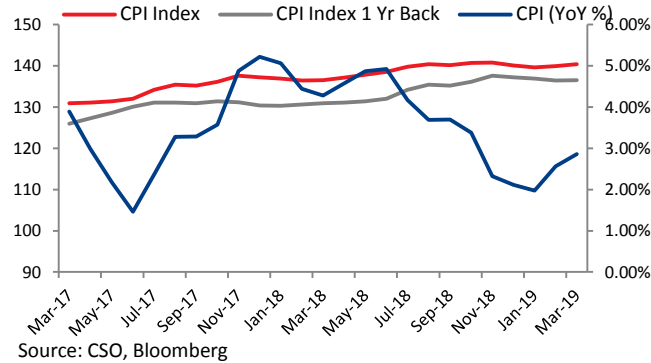


Note on Inflation

16 April 2019

Headline picks momentum; rises to 2.9%

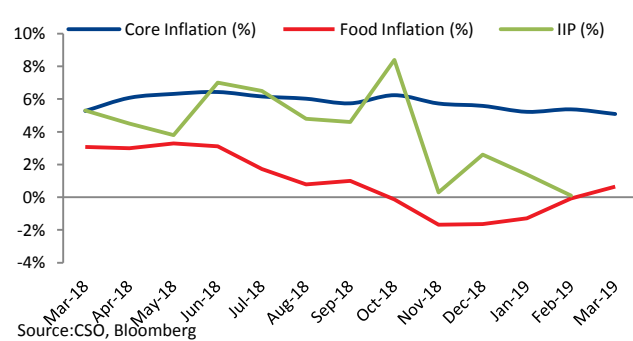


Headline inflation reaches a 5 month high of 2.9%; IIP plunges to 20 month low

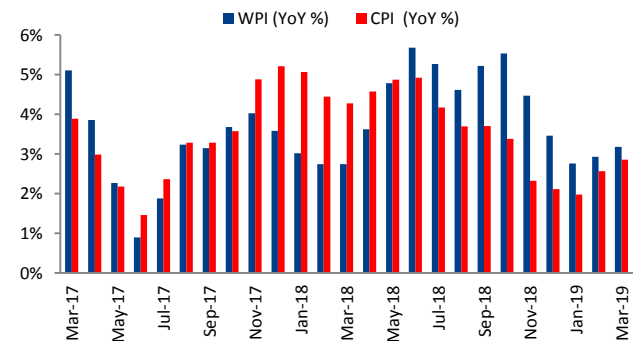
CPI Inflation rose to 2.86% in March (vs. 2.57% YoY in February 2019), slightly above market expectations of 2.8%, mainly due to the inflation in food prices seen in March (after 5 months). On a sequential basis, CPI increased by 0.36% (vs. 0.21% uptick in February 2019).

- CPI inflation rose to 2.86%, (recording the highest inflation rate in 5 months) in March 2019. This was predominantly due to the marginal uptick of 0.66% (vs. a deflation of 0.07% in February 2019) seen in March 2019 after continuous deflation in food prices in the last 5 months. Prices of vegetables, pulses and sugar saw lower deflation in March (deflation of 1.49%, 2.25% and 6.12% respectively in March vs. a deflation of 7.69%, 3.82% and 6.92% in February 2019). Fuel prices also spiked by 2.42% in March vs. 1.24% in February 2019. Whereas Housing, Clothing and Miscellaneous heads saw slower YoY growth than February 2019.
- Core Inflation (ex Food & Beverages and Fuel & Lighting) slowed to 5.08% in March from 5.36% in February 2019, led by slower rise in prices of Education & Stationary, Transport & Communication and Personal care.
- Wholesale prices rose to 3.18% in March from 2.93% in February 2019, in line with market expectations. This was predominantly led by increase in prices of fuel and primary articles by 5.41% and 5.07% respectively in March (vs. 2.23% and 2.93% respectively in February 2019). However, prices of manufactured goods saw slower rise of 2.16% in March vs. 2.25% in February 2019.
- Industrial production recorded the lowest growth in 20 months of 0.1% in February 2019 vs. a downwardly revised 1.4% in January 2019, below market expectations of 2%. Manufacturing output de-grew by 0.3% in February (vs. a 1% uptick in January) and mining output saw a slower growth of 2% in February (vs. 3.9% in January). However, electricity output saw an increase of 1.2% in February vs. 0.9% in January.

IIP fell to 0.1%; Core remains below 6% levels



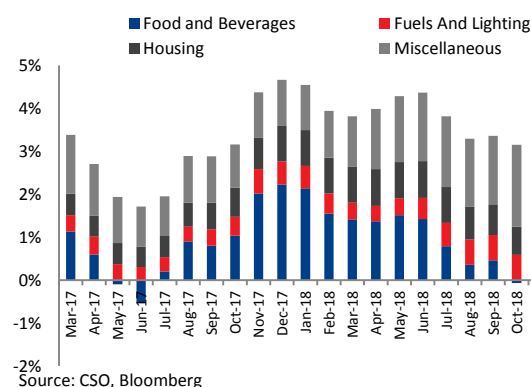
WPI continues to rise above CPI



CPI - YoY %	Mar-18	Feb-19	Mar-19
All Items	4.3%	2.6%	2.9%
Food and Beverages	3.1%	-0.1%	0.7%
Pan, Tobacco and Alcoholic Beverages	7.7%	5.5%	4.6%
Fuels and Lighting	5.7%	1.2%	2.4%
Housing	8.3%	5.1%	4.9%
Clothing Bedding and Footwear	4.9%	2.7%	2.6%
Miscellaneous	4.2%	6.0%	5.7%

Source: CSO, Bloomberg

Inflation in F&B pushes CPI upwards



Outlook:

The March reading of Headline inflation rose to 2.9%, (reaching the highest mark since 5 months) led by receding deflation in food prices. Also as prices of health & education slowed in comparison to the uptick in February, the Core inflation slowed to 5.08% levels in March. In its last meeting the MPC had cut the repo rate by 25bps, keeping in mind the benign outlook for inflation (considering the continued softening of food inflation and drop in prices of items excluding food & fuel in Jan-Feb 2019). The current uptick in food inflation can be further accentuated by lower produce in coming months due to lower than expected monsoons (El-Nino effect), which could be a key factor to monitor, in order to predict the MPC's next move on both the repo rate and policy stance.

We expect that the effects of lower monsoon will be seen only after the next 3-4 months on the prices of food items and until then the downside risks to inflation remain. Hence we expect the central bank to cut the policy rates by a further 25bps in the upcoming policy meeting in June 2019.

Fig 1: CPI YoY (%) Change

CPI - YoY (%)	Weight	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
All Items	100.00	4.17%	3.69%	3.70%	3.38%	2.33%	2.11%	1.97%	2.57%	2.86%
Food and Beverages	45.86	1.73%	0.78%	1.01%	-0.14%	-1.69%	-1.64%	-1.29%	-0.07%	0.66%
Pan, Tobacco and Alcoholic Beverages	2.38	6.28%	5.41%	5.57%	6.07%	6.14%	5.71%	5.62%	5.49%	4.61%
Fuels And Lighting	6.84	7.96%	8.55%	8.63%	8.55%	7.39%	4.47%	2.20%	1.24%	2.42%
Housing	10.07	8.30%	7.59%	7.07%	6.55%	5.99%	5.32%	5.20%	5.10%	4.93%
Clothing Bedding and Footwear	6.53	5.28%	4.88%	4.64%	3.55%	3.53%	3.38%	2.95%	2.73%	2.59%
Miscellaneous	28.32	5.80%	5.60%	5.65%	6.73%	6.15%	6.38%	6.04%	6.02%	5.68%

Source: CSO, Bloomberg

Fig 2: CPI MoM (%) Change

CPI - MoM (%)	Weight	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
All Items	100.00	0.94%	0.43%	-0.14%	0.36%	0.07%	-0.50%	-0.36%	0.21%	0.36%
Food and Beverages	45.86	1.43%	0.21%	-0.92%	-0.36%	-0.14%	-1.07%	-0.58%	0.07%	0.44%
Pan, Tobacco and Alcoholic Beverages	2.38	-0.51%	0.25%	0.82%	1.01%	1.12%	0.25%	0.25%	0.00%	0.06%
Fuels And Lighting	6.84	1.16%	0.86%	0.99%	0.84%	1.25%	-1.79%	-2.17%	-0.86%	1.01%
Housing	10.07	0.77%	0.70%	0.48%	0.69%	0.41%	-0.27%	0.82%	0.54%	0.34%
Clothing Bedding and Footwear	6.53	0.28%	0.34%	0.27%	-0.48%	0.69%	0.00%	-0.20%	0.00%	0.20%
Miscellaneous	28.32	0.45%	0.53%	0.60%	1.19%	0.00%	0.37%	0.07%	0.37%	0.22%

Source: CSO, Bloomberg

Fig 3: Core Inflation (%) Change

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Core Inflation YoY (%)	6.16%	6.02%	5.74%	6.24%	5.72%	5.58%	5.21%	5.36%	5.08%
Core Inflation MoM (%)	0.42%	0.58%	0.46%	0.98%	0.10%	0.25%	0.12%	0.50%	0.19%

Source: CSO, Bloomberg

* Core Inflation = Headline Inflation – (Food & Beverages + Fuel & Lighting)

Fig 4: CPI Inflation ex food (%) Change

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
CPI Inflation ex food YoY (%)	6.39%	6.34%	6.10%	6.53%	5.94%	5.43%	4.83%	4.84%	4.74%
CPI Inflation ex food MoM (%)	0.51%	0.62%	0.53%	0.96%	0.25%	-0.02%	-0.17%	0.33%	0.29%

Source: CSO, Bloomberg

Legend



Increase from Previous Month

Decrease from previous month

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