

WHOLESALE INFLATION

16 March 2020

WPI eases

WPI inflation edged down to 2.3% in Feb'20 from 3.1% in Jan'20 led by food inflation (7.8% in Feb'20 vs 11.5% in Jan'20). Manufactured inflation was steady at 0.4% in Feb'20 (0.3% in Jan'20). Fuel & power inflation (3.4% in Jan'20) remained unchanged as electricity prices went up and negated impact of lower crude prices. We expect WPI and CPI inflation to moderate going forward due to falling commodity prices and lower demand. Against this backdrop, we expect RBI to cut rates by 50bps, perhaps today itself.

Sameer Narang

Jahnvi | Sonal Badhan

chief.economist@bankofbaroda.com

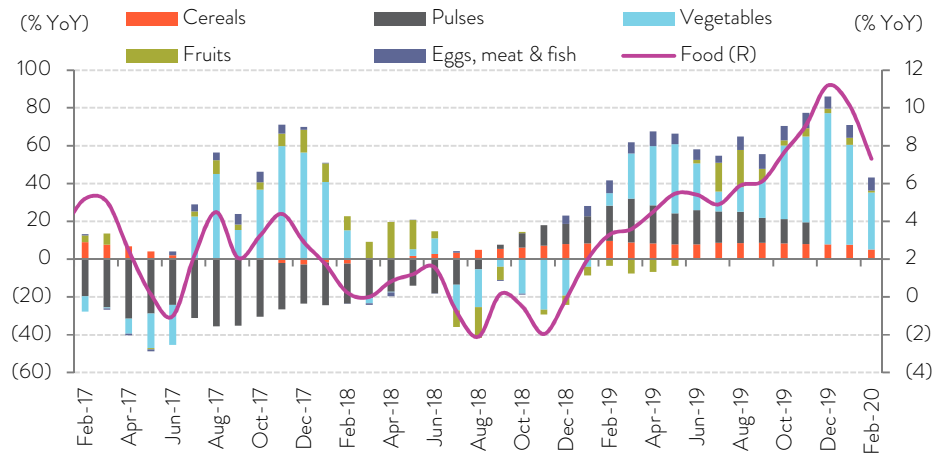
Moderation in food prices: Food inflation eased to a 5-month low of 7.8% in Feb'20 from 11.5% in Jan'20 led by softening of vegetable prices. The drop in vegetable inflation is on the back of onion prices which have increased by 162% in Feb'20 versus 293% in Jan'20. Cereal inflation also cooled off to 5.2% in Feb'20 compared with 7.7% in Jan'20. Prices of both rice (3.7% vs 4.2% in Jan'20) and wheat (6.4% vs 8.9% in Jan'20) edged down in Feb'20. Prices of pulses also eased to an 11-month low of 11.4% (12.8% in Jan'20) in Feb'20. On the other hand, price of milk continued to rise at a steady pace of 4.5% in Feb'20 from 3.7% in Jan'20. While prices of eggs slipped by (-) 1.9% in Feb'20, those of meat and fish accelerated.

Fuel inflation unfazed: Fuel and power inflation remained steady at 3.4% in Feb'20, unchanged from Jan'20, as electricity prices rose sharply. The electricity price index jumped by 9% versus (-) 0.6% in Jan'20. Coal prices remained steady at 2.3% in Feb'20. Mineral oil index moderated to 1.1% from 5.8% Jan'20, as average international crude prices fell by (-) 14% on YoY basis. We expect headline fuel inflation to moderate in Mar'20 as international oil prices have slumped by (-) 37.4% on YoY basis (MTD) on the back of faltering global demand owing to COVID-19 contagion.

Deflation in core continues: Core deflation was at (-) 0.8% in Feb'20 compared with (-) 1% in Jan'20. Manufactured inflation rose for the second consecutive month in Feb'20, up by 0.4% versus 0.3% in Jan'20. Of the 22 items in core index, 13 saw increase in prices, with sharpest increase seen in other manufacturing items (10% vs 5.8%), pharma products (3.4% vs 1.3%) and transport equipment (6.7% vs 5.1%). This is in divergence with global trend as international commodity prices have declined sharply in Feb'20 on a YoY basis by (-) 4.3% from (-) 2.1% in Jan'20. In Mar'20, commodity prices have contracted at a faster pace of (-) 7.6%.

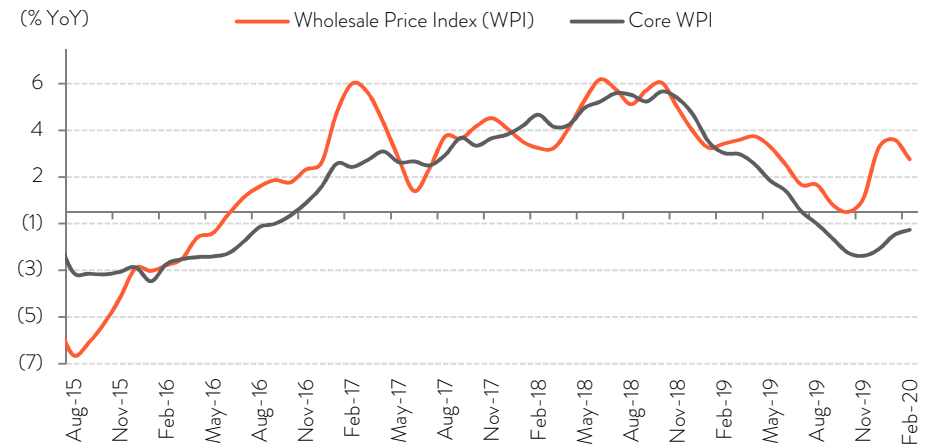


FIG 1 – WHOLESALE FOOD INFLATION EASES LED BY VEGETABLES



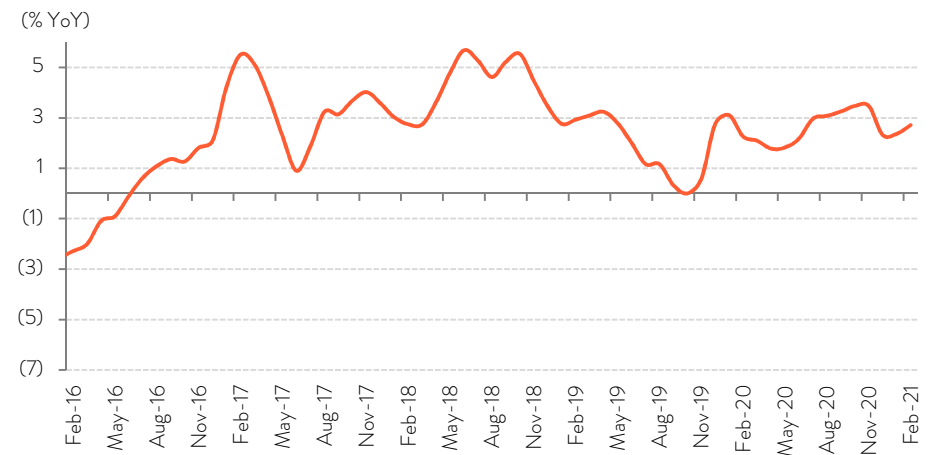
Source: CEIC, Bank of Baroda Research

FIG 2 – HEADLINE AND CORE INFLATION INCH UP IN JAN'20



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO COOL FURTHER DOWN GOING FORWARD



Source: CEIC, Bank of Baroda Research

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com