

WHOLESALE INFLATION

16 August 2021

Food and Fuel inflation drops, core inches up

WPI inflation eased to 3-month low of 11.2% in Jul'21 from 12.1% in Jun'21, led by lower food (4.5% in Jul'21 from 6.7% in Jun'21) and fuel inflation (26% in Jul'21 from 32.8% in Jun'21). The decline in food inflation was quite broad-based. On the other hand, core inflation inched up. Pass-through of higher commodity prices to consumers is yet not complete. We expect CPI inflation at 5.5% in FY22. RBI is likely to reverse monetary policy from Q4FY22 with an eventual repo rate hike in early FY23.

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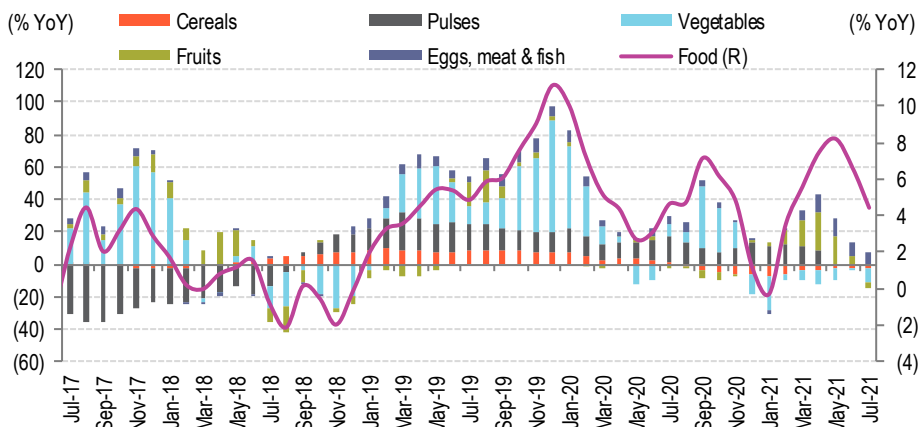
Food inflation cools off: Food inflation eased to a 5-month low of 4.5% in Jul'21 from 6.7% in Jun'21 led by sharp drop in perishables. Fruits and vegetables index fell by 6.7% in Jul'21 compared with an increase of 2% in Jun'21. Within this, prices of potatoes (declined by 36.4% from 31% in Jun'21) and tomatoes (dropped by 42.5% from 16.3% in Jun'21) dropped the most. Even pulses inflation eased a bit to 8.3% in Jul'21 from 11.5% in Jun'21. Egg inflation too moderated to a 4-month low of 22.8% in Jul'21 from 29.7% in Jun'21. Cereal prices remained muted (declining by 2.8% in Jul'21). However, onion prices accelerated in Jul'21 (72% from 64.3% in Jun'21). So was the case with oilseeds. The broad-based decline in food inflation is a welcome change and bodes well for inflation outlook in coming months.

Fuel and power inflation drops: Fuel and power inflation eased to 26% in Jul'21 from 32.8% in Jun'21. Base effect explains this. Mineral oil index moderated to 51.8% in Jul'21 from 61.8% in Jun'21. This is in-line with movement of international oil prices (72% YoY increase in Jul'21 versus 80% in Jun'21). Different components of minerals oils such as Kerosene (77% in Jun'21 versus 198% in Jun'21), Naphtha (59% versus 87%) and Bitumen (35% versus 64%) also moved accordingly. Electricity index also saw a sharp drop from 10% in Jun'21 to a decline of 2.8% in Jul'21. We expect moderation in fuel inflation to continue in the coming months on the back of base effect and steady international oil prices.

Core inflation inches up: Core inflation rose to 10.8% in Jul'21 from 10.4% in Jun'21. Manufactured products inflation also picked up to 11.2% from 10.9% in Jun'21. Of the 22 commodity indices, as many as 14 indices rose at a faster pace in Jul'21 than Jun'21 led by tobacco, fabricated metal products, textiles, non-metallic mineral products and machinery equipment. In Aug'21 (MTD), international commodity prices are up by only 0.4% (MoM) compared with 1.1% rise seen in Jul'21. Rising cases of Covid-19 have brought some stability to international commodity prices. However, virus seems to be following an ebb and flow pattern. A decline in cases may drive commodity prices up again. In addition, higher commodity prices have not been passed on to consumers entirely as of now. This pass-through is likely to play out in the coming months and quarters.

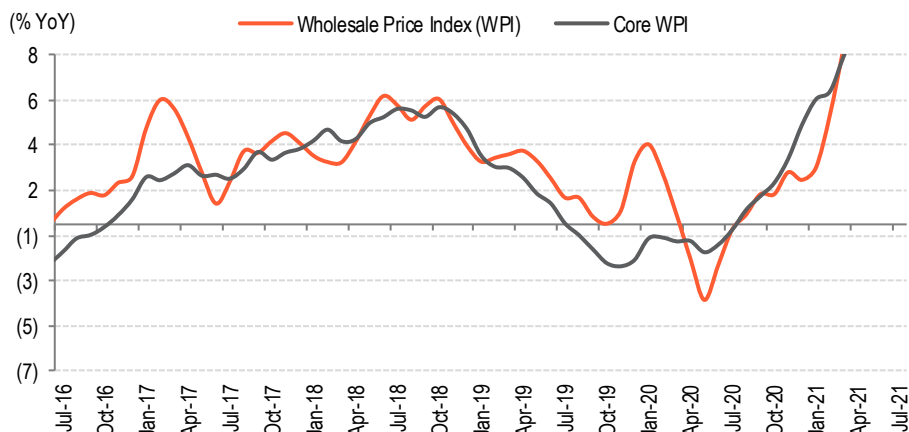


Fig 1 – Wholesale food inflation continues to ease



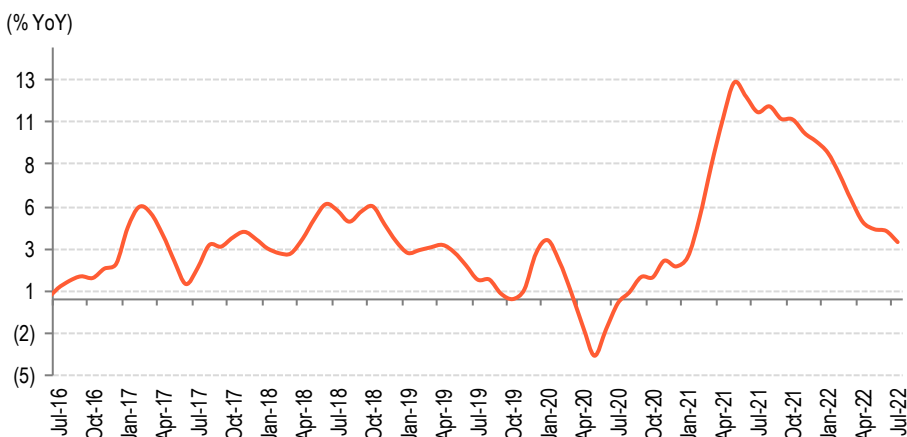
Source: CEIC, Bank of Baroda Research

Fig 2 – Core inflation hardens



Source: CEIC, Bank of Baroda Research

Fig 3 – Headline WPI to cool off



Source: CEIC, Bank of Baroda Research

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