

WHOLESALE INFLATION

14 December 2021

WPI skyrockets in November

WPI inflation escalated to an all-time high (current series) of 14.2% in Nov'21 from 12.5% in Oct'21. This was attributed to increase in both food and fuel and power inflation. Higher fuel and power inflation was led by spike in mineral oil and coal prices. Core inflation also edged up further. Going forward, WPI inflation is likely to ease supported by a favourable base. However, spread of new Covid-19 variant remains a key risk to supply side factors. We expect WPI to average 12.1% in FY22.

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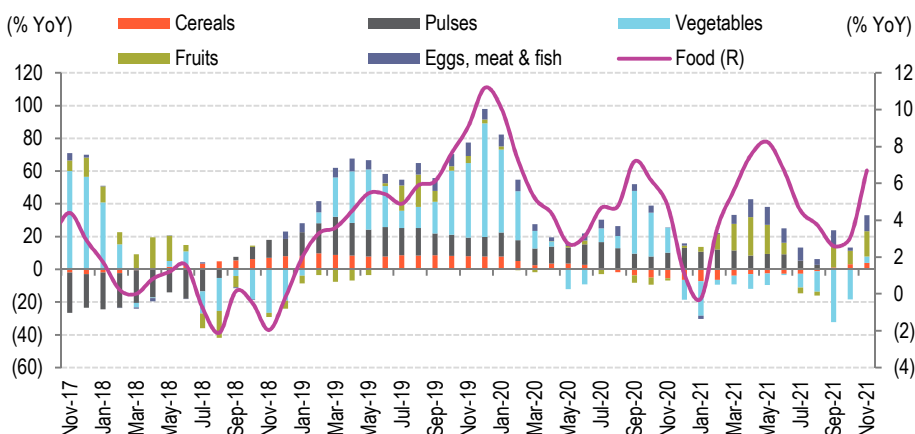
Food inflation accelerates: Food inflation rose to a 5-month high of 6.7% in Nov'21 from 3.1% in Oct'21. This was led by sharp jump in fruit and vegetable index which was up by 7.4% from a contraction of 10.3% in Sep'21. Spike in tomato prices to 14-month high at 65.5% in Nov'21 (5.6% in Oct'21) pushed the vegetables prices upwards to 3.9% compared with a decline of 18.5% in Oct'21. Fruit prices too rose by 15.5% in Nov'21. Price of protein based items such as milk (1.8% versus 1.7% in Oct'21) and eggs, meat and fish (9.7% versus 2% in Oct'21) too edged upwards in Nov'21. Further, cereal inflation too inched up by 4% in Nov'21 (3.2% in Oct'21) with uptick in wheat prices (10.1% versus 8.1% in Oct'21) and slower pace of moderation in paddy (decline by 0.2% versus 0.5% dip in Oct'21). However, prices of pulses cooled off to 2.9% in Nov'21 from 5.4% in Oct'21.

Fuel and power inflation edges up: Fuel and power inflation rose for the second consecutive month in Nov'21, by 39.8% from 37.2% in Oct'21. Sharpest increase was visible in mineral oil index (79.9% in Nov'21 versus 67.2% in Oct'21) followed by coal prices (3.1% versus 2%). Rise in mineral oil index is in contrast with movement of international oil prices, which rose by 83.8% in Nov'21 (YoY) versus 100.7% in Oct'21. Within this index, prices of bitumen (83% versus 56%), petrol (85% versus 65%) and naphtha (95% versus 75%) picked up the most. On the other hand, electricity price index fell (0.6%) for the first time in 4 months, after remaining sticky at 10.8% in Oct'21. Going ahead, with visible dip in international oil prices (up only 49% in Dec'21 so far) and favourable base, we expect fuel inflation to ease.

Core inflation remains elevated: Core inflation in Nov'21 rose further to 12.2% from 11.9% in Oct'21. Manufactured products inflation on the other hand, eased a tad to 11.9% in Nov'21 from 12% in Oct'21. Of the 22 commodity indices, 11 indices rose at a slower pace in Nov'21 than Oct'21 led by manufactured food, rubber and plastic products, furniture and electrical equipment. Notably, in Nov'21, international commodity prices (CRB index) were down by 1.2% (MoM), and have further eased by 0.3% in Dec'21. Slowdown in China and threat to global demand from Omicron, pose further downside risks to prices in the near-term.

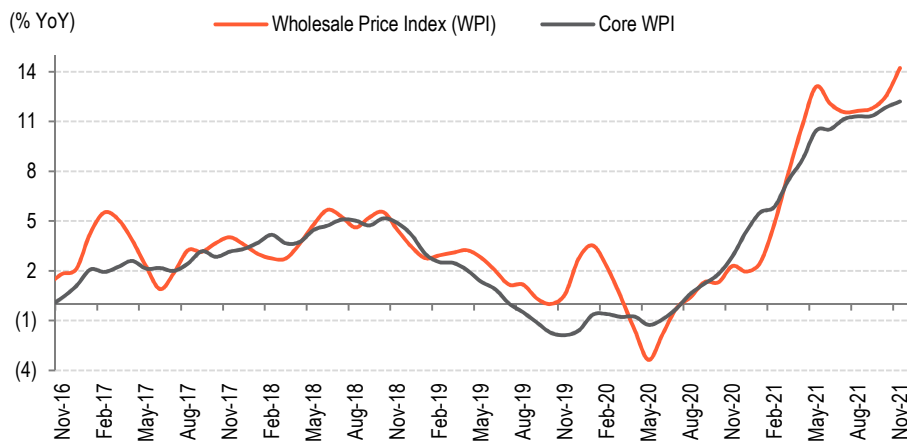


Fig 1 – Wholesale food inflation rises, led by vegetables and fruits



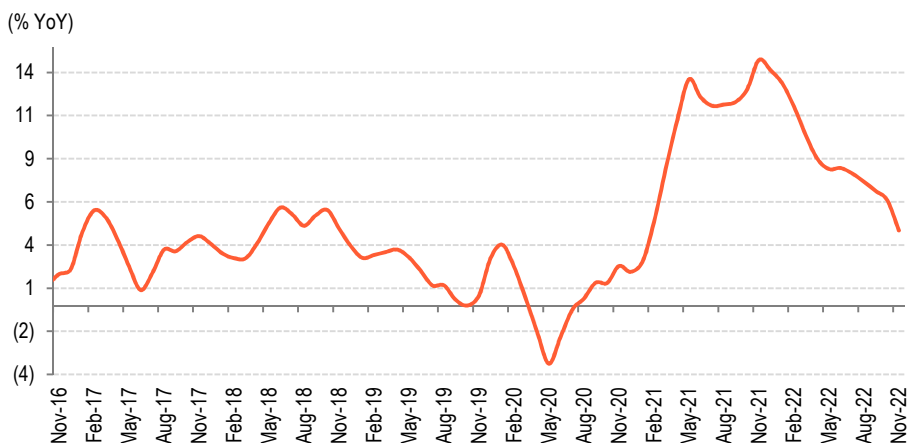
Source: CEIC, Bank of Baroda Research

Fig 2 – Core inflation edges up



Source: CEIC, Bank of Baroda Research

Fig 3 – Headline WPI to ease going ahead



Source: CEIC, Bank of Baroda Research

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