressure:** Fuel and power inflation fell by (-) 1.5% in Dec'19 compared with (-) 7.3% in Nov'19. The sharp decline in the pace of contraction was driven by higher oil and coal prices. Coal prices inched by 2.5% in Dec'19 versus 1.1% in Nov'19. Mineral oil index contracted by only (-) 3.2% versus (-) 13.2% in Nov'19. International oil prices had risen by 12.6% on a YoY basis in Dec'19 compared with (-) 4.9% decline in Nov'19. In Jan'20 as well, international oil prices remain higher (+13.7% MTD), indicating build-up of price pressure.

**Deflation in core eases:** Deflation in core moderated to (-) 1.5% in Dec'19 from (-) 1.9% in Nov'19. Manufactured inflation dropped to (-) 0.3% in Dec'19 from (-) 0.8% in Nov'19. Of the 22 commodities, 10 witnessed upward momentum in prices led by pharma, basic metals and computer & electronic products. On the other hand, prices of other manufacturing products, furniture and printing declined steeply. The decline in international commodity prices too eased in Dec'19 on a YoY basis to (-) 1.9% from (-) 6.7% in Nov'19. In Jan'20 the decline in prices has eased further to (-) 1.3%.

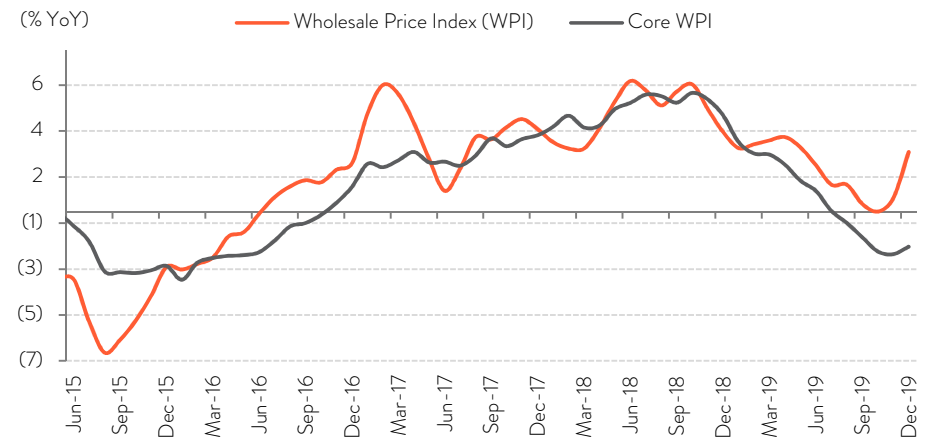


**FIG 1 – WHOLESALE FOOD INFLATION EDGED UP LED BY VEGETABLES**



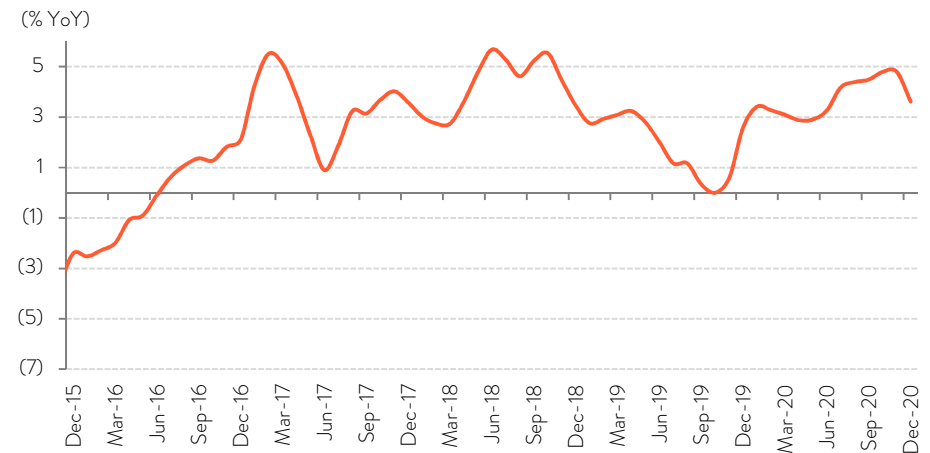
Source: CEIC, Bank of Baroda Research

**FIG 2 – CORE INFLATION REVERSES TREND IN DEC'19**



Source: CEIC, Bank of Baroda Research

**FIG 3 – HEADLINE WPI TO REMAIN HIGH IN Q4FY20**



Source: CEIC, Bank of Baroda Research

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