

## WHOLESALE INFLATION

14 January 2021

### Food inflation drives WPI lower

WPI eased to a 4-month low of 1.2% in Dec'20 from 1.5% in Nov'20 led by moderation in food inflation to 0.9% in Dec'20. Both vegetable and cereal prices fell. However, rising international oil and commodity prices meant that fuel and power index declined at a slower pace of 8.7% in Dec'20 and core inflation increased to 4.2% (2.6% in Nov'20). Vegetable prices tend to be volatile and rising international oil and commodity prices are likely to exert upward inflationary pressure in coming months. RBI to remain on hold.

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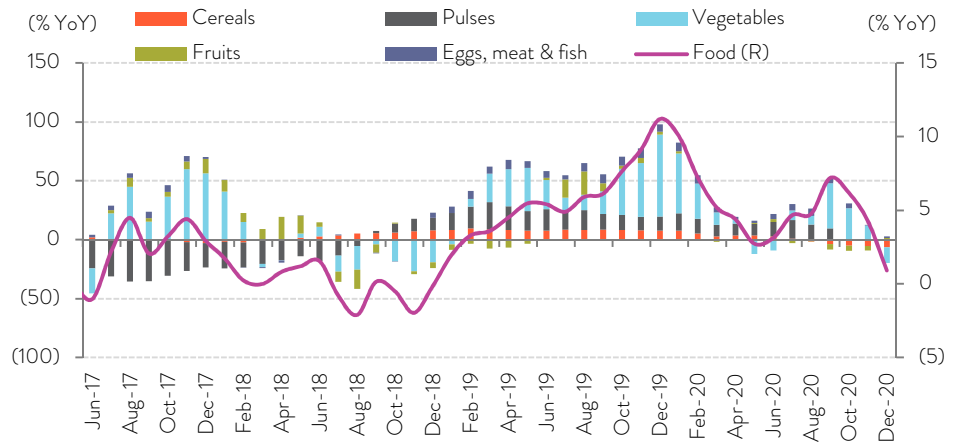
**Food inflation eases further:** Food inflation moderated to a 2-year low of 0.9% in Dec'20 from 4.3% in Nov'20. This was led by 13.2% YoY contraction in vegetable prices in Dec'20 compared with an increase of 12.2% in Nov'20. Within vegetables, onion prices fell by 54.7% in Dec'20 compared with a 7.6% drop in Nov'20. Potato prices also rose at a slower pace of 37.7% in Dec'20 from 115% in Nov'20. Cereal prices declined by 6.5% in Dec'20, all-time low in this series, from a decline of 5.5% in Nov'20 driven by contraction in wheat prices (11.1% in Dec'20 from 10.1% in Nov'20). Pulses inflation too fell to 9.7% in Dec'20 from 13% in Nov'20. Prices of eggs, meat and fish edged upwards to 1.4% in Dec'20 (0.6% in Nov'20). The avian flu seen in a number of states is likely to put upward pressure on fish and mutton prices.

**Contraction in fuel and power eases:** Fuel and power index fell by 8.7% in Dec'20 from a 9.9% drop in Nov'20 led by 10.7% fall in electricity index compared with 4.3% decline in Nov'20. Even mineral oil index fell by 11.2% in Dec'20 compared with a 16% drop in Nov'20. This is driven by pass-through of higher international oil prices which were at US\$ 50/bbl in Dec'20 compared with US\$ 44/bbl in Nov'20. International oil prices have risen further in Jan'21 to US\$ 55/bbl implying fuel deflation will be a lower drag on WPI index.

**Core inflation inching up:** Core inflation rose to 4.2% in Dec'20 from 2.6% in Nov'20 led by basic and fabricated metals, electrical and other transport equipment. Notably, international commodity prices have increased further in Jan'21. Of the 22 commodities in manufactured products, prices of 15 commodities rose. The pace of global economic recovery implies there is room for further increase in global commodity prices which will put upward pressure on wholesale inflation.

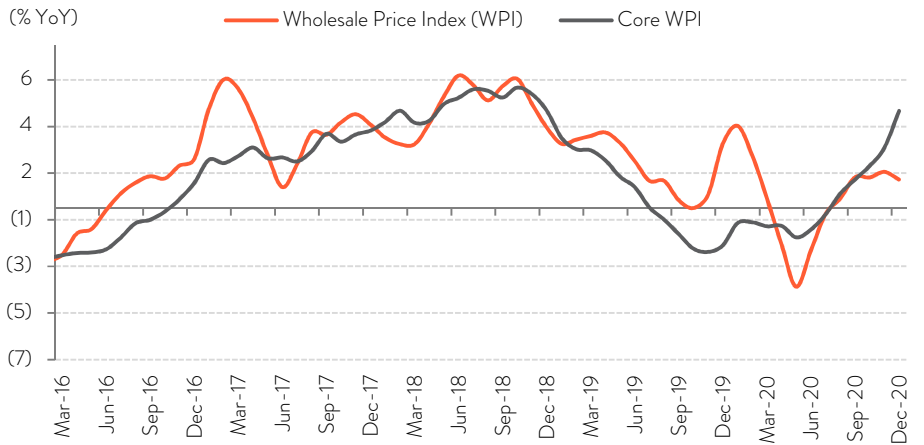


**FIG 1 – WHOLESALE FOOD INFLATION CONTRACTS IN DEC'20**



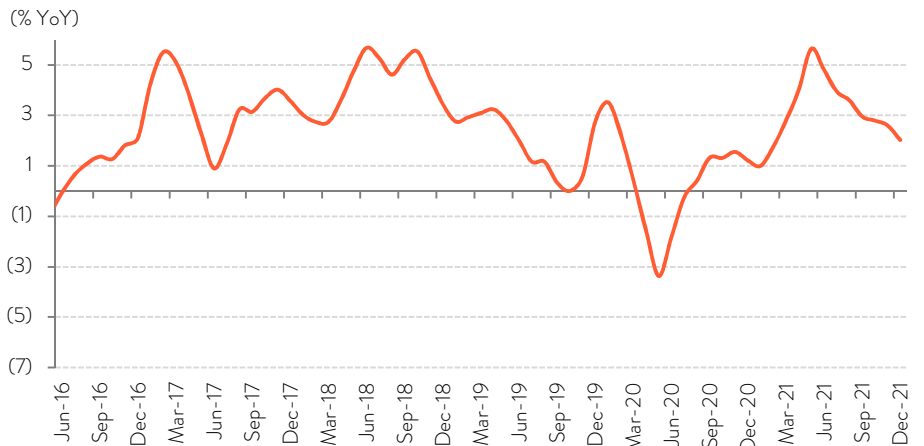
Source: CEIC, Bank of Baroda Research

**FIG 2 – CORE INFLATION JUMPS SIGNIFICANTLY**



Source: CEIC, Bank of Baroda Research

**FIG 3 – HEADLINE WPI TO BEGIN INCREASING TOWARDS THE END OF Q4FY21**



Source: CEIC, Bank of Baroda Research

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