

# India Flash

## WPI inflation steady in March as risks remain broadly balanced

India's wholesale price inflation held steady in March, at 6.9% y/y from 7.0% the previous month (BBVA: 6.6%; consensus: 6.7%). On a seasonally adjusted basis, headline WPI increased by 0.7% m/m. Food inflation picked up for a second consecutive month (8.5% y/y vs 5.9% in February), while fuel prices rose by 10.4% y/y. The steady headline outturn contrasted with core inflation, which eased below 5% (4.6% y/y vs 5.7% previously), due to base effects and slowing demand-side pressures. In our view, a benign core inflation outturn, coupled with last week's lower-than-expected February industrial production reading, present a strong case for an interest rate cut at tomorrow's RBI policy meeting. We expect a repo rate cut of 25 bps tomorrow, which would bring the policy rate to 8.25%, in light of significant deceleration in investment activity, the moderation in core inflation, and given India's commitment towards fiscal consolidation as announced in the new Budget for 2012-13.

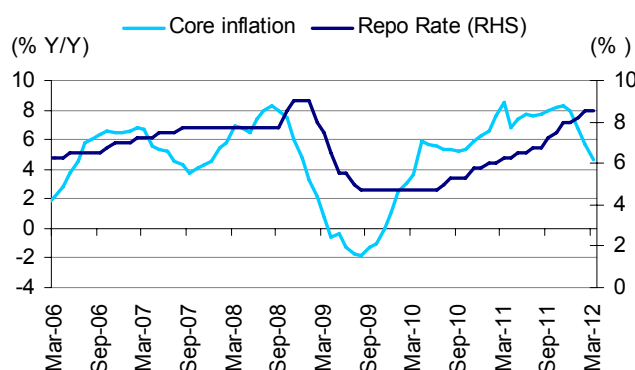
- Food price inflation presents upside risks to headline WPI.** After a three-month moderating trend, food inflation has picked up pace since February. Apart from domestic supply bottlenecks, the pick up in domestic food prices echoes global trends and is largely driven by higher global energy prices, which affect fertilizer production, distribution and farm machinery usage costs. Higher food prices also present upside risk to India's food subsidy bill in 2012.
- Limited room for RBI for policy maneuver amid suppressed price pressures.** Our analysis suggests a steady moderation in prices of basic and intermediate goods (a gauge of input prices), as well as capital goods (a proxy for output prices). Looking ahead, while we expect core inflation to continue easing further due to a negative output gap, the pace of moderation in headline inflation may be checked by factors such as the recent increase in oil prices and any further sustained weakness in the rupee. Despite these risks, we expect the RBI to ease the repo rate by 100 bps in 2012 and for inflation to average 6.9% y/y during the period.

Table 1  
India's Inflation table

India Inflation							
% Change Y/Y	Weight	Mar-12	Feb-12	Jan-12	Dec-11	Nov-11	Oct-11
Headline	100	6.9	7.0	6.6	7.7	9.5	9.9
Primary Articles (Non food)	4	-1.2	-2.6	0.6	1.8	3.4	7.4
Food	26	8.5	5.9	1.6	2.7	7.9	9.3
Fuel	15	10.4	12.8	14.2	15.0	15.5	14.8
Core Inflation	55	4.6	5.7	6.7	8.0	8.3	8.2
<b>Use Based Classification* (% Y/Y)</b>							
Consumer Items	43.8	8.6	7.4	4.5	5.5	8.9	9.6
- Food Items	24.3	9.7	7.0	2.1	3.4	8.6	9.9
- Non-Food Items	19.5	6.9	8.0	8.4	9.1	9.3	9.1
Non-Consumer Items	57.1	6.2	7.1	9.2	9.8	10.3	10.2
- Basic Goods	30.7	11.0	12.0	14.3	14.5	14.5	13.3
- Intermediate Goods	18.7	-0.5	0.4	2.7	4.1	5.5	7.3
- Capital Goods	7.7	2.0	2.5	2.9	3.8	3.6	3.5

\* BBVA Estimates

Chart 1  
Core inflation continues to ease



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