

WHOLESALE INFLATION

14 September 2021

WPI inflation at elevated levels, food inflation dips

WPI inflation inched up to 11.4% in Aug'21 from 11.2% in Jul'21. While food inflation did moderate due to lower fruits and vegetable inflation, manufactured products and fuel and power inflation remained entrenched at elevated levels. WPI inflation is likely to remain elevated upto Q3 after which base effect will ensure some moderation. The dip in CPI inflation is a positive but high international commodity prices imply pass-through into domestic prices in the foreseeable future.

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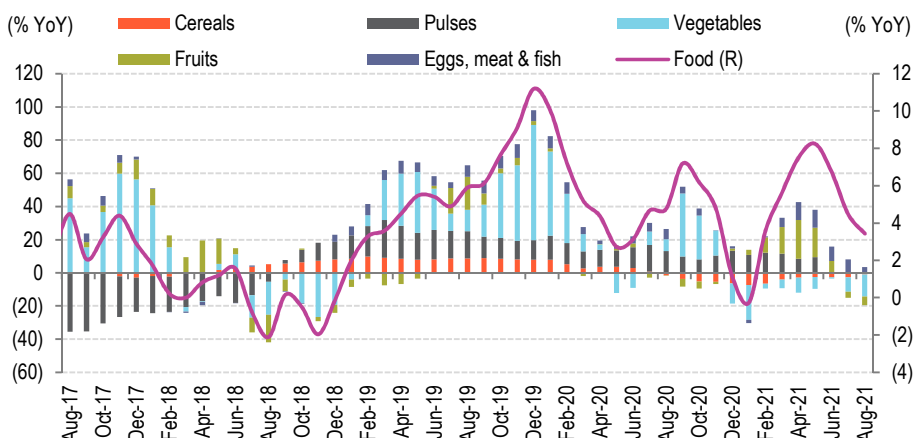
Food inflation moderates: Food inflation eased to a 7-month low of 3.4% in Aug'21 from 4.5% in Jul'21. Fruits and vegetables index declined sharply by 10.1% in Aug'21 compared with a decline of 6.7% in Jul'21. Within this, prices of potatoes (declined by 39.8% from 36.4% in Jul'21) and onion (62.8% from 72% in Jul'21) dropped the most. Egg inflation moderated to a 6-month low of 9.1% in Aug'21 from 22.8% in Jul'21. However, slower pace of decline was noted in cereal prices (-1.1% from -2.8% in Jul'21) led by both wheat (-0.2% from -2.4% in Jul'21) and paddy (-2.2% from -2.7% in Jul'21). Prices of both pulses and milk accelerated to 9.4% and 3% respectively in Aug'21. Uptick in September rains and cut in duties on edible oils is a positive for reigning in food inflation.

Fuel and power inflation steady: Fuel and power inflation remained entrenched at an elevated level of 26.1% in Aug'21 compared with 26% in Jul'21. Within the index, electricity prices reported a decline of 5% compared with 2.8% dip in Jul'21. At the same time, coal index went up by 1%. Minerals oils index continued to be at elevated levels with an increase of 52.7% (51.8% in Jul'21). Notably, international oil prices were a tad bit lower in Aug'21 on the back of concerns over Delta variant. However, prices have seen an upward trajectory in Sep'21. International oil prices remained below US\$ 50/bbl until Nov'21. Hence, fuel and power index is likely to remain entrenched at these levels and only see easing from Dec'21 onwards.

Core inflation rises further: Core inflation rose to 11.1% in Aug'21 from 10.8% in Jul'21. Manufactured products inflation also hardened to 11.4% from 11.2% in Jul'21. Of the 22 commodity indices, 14 indices rose at a faster pace in Aug'21 than Jul'21 led by electrical equipment, tobacco, textiles, fabricated metal products and rubber products. While on an aggregate basis, in Sep'21 (MTD), international commodity prices (CRB index) is down by 0.8% (MoM) in Sep'21 after a 0.5% decline seen in Aug'21, aluminium and copper prices are still scaling up. Slowdown in activity in China may lead to dip in international commodity prices.

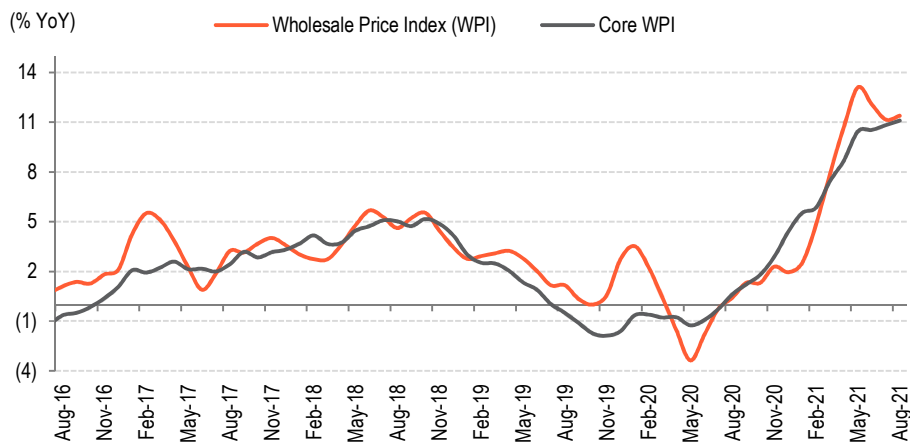


Fig 1 – Wholesale food inflation eases led by fruit and vegetable index



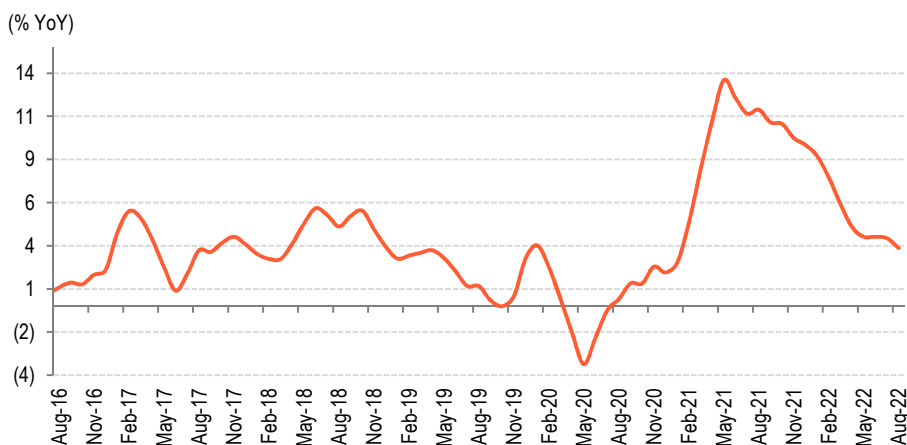
Source: CEIC, Bank of Baroda Research

Fig 2 – Core inflation continues to inch up



Source: CEIC, Bank of Baroda Research

Fig 3 – Headline WPI to ease in the coming months



Source: CEIC, Bank of Baroda Research

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