

WHOLESALE INFLATION

15 June 2020

Lower fuel prices drives sharp reduction in WPI inflation

Headline WPI fell by 3.2% in May'20 led by 19.8% drop in fuel inflation. Within fuel group, minerals index declined by 37.4% compared in-line with international prices. Food inflation also moderated to 2.3% in May'20 from 3.6% in Apr'20. Core inflation contracted at the fastest pace in 5 months in May'20 with manufactured products inflation at (-) 0.4%. We do foresee retail inflation reducing in the coming months led by food inflation which is already showing signs of softening. This will open up room for RBI to cut rates further.

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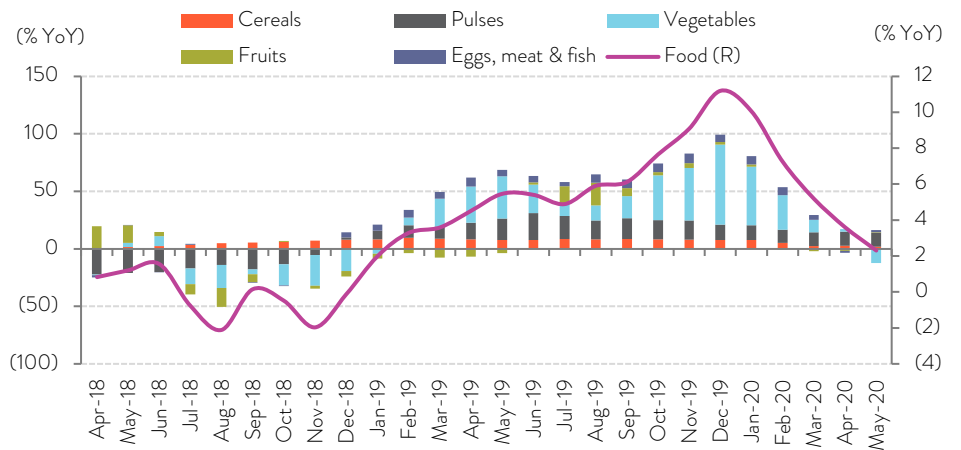
Food inflation eases: Food inflation moderated to 2.3% in May'20 from 3.6% in Apr'20. The decline was led by vegetable prices which contracted at a 17-month low of 12.5% in May'20 compared with an increase of 2.2% in Apr'20. Onion inflation decelerated to 6.3% in May'20 from 73.5% in Apr'20. Cereal inflation too edged down to 2% in May'20 with prices of both paddy (1.2% in May'20 from 1.4% in Apr'20) and wheat (6% in May'20 from 7.3% in Apr'20) increasing at a slower pace. Even milk prices increased by 5.4% in May'20 compared with an increase of 5.9% in Apr'20. On the other hand, prices of fruits as well as protein based items such as, eggs, meat and fish accelerated.

Fuel inflation drops further: Fuel and power inflation contracted by 19.8% in May'20 from decline of 10.1% in Apr'20, as mineral oil price index fell by 37.4% compared with 21.5% drop in Apr'20. Within the mineral oils index, the decline was led by ATF, Naphtha and kerosene. Coal prices remained steady for the 5th consecutive month in May'20, while electricity price index increased by only 2.9% versus 6.2% in Apr'20. We expect headline fuel inflation to remain muted as international oil prices are still 35% lower on a YoY basis.

Deflation in core lingers on: Core inflation contracted by 1.3% in May'20 versus a decline of 0.8% in Mar'20 (Apr'20 data unavailable). Manufactured inflation also declined by 0.4% compared with an increase of 0.3% seen in Mar'20. Amongst major commodities, prices of basic metals, textiles, chemical products, and electronic items saw the maximum decline. This is in line with global trend wherein international commodity prices declined by 11.7% in May'20 compared with a decrease of 16.3% in Apr'20. In Jun'20 (MTD), commodity prices have contracted at a similar pace of 11.4% YoY so far.

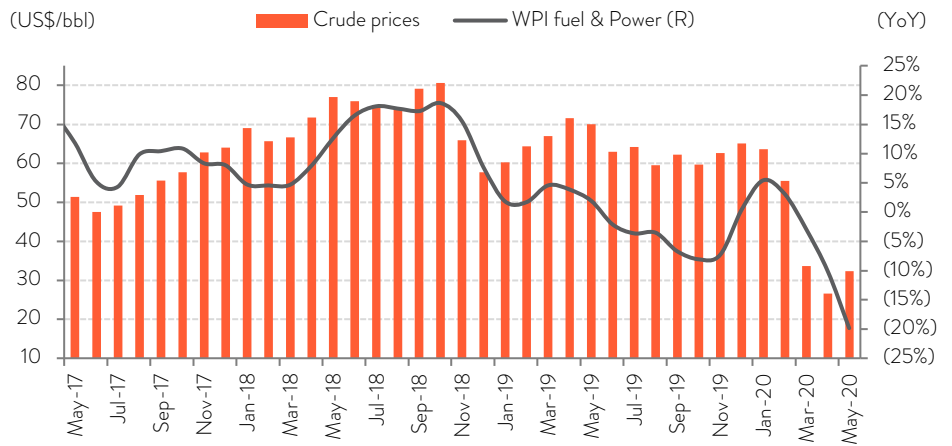


FIG 1 – WHOLESALE FOOD INFLATION EASES LED BY VEGETABLES



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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