

WHOLESALE INFLATION

14 June 2021

Rising oil and commodity prices push WPI higher

WPI inflation rose by 12.9% in May'21, highest since Sep'91, from 10.5% in Apr'21 led by fuel and power index (37.6% in May'21 from 20.9% in Apr'21) and manufactured products (10.8% in May'21 from 9% in Apr'21) index. Food inflation rose from 7.6% in Apr'21 to 8.1% in May'21. International commodity prices and oil prices have seen a MoM increase even in Jun'21. This implies fuel and manufactured products inflation will remain elevated in coming months. A normal monsoon bodes well for outlook on food inflation.

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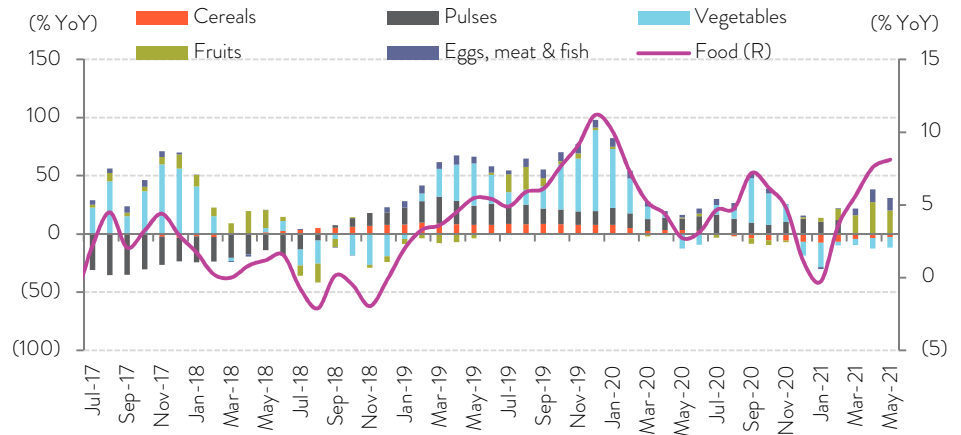
Food inflation continues to rise: Food inflation accelerated for the 4th straight month in May'21 to 8.1% (16-month high) from 7.6% in Apr'21 led by pulses and edible oils. While pulses index increased by 12.1% in May'21 from 10.7% in Apr'21, vegetable (edible) oils index rose by 51.7%. Deflation in cereals moderated to 2.5% from 3.3% in Apr'21. However, fruit prices rose at a slower pace of 20.2% versus 27.4% in Apr'21. Price rise in egg, meat and fish items was stable at 10.7% in May'21. Prices of vegetables contracted at 9% in May'21, same as Apr'21. A normal monsoon bodes well for food inflation. Edible oils too may see some dip as the Centre is considering reducing customs duty.

Fuel and power inflation remains elevated: Fuel and power inflation rose further to 37.6% in May'21 from 20.9% in Apr'21. A low base, index dropped by 23.1% May'20 compared with fall of only 12.6% in Apr'20, and rising oil prices explain this. Mineral oil index rose the most by 81.2% in May'21 (45.3% in Apr'21) with a broad based increase. On a YoY basis, Kerosene index moved up by 217.7% (42.7% in Apr'21), ATF by 234.4% (96.4%) and Naphtha by 241.1% (154.3%). Rising oil prices (Brent now at US\$ 72/bbl versus US\$ 68.3/bbl in May'21) imply upward bias in fuel and power inflation will remain.

Core inflation inches further up: Core inflation rose to its new high (2011-12 series) of 10% in May'21 from 8.4% in Apr'21. Manufactured products inflation also rose to 10.8% from 9% in Apr'21. Of the 22 commodities indices, as many as 13 commodities indices rose at a faster pace in May'21 than Apr'21 led by basic metals, fabricated metals, furniture and 'other manufacturing'. With a low base and international commodity prices firming up by 2.7% (MoM) in Jun'21, core and manufactured inflation is likely to remain elevated in coming months.

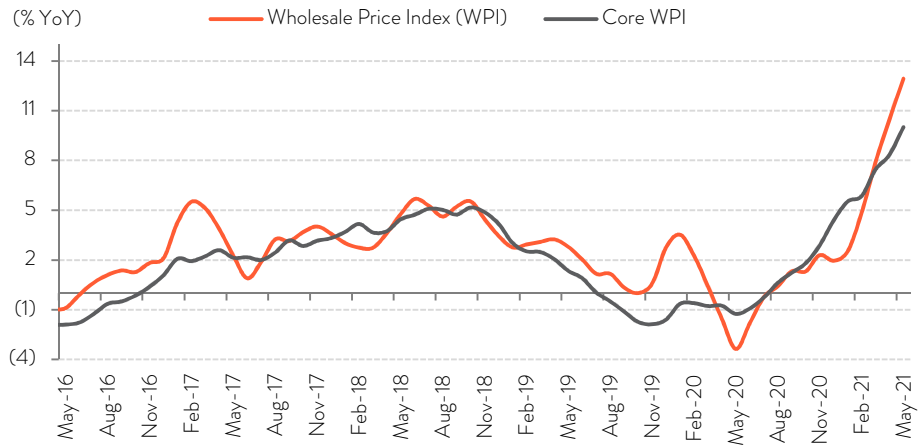


FIG 1 – WHOLESALE FOOD INFLATION INCHES FURTHER UP IN MAY'21



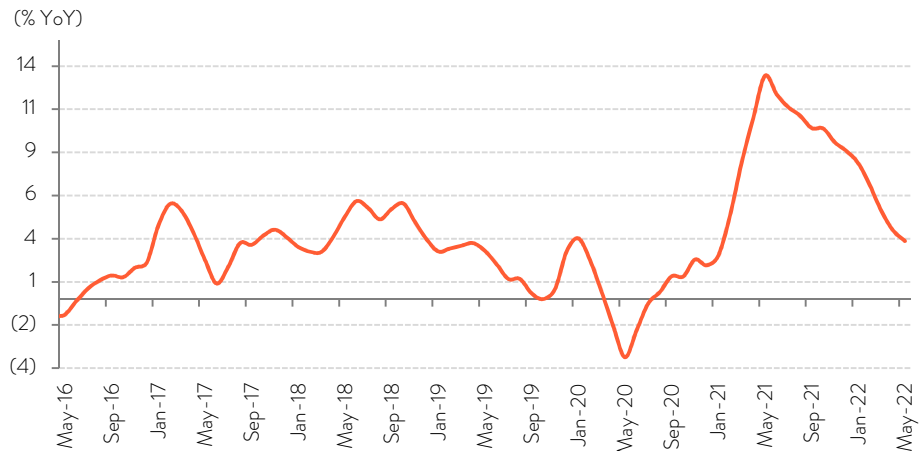
Source: CEIC, Bank of Baroda Research

FIG 2 – CORE INFLATION SOLIDIFIES FURTHER



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO REMAIN ELEVATED IN H1FY22



Source: CEIC, Bank of Baroda Research

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