

India Flash

WPI inflation steadies in December, supporting the case for a policy rate cut by the RBI

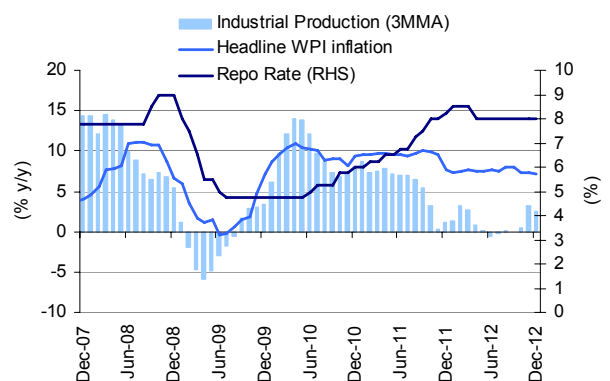
India's December wholesale price inflation steadied at 7.2% y/y (BBVA: 7.2%; consensus: 7.4%), the same level as the previous month. as continued moderation in core and fuel prices offset a low base effect and higher food inflation. Core inflation (non-food manufacturing) slipped for the fourth successive month to 4.2% y/y, signaling easing demand pressures and softer commodity prices. Looking ahead, we expect WPI inflation to average 6.6% y/y in 2013 with near term upside risks emanating from a weak rupee and imminent hikes in energy prices. Easing WPI inflation should enable the RBI to cut its repo rate by 25 bps at its next policy meeting on January 29th policy meeting to 7.75%, the first cut since May 2012.

- Retail inflation likely peaked in December.** While WPI inflation continued to moderate, India's consumer price inflation picked up in December to 10.6% y/y from 9.9% y/y in November, driven by a pick up in food prices. On a positive note, we think CPI inflation has likely peaked with food prices (50% weight in CPI) expected to ease in 1Q13 driven by a bumper harvest of winter sown farm products.
- Recent activity out-turns signal mild pick-up in growth.** Recently released activity out-turns were broadly soft amid a high base effect and production loss due to fewer working days during the November festive season. November industrial production growth contracted -0.1% y/y from +8.2% in October, while motor vehicle sales and core infrastructure index growth was sluggish. However, on a seasonally adjusted sequential basis, manufacturing growth picked up last quarter, led by an improving business outlook, higher new order flows and moderating inflation pressures. While growth has likely bottomed, the challenges of high twin deficits and effective policy implementation may drag on the economic recovery in 2013. We expect India's GDP growth to improve from an likely outturn of 5.4% y/y in 2012 to around 6.5% y/y in 2013 amid policy support, benign global outlook and a revival in domestic investment.

Table 1
Headline WPI inflation steadied in December driven by easing core and fuel inflation

India WPI Inflation						
% Change Y/Y	Weight	Dec-12	Nov-12	Oct-12	Sep-12	Aug-12
Headline	100	7.2	7.2	7.3	8.1	8.0
Primary Articles (Non food)	4	13.2	14.0	11.4	10.4	14.1
Food	26	10.4	9.0	7.8	8.8	9.3
Fuel	15	9.4	10.0	11.6	12.0	8.7
Manufactured Non-food (Core)	55	4.2	4.5	5.2	5.7	5.8

Chart 1
Moderating inflation pressures coupled with policy reforms provide elbow room for RBI to address sluggish growth



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