

WHOLESALE INFLATION

17 May 2021

Base effect, rising commodity prices push WPI higher

WPI inflation jumped to 10.5% in Apr'21 (7.4% in Mar'21) led by broad based increase in food, fuel and manufactured products inflation. A low base effect and rising global commodity prices imply WPI inflation will go up even further. We expect WPI to average at 8.9% in FY22 with upside risks emanating from higher global commodity and oil prices. Pass-through into consumer prices is inevitable. A normal monsoon bodes well for outlook of food inflation which has a much higher weight in CPI (39.06%) compared with WPI (24.4%).

Sameer Narang

+91 22 6698 5713

chief.economist@bankofbaroda.com

Jahnavi

jahnavi@bankofbaroda.com

Dipanwita Mazumdar

dipanwita.mazumdar@bankofbaroda.com

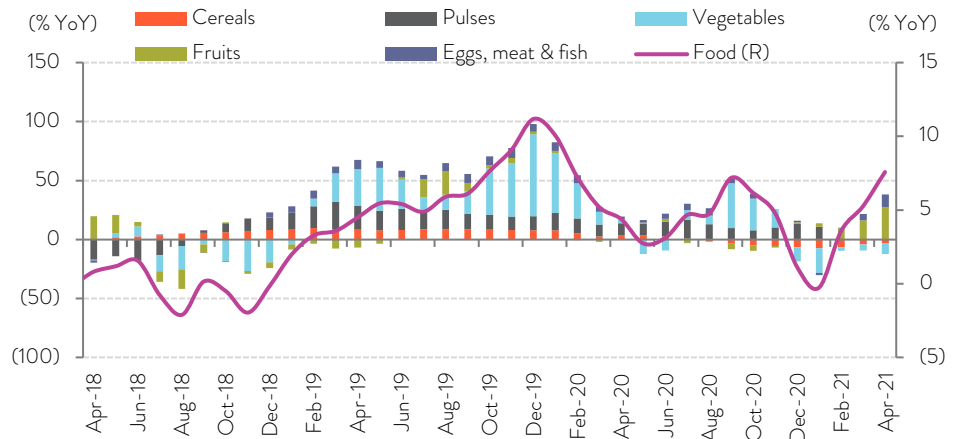
Uptick in Food inflation: Food inflation edged up to a 15-month high of 7.6% in Apr'21 from 5.3% in Mar'21. This was led by sharp acceleration in prices of fruits which rose by 27.4% in Apr'21 from 16.3% in Mar'21. Prices of protein-based items also rose in double digits at 10.9% in Apr'21 from 5.4% in Mar'21 with egg prices skyrocketing to an all-time high of 36.7% in Apr'21 from 19.9% in Mar'21. However, vegetable prices contracted by 9% in Apr'21 (-5.2% in Mar'21) and cereal prices fell by 3.3% in Apr'21 (-4.1% in Mar'21). A normal monsoon should bode well for outlook on food inflation.

Fuel and power inflation elevated, due to base: Fuel and power inflation rose steeply by 20.9% in Apr'21 from 10.3% in Mar'21. This is explained by a 12.6% drop in the index in Apr'20 compared with fall of only 2.9% in Mar'21. Mineral oil index rose by 45.3% in Apr'21 (18% in Mar'21) led by broad based increase. Petrol index increased by 42.4% (18.5% in Mar'21), HSD by 33.8% (18.3% in Mar'21), LPG by 20.3% (10.3% in Mar'21) and Naptha by 154.3% (30.2% in Mar'21). However, on a MoM basis, fuel and power index was down by 1% versus 3.8% increase seen in Mar'21. This was on account of moderation in international oil prices (US\$ 65.3/bb in Apr'21 from US\$ 65.7/bbl in Mar'21). A low base and rising international oil prices (now at US\$ 68/bbl) imply upward bias in WPI inflation in coming months.

Core inflation solidifies: Core inflation rose to its highest level in 2011-12 series at 8.4% in Apr'21 from 7% in Mar'21. Manufactured products inflation rose by ~168bps to 9% from 7.3%. Of the 22 commodities, prices of 17 commodities rose, with basic metals, rubber, food and chemical products taking the lead. With international commodity prices firming up by another 1% in May'21, and unfavourable base till Sep'21, we expect manufactured product inflation to remain elevated.

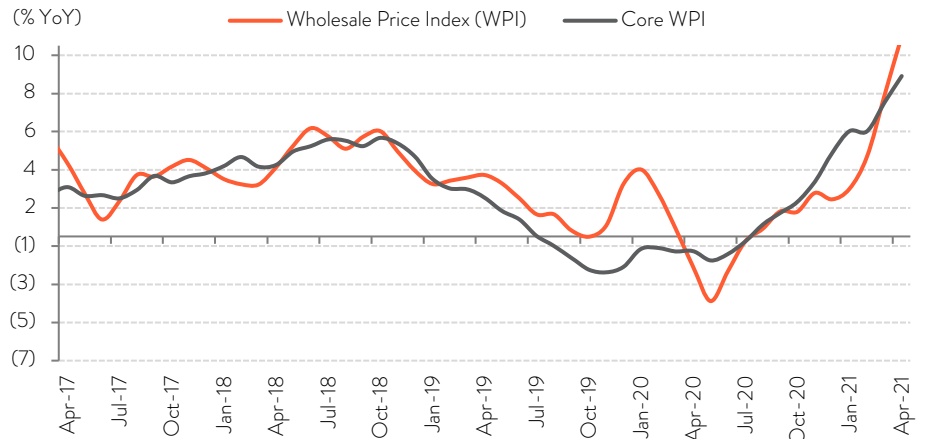


FIG 1 – WHOLESALE FOOD INFLATION RISES SHARPLY IN APR'21



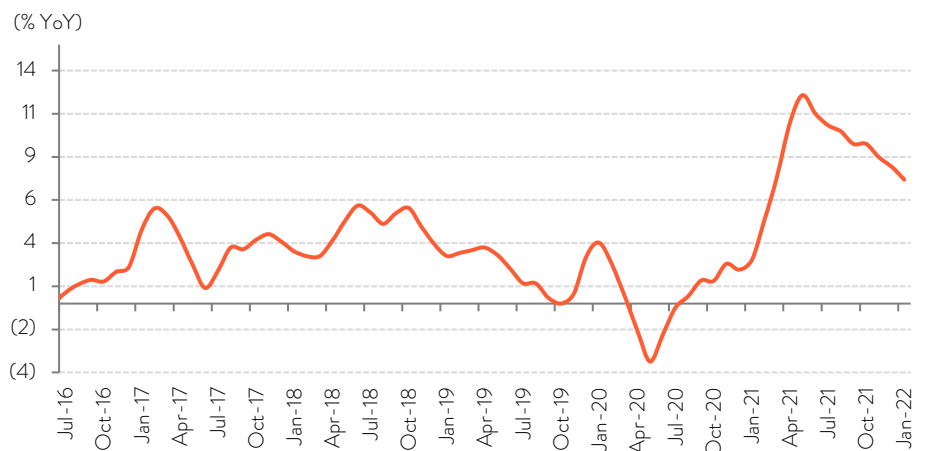
Source: CEIC, Bank of Baroda Research

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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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com