

## WHOLESALE INFLATION

15 November 2021

### WPI inflation rebounds

**WPI inflation inched up to 12.5% in Oct'21 from a 6-month low of 10.6% in Sep'21. This was led by increase in both food and fuel and power inflation. Higher vegetable and fruit prices contributed to the rise in food inflation. Increase in fuel and power inflation was broad based. Core inflation too picked up. Going forward, WPI inflation is likely to ease supported by a favourable base. However, higher commodity and international oil prices remain key risks. We expect WPI to average 11.2% in FY22.**

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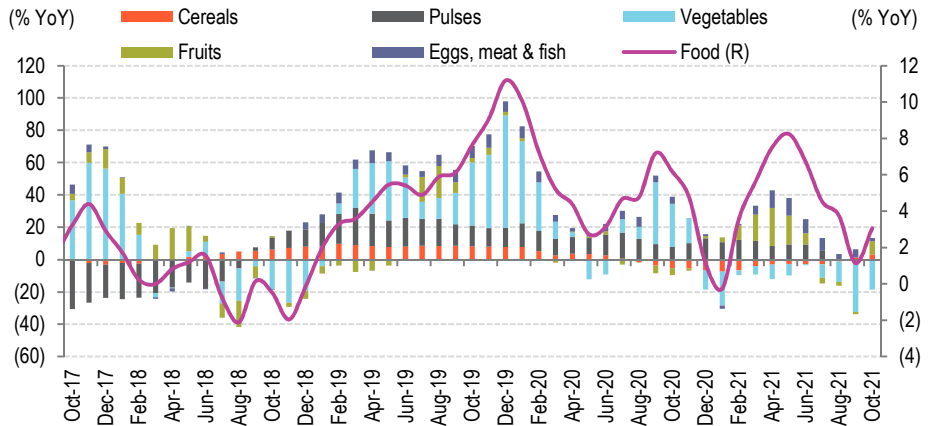
**Food inflation rebounds:** After decelerating for 4-straight months, food inflation picked up to 3.1% in Oct'21 from an 8-month low of 1.1% in Sep'21. This was led by an increase in prices of fruits (8.2% from a decline of 1.3% in Sep'21). Prices of vegetables contracted at a much slower pace of 18.5% versus 32.4% in Sep'21. Within this, prices of tomato rose by 5.6% compared with a decline of 50.6% in Sep'21. Cereal inflation rose to a 17-month high of 3.2% in Oct'21 versus 1.2% in Sep'21. On the other hand, prices of pulses (5.4% in Oct'21 from 9.4% increase in Sep'21) and eggs, meat and fish (2% in Oct'21 from 5.2% in Sep'21) moderated.

**Fuel and power inflation ticks up:** Fuel and power inflation picked up again in Oct'21, to 37.2% from 24.8% in Sep'21, led by broad-based increase across sub-components. Mineral oil index rose most sharply, by 67.2% in Oct'21 versus 51.7% in Sep'21. Within this, prices of petrol (65% in Oct'21 versus 55% in Sep'21), ATF and Kerosene (93% versus 67%), and furnace oil (74% versus 52%) rose the most. Coal prices also inched up to 2% in Oct'21 from 1% in Sep'21, and electricity prices rebounded from 6.7% decline in Sep'21 to 10.8% increase in Oct'21. Notably, on YoY basis, international oil prices were up by 102% in Oct'21 and remain elevated at 100% in Nov'21 (MTD) as well. Going forward, trajectory of international oil prices poses key risk to inflation.

**Core inflation hardens:** Core inflation in Oct'21 rose to 11.9% from 11.1% in Sep'21. Manufactured products inflation also quickened to 12% in Oct'21 from 11.4% in Sep'21. Of the 22 commodity indices, 14 indices rose at a faster pace in Oct'21 than Sep'21 led by other manufacturing items, basic metals, electrical equipment, rubber and plastic products, and wooden products. Notably, in Oct'21, international commodity prices (CRB index) was up by 3.1% (MoM), but has now eased to 1.7% in Nov'21. Revival in global demand and supply chain bottlenecks continue to pose upside risk to prices in the near-term.

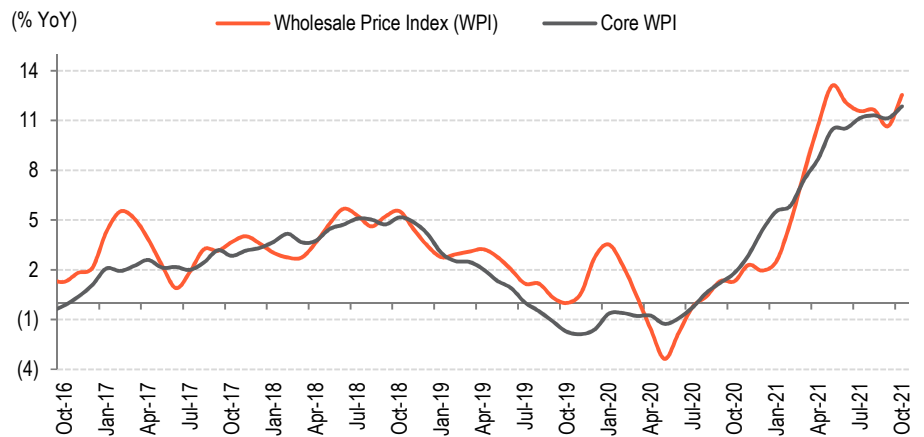


**Fig 1 – Wholesale food inflation picks up led by vegetables and fruits**



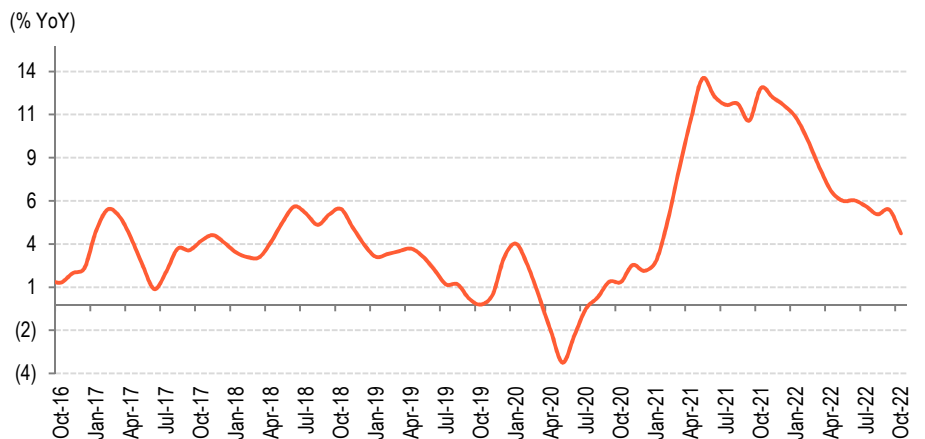
Source: CEIC, Bank of Baroda Research

**Fig 2 – Core inflation hardens**



Source: CEIC, Bank of Baroda Research

**Fig 3 – Headline WPI to ease going ahead**



Source: CEIC, Bank of Baroda Research

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