

WHOLESALE INFLATION

14 May 2020

WPI food and fuel inflation eases

The trend of food, fuel and available categories of manufactured products shows a decline in wholesale inflation. Food inflation eased to 3.6% in Apr'20 (5.5% in Mar'20) and fuel inflation contracted at near 4-year low of 10.1% in Apr'20 (1.8% in Mar'20). Apart from pharma, downward pressure in manufactured products was also visible. Retail inflation is also expected to ease once supply side constraints are removed. We believe there is room to cut rates by 50bps to bring real rates further lower to support aggregate demand.

Sameer Narang

Jahnvi | Sonal Badhan

chief.economist@bankofbaroda.com

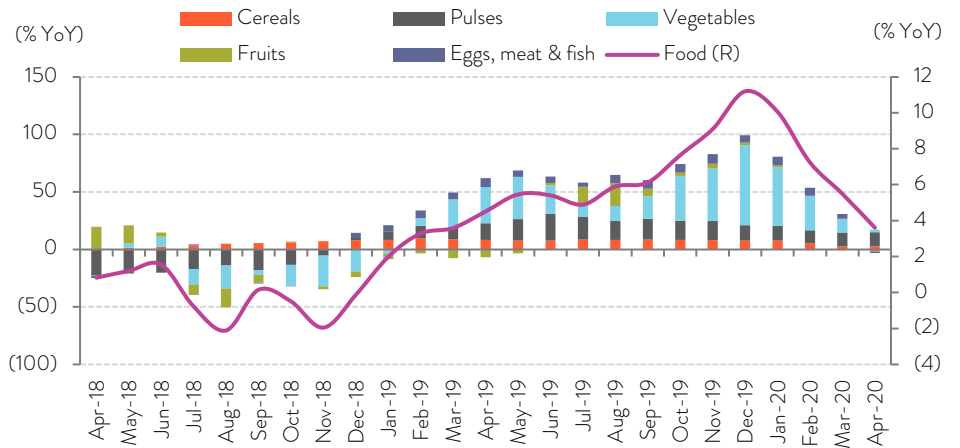
Food inflation moderates: Food inflation edged downwards to a 13-month low of 3.6% in Apr'20 from 5.5% in Mar'20. This was led by moderation in vegetable prices, slipping to a 15-month low of 2.2% in Apr'20 compared with 11.9% in Mar'20. Onion prices eased to 73.5% from 112.3% in Mar'20. Paddy inflation moderated to 1.4% (1.7% in Mar'20). On the other hand, wheat and milk prices accelerated to 7.3% (4.8% in Mar'20) and 5.9% (5.4% in Mar'20) respectively. Fruit prices contracted to 11-month low of 1.7% in Apr'20 from a decline of 0.4% in Mar'20. Prices of eggs fell to an all-time low of 17.4% in the current series in Apr'20. The underlying trend of lower wholesale food inflation should be visible in retail as well once the lockdown restrictions are removed.

Fuel inflation nose-dives: Fuel and power inflation contracted by 10.1% in Apr'20 from decline of 1.8% in Mar'20, as mineral oil price index fell by 21.5% compared with 8.2% drop in Mar'20. The dip in mineral oil index can be explained by 63% decline in international crude prices in Apr'20 on a YoY basis versus a 50% contraction in Mar'20. Coal prices continue to remain steady while electricity price index increased by 6.2% versus 9.9% in Mar'20. We expect headline fuel inflation to remain muted as international oil prices are 59% lower on a YoY basis.

Downward price pressure in core: Within the core index, data for only manufactured food, beverage, chemical products, pharma items and basic metals is available. Amongst these, barring pharma products (4.2% increase versus 3.3% in Mar'20), prices of all other items eased led by 4.3% decline in basic metals and 2.6% drop in chemical products. Prices of food and beverages eased from 6.6% and 1.7% in Mar'20 to 5.5% and 1.4% in Apr'20 respectively. This is in-line with international commodity prices which have declined sharply in Apr'20 on a YoY basis by 16.8% versus a decrease of 13.2% in Mar'20.

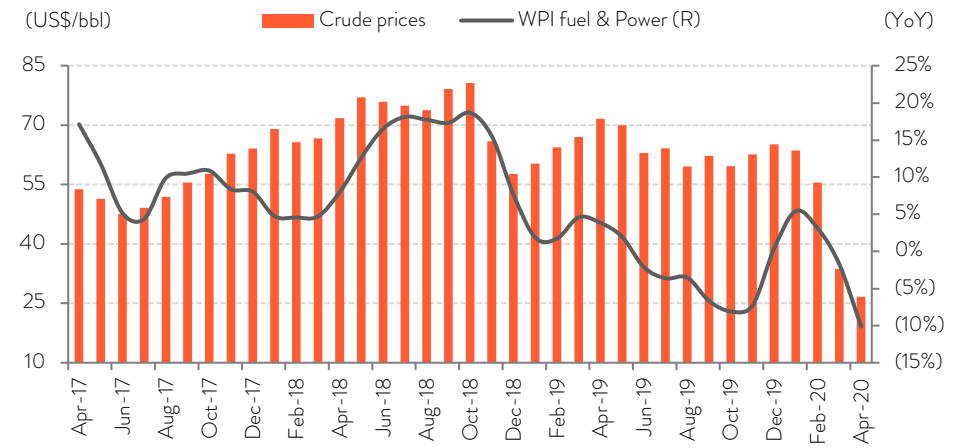


FIG 1 – WHOLESALE FOOD INFLATION EASES LED BY VEGETABLES



Source: CEIC, Bank of Baroda Research

FIG 2 – FUEL INFLATION DOWN IN LINE WITH INTERNATIONAL PRICES



Source: Bloomberg, CEIC, Bank of Baroda Research

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Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com