

WPI at 21-month low

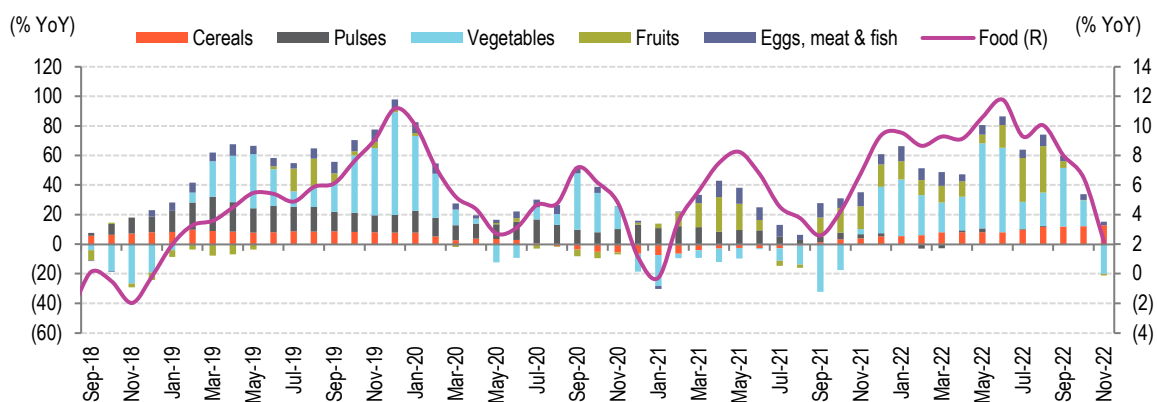
WPI inflation has slumped to 5.8% in Nov'22 (8.4% Oct'22), on the back of broad-based moderation in food, fuel and manufactured product inflation. Within food, prices of fruits, vegetables, especially tomato and potato dragged down the prices. However, there is an uptick in prices of wheat, pulses and milk products. With Russian federation rejoining the Black Sea Grain initiative, wheat prices are expected to see some volatility in the coming months. Core WPI softened to 2-year low of 3.5% in Nov'22 from 4.7% in Oct'22 owing to the dip in manufactured inflation (3.6% from 4.4% in Oct'22). Fuel inflation too trickled down in Nov'22. Going ahead, we expect further easing in WPI inflation.

However, WPI inflation will not matter much from the point of view of monetary policy as the RBI keeps a close watch on CPI inflation, which we expect to remain above 6% in December.

Food inflation eases:

Headline WPI moderated to a 21-month low of 5.8% (BoB est.: 6.8%) in Nov'22 from 8.4% in Oct'22. Food inflation in Nov'22 softened to almost 2-year low of 2.2% from 6.5% in Oct'22. This was led by contraction in fruits and vegetable inflation (-13.8% compared with 11% in Oct'22). Vegetable prices declined by 20.1% against an increase of 17.6%, tomato prices nose-dived to 32-month low of -52.5% compared with an increase of 5.3% in Oct'22 due to supply glut. Potato prices eased further by 13.8% in Nov'22 (45% in Oct'22). Fruit prices slipped in to contraction after a period of 15 months down by 1.1% (+0.2% in Oct'22). Protein based items such as egg, milk and fish too edged lower by 2.3% in Nov'22 against 4% in Oct'22. However, milk prices inched up 6% in Nov'22 (5.5% in Oct'22). Cereal inflation (12.8% from 12% in Oct'22) was pushed up led by higher wheat prices (18.1% from 16.2% in Oct'22). Prices of pulses also moved up a tad bit by 0.6% (0.4% in Oct'22). Global food prices remained steady in Nov'22 compared with last month.

Figure 1: Food inflation dips further in Nov'22

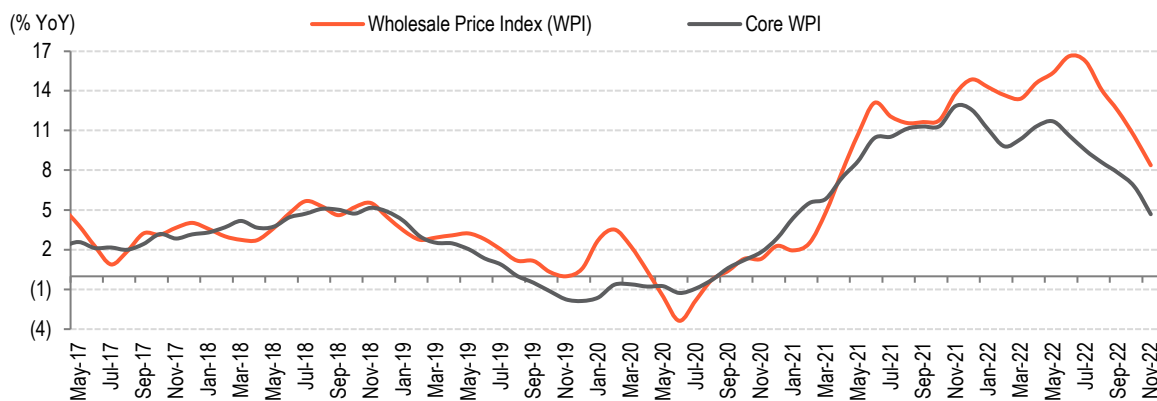


Source: CEIC, Bank of Baroda Research

Fuel and power cools down:

Fuel and power inflation in Nov'22 eased to 17.4% from 23.2% in Oct'22, owing sharp drop in electricity index (9.5% in Nov'22 versus 20.5% in Oct'22), followed by moderation in mineral oil index (23.8% versus 29.1%). Coal price index also eased to 3% from 4.2% in Oct'22. The dip in mineral oil index is in line with the trend seen in international oil prices, which has eased to 12.4% (YoY) in Nov'22. In absolute terms, oil prices averaged US\$ 91/bbl in Nov'22 versus US\$ 94/bbl in Oct'22. Within mineral oil, the slowdown was broad-based, with prices of LPG recording a decline of -13% versus 5% increase in Oct'22. Furnace oil index too declined, for the 2nd consecutive month in Nov'22 (-4% versus -5% in Oct'22). Prices of kerosene (62% versus 85%) and petrol (14% versus 25%) also eased significantly. On a MoM basis, overall index indicates that fuel and power inflation is beginning to gather momentum (2.8% versus -2%), led by inching up of electricity (2.4% versus 0%) and mineral oil index (3.6% versus -3.1%). However, as international oil prices have come down further in Dec'22 (US\$ 88/bbl), it may ease some pressure on the fuel and power inflation.

Figure 2: Core WPI inching down



Source: CEIC, Bank of Baroda Research

Core inflation drops further:

Core inflation moderated for the seventh consecutive month in Nov'22 to 3.5% from 4.7% in Oct'22. Manufactured products inflation was also down at 3.6% in Nov'22 from 4.4% in Oct'22. Of the 22 commodity sub-indices, 15 indices rose at a slower pace in Nov'22 than Oct'22 led by textiles, basic metals, chemicals, paper products, motor vehicles, computer and electronic products. Within basic metals, prices continued to fall for major commodities, albeit at a slower pace, indicating some pressure might be beginning to build up. For instance, prices of copper contracted by -6.3% in Nov'22 versus -6.5% in Oct'22, while that of aluminium fell by -9% versus -10.1% in the previous month. Prices of lead bars fell by another -4.9% in Nov'22 from -5.2% in Oct'22. Zinc prices however continue to fall at steeper pace of -3.3% in Nov'22 following -2.4% decline in Oct'22. Even on international level, prices of some commodities have declined at a slower pace, as reflected in World Bank's pink sheet. Prices of aluminum (-10.8% in Nov'22 versus -23.1% in Oct'22), copper (-17.3% versus -22.2%), lead (-9.9% versus -14.7%) and Zinc (-11.2% versus -11.7%) are such examples.

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