

WHOLESALE INFLATION

15 February 2021

Rising commodity and oil prices push WPI higher

WPI accelerated to 2% in Jan'21 from 1.2% in Dec'20 led by manufactured inflation at 5.1% (4.2% in Dec'20). Metals, textiles and rubber rose the most. With oil prices continuing to inch up, even fuel and power index declined at a slower pace of -4.8% (-8.7% in Dec'20). However, food inflation contracted by 0.3% in Jan'21 led by decline seen in vegetable, cereal and protein items. The rising input prices will see a pass through in retail inflation implying a much sharper inflationary rebound when food inflation turns.

Sameer Narang

Jahnvi | Sonal Badhan

chief.economist@bankofbaroda.com

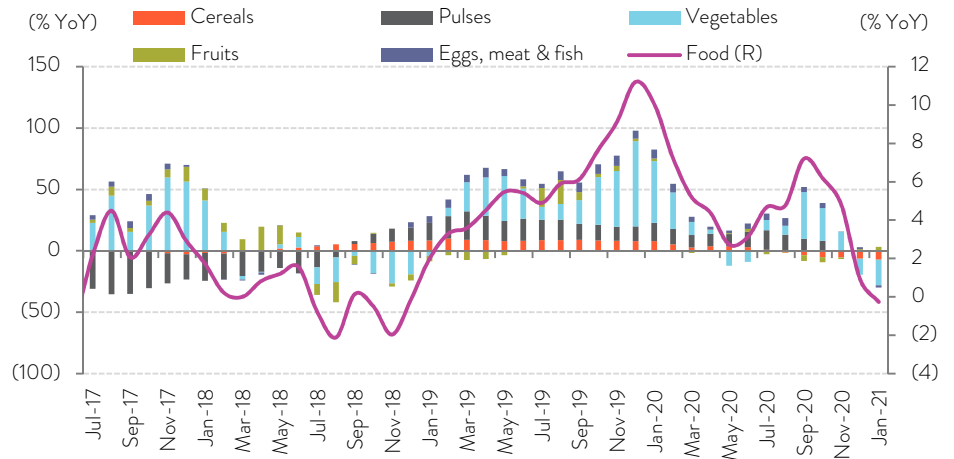
Food inflation contracts: Food inflation fell to a 26-month low of (-) 0.3% in Jan'21 from 0.9% in Dec'20. This was led by sharp contraction of 20.8% in vegetable prices in Jan'21 from 13.2% in Dec'20. Within vegetables, potato prices fell by 22% in Jan'21 compared with an increase of 37.7% in Dec'20. Tomato prices also declined by 12.2% in Jan'21 (increase of 40.2% in Dec'20) led by surplus availability. Cereal prices declined further by 7.3% in Jan'21 driven by contraction in wheat prices (11.6% in Jan'21 from 11.1% in Dec'20). Pulses inflation moderated to 7.9% in Jan'21 from 9.7% in Dec'20. Prices of eggs, meat and fish edged lower at (-) 1.8% in Jan'21 (increase of 1.4% in Dec'20).

Fuel and power deflation eases further: Fuel and power index fell by 4.8% in Jan'21 versus 8.7% decline seen in Dec'20. Mineral oil index registered contraction of 8.7% versus decline of 11.2% seen in Dec'20 led by broad based increase apart from furnace oil. Prices of Bitumen, Kerosene, Naphtha and LPG rose the most. Electricity prices too fell by only 0.4% following 10.7% dip in Dec'20. With international oil prices up by 8.6% in Feb'21 (YoY) versus 13.1% decline in Jan'21, we expect sharp pick up in fuel and power inflation going forward.

Core inflation firms up: Core inflation rose to 5.1% in Jan'21 (highest since Oct'18) from 4.2% in Dec'20. Manufactured products inflation also rose to 5.1% (highest in the 2011-12 series) from 4.2% in Dec'20. Of the 22 commodities, prices of 13 commodities rose, with basic metals, textiles, rubber items and fabricated metal products taking the lead. Further, with improvement in global demand and drop in Covid-19 cases, international commodity prices were up by 13.4% in Jan'21 on YoY basis versus an increase of 10.5% seen in Dec'20. We expect manufactured products inflation to remain elevated in the coming months.

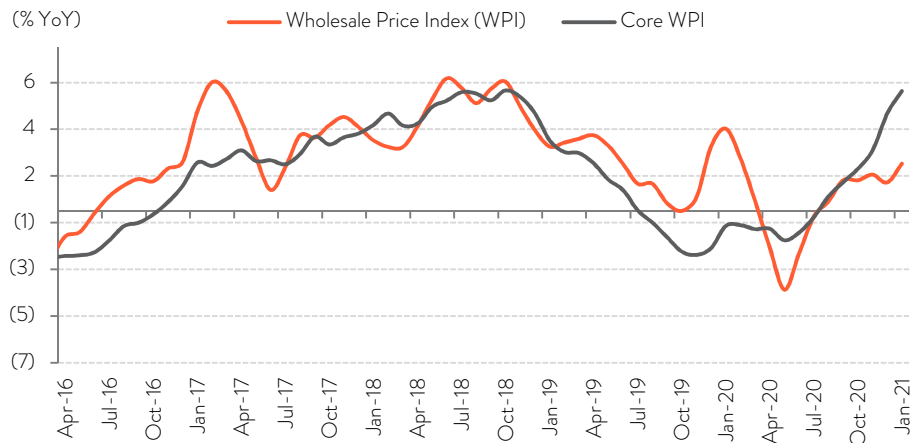


FIG 1 – WHOLESALE FOOD INFLATION CONTRACTS JAN'21



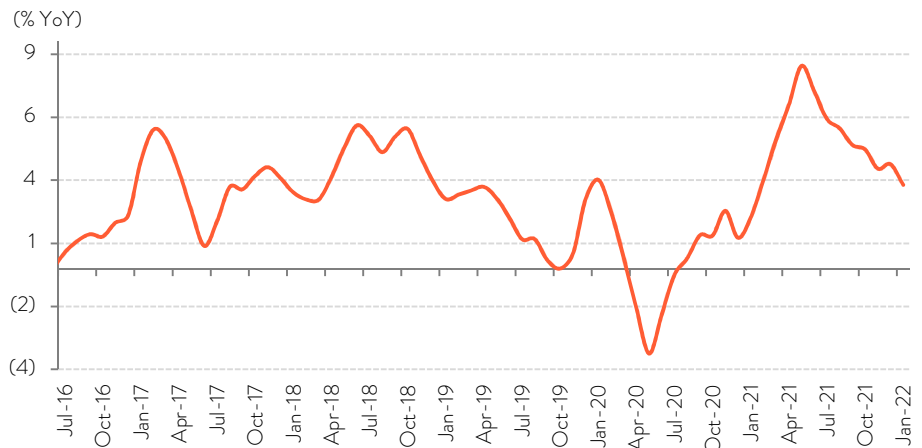
Source: CEIC, Bank of Baroda Research

FIG 2 – CORE INFLATION JUMPS SHARPLY



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO REMAIN ELEVATED IN H1CY21



Source: CEIC, Bank of Baroda Research

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Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com