

# India Flash

## Softening WPI inflation in November leaves room for RBI to address slowing growth

India's wholesale price inflation eased for a second consecutive month in November to 7.2% y/y (consensus: 7.6%) from 7.5% in October. Core inflation (manufactured non-food prices) fell to 4.5% y/y from 5.2% previously, its lowest level since March 2010. Looking ahead, upside risk to WPI inflation emanates from a lower base effect coupled with food price pressures due to sub-par monsoons. That said, we expect weak growth and a favorable commodity-currency interplay to contain price pressures. This should leave more room for the Reserve Bank of India (RBI) to consider growth supportive policy measures at its December 18<sup>th</sup> meeting. However, with retail inflation still near double digits, we expect the RBI to keep interest rates on hold next week, but to cut the cash reserve ratio by 25 bps (to 4.0%) aimed at signaling an easing bias, addressing tight liquidity conditions and lowering cost of funds for banks.

- **Government must focus on quality fiscal correction for sustained inflation softening.** In this context, urgent steps to improve public finances by reducing the subsidy bill, streamlining non-subsidy spending and implementing tax reforms are crucial to achieve low and stable inflation and lasting growth upturn.
- **Emerging green shoots underpin expectations of an improving growth outlook.** Momentum and leading indicators suggest India's economic growth is stabilizing at current low levels. Notwithstanding a low base and festive season effect, the surge in October industrial output (+8.2% y/y vs -0.7% previously) aligns with other emerging green shoots for India. Broader trends across vehicle sales, PMI, infrastructure index, visitor arrivals, cellular subscriptions, railway traffic and business expectations outline an improving growth outlook. Furthermore, traction in policy reforms over the past month has helped underpin investor confidence and augurs well for medium term growth prospects. Looking ahead, however, economic recovery is expected to be mild against weak external demand, bottlenecks in domestic policy execution, fiscal consolidation and sluggish investment activity.

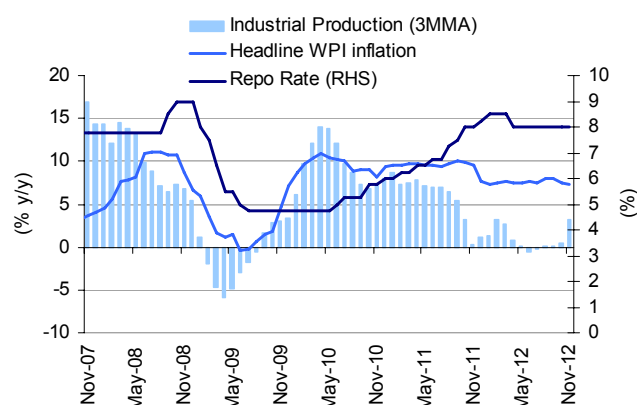
Table 1

### Substantial easing in core inflation drove headline WPI inflation lower in November

India WPI Inflation						
% Change Y/Y	Weight	Nov-12	Oct-12	Sep-12	Aug-12	Jul-12
<b>Headline</b>	<b>100</b>	<b>7.2</b>	<b>7.5</b>	<b>8.1</b>	<b>8.0</b>	<b>7.5</b>
<b>Primary Articles (Non food)</b>	<b>4</b>	<b>14.0</b>	<b>10.8</b>	<b>10.4</b>	<b>14.1</b>	<b>13.3</b>
<b>Food</b>	<b>26</b>	<b>9.0</b>	<b>7.7</b>	<b>8.8</b>	<b>9.3</b>	<b>9.0</b>
<b>Fuel</b>	<b>15</b>	<b>10.0</b>	<b>11.7</b>	<b>12.0</b>	<b>8.7</b>	<b>8.4</b>
<b>Manufactured Non-food (Core)</b>	<b>55</b>	<b>4.5</b>	<b>5.2</b>	<b>5.6</b>	<b>5.8</b>	<b>5.7</b>

Chart 1

### Inflation pressures continue to moderate amid tight policy environment, demand compression and lower fuel prices



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