

WHOLESALE INFLATION

14 July 2021

Peak is behind

WPI inflation moderated to 12.1% in Jun'21 from 12.9% in May'21, led by lower food (6.7% in Jun'21 from 8.1% in May'21) and fuel inflation (32.8% in Jun'21 from 37.6% in May'21). On the other hand, manufactured product index rose from 10.8% in May'21 to 10.9% in Jun'21. A higher base along with steady to declining international oil and commodity prices imply WPI inflation has peaked and is likely to edge lower in the coming months. A below normal monsoon and higher oil prices remain risks to our view.

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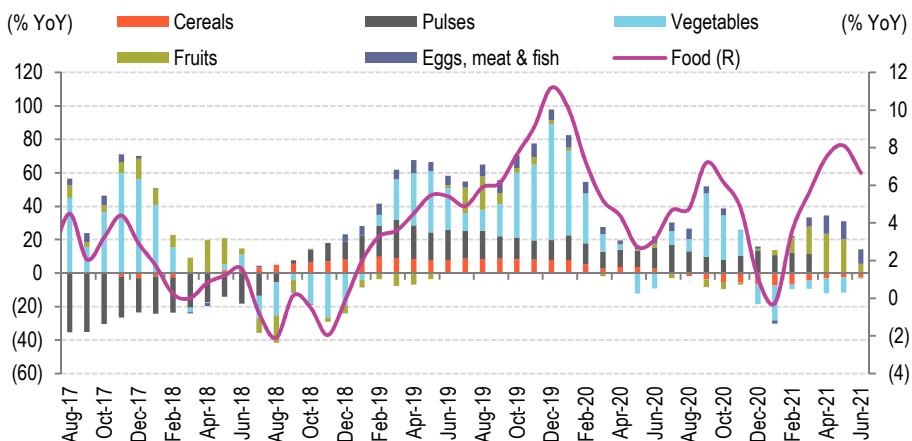
Food inflation eases: Food inflation moderated to a 3-month low of 6.7% in Jun'21 from 8.1% in May'21 led by drop in fruits and vegetables inflation to 2% in Jun'21 from 4.4% in May'21 and eggs to 29.7% in Jun'21 from 37.4% in May'21. Price increase in fruits dropped to a 5-month low of 5.6% in Jun'21 from 20.2% in May'21. Cereal prices declined by 2.7% in Jun'21 led by paddy (deflation of 2.4% in Jun'21). Pulses continue to see elevated increase at 11.5% in Jun'21. Prices of protein-based items such as egg, milk and fish too dropped to 8.6% in Jun'21 (10.7% in May'21). However, vegetable prices contracted at much slower pace of 0.8% in Jun'21 (-9% in May'21) driven by spike in onion prices (64.3% in Jun'21). A lower than normal monsoon and drop in sowing as of now is a key upside risk to food inflation.

Fuel and power inflation moderates: Fuel and power inflation eased to 32.8% in Jun'21 from 37.6% in May'21. Base effect played a role in this. Mineral oil index cooled off from 81.2% in May'21 to 61.8% in Jun'21. This is in line with trend in international oil prices. After reporting an increase of 111% in May'21, oil prices were up by 80% in Jun'21. The dip in mineral oils inflation was led by ATF (84% in Jun'21 versus 234% in May'21), Naphtha (87% versus 241%), Furnace oil (71% versus 141%), and LPG (31% versus 61%). Electricity index saw a 10% increase versus 5.8% in May'21. We expect fuel inflation to come down in the coming months on the back of base effect and steady international oil prices.

Core inflation hardens, but will soften: Core inflation rose to 10.4% in Jun'21 from 10% in May'21. Manufactured products inflation also picked up to 10.9% from 10.8% in May'21. Of the 22 commodity indices, as many as 14 indices rose at a faster pace in Jun'21 than May'21 led by furniture, textiles and basic metals. Notably, international commodity prices have fallen by 0.6% in Jul'21 over Jun'21 compared with 1.4% increase seen in Jun'21 over May'21. A higher base will also cool down the pace of core inflation. Manufactured products inflation averaged 0.6% in H1FY21 as against 4.9% in H2FY21.

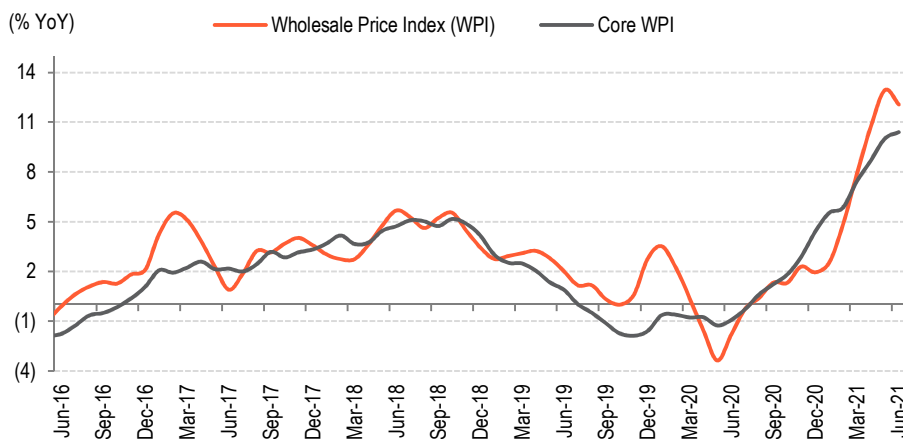


Fig 1 – Wholesale food inflation softens in Jun'21



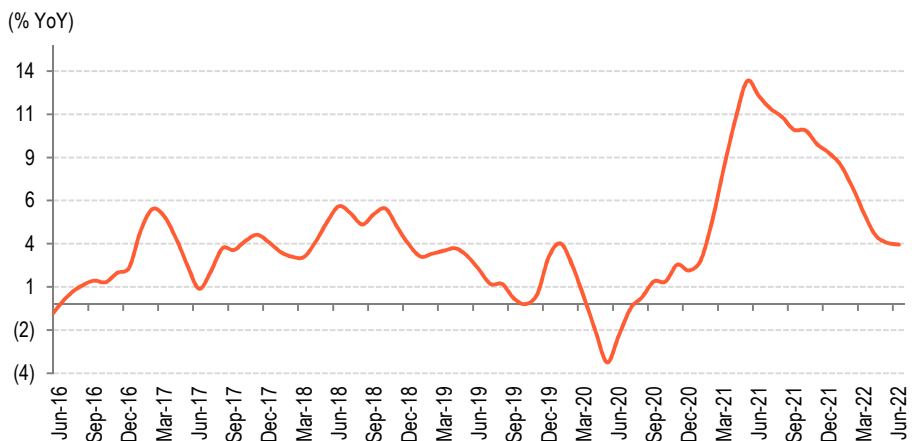
Source: CEIC, Bank of Baroda Research

Fig 2 – Core inflation inches further up in Jun'21



Source: CEIC, Bank of Baroda Research

Fig 3 – Headline WPI to begin cooling off now



Source: CEIC, Bank of Baroda Research

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