

WHOLESALE INFLATION

14 October 2021

WPI inflation eases

WPI inflation moderated to a 6-month low of 10.6% in Sep'21 from 11.4% in Aug'21. Both food and fuel and power inflation eased in Sep'21.

Moderation in food inflation was led by vegetables. However, fuel and power inflation, despite easing, remained entrenched at elevated levels.

Manufactured inflation remained steady. WPI inflation is expected to pick-up once base effect wanes. Concerns over high international commodity prices and energy crisis adds to the upside risk.

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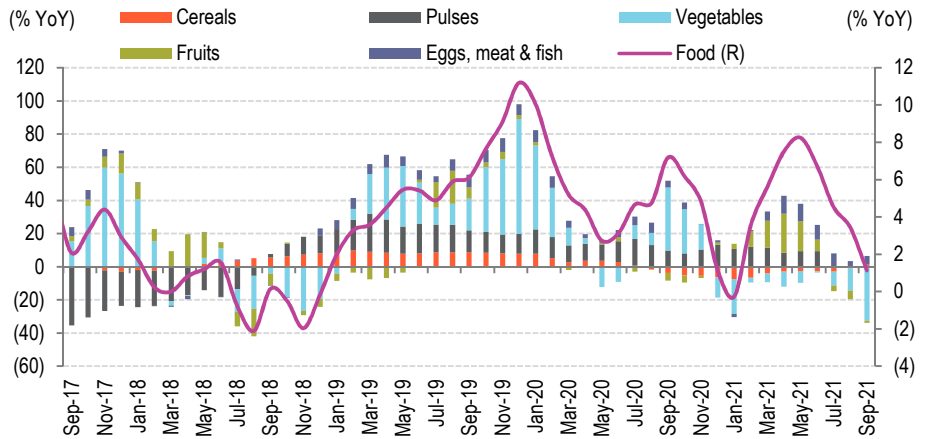
Food inflation cools off: Food inflation softened to a 8-month low of 1.1% in Sep'21 from 3.4% in Aug'21 led by sharp contraction in vegetables (32.4% in Sep'21 from 13.3% in Aug'21) owing to low base. Within this, prices of onion (declined by 1.9% compared with an increase of 62.8% in Aug'21) and potato (declined by 49% from 40% in Aug'21) dropped the most. However, prices of fruits contracted at a much slower pace by 1.3% from 5.1% in Aug'21. Protein based items such as milk (2% from 3% in Aug'21) and eggs (3.5% compared with 9.1% in Aug'21) decelerated at a much slower pace. Cereal inflation inched up to a 15-month high of 1.2% in Sep'21 from a contraction of 1.1% in Aug'21 led by paddy (increased by 4.5% in Sep'21 from a decline by 0.2% in Aug'21). Prices of pulses remained steady at 9.4% in Sep'21. Normal monsoon and pick-up in procurement bodes well for food inflation.

Fuel and power inflation still elevated: Fuel and power inflation eased for the third consecutive in Sep'21 but still remains entrenched at 24.8% versus 26.1% in Aug'21. This was led by marginal dip in mineral oil index (51.7% versus 52.7%) and further contraction in electricity index (6.7% versus 5%). Within the mineral oil index, prices of petrol (55% in Sep'21 versus 62% in Aug'21), naphtha (54% versus 62%), bitumen (37% versus 42%) and kerosene (67% versus 69%) eased the most. Coal prices remained steady and were up by 1% in Sep'21, unchanged from Aug'21. Notably, on YoY basis, international oil prices were up by 79% in Sep'21 and are further up by 96% in Oct'21 (MTD). We expect pass through and base effect (till Nov'21) to impact the fuel inflation print.

Core inflation sticky: Core inflation in Sep'21 remained unchanged from Aug'21 at 11.1%. Manufactured products inflation also remained steady at 11.4% in Sep'21 unchanged from Aug'21. Of the 22 commodity indices, 10 indices rose at a faster pace in Sep'21 than Aug'21 led by other manufacturing items, pharma products, beverages, chemical and machinery and equipment. Notably, while in Sep'21, international commodity prices (CRB index) were down by 1.1% (MoM), they are up by 1.4% in Oct'21 (MTD). Revival in global demand and supply chain bottlenecks may pose upside risk to prices in the near-term.

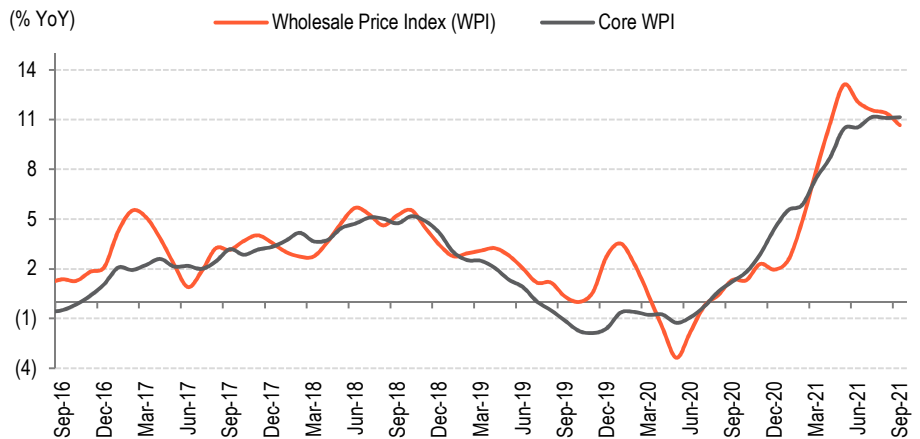


Fig 1 – Wholesale food inflation eases led by vegetable index



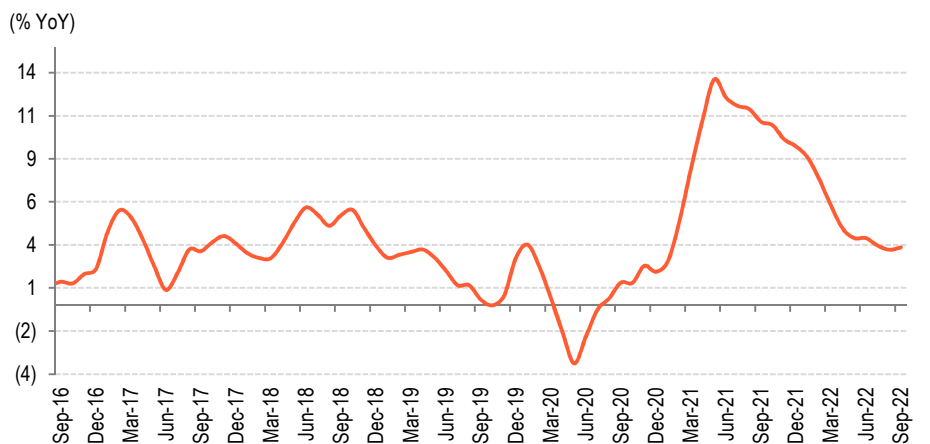
Source: CEIC, Bank of Baroda Research

Fig 2 – Core inflation remains sticky at elevated levels



Source: CEIC, Bank of Baroda Research

Fig 3 – Headline WPI to cool off



Source: CEIC, Bank of Baroda Research

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