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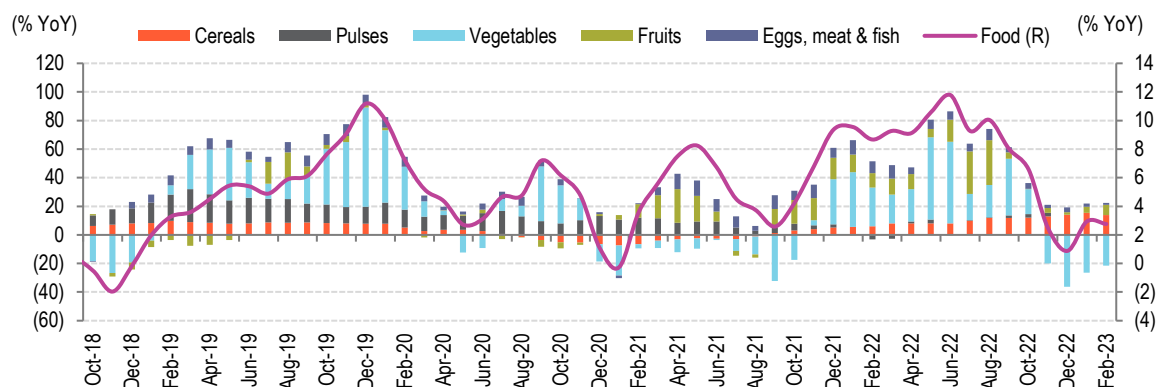
WPI cools down further

WPI inflation has moderated to more than 2-year low of 3.9% in Feb'23 compared with 4.7% in Jan'23. This is mainly owing to slip in fuel and power inflation and manufactured product inflation. Food inflation on the other hand remains broadly steady. Within food, prices of paddy, vegetables, fruits and protein based items are seeing a buildup in pressure. In case of fuel inflation, increase in coal and electricity indices was outweighed by drag in mineral oil index as international oil prices have fallen sharply. Further, supported by dip in international commodity prices, manufactured production inflation has also cooled off significantly. Going ahead, trajectory of food prices in the wake of ongoing heat wave conditions in the country will be critical to watch. Fuel and manufactured product inflation will continue to provide respite in the current uncertain global environment.

Food inflation broadly steady:

Headline WPI moderated to 25-month low of 3.9% in Feb'23 (BoB est.: 4.1%) from 4.7% in Jan'23. Food inflation eased only a tad to 2.8% in Feb'23 from 2.9% in Jan'23. Amongst these, inflation eased in food grains (11.8% versus 13%), eggs, meat & fish (1.5% versus 2.2%) and spices (12.5% versus 16.1%). Within food grains, cereal inflation moderated (13.9% versus 15.5%) on account of wheat (18.5% versus 23.6%). However, paddy inflation continued to inch up (8.6% versus 7.2%). Inflation in pulses was also seen ticking up in Feb'23 (2.6% versus 2.4%). At the international level, World Bank's pink sheet data shows that global paddy prices have begun to moderate in Feb'23 (15% versus 18% in Jan'23) and wheat prices are seen contracting (-3% versus 0%). Domestically, in case of vegetables, contraction in prices was slower (-21.5% versus -26.5%), while in case of fruits, pressure is seeing building up with inflation at 7% in Feb'23 versus 4.1% in Jan'23. Within vegetables, while inflation in potato and onion fell even more sharply in Feb'23, inflation in tomato is seeing an uptick (-13.5% versus -40.4%). Even milk inflation rose to 10.3% from 9%.

Figure 1: Food inflation sticky in Feb'23

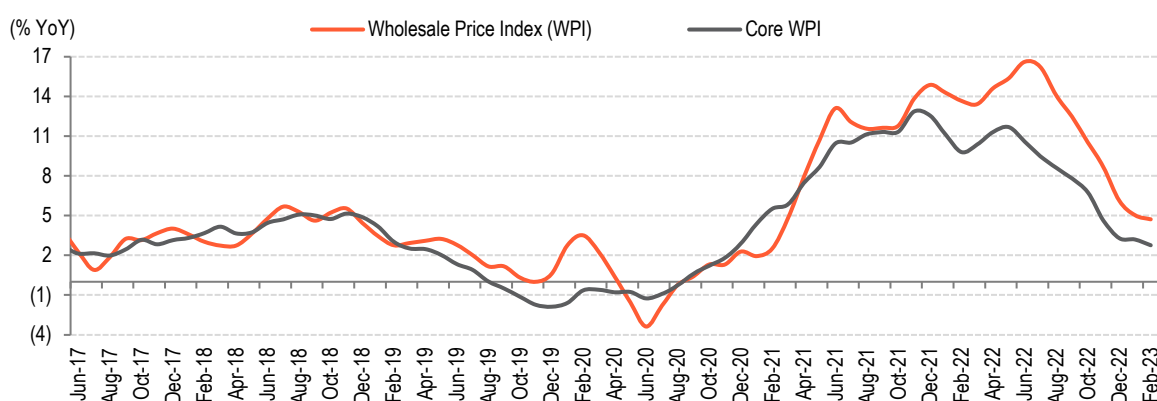


Source: CEIC, Bank of Baroda Research

Fuel and power cools down further:

Fuel and power inflation in Feb'23 eased to 23-month low of 14.8% from 15.2% in Jan'23, owing to slowdown in the mineral oil index (15.8% versus 17.9%). On the other hand, inflation in coal and electricity index inched up. While coal inflation rose to 3.4% in Feb'23 from 2.6% in Jan'23, electricity index was up at 19.7% versus 16.6%. Mineral oil index tracked the trend in international crude prices, which slipped sharply in Feb'23 (-11.3%) compared with -1.8% decline in Jan'23. Within mineral oils, inflation in Kerosene (39% versus 55%) and ATF (31% versus 42%) eased the most, followed by diesel (25% versus 28%). Going forward, as risks to recession have increased, and trajectory of central bank rate hikes remain uncertain, oil prices are further down by 27% in Mar'23 so far (MTD). This is likely to further ease pressure on fuel inflation next month.

Figure 2: Core WPI inching down



Source: CEIC, Bank of Baroda Research

Core inflation drops further:

Core inflation slowed for the tenth consecutive month in Feb'23 to 2.1% from 2.8% in Jan'23. Manufactured products inflation moderated considerably to 1.9% from 3% in Jan'23. Of the 22 commodity sub-indices, 13 indices rose at a slower pace in Feb'23 than Jan'23 led by basic metals, chemicals, textiles, computer and electronic products and electronic equipment. Within basic metals, prices of aluminum decelerated at a faster pace (-6.5% versus -5.2%), while it deceleration remained unchanged in case of zinc (-0.9%). Contraction eased a tad in case of lead (-1.8% versus -1.9%), while prices for copper noted an increase (1.1% versus -2.5%). On international level, as reflected in World Bank's pink sheet, prices of aluminum (-25.6% versus -16.8%), Zinc (-13.4% versus -8%), lead (-8.9% versus -5.6%) and copper (-10.1% versus -7.6%) continue to decline sharply.

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