

# India Flash

## WPI inflation falls in January, providing scope for further monetary easing

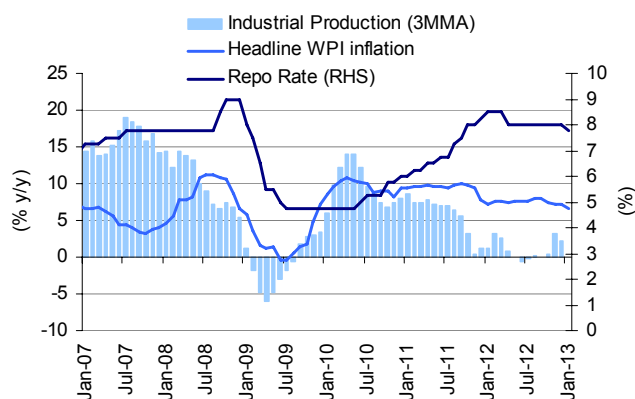
India's wholesale price inflation eased by more than expected in January to 6.6% y/y (consensus: 7.0%), its lowest in three years, from 7.2% in December. Core inflation (manufactured non-food prices) edged lower to 4.1% y/y from 4.2% previously amid weak demand pressures and sluggish growth. Looking ahead, we expect headline WPI inflation to average 6.8% y/y in 1Q13 as imminent energy price hikes, a weak rupee and bottlenecks in the food supply chain present near term upside risk. That said, with growth disappointing on the downside, scope for the RBI to cut rates at its next policy meeting on March 19 has increased, following the 25 bps repo rate cut in January. In this context, the upcoming Budget session of parliament, which begins on February 21st, will be watched for progress on pending reforms and the nature of FY14 Union Budget (scheduled February 28<sup>th</sup>) alongside trends in India's high current account deficit.

- Growth concerns remain elevated – need continued policy efforts.** December industrial production growth shrunk 0.6% y/y from a downwardly revised -0.8% (-0.1% previously) in November, led by contraction in manufacturing and mining activity. Cumulatively, industrial growth has averaged a meager 0.8%/y/y in 2012 compared to 4.8% y/y in the previous year. Consumption and investment indicators, though bottoming out, remain subdued and new project off-takes are weak due to environmental and land acquisition issues. While the ongoing reforms momentum has helped alleviate macro-stability risks and bought India time to avert a ratings downgrade, further traction in policy efforts is important for reviving the investment cycle.
- Worrisome double digit retail inflation warrants supply side response.** Despite sluggish growth, India's consumer price inflation continued to inch up in January, up 10.8% y/y from 10.6% y/y in December, driven mainly by higher food inflation. Sticky food prices, especially vegetables, underscore the need for policy to address supply side bottlenecks. We expect CPI inflation to moderate going ahead as a bumper harvest of winter sown crop dampens food price pressures (which account for 50% of CPI). That said, upside risks to prices emanate from ongoing fuel price adjustments along with unchecked supply side issues

Table 1  
**Headline WPI inflation continues to trend lower in January amid easing demand pressures**

India WPI Inflation						
% Change Y/Y	Weight	Jan-13	Dec-12	Nov-12	Oct-12	Sep-12
<b>Headline</b>	<b>100</b>	<b>6.6</b>	<b>7.2</b>	<b>7.2</b>	<b>7.3</b>	<b>8.1</b>
<b>Primary Articles (Non food)</b>	<b>4</b>	<b>10.5</b>	<b>13.2</b>	<b>14.0</b>	<b>11.4</b>	<b>10.4</b>
<b>Food</b>	<b>26</b>	<b>10.6</b>	<b>10.4</b>	<b>9.0</b>	<b>7.8</b>	<b>8.8</b>
<b>Fuel</b>	<b>15</b>	<b>7.1</b>	<b>9.4</b>	<b>10.0</b>	<b>11.6</b>	<b>12.0</b>
<b>Manufactured Non-food (Core)</b>	<b>55</b>	<b>4.1</b>	<b>4.2</b>	<b>4.5</b>	<b>5.2</b>	<b>5.7</b>

Chart 1  
**Disappointing growth, abating inflation pressures provide scope for monetary policy stimulus**



Sumedh Deorukhkar  
sumedh.deorukhkar@bbva.com  
+91 2226598581

Stephen Schwartz  
stephen.schwartz@bbva.com.hk  
+852 2582 3218