

WHOLESALE INFLATION

15 April 2021

WPI inflation accelerates, peak in Q1

WPI accelerated to 7.4% in Mar'21 from 4.2% in Feb'21 led by broad based increase in food, fuel and manufactured products inflation. A low base effect and rising global commodity prices imply there is room for WPI inflation to go up. Further, localized lockdowns can push food inflation higher. We expect WPI to average at 7% in FY22 with upside risks emanating from higher global commodity and oil prices and now a weaker INR. RBI to first increase reverse repo rate in H2FY22 and then repo rate in early FY23.

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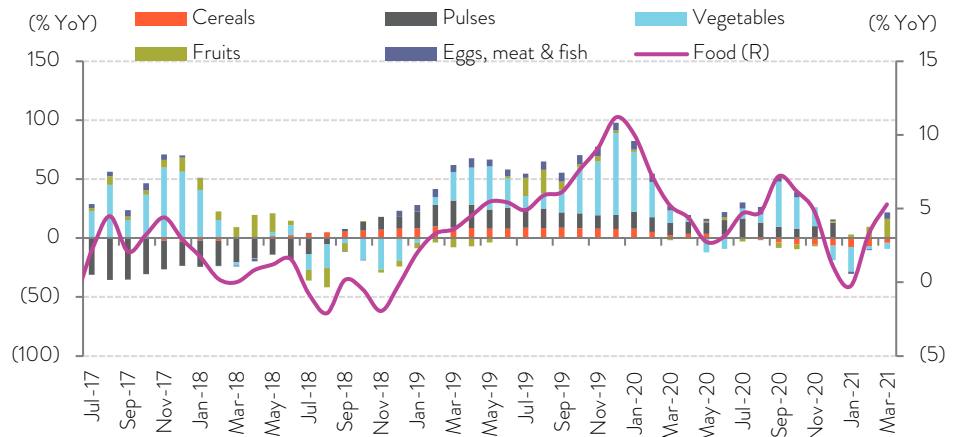
Food inflation accelerates: Food inflation rose to a 5-month high of 5.3% in Mar'21 from 3.3% in Feb'21. This was led by jump in fruits and vegetables index to 4% in Mar'21 from 2.2% in Feb'21 on the back of acceleration in fruit prices (19-month high) to 16.3% in Mar'21 (9.5% in Feb'21). Tomato prices are up by 4.7% versus 3.4% in Feb'21. Prices of protein-based items too rose sharply to 5.4% in Mar'21 with egg prices skyrocketing to 5-month high of 19.9% in Mar'21. The decline in cereal prices moderated to 4.1% versus 6.6% in Feb'21 on the back of a 7.8% decline in wheat prices versus dip of 10.6% in Feb'21. Prices of pulses too edged upwards to 13% in Mar'21 from 10.2% in Feb'21.

Fuel and power inflation noted sharp uptick: Fuel and power inflation rose steeply by 10.3% in Mar'21 from 0.6% in Feb'21. This was led by mineral oil index which rose by 18% in Mar'21 from 0.9% in Feb'21 driven by base effect (index was - 8.7% in Mar'20 as against 1.1% in Feb'20). Petrol index increased by 18.5% (0.8% in Feb'21), HSD by 18.3% (from -0.1%), LPG by 10.3% (from 0.5%) and Naptha by 30.2% (from 2.4%). International oil prices rose to US\$ 65.7/bb in Mar'21 from US\$ 62/bbl in Feb'21. Mineral oil index during Apr-Dec FY21 was 20.4% below Apr-Dec FY20 levels. Thus we expect much sharper increase in coming months at these oil price levels.

Core inflation solidifies: Core inflation rose to its highest level in 2011-12 series at 7% in Mar'21 from 5.5% in Feb'21. Manufactured products inflation rose by ~150bps to 7.3% in Mar'21 from 5.8% in Feb'21. Of the 22 commodities, prices of 12 commodities rose, with basic metals, rubber, food and chemical products taking the lead. With international commodity prices firming up another 1% in Apr'21, we expect manufactured product inflation to remain elevated. Restrictions in India and opening up of global economy point to supply demand imbalance building up of which may drive inflation higher.

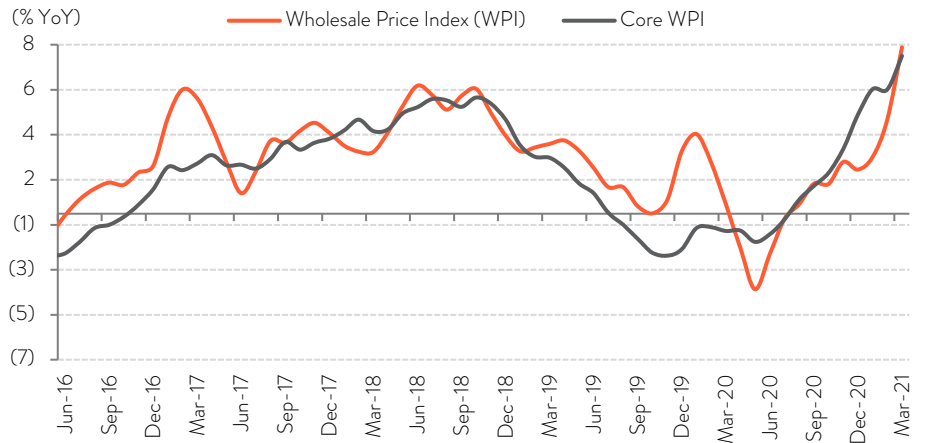


FIG 1 – WHOLESALE FOOD INFLATION RISES SHARPLY IN MAR'21



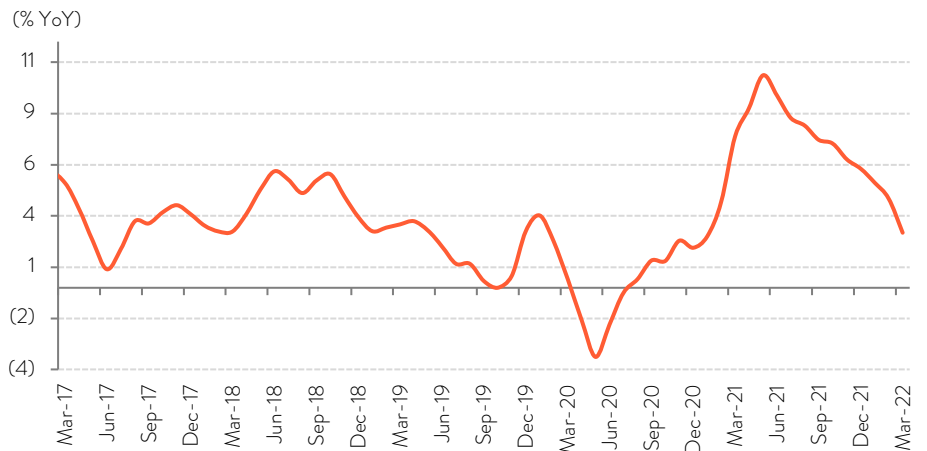
Source: CEIC, Bank of Baroda Research

FIG 2 – CORE INFLATION PICKS UP SHARPLY



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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