

WPI inflation eases to 0.9% in June as food prices decline

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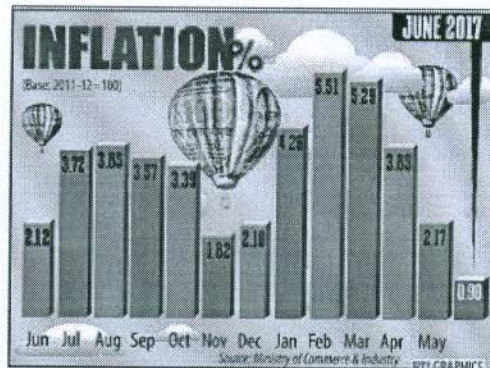
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Wholesale price-based inflation eased to 0.9 per cent in June – the lowest in at least eight months – as prices of food and manufactured items declined, prompting the industry to demand for a rate cut by the RBI.

The wholesale price index (WPI) based inflation was 2.17 per cent in the previous month and (-)0.09 per cent in June 2016. The reading was 1.82 per cent in November 2016 – since the availability of data for the new 2011-12 base year series.

The government data released on Friday showed that prices of food articles contracted by 3.47 per cent in June on a yearly basis. Vegetable inflation stood at (-)21.16 per cent.

Potato saw a maximum deflation of 47.32 per cent, followed by pulses at 25.47 per cent. For onion, deflation was 9.47 per cent in June. The rate of price increase was 1.93 per cent in cereals while that of protein-rich



items like egg, meat and fish was 1.92 per cent in June.

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Industry chambers said that overall price pressures are presently subdued in the economy even as private investments continue to face several impediments in form of corporate debt overhang, NPAs and regulatory challenges.

"The declining inflation scenario, which has been undershooting the central bank's inflation target by a large margin, should induce the RBI to resume its rate easing cycle. CII strongly recommends a rate cut of 50 basis points in the forthcoming monetary policy to provide a fillip to demand," CII Director General Chandrajit Banerjee said.

ICRA Principal Economist Aditi Nayar said a pervasive disinflation across the four

categories of primary articles and a halving of inflation for fuel and power exerted a drag on the June WPI inflation. "The decline in the WPI inflation reinforces our expectation that the MPC will reduce the repo rate by 25 basis points in their August 2017 meeting, in a split vote," Nayar said.

Fuel and power segment saw some cooling of inflation at 5.28 per cent, from 11.69 per cent in May. Manufactured product inflation read 2.27 per cent, as per data released on Friday. "WPI

numbers will have consequent downward impact on CPI, which may allow RBI to induce the demand by reducing interest rates," ASSOCHAM President Sandeep Jajodia said. "However, it is unlikely to improve investment demand in the economy. It may boost some demand for consumer durable sector, which is posting negative growth after demonetisation," he said. The next meeting of the monetary policy committee is on August 1 and 2.