

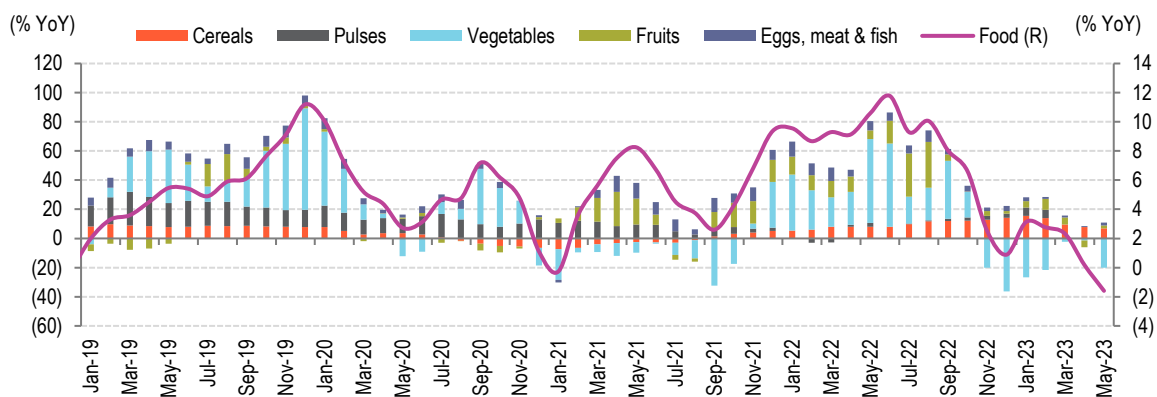
WPI at 7.5 year low

WPI inflation continued to remain in deflation in May'23 as it fell to (-) 3.5% from (-) 0.9% in Apr'23, thus dropping to its 7.5 year low. All three sub-indices continued to ease further. Both food and fuel entered deflation for the first time since Jan'21. While drop in food inflation was helped by significant decline in vegetable prices, cereal inflation also moderated. However, upside pressures were visible in prices of paddy, fruits, and pulses. Fuel and power inflation was supported by broad-based decline in sub-indices, led by mineral oil index. Continued decline in international oil prices and favourable base effect also helped. Core WPI also fell (-2.2% versus -1.8%). Manufactured product inflation cooled off further in May'23, however, international prices show that pace of contraction in prices is easing, which was also reflected in certain domestic commodities (aluminium, copper). Going ahead, while fuel and manufactured product inflation will remain muted, trajectory of monsoon will be critical in determining the course of domestic food inflation.

Food inflation enters deflation:

Headline WPI fell more than expected in May'23. It was down by (-) 3.5% versus our estimate of (-) 1.7% and (-) 0.9% in Apr'23, to reach its lowest point since Dec'15. Food inflation eased considerably and entered deflation in May'23 (-1.6%) for the first time since Jan'21 (-0.3%) and was down from 0.2% in Apr'23. Within food, most significant decline was noted in price index for vegetables (-20.1% versus -1.5%), led by drop in prices of tomato (-62.1% versus -14.9%), cabbage (-29% versus -19.7%), and drumstick (-5.6% versus 7%). In addition, food grain inflation slowed (6.6% versus 7.2%), mainly due to cereals (6.9% versus 7.7%), while inflation in pulses was seen going up (5.8% versus 5.6%). Within cereals, wheat inflation (6.1% versus 7.3%) led the decline, while paddy prices continued to inch up (7.3% versus 7.1%). This is broadly in line with the trend seen in international prices. As indicated by World Bank's pink sheet, paddy prices rose by 11.1% in May'23 following 15.4% increase in Apr'23, while wheat prices declined at a faster pace (-35% versus -29%). On the other hand, within food inflation, upside pressures were seen emerging from prices of fruits (1.9% versus -4.5%), eggs, meat & fish (2.1% versus 0.8%), and spices (14.4% versus 13.8%).

Figure 1: Food inflation dropped in May'23



Source: CEIC, Bank of Baroda Research

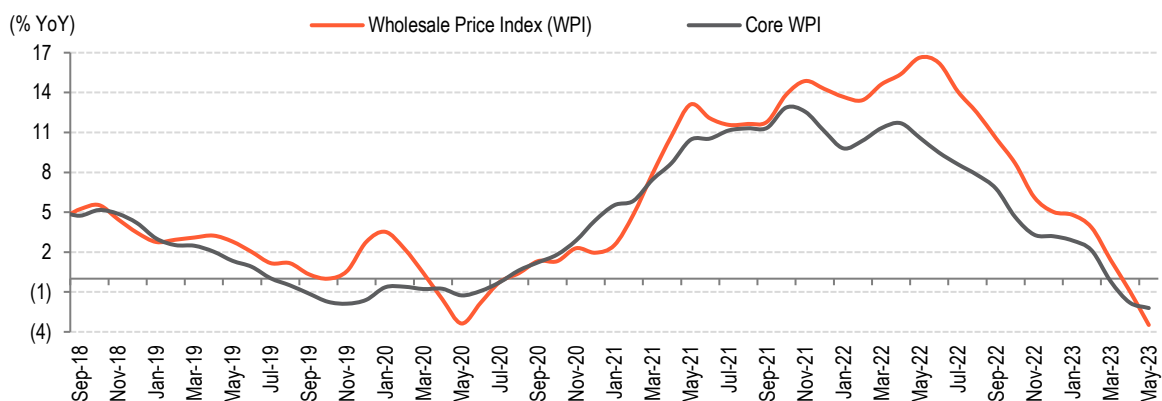
Fuel and power inflation at 31-month low:

Fuel and power inflation also entered deflation in May'23 (-9.2%), for the first time since Jan'21 (-3.8%), as it came down drastically from 0.9% in Apr'23, owing to favourable base (49% in May'22 versus 38.8% in Apr'22). In May'23, deflation in mineral oil index continued for the second consecutive month (-16.2% versus -4.9% in Apr'23). Within this, except for Bitumen and Lube oil, prices declined for all other sub-categories. Amongst which, most significant drop in prices was seen in case of petroleum coke (-33% versus -12%), diesel (-17% versus 1%), and LPG (-24% versus 10%). Under the major head of fuel and power, inflation index for electricity (9.7% versus 20%) and coal (2.5% versus 3.2%) also cooled down. Going forward, as risks to global growth continue to linger, led by US and China, demand prospects for oil remain weak. As a result, international crude oil prices fell from an average of US\$ 82.6/bbl in Apr'23 (-21% YoY) to US\$ 75.7/bbl (-32.4%). In Jun'23 (MTD), as well prices are lower at US\$ 75.2/bbl, indicating support for further decline in fuel inflation in WPI.

Core WPI continues to decline further:

Core inflation remains in deflation for the 3rd consecutive month in May'23 as it fell to (-) 2.2% from 1.8% in Apr'23. Manufactured products inflation also declined to (-) 3%—lowest in the current (2011-12) series, and down from (-) 2.4% in Apr'23. Of the 22 commodity sub-indices, 14 indices rose at a slower pace in May'23 than Apr'23 led by textile, paper & products, other non-metallic mineral products, chemicals & products. Inflation index for basic metals declined less sharply (-9.2% versus -9.8%). Within this, while price index for aluminium (-9.3% versus -13.5%) and copper (-1.6% versus -1.7%) decelerated at a slower pace, in case of zinc (-9.5% versus -9.3%) and lead (-1.9% versus -1.5%), the decline was faster. On an international level, as reflected in World Bank's pink sheet, prices of all these commodities declined at a slower pace. For instance, in case of aluminium, prices in May'23 were down by (-) 19.8% versus (-) 27.8% in Apr'23, in case of copper by (-) 12.4% versus (-) 13.3%, zinc by (-) 34% versus (-) 36.5%, and lead by (-) 2.7% versus (-) 9.7%.

Figure 2: Core enters deeper into deflation zone in Apr'23



Source: CEIC, Bank of Baroda Research

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