

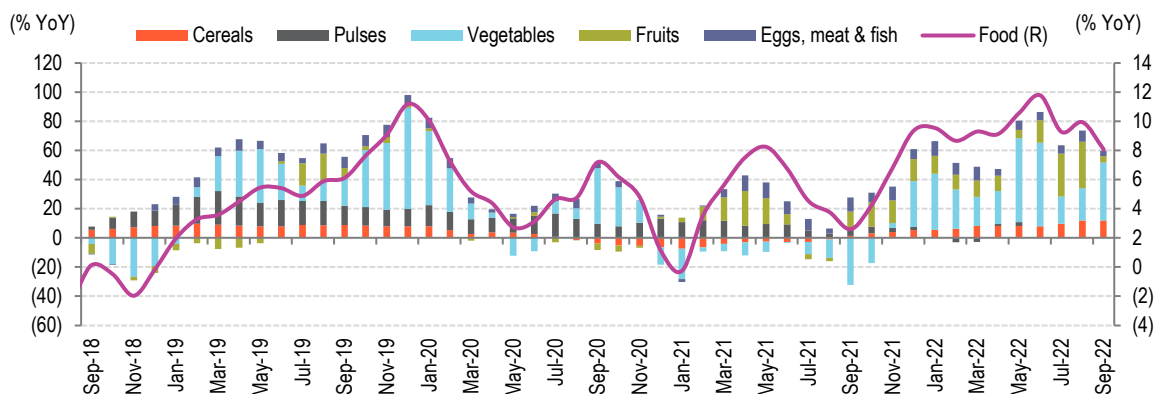
WPI cools further

WPI for Sep'22 eased to 18-month low of 10.7% from 12.4% in Aug'22, supported by broad-based moderation in food, fuel and manufactured product inflation. Within food, prices of fruits, pulses and protein based items contributed to the moderation, while pressure on cereals and vegetable prices remains. In case of fuel while YoY trend shows moderation in prices, MoM numbers indicates built up in pressure in mineral oil and electricity index. Core WPI softened further to 7% in Sep'22 from 7.9% in Aug'22, led by dip in manufactured product inflation. This trend is in line with dip in global commodity prices. Going forward, while recessionary fears will keep commodity prices in check, unseasonal rains and rising oil prices will keep have to watched for its impact on food and fuel inflation.

Food inflation cools down:

Headline WPI moderated for the 4th consecutive month in Sep'22 and was down to 10.7% (BoB est.: 11.8%) from 12.4% in Aug'22. Food inflation in Sep'22 inched down to 8.1% from 9.9% in Aug'22. Barring prices of vegetables and milk, all other sub-components (food grains, fruits, protein based items, condiments & species) reflected cooling down of inflation in Sep'22. Prices of fruits (4.5% versus 31.7%), spices (18.2% versus 23.5%) and eggs (-13.7 versus 0.3%) fell the most. Dip in food grain inflation was mainly owing to sharp decline in prices of pulses (-0.3% versus 2.6%). However, cereal inflation still remains elevated at 11.9% in Sep'22 versus 11.8% in Aug'22. Within cereals, paddy inflation accelerated (5.8% versus 4.3%), while prices of wheat cooled down marginally (16.1% versus 17.6%). On a global level, World Bank's pink sheet shows that international rice prices rose for the second consecutive month in Sep'22 by 7.9% from 6.4% in Aug'22 and following 0.4% contraction in Jul'22. International prices of wheat too have risen and were up by 22.2% in Sep'22 versus 16.5% in Aug'22. Vegetable inflation also remains a cause of concern as prices inched up by 39.7% in Sep'22 following a 22.3% increase in the previous month. Unseasonal rains and rising international food prices pose upside risks to domestic prices in the coming months.

Figure 1: Food inflation dips in Sep'22

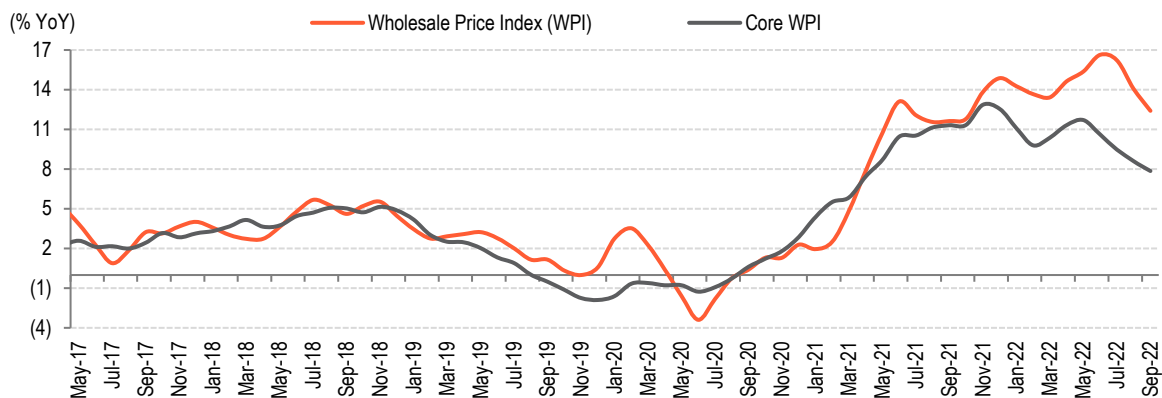


Source: CEIC, Bank of Baroda Research

Fuel and power drops further:

Fuel and power inflation in Sep'22 eased marginally to 32.6% from 33.7% in Aug'22, owing to dip in electricity index (20.5% in Sep'22 versus 25.7% in Aug'22). Coal prices remained unchanged at 2.5% for the second consecutive month in Sep'22. Mineral oil index inched up a tad to 46% from 45.4% in Aug'22, despite dip in international oil prices (21% in Sep'22 versus 38% in Aug'22). Within this, prices of petroleum coke (24% versus 48%), LPG (8% versus 20%) and furnace oil (12% versus 20%) fell the most. On the other hand, prices of bitumen (26% versus 17%), diesel (66% versus 60%) and petrol (40% versus 39%) are seeing buildup in price pressures. On a MoM basis, overall index indicates that fuel and power inflation is beginning to gather momentum (0.1% versus -5.4%), led by inching up of electricity (5.2% versus -0.1%) and mineral oil index (-1.3% versus -7.9%). Going forward, as oil prices inch up, supported by production cuts announced by OPEC+, pressure on domestic prices will too inch up.

Figure 2: Core WPI inches down



Source: CEIC, Bank of Baroda Research

Core inflation further eases:

Core inflation eased for the fifth consecutive month in Sep'22 to 7% from 7.9% in Aug'22. Manufactured products inflation was also down at 6.3% in Sep'22 from 7.5% in Aug'22. Of the 22 commodity sub-indices, 14 indices rose at a slower pace in Sep'22 than Aug'22 led by basic metals, food products, textiles, paper, chemicals and rubber products. Within basic metals, prices of copper contracted for the third consecutive month in Sep'22 (-5.8% versus -5.7%), while that of aluminium (-9.7 versus -7.1%) fell for the third consecutive month in Sep'22. Prices of lead bars fell by another (-) 3.9% in Sep'22 as well (-3.9% in Aug'22). Zinc prices too contracted (-1% versus 0.9%). Even on international level, as reflected in World Bank's pink sheet, prices of aluminum (-21.4% in Sep'22 versus -6.6% in Aug'22), copper (-16.9% versus -14.8%) and lead (-16.9% versus -14.2%) have come down further in Sep'22. Global zinc prices too have moderated to 3.1% from 20.1% in Aug'22.

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