

WHOLESALE INFLATION

15 March 2021

Rising WPI to find its way into CPI

WPI accelerated to a 27-month high of 4.1% in Feb'21 led by higher food, fuel and manufactured products inflation. Rising oil (+8% MoM in Mar'21) and commodity prices (+2% MoM) indicate this trend will sustain in the coming months. Thus WPI inflation is likely to show elevated prints compared with a decline of 0.9% in H1FY21. Some of it will find its way into retail inflation as well as seen in higher prices of petroleum products and consumer goods implying upward risk to our CPI projection of 4.6% in FY22.

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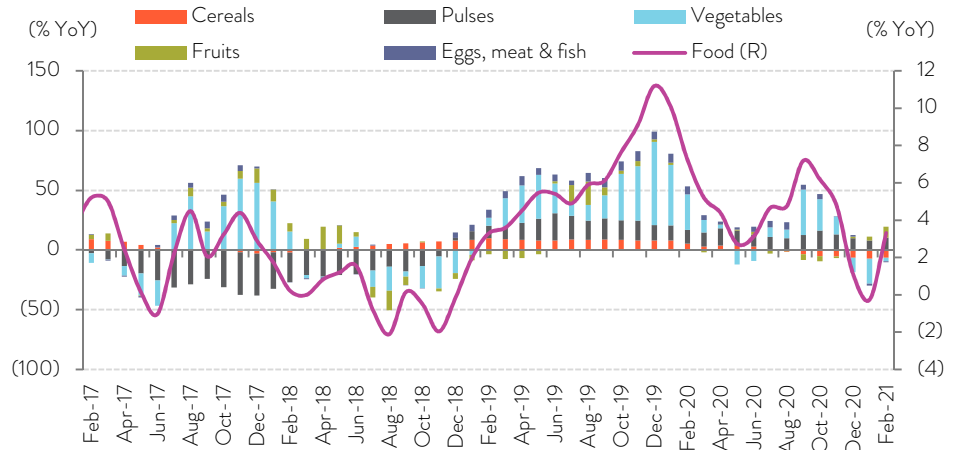
Food inflation resurges: After falling to a 26-month low of (-) 0.3% in Jan'21, food inflation rose sharply to 3.3% in Feb'21. While prices of fruits continued to rise (9.5% in Feb'21 versus 3.1% in Jan'21), vegetable prices contracted at a slower pace (decline of 2.9% in Feb'21 versus dip of 20.8% in Jan'21). Within vegetables, prices of onion rose steeply by 31.3% (decline of 32.6% in Jan'21). Tomato prices also rose by 3.2% (12.2% drop in Jan'21). The decline in cereal prices moderated to 6.6% versus 7.3% in Jan'21 on the back of a 10.6% decline in wheat prices versus dip of 11.6% in Jan'21. Prices of eggs rose by 4.2% in Feb'21 from 1.1% in Jan'21.

Fuel and power inflation picks up: Fuel and power inflation rose by 0.6% in Feb'21 after 11-consecutive months of decline (4.8% decline in Jan'21). Mineral oil index inched up by 0.9% from a decline of 8.7% in Jan'21 led by broad based increase in petrol, HSD, Naptha and Bitumen. Higher international oil prices which were up by 12.3% in Feb'21 (YoY) versus decline of 13.1% in Jan'21 explain the increase. With oil prices averaging US\$ 67/bbl now, compared with US\$ 33/bbl in Q1FY21, upward pressure is likely to sustain in coming months as well.

Core inflation solidifies: Core inflation rose to its highest level in 2011-12 series at 5.5% in Feb'21 from 5.1% in Jan'21. Manufactured products inflation rose by 70bps to 5.8% from 5.1% in Jan'21. Of the 22 commodities, prices of 14 commodities rose, with basic metals, textiles, rubber items and fabricated metal products taking the lead. With international commodity prices firming up by 2% MoM in Mar'21 on top of 6% MoM in Feb'21, we expect core and manufactured product inflation to remain on the higher side. In a nutshell, food, fuel and manufactured products—all three components of WPI—are pointing towards elevated inflation in coming months.

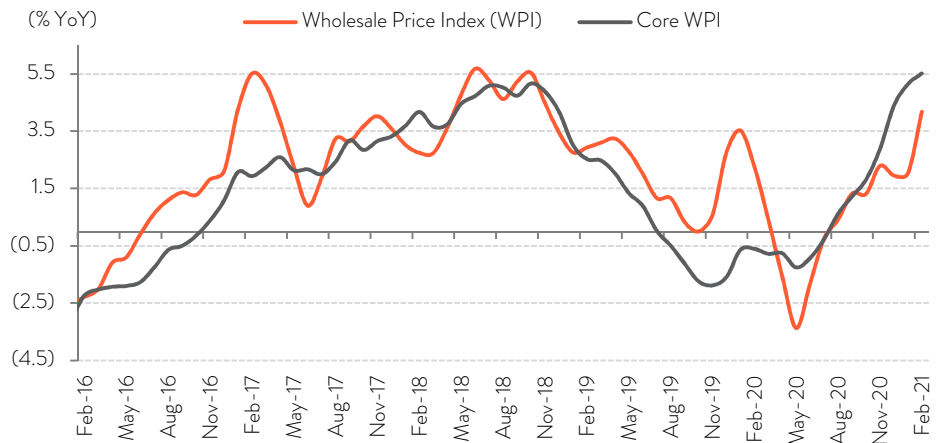


FIG 1 – WHOLESALE FOOD INFLATION RISES SHARPLY IN FEB'21



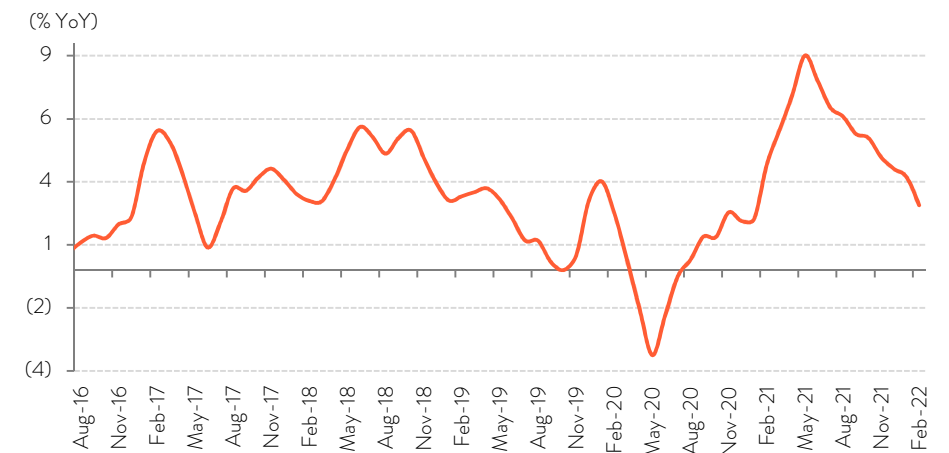
Source: CEIC, Bank of Baroda Research

FIG 2 – CORE INFLATION INCHES UP



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO REMAIN ELEVATED IN H1FY22



Source: CEIC, Bank of Baroda Research

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