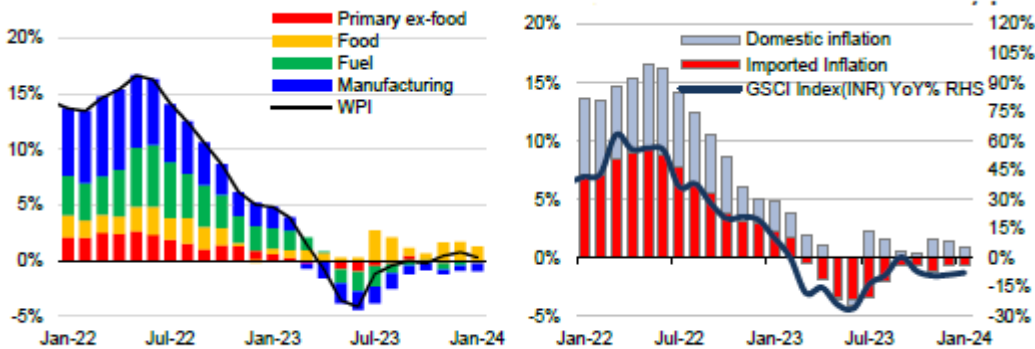


India Data WPI Update

India WPI inflation pulls back on less adverse food.

Exhibit: Higher domestic food inflation offset by past drop in global commodity prices



Source: Axis Bank Business and Economic Research

India WPI inflation falls back to 0.27% YoY with slowdown in food inflation

India WPI inflation slowed to 0.27% YoY with slowing of inflation in food articles to 6.85% - seen across segments but especially pronounced in marquee vegetables onion and tomato. Though inflation here slowed, inadequate winter price drops mean YoY momentum remains elevated and in double digits for pulses, vegetable and spices, as also seen in CPI data. Apart from food inflation, price drops in fuel and power moderated, more to do with movements in the previous year rather than sequential changes – This was seen across the board, but most pronounced in petrol and diesel owing to weighting. Electricity prices largely tracked seasonal trends.

Manufacturing inflation – largely commodities – turns more negative

Contraction in manufactured wholesale prices of 1.1% was the most pronounced in three months, largely seen in the non-food manufacturing category, at one point known as core WPI inflation. Within this, price drops were mostly associated with lower prices of iron and steel over the month – offset by increases in prices of non-ferrous metals. Apart from this, trends within manufacturing inflation remain mostly stable, tracking composites of global commodity prices seen in the GSCI indices.

Disinflation remains on track, but current trends can slow industrial growth

The anchor for domestic monetary policy has been CPI inflation since the adoption of the FIT framework, leaving WPI inflation only as an accessory indicator helping study underlying trends in high-frequency wholesale prices – since these are often inputs to consumer facing goods and services, some see WPI inflation as a form of input inflation, but information is limited beyond already-known moves in high-frequency food and global commodity prices.

WPI inflation forms a large chunk of the GDP deflator, predominantly in manufacturing – this will likely be seen in coming GDP prints where manufacturing growth is likely to slow with the deflator turning less negative and eventually turning positive.

As with CPI inflation, the numbers indicate disinflation on track.

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