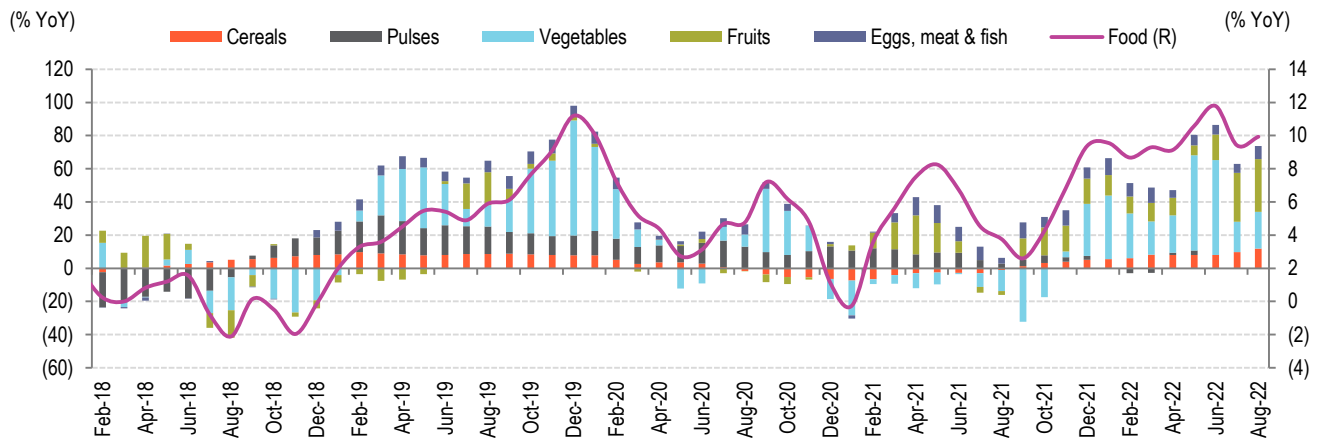


WPI provides relief

WPI for Aug'22 has come in at 12.4%, down from the peak of 13.9% in Jul'22, supported by softening global commodity prices. Barring food index, other sub-heads such as manufacturing and fuel, noted further deceleration in inflation in Aug'22. On a MoM basis too, WPI fell by (-) 0.5% following (-) 1% decline in Jul'22. World Bank's pink sheet data suggests that moderation in metal prices continued even in Aug'22, while rice prices have begun to inch up.

Food inflation continues to hurt: Headline WPI eased much more than expected (BoB estimate: 13.4%) in Aug'22 to 12.4% from 13.9% in Jul'22, despite pick up in food prices. Food inflation in Aug'22 inched up by 9.9% from 9.4% in Jul'22. Barring prices of milk, all other sub-components registered an increase in inflation. Significant pick up was visible in the case of vegetables (22.3% in Aug'22 versus 18.3% in Jul'22), fruits (31.7% versus 29.4%), eggs, meat & fish (7.9% versus 5.5%), and cereals (11.8% versus 9.8%). Within cereals, prices of both paddy and wheat were higher in Aug'22. Amongst vegetables, while tomato prices cooled off, those of onions, cucumber, bottle guard, okra remained elevated. Prices of pulses (2.6% versus 1.3%) and spices & condiments (23.5% versus 21.9%) too increased for the second consecutive month in Aug'22. These trends were mostly in line with international prices. World Bank's pink sheet shows that international rice prices have moved up by 6.4% in Aug'22 following 0.4% contraction in Jul'22. On the other hand, international prices of wheat have continued moderate in Aug'22 (16.5% versus 27.4% in Jul'22).

Fig 1 – Food inflation inches up again in Aug'22

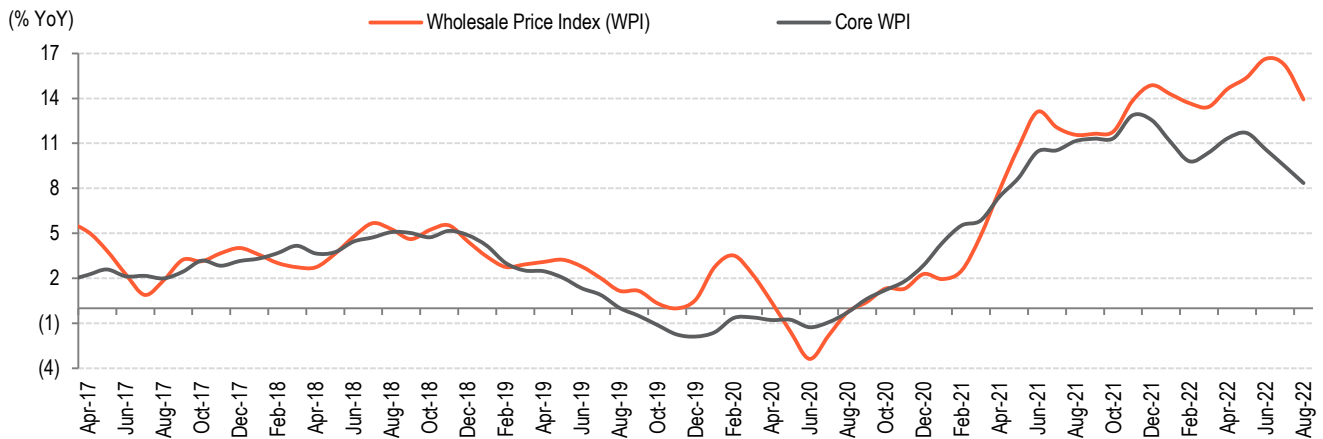


Source: CEIC, Bank of Baroda Research

Fuel and power drops further: Fuel and power inflation in Aug'22 eased significantly to 33.7% from 43.8% in Jul'22 supported by broad-based moderation. Most significantly, mineral oil index dropped to 45.4% from 59.2% in Jul'22, on the back of decline in international oil prices (+38.6% YoY in Aug'22 versus 41.5% in Jul'22). Electricity price index also cooled off to 25.7% in Aug'22 from 32.4% in Jul'22. Coal prices too rose a slower pace of 2.5% versus 2.7% in the previous month. Within mineral oil index,

barring prices of lube oil, all others fell. Sharpest decline was visible in prices of kerosene (107% in Aug'22 versus 148% in Jul'22), petroleum coke (48% versus 77%), ATF (90% versus 115%), petrol (39% versus 55%), and furnace oil (20% versus 37%). On a MoM basis too, overall index indicates that fuel and power inflation continues to soften, mainly on the basis of dip in fuel and power inflation. While coal price index was flat for the 8th consecutive month in Aug'22, there is build-up of prices visible in electricity price index (+2.8% versus -2.8% in Jul'22).

Fig 2 – Core WPI cools further



Source: CEIC, Bank of Baroda Research

Core inflation further moderates: Core inflation eased for the fourth consecutive month in Aug'22 to 7.9% from 8.4% in Jul'22. Manufactured products inflation was also down at 7.5% in Aug'22 from 8.2% in Jul'22. Of the 22 commodity sub-indices, 12 indices rose at a slower pace in Aug'22 than Jul'22 led by basic metals, fabricated metal products, furniture, chemicals, textile and rubber and plastic products. Within basic metals, prices of copper contracted for the second consecutive month in Aug'22 (-5.7% versus -0.8%), while that of aluminium (-7.1% versus -6.2%) and lead bars (-3.9% versus -2.6%) contracted for the third consecutive month in Aug'22. Zinc prices moderated once again in Aug'22 to 0.9% from 1.4% in Jul'22. Even at international level, as reflected in World Bank's pink sheet, prices of copper (-14.8% versus -20.2%), aluminium (-6.6% versus -3.6%) and lead (-14.2% versus -15.1%) have come down in Aug'22. On the other hand, global zinc prices still remain elevated (20.1% versus 5.4%).

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