

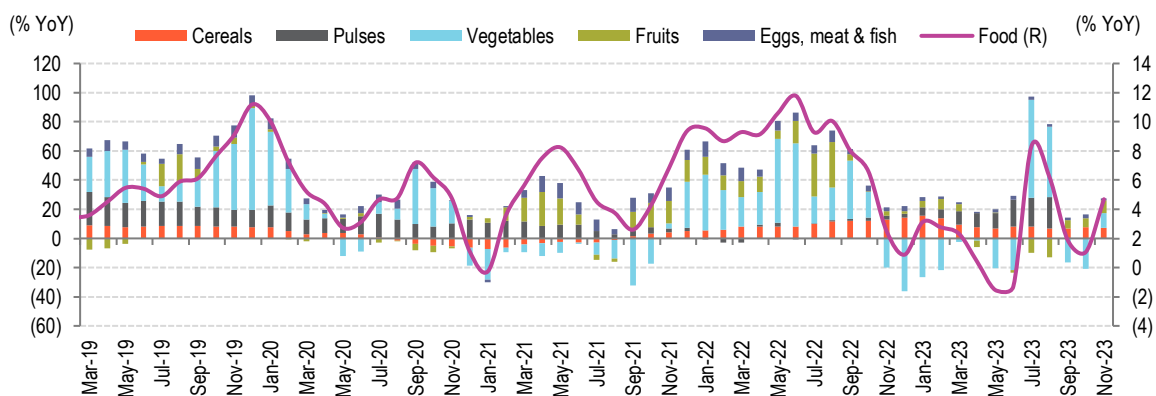
WPI out of deflation

WPI inflation came out of deflationary zone for the first time in this financial year as it rose by 0.3% in Nov'23, up from (-) 0.5% decline in Oct'23. The reversal in trend was driven by uptick in food inflation which jumped to 4.7% in Nov'23 from 1.1% in Oct'23. Sharp increase was noted in case of vegetables, fruits, milk and eggs. Food grain inflation rose at a slower pace in Nov'23. Deflation in manufactured products slowed. Pressures were seen building up in case of basic metals, fabricated metals, other manufacturing and motor vehicles. On the contrary, fuel & power inflation fell to its 3-month low, supported by drop in mineral oil index, which in turn mirrored the movement in international oil prices. Coal prices were steady, but some build up in pressure was seen in electricity index. Going ahead, food prices are expected to remain a strain, owing to weakness in Rabi sowing. Subdued commodity prices, in particular oil prices, will provide some cushion to headline WPI.

Food inflation at 3-month high:

Headline WPI rose by 0.3% in Nov'23, lower than our estimate of 1.5%, but rebounded from (-) 0.5% decline in Oct'23. The jump was driven by food inflation which rose by 4.7% in Nov'23 from 1.1% in Oct'23. Within food, rate of inflation in case of vegetables (16.5% in Nov'23 versus 5.7% in Oct'23), fruits (1.7% versus -1%) and milk (0.4% versus -0.1%) rose significantly. Amongst vegetables, major push came from items like Onions (41.3% versus 22.7%), tomato (74.1% versus -13.5%), carrot, cucumber, and pumpkin. Inflation for items like food grains (1.3% versus 1.5%) and eggs (2.7% versus 3.3%) also rose, but at a slower pace. Within food grains, pressure was seen easing across the board, but was more notable in case of paddy (0.8% versus 1.6%). Wheat inflation also slowed a bit (1.6% versus 1.8%). These trends are in line with movement in international prices. As indicated by World Bank's pink sheet, paddy prices have moderated a bit to 39% in Nov'23 following 40.2% increase in Oct'23, while wheat prices continue to decline at a similar pace (-29% in Nov'23 versus -29.1% in Oct'23).

Figure 1: Food inflation jumps in Nov'23



Source: CEIC, Bank of Baroda Research

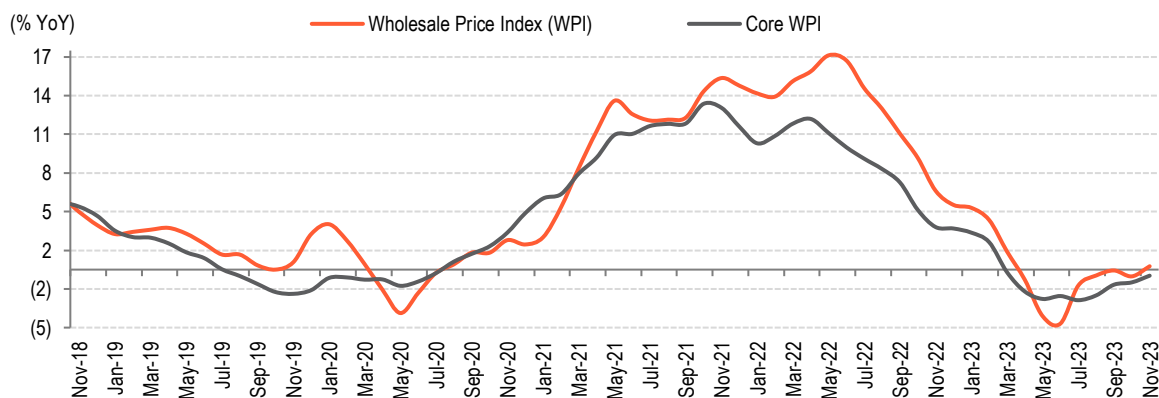
Fuel and power inflation at 3-month low:

Deflation in fuel and power inflation accelerated once again in Nov'23 as it fell to (-) 4.6% from (-) 2.5% in Oct'23. This was on account of slowdown in deflation in mineral oil index (-5.7% versus -0.4% in Oct'23). On the other hand, coal inflation remained unchanged from last month at 1.8% in Nov'23, while deflation in electricity came down (-5.3% versus -11.1%). Within mineral oils, apart from LPG and lube oils, all other sub-indices posted a decrease in Nov'23 compared from last month. Most notable deceleration was visible in case of Bitumen, ATF, Kerosene, Naphtha, and Furnace Oil. The movement is in line with international crude prices which fell from US\$ 88.7/bbl in Oct'23 to US\$ 82/bbl in Nov'23. Even on YoY basis, decline in oil prices accelerated to (-) 9.7% in Nov'23 compared with (-) 5.2% decline recorded in Oct'23. Oil prices continue to remain under pressure in Dec'23 (so far) as they have fallen to US\$ 75.6/bbl. If prices fall further/remain at similar levels, it will provide a cushion to headline WPI next month as well.

Decline in core WPI broadly slowing:

Core inflation remains in deflation for the 9th consecutive month in Nov'23, but the pace is slowing as it fell by only (-) 0.5% compared with (-) 1% in Oct'23. Deflation in manufactured products also slowed, as it fell by (-) 0.6% in Nov'23 following (-) 1.1% decline in Oct'23. Of the 22 commodity sub-indices, 14 indices rose at a faster pace in Nov'23 than Oct'23 led by, basic metals, other manufacturing, wood products, textiles fabricated metal products and motor vehicles. Within basic metals, pace of increase in case of copper (4% in Nov'23 versus 4.6% in Oct'23) and lead (2.9% versus 4%) eased a tad, while price index for Zinc (-7.6% versus -5.7%) and Aluminium (-1.6% versus -0.2%) continued to decline. On an international level, as reflected in World Bank's pink sheet, deflation in lead prices eased (-0.6% in Nov'23 versus -3.7% in Oct'23), but on the other hand, it fastened in case of copper (-9.4% versus -5.2%), Aluminium (-12% versus -8.7%) and Zinc (-23.1% versus -21.8%).

Figure 2: Deflation in core WPI slowing



Source: CEIC, Bank of Baroda Research

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