

India Flash

April WPI inflation drops below 5%, supporting the case for another rate cut in June

Wholesale price inflation fell to a lower-than-expected 4.9% y/y in April (consensus: 5.4%; prior 6.0%) the lowest level since November 2009, amid a broad-based let up in price pressures. Core inflation fell for the eighth successive month to 2.7% y/y from 3.4% previously, the result of weak final demand and lower global commodity prices. Looking ahead, we expect inflation to remain soft in view of sluggish domestic growth, although government delays in addressing supply constraints in the food and infrastructure sectors present upside risks, and we expect the RBI to maintain caution. That said, the low inflation outturn is likely to tilt the RBI's next decision on June 17 in favor of another 25bps rate cut. So far, the year 2013 has seen three consecutive rate cuts by the RBI of 25 bps each at its previous meetings in January, March and May. Beyond one more cut, scope for further easing in 2013 looks unlikely, although it cannot be ruled out in the event of a deterioration in the growth outlook, and the recent tendency of other global central banks to resume a rate cutting cycle.

- Tackling food inflation through adequate supply side response is crucial to keep inflation low.** India's April CPI inflation moderated to a still-elevated level of 9.4% y/y from 10.4% in March driven by a favorable base effect and lower food inflation. However, CPI food inflation continues to stay in double digits (10.7% y/y), stressing the need for government to address supply side issues. Given existing supply bottlenecks, a replay of last year's sub-par monsoon season (June to September) significantly raises the risk of renewed inflationary pressures.
- First quarter industrial growth supports tepid pick up in India's 1Q13 GDP growth.** We estimate India's real GDP growth in 1Q13 (scheduled to be released on May 31st) at 4.7% y/y, slightly above the 4.5% y/y seen in 4Q12 and expect full year 2013 growth to average 5.7% y/y (5.1% y/y in 2012). Recent policy efforts to revive infrastructure investments, moderating inflation and easier monetary policy have helped support India's basic and capital goods sector although delays in policy implementation remains an issue. India's industrial growth in 1Q13 edged up 1.8% y/y, up from 0.8%/y/y in 1Q12, which is in line with our expectations of a tepid pick up in India's growth momentum over 1H13 as higher manufacturing activity offsets sluggish growth in services sector.

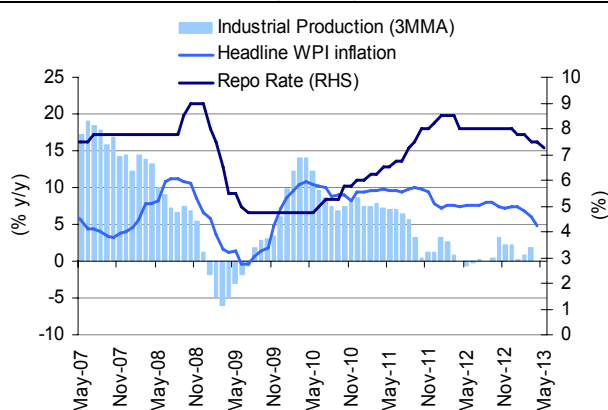
Table 1

WPI inflation eases significantly on weakening final demand, softer global commodity prices

India WPI Inflation						
% Change Y/Y	Weight	Apr-13	Mar-13	Feb-13	Jan-13	Dec-12
Headline	100	4.9	6.0	6.8	7.3	7.3
Primary Articles (Non food)	4	7.6	9.0	10.1	13.0	13.6
Food	26	6.3	8.1	10.2	11.0	10.0
Fuel	15	8.8	10.2	10.5	9.3	10.2
Manufactured Non-food (Core)	55	2.7	3.4	3.8	4.1	4.3

Chart 1

Subdued growth, abating inflation pressures provides scope for further monetary policy stimulus



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