

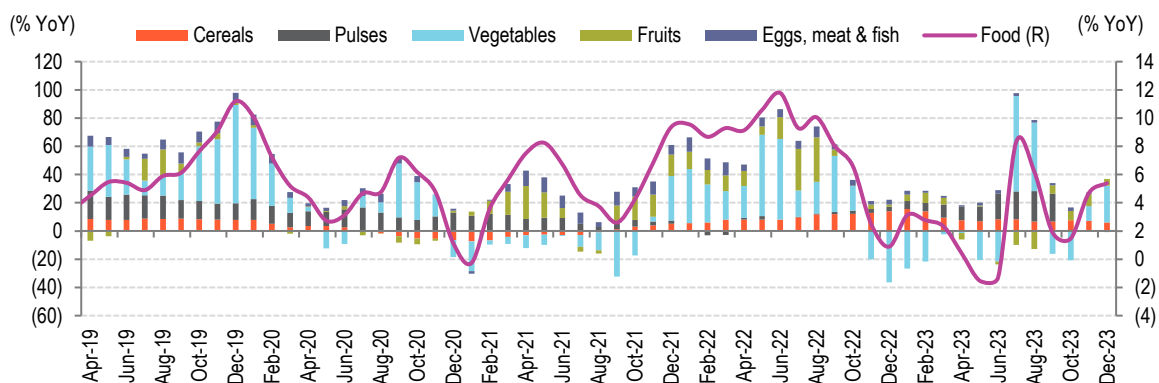
WPI inflation creeping up

WPI inflation remains out of deflation as it rose by 0.7% in Dec'23 from 0.3% in Nov'23. In CY23, it came in flat (0%), following 12.2% increase in CY22. The monthly trend (Dec'23) was again driven by uptick in food inflation which jumped to 5.4% in Dec'23 from 4.7% in Nov'23. Sharp increase was noted in case of vegetables and spices. On the other hand, inflation for food grains, fruits, and milk, rose at a slower pace in Dec'23. Deflation in manufactured products accelerated. Pressures were seen building up in case of basic metals, fabricated metals, tobacco, and motor vehicles. On the contrary, deceleration in fuel & power inflation slowed, owing to softer decline in mineral oil index, which in turn mirrored the movement in international oil prices (YoY basis). Coal prices were steady, and build up of pressure in electricity index continued. Going ahead, food prices are expected to remain a strain, owing to weakness in Rabi sowing. Fuel prices can also be volatile due to ongoing geopolitical tensions in the Middle East. Subdued commodity prices, will however provide cushion to headline WPI.

Food inflation at 4-month high:

Headline WPI fastened to 0.7% in Dec'23, lower than our estimate of 1.5%, but following 0.3% increase in Nov'23. The jump was driven by food inflation which rose by 5.4% in Dec'23, up from 4.7% in Nov'23. Within food, rate of inflation in case of vegetables (26.3% in Dec'23 versus 10.4% in Nov'23), spices (29.7% versus 27.5%) and other food items (9.4% versus 1.6%) rose significantly. Amongst vegetables, out of 19 items, prices were up for 12 items, with major push coming from items like Onions (+91.8% in Dec'23), tomato (81.7%) carrot (19%) and cauliflower (13%). Inflation for items like food grains (8.4% versus 9.7%), milk (6.9% versus 7.9%), and fruits (4.6% versus 8.4%) also rose, but at a slower pace. Within food grains, paddy inflation inched up a tad (10.5% versus 10.4%), while wheat inflation decelerated (-1.4% versus 2.5%). Pulses inflation remains elevated, but is showing signs of slowdown (19.6% versus 21.6%). These trends are in line with movement in international prices. As indicated by World Bank's pink sheet, paddy prices had risen by 39.6% in Dec'23 following 39% increase in Nov'23, while wheat prices continue to decline, albeit at a slower pace (-22.3% in Dec'23 versus -29% in Nov'23). In CY23, our food inflation moderated to 2.8% from 8% in CY22.

Figure 1: Food inflation jumps again in Dec'23



Source: CEIC, Bank of Baroda Research

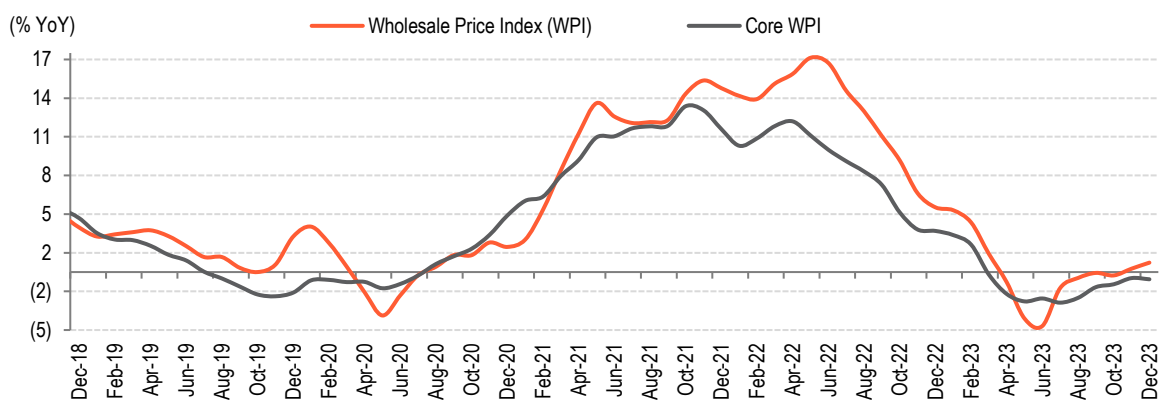
Fuel and power inflation:

Deflation in fuel and power inflation accelerated once again in Dec'23 as it fell by only (-) 2.4% compared with (-) 4.6% decline in Nov'23. This was on account of slowdown in deflation in mineral oil index (-2.7% versus -5.7% in Nov'23) and electricity index (-3.9% versus -5.3%). On the other hand, coal inflation remained unchanged from last month for the 4th consecutive month at 1.8% in Dec'23. In CY23, fuel & power inflation fell by (-) 1.2% after noticing 34.3% jump in CY22. Within mineral oils, in Dec'23, build up in pressure was visible in case of Petrol, HSD, Naphtha, and Furnace Oil. The movement is in line with international crude prices which on YoY basis, fell by only (-) 4.9% in Dec'23 compared with (-) 9.7% decline in Nov'23. Oil prices remain broadly steady so far around US\$ 77-78/bbl in Jan'24. If prices inch back up owing to geopolitical risks (Red Sea tensions) then it can add pressure on headline WPI in the coming months.

Decline in core WPI accelerates:

Core inflation remains in deflation for the 10th consecutive month in Dec'23, and the pace accelerated as it fell by (-) 0.6% compared with (-) 0.5% in Nov'23. Deflation in manufactured products also deepened, as it fell by (-) 0.7% in Dec'23 following (-) 0.6% decline in Nov'23. Of the 22 commodity sub-indices, 12 indices fell at a faster pace in Dec'23 than Nov'23 led by, basic metals, other manufacturing, tobacco, fabricated metal products computers/electronics, and motor vehicles. Within basic metals, pace of contraction in case of zinc slowed (-6.7% in Dec'23 versus -7.6% in Nov'23), while inflation index for Copper (2.1% versus 4%) and Lead (1.1% versus 2.9%) continued to inch up, though at a slower pace. Index aluminium fell further in Dec'23 (-3.6% versus -1.6%). On an international level, as reflected in World Bank's pink sheet, deflation fastened in case of Zinc (-20% in Dec'23 versus -13.5% in Nov'23), Lead (-8.6% versus 4.2%) and Aluminium (-9.1% versus -6.3%). on the other hand, increase in copper prices softened (0.3% versus 1.7%).

Figure 2: Deflation in core WPI fastens



Source: CEIC, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com

sonal.badhan@bankofbaroda.com