

# Wholesale Inflation Softens to 2.02%

**CASE FOR RATE CUT** WPI at 23-month low in June as prices of vegetables and manufactured products rise at a slower pace

Our Bureau

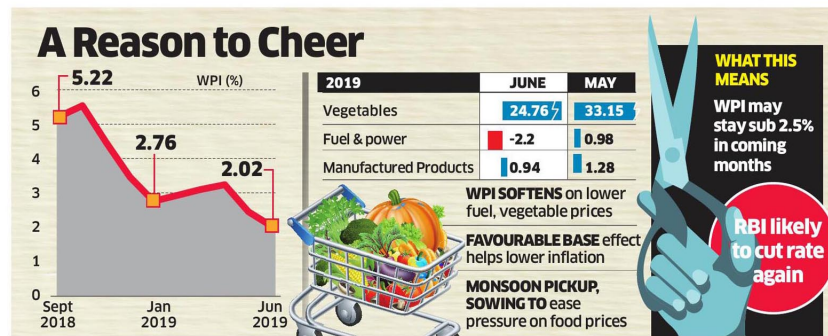
**New Delhi:** Wholesale inflation cooled to a 23-month low of 2.02% in June from 2.45% in May as prices rose at a slower pace for vegetables and manufactured products, and dropped for fuel and power, leading economists to reiterate their expectations of a rate cut next month.

Inflation in vegetables softened to 24.76% in the past month from 33.15% in May and in manufactured items to 0.94% from 1.28%, data from the commerce and industry ministry showed on Monday.

Fuel and power wholesale prices shrank 2.2% in June from a year ago from an expansion of 0.98% the previous month.

The government revised the wholesale inflation for April to 3.24% from the provisional rate of 3.07% announced earlier.

"The dip in the WPI inflation to a 23-month low in June was led by a favourable base effect, lower crude oil prices, as well as the decline



in core inflation to below 1%, highlighting the lack of pricing power, and offsetting the concern generated by firm food inflation," said Aditi Nayar, principal economist at ratings firm Icmra.

The core wholesale inflation—which covers non-food manufacturing—eased to a 31-month low at 0.8% in June, extending its fall to a third straight month, pointing to the

weak pricing power of producers.

As per Indranil Pan, group economist at IDFC Bank, lower inflation in chemicals and basic metals would provide an input cost benefit to manufacturers and keep retail inflation in check.

The wholesale price of basic metals fell 3.72% in June from a year earlier. Inflation in manufactured chemicals and chemical products

slowed to 1.45% in June from 5.5% in May. A pickup in the monsoon and sowing in the past week has eased concerns related to the outlook for food prices in the immediate term, Nayar said.

Softening WPI has reinforced the expectations of a further rate cut by the central bank, which has cut rates thrice in the last six months by a quarter percentage point each.

**GOING DOWN**

**Fuel & power wholesale prices shrank 2.2% in June from a year ago from an expansion of 0.98% previous month**

"The WPI data has reinforced our expectation of an imminent rate cut, especially given the dip in core inflation at both the retail and wholesale level," Nayar said.

Pan of IDFC Bank also predicted another rate cut in August and said transmission of the rate cut was of key importance. "We have seen only a little bit of pass through (of the rate cuts) to the manufacturing segment and the general economy. The RBI will unfortunately not be able to do much on transmission immediately. The transmission will be lagged," said Pan.