

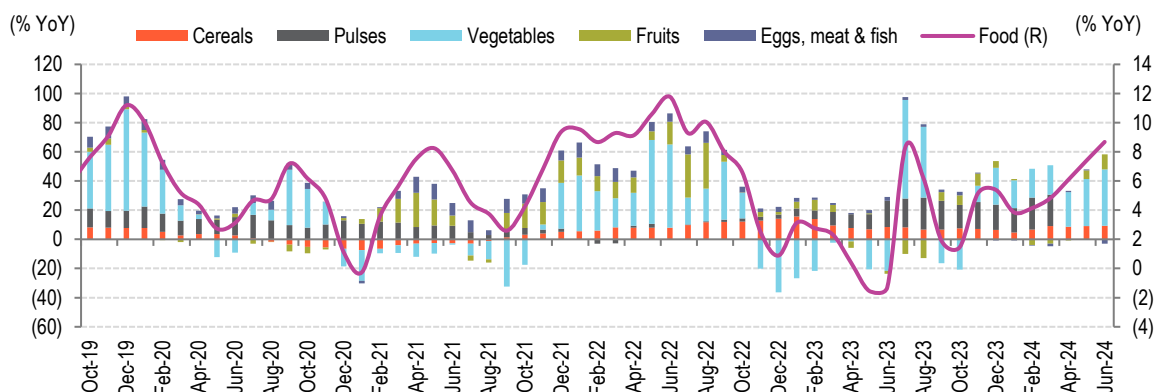
WPI inflation accelerates

WPI inflation rose to a 16-month high of 3.4% in Jun'24 compared with an increase of 2.6% in May'24, driven by surge in both food and manufactured inflation. Our forecast was 3.7%. Led by elevated prices of cereals, vegetables and fruits, food inflation rose to 22-month high in Jun'24. Prices of potato and onion accelerated sharply. For cereal inflation both paddy and wheat continue to register an uptick. On the other hand, some moderation was registered for pulses. Fuel and power inflation moderated marginally, despite an increase in global oil prices. Manufactured product inflation inched up to 1.4% in Jun'24 given the higher global prices of aluminium and other metals. Given the major sowing occurs during the Jul and Aug period, the progress of monsoon will play a determinant role in managing food inflation. So far, the kharif sowing has been better than last year and monsoon level in Jun'24 has been 11% below LPA and Jul'24 (1-14 Jul) has been 10% above LPA.

Food inflation remains elevated:

Headline WPI inflation edged up further to 3.4% in Jun'24 from 2.6% in May'24, marginally lower than our estimate of a 3.7% increase. The acceleration was driven by higher food inflation which surged to a 22-month high of 8.7% compared with 7.4% in Jun'24. Vegetable inflation registered an uptick, clocking a 10th month high at 38.8% versus 32.4% in May'24. Within vegetables, prices of both potato and onion remained elevated at 66.4% (64.1% in May'24) and 93.4% (58% in May'24) in Jun'24 respectively. On the other hand, tomato prices registered some moderation at 57.8% from 64.5% in May'24. Additionally, fruit inflation surged to 22-month high of 10.1% in Jun'24 from 5.8% in May'24. Furthermore, cereal inflation picked up to 9.3% in Jun'24, with prices of both paddy (12.1% versus 11.8% in May'24) and wheat (6.2% versus 6% in May'24) registering an uptick. Notably, pulses inflation slowed down marginally to 21.6% (from 21.9% in May'24). Moreover, milk inflation (3.4% from 3.6% in May'24) also registered some moderation, while prices of eggs, meat and fish (-3.1% versus 0.7% in May'24) registered deflation in Jun'24. In the near term, progress of monsoon will be closely monitored as any kind of shortfall can impact the prices adversely.

Figure 1: Food inflation maintains upward momentum



Source: CEIC, Bank of Baroda Research

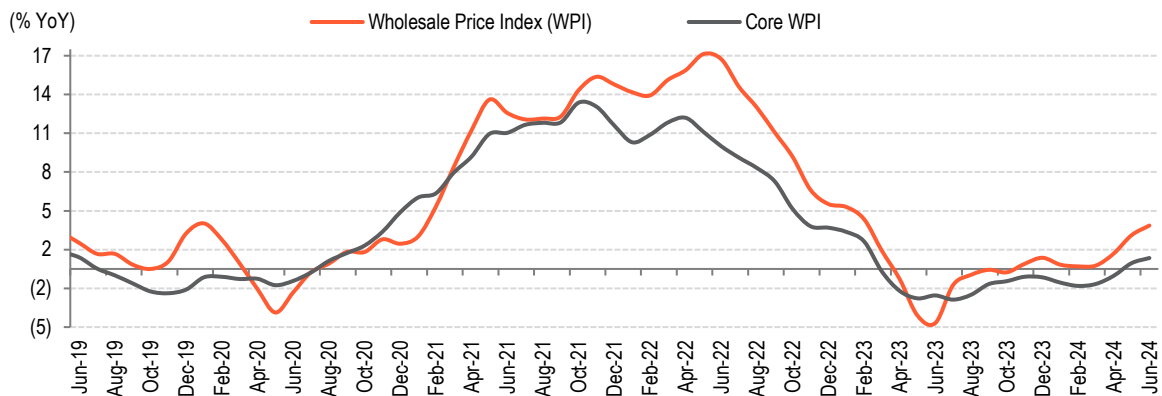
Fuel and power inflation:

Fuel and power inflation decelerated to 1.0% in Jun'24 from 1.3% in May'24, led by a contraction in coal price index. After increasing by 1.2% in May'24, coal prices contracted (-) 1.3% in Jun'24 (lowest in this series). Notably, global coal prices have also fallen down in Jun'24. Furthermore, mineral oil index recorded a moderation at 1.9% from 2% in May'24. This was on account of lower price index of LPG, petrol, along with slower pace of deflation in bitumen. However, electricity index increased by 0.2% after contracting for 3-straight month and down by (-) 0.4% in May'24. Internationally, oil prices increased by 10.7% in Jun'24 versus an increase of 9.6% in May'24. It must be noted that oil prices have remained muted in Jul'24. The prices are expected to remain range bound given lower demand from China and possibility of rate cut by Fed can possibly raise fuel demand.

Core WPI scales up:

Core inflation rose to 16-month to 0.8% in Jun'24 from 0.4% in May'24. Inflation in manufactured products also inched up by 1.4% in Jun'24 from 0.8% in May'24. Out of the 22 sub-indices, acceleration was visible in 9 categories. Within this, categories such as chemical and chemical products, food, textiles, paper and paper products, rubber and plastic products and basic metals witnessed maximum acceleration. Within basic metals, inflation for aluminium (9% versus 7.5%), copper (9.7% versus 6.8%) and zinc (2.8% versus -0.1%) inched up. Index for lead (-0.8% versus -2.2%) fell at a slower pace. On an international level also, as reflected in World Bank's pink sheet, prices of aluminium (14.3% versus 13%) have been on an upward trajectory. Prices of zinc (18.3% versus 19.5%), copper (14.9% versus 23.4%) and Lead (1.1% versus 6.6%) have been witnessing some moderation.

Figure 2: Core WPI ticks up further



Source: CEIC, Bank of Baroda Research

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