

India Flash

India's inflation shows signs of easing

India's wholesale price index (WPI) inflation eased to 9.1% y/y in November from 9.7% in October, as expected (BBVA: 8.9%; consensus: 9.0%), driven by a let-up in food prices. On a sequential seasonally adjusted basis, we estimate headline inflation to have slowed to 0.4% m/m from 0.6% m/m in October. The outturn will be a key input for the RBI at its next policy meeting on December 16. A further decline in price pressures would provide some room for policy manoeuvre to support slowing growth and tight liquidity conditions. However, risk of imported inflation remains high due to a weakening currency, and with core inflation still high we do not expect an immediate easing of the policy stance. That said, scope for policy easing could develop during the first half of 2012, as we expect inflation to trend gradually lower amid a further moderation in food prices and softening domestic demand.

- **Core inflation still remains high.** Although alleviating price pressures is reassuring there is little evidence yet of a broad-based softening. Core inflation (non food manufactured category) continues to persist at elevated levels of 7.9% y/y, compared to its historical average of 4.4% amidst persistent cost pressures, pricing power and the impact of rising import prices thanks to a weakening rupee. On a seasonally adjusted basis, we estimate core inflation to have gained 1.1% m/m in November compared to 0.2% in the previous month.
- **November WPI lowers expectations of a CRR cut in December meeting.** Investor speculation continues of a possible cut in the Cash Reserve Ratio (CRR) by the RBI from the present 6.0% level at the upcoming policy meeting on December 16. Such expectations are based upon tighter liquidity conditions. However, the latest inflation data lowers expectations of an immediate cut in the CRR as there is little evidence of a broad based easing in price pressures. We believe the RBI would prefer to wait and watch, looking for clear signs of moderation in inflation and sustainability of the liquidity tightness before acting on the CRR.

Table 1

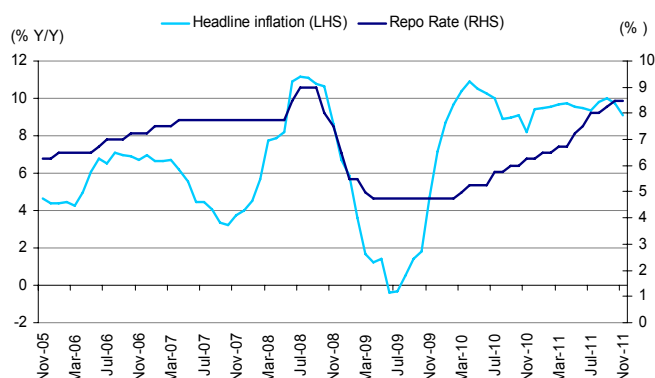
India's inflation details

India Inflation						
% Change Y/Y	Weight	Nov-11	Oct-11	Sep-11	Aug-11	
Headline	100	9.1	9.7	10.0	9.8	
Primary Articles (Non food)	4	3.2	7.7	14.6	18.2	
Food	26	7.9	9.9	9.1	9.2	
Fuel	15	15.5	14.8	14.0	12.9	
Manufactured Non-food (Core)	55	7.9	7.6	8.0	7.7	
% Change M/M (Non Seasonally Adjusted)						
Headline	100	0.1	0.4	0.8	0.5	
Primary Articles (Non food)	4	-1.5	-2.8	1.2	3.2	
Food	26	-1.3	1.3	1.4	0.4	
Fuel	15	0.9	1.0	0.7	0.9	
Manufactured Non-food (Core)	55	0.7	0.0	0.5	0.2	
% Change M/M (Seasonally Adjusted*)						
Headline	100	0.4	0.6	1.0	0.6	
Primary Articles (Non food)	4	-2.3	-1.0	1.8	2.7	
Food	26	-1.1	0.6	0.9	0.6	
Fuel	15	1.8	1.7	1.4	1.0	
Manufactured Non-food (Core)	55	1.1	0.2	0.7	0.4	

*BBVA estimates

Chart 1

Inflation has begun to ebb but still remains high



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