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Sonal Badhan
Economist

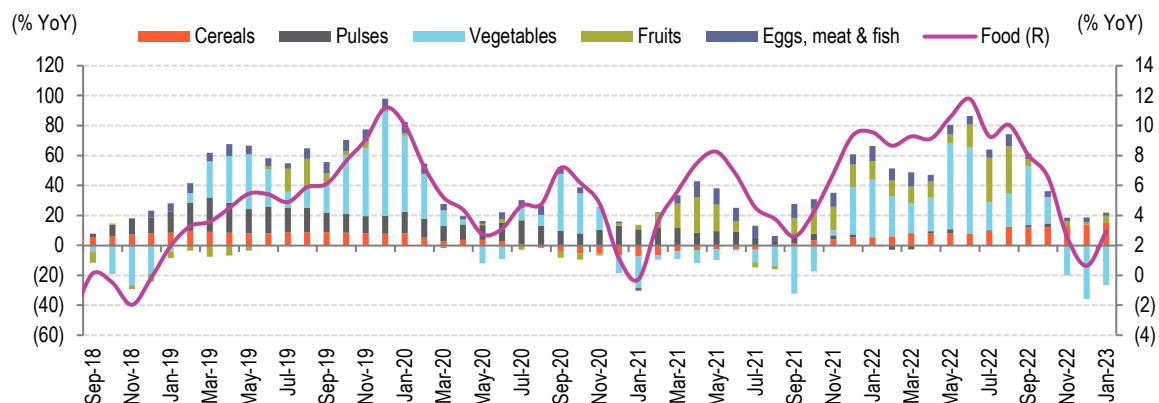
WPI at 2-year low

WPI inflation has slumped to 4.7% in Jan'23 (5% Dec'22), on the back by moderation in fuel and manufactured product inflation. On the other hand food prices accelerated, led by cereals, pulses, fruits, milk spices and vegetables. Supported by moderation in international oil prices and commodity prices, fuel (15% versus 18%) and manufactured (3% versus 3.4%) product inflation cooled. Core inflation also eased to 2.8% from 3.2%. Going ahead, trend in food prices needs to be monitored as it might provide an upside shock to the headline number. However, with global growth slowing, fuel and commodity prices can be expected to remain muted, hence providing support in bringing WPI down.

Food picks up pace:

Headline WPI moderated to 2 year low of 4.7% in Jan'23 from 5% in Dec'22. Food inflation last month accelerated to 3-month high of 2.9% from 0.7% in Dec'22. This was led by increase in prices of food grains (13% in Jan'23 versus 11.6% in Dec'22), fruits (4.1% versus 1.3%), milk (9% versus 7%) and spices (16.1% versus 15.4%). Prices of vegetables (-26.5% versus -36%) fell less sharply. Within vegetables, pressure can be seen emerging in items like: onions (-25% versus -26%), tomato (-40% versus -65%), ginger (67% versus 34%), and cucumber (0.9% versus -22%). Within food grains, price build up was visible in both cereals (15.5% versus 14%) and pulses (2.4% versus 1.5%). Amongst the cereals both paddy (7.2% versus 6.8%) and wheat (23.6% versus 20.7%) saw prices going up. At the international level, World Bank's pink sheet data shows that while global paddy prices continue to inch up (18.5% in Jan'23 versus 14.3% in Dec'22), wheat prices are slowing (1.6% versus 2.5%).

Figure 1: Food inflation accelerates in Jan'23



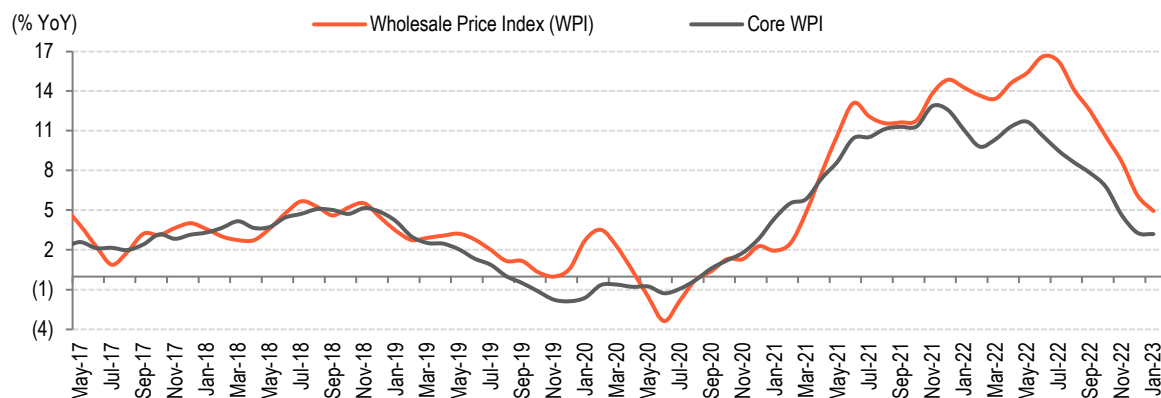
Source: CEIC, Bank of Baroda Research

Fuel and power moderates:

Fuel and power inflation in Jan'23 eased to 22-month low of 15.2% from 18.1% in Dec'22, owing to moderation in the mineral oil index (17.9% versus 22.7%). Coal and electricity price growth remained unchanged from the previous month in Jan'23 at 2.6% and 16.6% respectively. Within this index, prices of ATF (42% versus 64%), Kerosene (55% versus 65%), petrol (16% versus 17%) slowed, while that of

Naphtha fell (-2% versus 8%). The dip in mineral oil index in line with (-) 1.9% decline in average Brent price in Jan'23 compared with 8.7% jump witnessed in Dec'22. However, as international oil prices remain on the lower side for now (-9% YoY in MTD Feb'23) we can continue to expect easing in fuel and power inflation.

Figure 2: Core WPI inching down



Source: CEIC, Bank of Baroda Research

Core inflation slips further:

Core inflation moderated for the ninth consecutive month in Jan'23 to 2.8% from 3.2% in Dec'22. Manufactured products inflation was also down at 3% in Jan'23 from 3.4% in Dec'22. Of the 22 commodity sub-indices, 15 indices rose at a slower pace in Jan'23 than Dec'22 led by textiles, computer and electronic products, motor vehicles, electrical equipment, leather products and paper products. On the other hand, basic metals saw prices increasing (1.3% versus 0.8%). Within this, prices of copper (-2.5% versus -4.7%), zinc (-0.9% versus -2.3%), aluminum (-5.2% versus -7.1%) and lead (-1.9% versus -3.9%) declined at a slower pace in Jan'23 versus Dec'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 prices of copper (-7.6% versus -12.3%) is reflecting build of pressure. Zinc prices remained broadly unchanged (-8%). On the other hand, prices of aluminum (-17% versus -11%) and lead (-6% versus -4%) continue to see a decline.

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com