

Economics

14 July 2010 | 6 pages

India Macro Flash

June Inflation up 10.6% YoY ... with Non-food Manufactured Product Prices Edging Higher at 7.3% YoY

- Headline inflation in June up 10.6% YoY** — This was slightly higher than ours and lower than consensus expectations (Citi: 10.1%; Consensus: 10.8%). On a MoM seasonally adjusted basis, inflation was unchanged up 0.2%. The 10.6% rise in inflation was led by primary articles up 16.3%, fuel up 14.3% and manufactured products up 6.7%. Similar to the giant upward revision to the March data last month, April data saw a revision from 9.6% to 11.2%. A key concern is the continued uptrend in non-food manufactured products inflation from 0.8% in Dec to 7.3% currently. (see pg 2 for details). We expect inflation to moderate in the coming months as the base effect turns favorable.
- Components of Inflation** — (1) **Primary product inflation** remained high at 16.3% reflecting the upward revision to sugarcane as well as growing importance of structural factors (rising incomes, changing dietary patterns etc). (2) **Fuel Inflation** was up 14.3% from 13% last month. This reflects only one week's impact of the fuel price hike. Next month's data would incorporate the total direct impact as well as some secondary round impacts. (3) **Manufactured Product** Inflation rose 6.7%. While food products came in at an 18 month low of 4.3%, non-food manufactured product prices rose to 7.3%
- Monetary Policy Implications — Upside risk to rates:** We maintain our view of a further minimum 50bps rate hikes in 2010, with the next move in the RBI policy on July 27. As mentioned before, given the growth and inflation outlook, the risk to rates is on the upside and would depend on (1) outcome of the monsoons (2) global developments (3) further rise in non-food manufactured product inflation from 7.3% levels currently. A point to note is that the last time non-food manufactured production crossed 8% was in mid-2008 and at that time interest rates were 350bps higher as compared to current levels.

Rohini Malkani

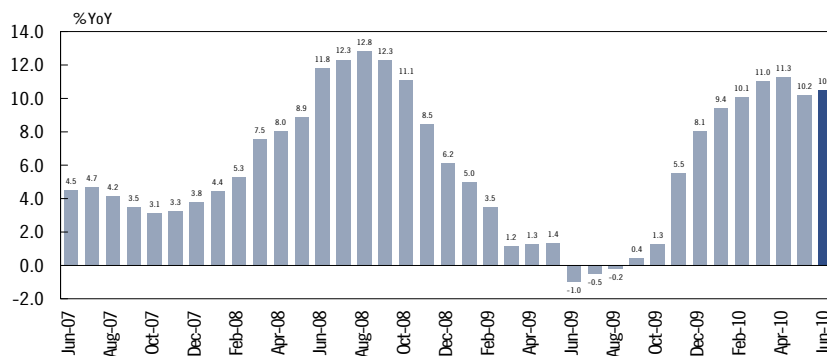
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Figure 1. Trends in the WPI (%YoY)


Source: Office of the Economic Advisor

Figure 2. Inflation Snapshot (% YoY. %MoM)

| | Mar-10 | Apr-10 | May-10 | Jun-10 |
|-------------|-------------|-------------|-------------|-------------|
| Primary Art | 18.3 | 17.1 | 16.6 | 16.3 |
| %MoM | 2.7 | 1.5 | 0.7 | 0.7 |
| Manf Prods | 7.4 | 8.2 | 6.4 | 6.7 |
| %MoM | 0.4 | 1.9 | -0.2 | 0.2 |
| Fuel Index | 12.7 | 12.9 | 13.0 | 14.3 |
| %MoM | 1.3 | 0.9 | 0.8 | 1.7 |
| WPI | 11.0 | 11.3 | 10.2 | 10.6 |

Source: Office of the Economic Advisor

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Components of Inflation

PRIMARY ARTICLES +16.3%YoY in June vs. 16.6% in May. On a MoM basis prices were up 0.7%. Going fwd, improved kharif crop sowing could result in prices coming off.

Minerals surged by 28.5%YoY vs/ 8.3%YoY last month; on the back of a 30.7% rise in iron ore prices

Food Articles moderated to 14.6%YoY in June (vs. 16.5% levels earlier). This was due to an across-the-board moderation in rice, wheat, dairy products and tea prices

Non Food Articles continued to post strong trends, up 18.6%YoY on the back of high sugarcane prices

FUEL INDEX: + 14.3% v/s 13% in May and up 1.7% MoM

Coal Mining remained unchanged at +13.5%YoY in June

Market Determined Fuels witnessed moderation across all categories apart from lubricants and petrol. Petrol also saw an uptrend, as the EGoM de-regulated petrol prices

Controlled Fuels reflected last month's fuel price revisions in LPG, Kerosene, and diesel prices

MANUFACTURED PRODUCTS: rose to 6.7% in June v/s 6.4% in May and was up 0.2% MoM

Manufactured Food Products saw a continued downtrend, to 4.3% vs. 5.7% last month, on the back of lower sugar prices and a contraction in oil cakes.

Aggregated Manf NON FOOD products edged up to 7.3%YoY vs. 6.6% in May; due to an uptrend in wood/rubber and chemical products and transport equipment

Figure 3. Primary Articles – Breakdown by Component (% YoY)

| | Wts | Monthly | | | | | | | Apr-Jun | |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | Dec09 | Jan10 | Feb10 | Mar10 | Apr-10 | May10 | Jun10 | FY11 | FY10 |
| 1. Food Articles | 15.4 | 20.0 | 18.4 | 18.1 | 17.4 | 16.7 | 16.5 | 14.6 | 15.9 | 9.3 |
| Cereals | 4.4 | 16.1 | 15.3 | 12.4 | 11.1 | 8.7 | 6.0 | 5.4 | 6.7 | 13.0 |
| Rice | 2.4 | 13.3 | 12.5 | 9.5 | 8.2 | 9.0 | 7.5 | 6.4 | 7.6 | 16.2 |
| Wheat | 1.4 | 19.6 | 18.9 | 17.1 | 14.9 | 8.3 | 4.5 | 4.5 | 5.8 | 6.6 |
| Pulses | 0.6 | 46.3 | 46.2 | 33.8 | 31.3 | 31.5 | 32.4 | 32.6 | 32.2 | 16.3 |
| Fruits and Vegetables | 2.9 | 20.6 | 10.7 | 14.8 | 11.3 | 5.9 | 7.6 | 4.9 | 6.2 | 10.6 |
| Milk | 4.4 | 13.4 | 14.0 | 14.8 | 17.7 | 21.3 | 21.1 | 18.5 | 20.3 | 6.5 |
| Tea | 0.2 | 19.9 | 9.4 | 6.0 | -3.9 | -12.3 | -22.9 | -17.8 | -17.7 | 34.3 |
| 2. Non-Food Articles | 6.1 | 9.8 | 10.9 | 12.9 | 24.7 | 21.8 | 18.6 | 18.6 | 19.7 | 1.7 |
| Fibres | 1.5 | 8.9 | 10.7 | 14.2 | 21.0 | 17.9 | 16.1 | 18.6 | 17.5 | -0.5 |
| Oil seeds | 2.7 | 8.9 | 10.6 | 12.7 | 10.2 | 7.1 | 3.7 | 4.2 | 5.0 | 1.5 |
| Sugarcane | 1.3 | 2.3 | 2.3 | 2.3 | 53.2 | 53.2 | 53.2 | 53.2 | 53.2 | 0.0 |
| 3. Minerals | 0.5 | -3.9 | 0.2 | 2.8 | 1.3 | -0.1 | 8.3 | 28.5 | 12.2 | -3.7 |
| Primary Articles (1+2+3) | 22.0 | 16.1 | 15.4 | 16.0 | 18.3 | 17.1 | 16.6 | 16.3 | 16.6 | 6.5 |

Source: Office of the Economic Advisor

Figure 4. FUEL INDEX – Breakdown by Component

| | Wts | Monthly | | | | | | | Apr-Jun | |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| | | Dec09 | Jan10 | Feb10 | Mar10 | Apr-10 | May10 | Jun10 | FY11 | FY10 |
| 1. Coal Mining | 1.8 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | 13.5 | -1.0 |
| 2. Mineral Oils | 7.0 | 6.9 | 10.6 | 14.4 | 17.0 | 17.3 | 16.0 | 16.2 | 16.5 | -11.7 |
| Controlled Fuels: | | | | | | | | | | |
| LPG | 1.8 | -7.1 | -5.7 | 0.5 | 0.5 | 3.7 | 3.7 | 6.7 | 4.7 | -0.7 |
| Kerosene | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 8.9 | 3.0 | 0.0 |
| High Speed Diesel | 2.0 | -0.2 | 1.1 | 8.8 | 15.0 | 15.8 | 15.8 | 17.4 | 16.3 | -5.8 |
| Mkt Determined Fuels: | | | | | | | | | | |
| Petrol | 0.9 | -2.2 | 0.0 | 11.7 | 16.8 | 18.1 | 18.1 | 20.2 | 18.8 | -13.9 |
| Light Diesel Oil | 0.2 | 14.4 | 22.9 | 26.3 | 36.8 | 32.1 | 29.2 | 21.2 | 27.5 | -5.7 |
| Aviation Turbine Fuel | 0.2 | 14.4 | 31.3 | 31.5 | 52.0 | 34.9 | 33.4 | 17.6 | 28.6 | -49.2 |
| Naphtha | 0.4 | 73.3 | 83.4 | 58.2 | 50.2 | 42.5 | 31.8 | 22.3 | 32.2 | -34.6 |
| Bitumen | 0.2 | -3.3 | 13.5 | 9.1 | 15.7 | 13.4 | 17.1 | 16.7 | 15.7 | -6.1 |
| Furnace Oil | 0.5 | 70.9 | 78.5 | 64.6 | 63.8 | 60.8 | 49.9 | 36.4 | 49.0 | -33.3 |
| Lubricants | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.7 | 10.9 | 5.2 | 12.6 |
| 3. Electricity | 5.5 | 2.0 | 2.0 | 2.0 | 4.7 | 4.7 | 7.3 | 11.2 | 7.7 | -2.6 |
| Fuel Index (1+2+3) | 14.2 | 5.9 | 8.1 | 10.2 | 12.7 | 12.9 | 13.0 | 14.3 | 13.4 | -8.1 |

Source: Office of the Economic Advisor

Figure 5. MANUFACTURED PRODUCTS– Breakdown by Component

| | Wts | Monthly | | | | | | | Apr-Jun | |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|------------|-------------|
| | | Dec09 | Jan10 | Feb10 | Mar10 | Apr-10 | May10 | Jun10 | FY11 | FY10 |
| 1. Food Products | 11.5 | 26.7 | 24.2 | 19.9 | 15.5 | 8.4 | 5.7 | 4.3 | 6.1 | 12.6 |
| NON- FOOD Manuf Products | 52.2 | 0.8 | 3.4 | 4.5 | 5.4 | 8.1 | 6.6 | 7.3 | 7.3 | -1.0 |
| 2. Beverage & Tobacco | 1.3 | 5.7 | 4.6 | 3.5 | 6.0 | 6.3 | 7.5 | 7.5 | 7.1 | 5.8 |
| 3. Textiles | 1.0 | 6.7 | 10.0 | 11.0 | 13.7 | 15.6 | 15.1 | 14.7 | 15.2 | 7.9 |
| 4. Wood & Wood Products | 0.2 | 0.3 | 0.0 | 2.2 | 9.6 | 14.6 | 8.8 | 14.6 | 12.7 | 4.6 |
| 5. Paper & Paper Products | 2.0 | -1.4 | -0.6 | 0.3 | 0.4 | 1.2 | 1.1 | 1.5 | 1.3 | 3.3 |
| 6. Leather/Leather Prod | 1.0 | -1.2 | -2.2 | -1.8 | -1.6 | -1.1 | -0.1 | 0.5 | -0.2 | -0.5 |
| 7. Rubber, Plastic Products | 2.4 | 1.2 | 2.7 | 4.2 | 4.5 | 4.9 | 4.5 | 6.7 | 5.4 | 3.3 |
| 8. Chemicals & Chem Prod | 11.9 | 4.6 | 7.8 | 7.9 | 8.0 | 7.9 | 3.0 | 5.8 | 5.6 | 3.3 |
| 9. Non-Met. Mineral Prods | 2.5 | -0.2 | -1.9 | -0.7 | 2.0 | 4.4 | 2.4 | -1.2 | 1.9 | 2.6 |
| 10. Basic Metals, Alloys | 8.3 | -6.9 | -2.7 | 1.8 | 2.4 | 12.2 | 12.1 | 12.1 | 12.1 | -13.9 |
| 11. Machinery Machine Tools | 8.4 | 0.6 | 3.9 | 2.9 | 3.2 | 3.8 | 3.8 | 3.9 | 3.8 | -1.0 |
| 12. Transport Eqpmt & Parts | 4.3 | 0.0 | 0.2 | 0.2 | 0.7 | 2.5 | 1.7 | 2.4 | 2.2 | 0.7 |
| Manufactured Products | 63.7 | 5.4 | 7.3 | 7.5 | 7.4 | 8.2 | 6.4 | 6.7 | 7.1 | 1.5 |

Source: Office of the Economic Advisor

Charting Trends in Inflation

Figure 6. Trends in Headline WPI (% YoY)

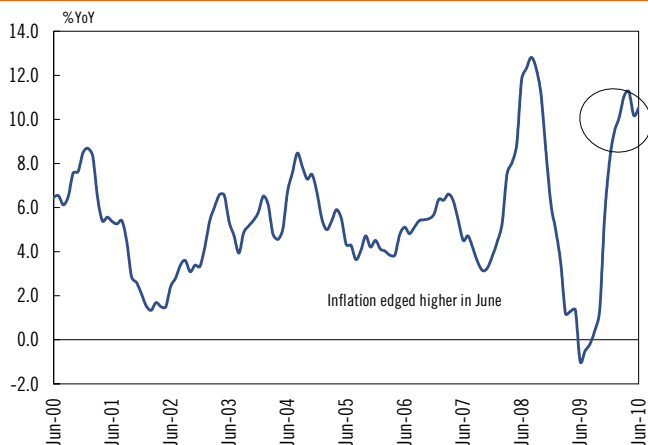


Figure 7. Trends in Headline Primary Articles and Food Articles (% YoY)

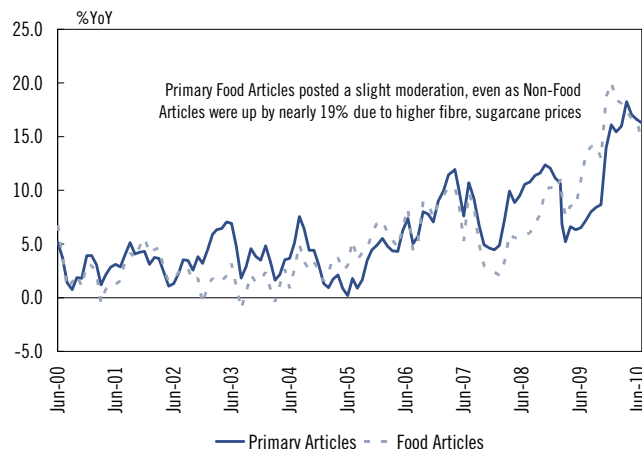


Figure 8. Trends in Manufactured Products (% YoY)

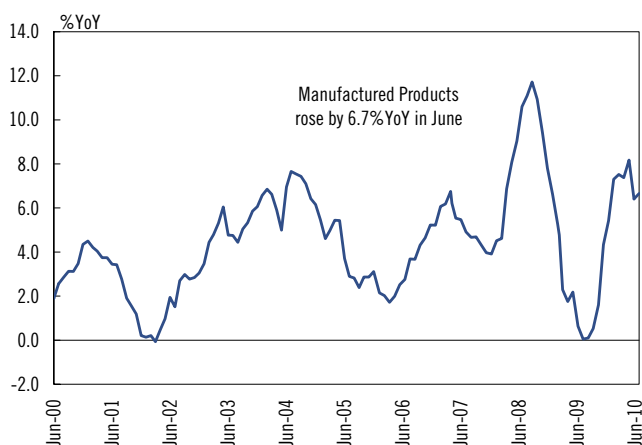


Figure 9. Trends in Manufactured Food and Non-Food Products (%YoY)

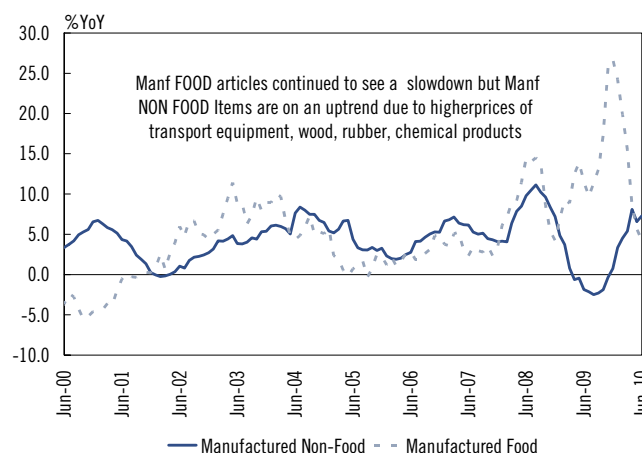


Figure 10. Trends in the Fuel Index and Brent Prices (% YoY, US\$/bbl)

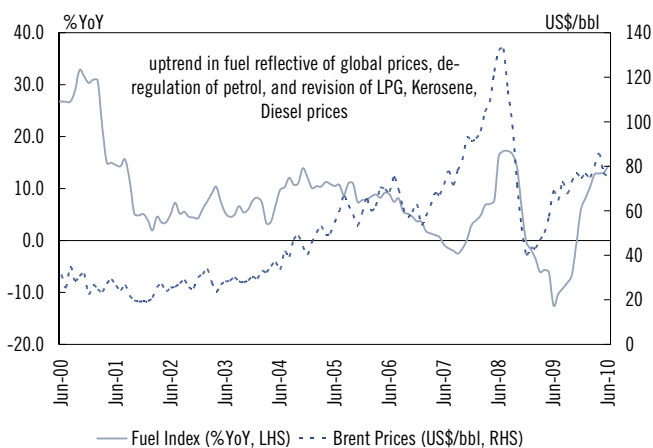
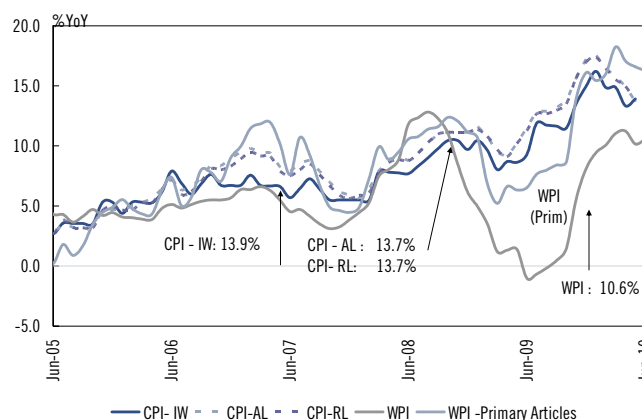


Figure 11. Trends in Inflation – Various Indices (% YoY)



Source for all charts: Office of the Economic Advisor, Labor Bureau, Bloomberg

Appendix A-1

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