

## WHOLESALE INFLATION

15 April 2020

### WPI slips

**WPI inflation moderated to a 4-month low of 1% in Mar'20 from 2.3% in Feb'20. This was led by lower food inflation which eased to 5.5% in Mar'20 from 7.3% in Feb'20 and Fuel & Power inflation. With decline seen in international oil prices this month, we expect WPI to ease further. Food prices may also decelerate once restrictions on movement of goods are lifted in a phased manner. We anticipate growth to fall to 1.5% in FY21 and CPI inflation at 3.8% which gives RBI room to lower rates by another 50bps.**

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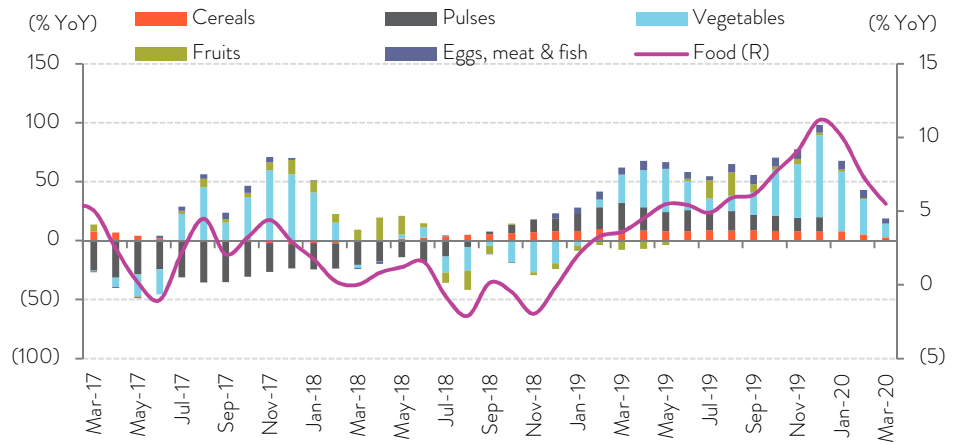
**Food inflation eases:** WPI slipped to a 4-month low of 1% in Mar'20 from 2.3% in Feb'20. Food inflation eased to 5.5% in Mar'20 from 7.3% in Feb'20. This was largely led by softening of vegetable prices which increased by 11.9% in Mar'20 from 30% in Feb'20. Onion prices explain the dip. Cereal inflation dropped to almost 2-year low of 2.7% in Mar'20 from 5.2% in Feb'20 as prices of both paddy (1.7% vs 3.7% in Feb'20) and wheat (4.8% vs 6.4% in Feb'20) edged lower. Fruit prices contracted by 0.4% in Mar'20. While milk (5.4% vs 4.5% in Feb'20) prices inched up, those of eggs declined by 14.1% in Mar'20, largest fall seen in this series.

**Fuel inflation down:** Fuel and power inflation contracted by 1.8% in Mar'20 from an increase of 3.4% in Feb'20, as mineral oil price index declined by 8.2% compared with an increase of 1.1% in Feb'20. Coal prices remained steady while electricity prices rose by 9.9% versus 9% in Feb'20. The dip in mineral oil index can be explained by 50% decline in Mar'20 on a YoY basis versus a 14% contraction in Feb'20. We expect headline fuel inflation to moderate in Apr'20 as international oil prices have declined further on a YoY basis (MTD) on the back of faltering global demand.

**Deflation in core continues:** Core deflation remained unchanged from Feb'20 at 0.8% in Mar'20. Manufactured inflation eased marginally to 0.3% in Mar'20 from 0.4% in Feb'20. Of the 22 items in core index, 13 saw decrease in prices, with sharpest decrease seen in other leather items (-2.2% vs -1.4%), basic metals (-4.1% vs -3.6%) and fabricated metal products (-1.8% vs -1.3%). This is in line with global trend as international commodity prices have declined sharply in Mar'20 on a YoY basis by 13% compared with a decrease of 4.2% in Feb'20. In Apr'20, commodity prices have contracted at an even faster pace of 14.8%.

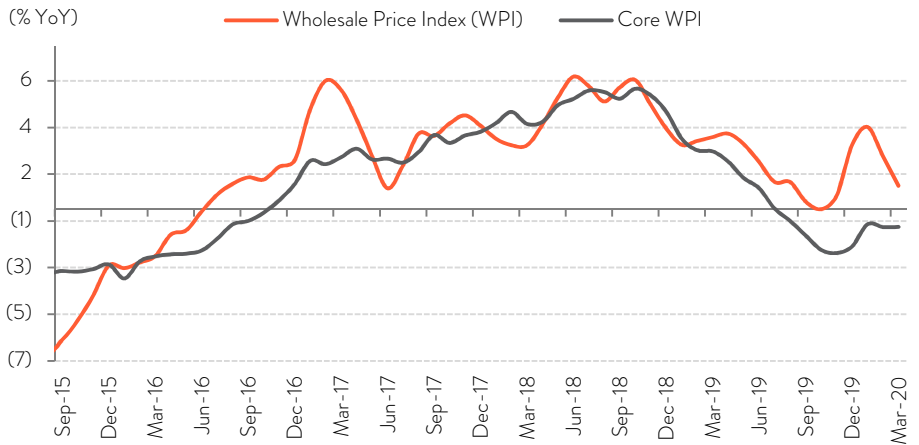


**FIG 1 – WHOLESALE FOOD INFLATION EASES LED BY VEGETABLES**



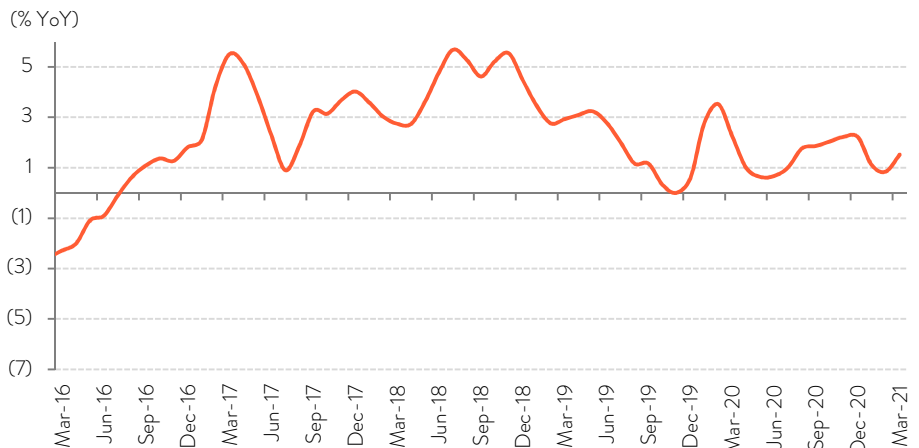
Source: CEIC, Bank of Baroda Research

**FIG 2 – HEADLINE INFLATION EASES IN MAR'20**



Source: CEIC, Bank of Baroda Research

**FIG 3 – HEADLINE WPI TO INCH UPWARDS**



Source: CEIC, Bank of Baroda Research

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