

# India Flash

## August WPI inflation eases, but risks remain to the upside

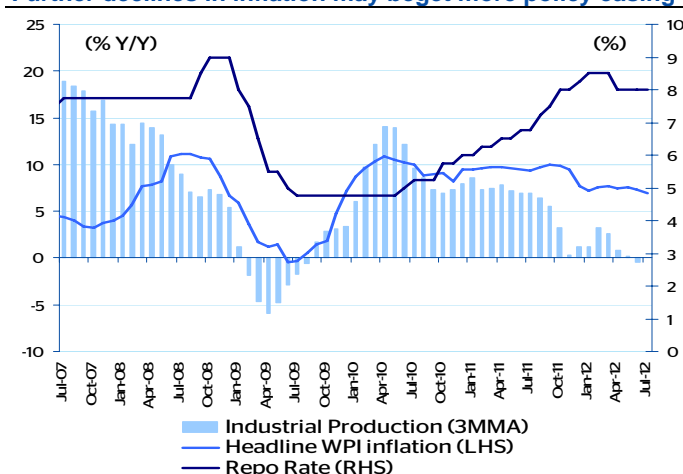
India's wholesale price inflation eased to a two year low in July, to 6.9% y/y (consensus: 7.2%) from 7.3% in June, driven mainly by lower fuel prices. However, excluding fuel, July's inflation edged higher amid elevated food prices and a rise in core inflation (5.4% vs. 4.9% in June). Looking ahead, inflation risks are broadly balanced as easing demand-side pressures are being offset by high food prices, the impact of sub-par monsoon season, a weak rupee, and the recent rise in global oil prices. That said, the broader trend of price moderation, if sustained going ahead, would provide support for the RBI to ease monetary policy. We continue to expect further rate cuts of 50 bps in 2012, likely in the fourth quarter.

- India's growth slowdown continued in the second quarter.** India's growth slowdown was evident in the second quarter as industrial production (IP) contracted by -0.1% y/y (+2.2% in 1Q12) on weakening investment activity. Ongoing sluggishness in high frequency activity indicators will present headwinds to second quarter GDP growth, in line with our expectations of 5.1% y/y from 5.3% in 1Q12. The urgency to fast-track India's investment cycle has been highlighted further by a sub-par monsoon season and the recent power outage, which plunged half of India into darkness for two full days.
- Steps are being taken to increase the pace of policy reforms:** The changing of the guard at India's Finance Ministry, coupled with a renewed push on infrastructure reforms, have raised hopes of a rebound in investor sentiment in India. In this context, several steps have been undertaken in the past month, including setting up proper tracking systems and problem resolution mechanisms for infrastructure projects, as well as relaxations in transfer policies for government-owned land. Other measures in the pipeline include the creation of a project clearing board, further steps towards fiscal consolidation, more clarity on taxation issues, raising FDI limits, and addressing coal and power shortages.

Table 1  
India: inflation table

India WPI Inflation						
% Change Y/Y	Weight	Jul/12	Jun/12	May/12	Apr/12	Mar/12
<b>Headline</b>	<b>100</b>	<b>6.9</b>	<b>7.3</b>	<b>7.5</b>	<b>7.5</b>	<b>7.7</b>
<b>Primary Articles</b>						
(Non food)	4	13.1	6.8	8.6	1.4	-0.8
Food	26	8.7	9.0	8.9	9.3	8.7
Fuel	15	6.0	10.3	11.5	12.1	12.8
<b>Manufactured</b>						
Non-food (Core)	55	5.4	4.9	5.2	5.1	5.0

Chart 1  
Further declines in inflation may beget more policy easing



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