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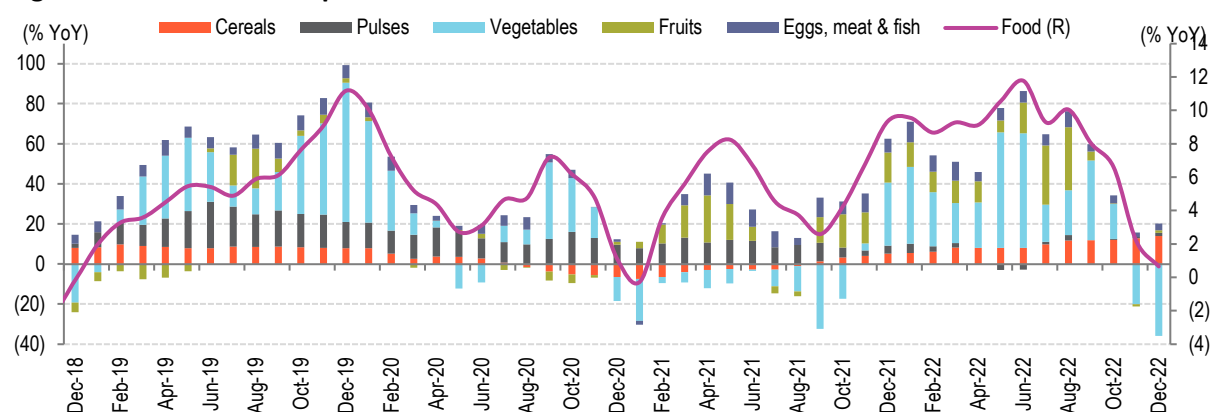
## WPI at 22-month low

WPI inflation slipped down to 5% in Dec'22 from 5.8% in Nov'22. This was led by moderation in food (0.7% from 2.2%) and manufactured product inflation (3.4% from 3.6%). However, fuel inflation inched up (18.1% from 17.4% in Nov'22). Within food, prices of fruits and vegetables, especially tomato pulled down the prices. However, there is an uptick in cereal inflation. Improvement in rabi sowing bodes well for wheat prices. Core WPI softened to 2-year low of 3.2% in Dec'22 from 3.5% in Nov'22 owing to the dip in manufactured inflation. Going ahead, we expect further easing in WPI inflation on account of base effect in H1FY24.

### Food inflation moderates:

Headline WPI eases to almost 2-year low of 5% (BoB est.: 5.6%) in Dec'22 from 5.8% in Nov'22. Food inflation in Dec'22 edged lower (0.7% from 2.2% in Nov'22) on the back of contraction in fruits and vegetable inflation (-23.6% against 13.8% in Nov'22). Vegetable prices declined for the second straight month by (-) 36% compared with (-) 20.1% in Nov'22. Tomato prices plummeted down to 4-year low of (-) 65% in Dec'22 (-52.5% in Nov'22) as supply expanded. Onion prices too followed suit and declined further by (-) 26% from (-) 19.2% in Nov'22. However, potato prices reversed its previous month losses and edged up by 22.4% in Dec'22 (13.8% in Nov'22). Apart from eggs, other protein based items such as milk (7% from 6% in Nov'22) registered higher prices in Dec'22. Nonetheless, even egg prices are expected to inch up in coming months on the back of cold wave and much higher demand. Cereal inflation has edged up to 9-year high of 14% (12.8% in Nov'22) led by higher wheat (20.7% from 18.1% in Nov'22) and paddy (6.8% from 6.4%) prices. Pulses inflation has also inched up to 1.5% (0.6% in Nov'22).

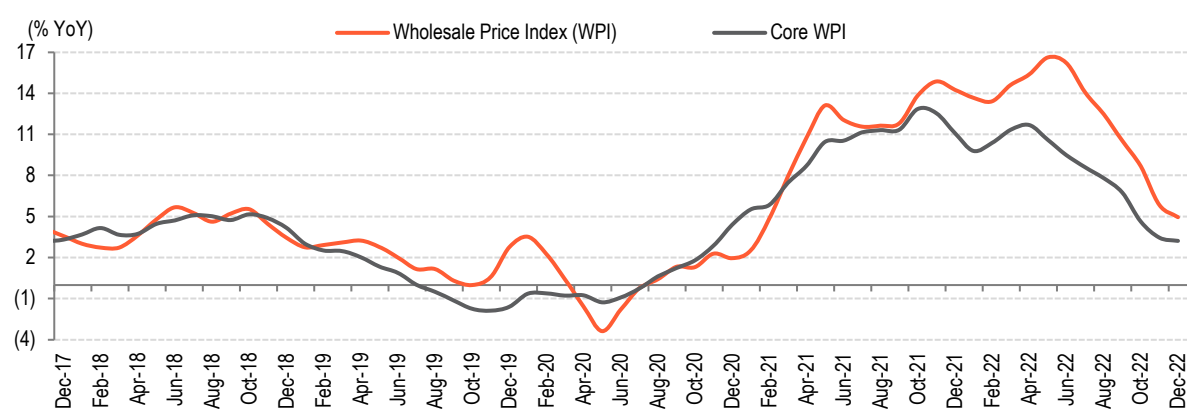
**Figure 1: Food inflation dips down**



### **Fuel and power inch up:**

Fuel and power inflation in Dec'22 moved up to 18.1% from 17.4% in Nov'22, owing to sharp increase in electricity index to 16.6% from 9.5% in Nov'22. However, coal and mineral oil prices moderated down to 2.6% (3% in Nov'22) and 22.7% (23.8% in Nov'22) respectively in Dec'22. The dip in mineral oil index is in line with the trend seen in international oil prices, which has moderated down to 8.7% (YoY) in Dec'22. In absolute terms, oil prices averaged US\$ 81/bbl in Dec'22 versus US\$ 91/bbl in Nov'22. Within mineral oil, the prices of LPG registered a decline for the 2<sup>nd</sup> straight month of (-) 15% versus (-) 13% in Nov'22. However, prices of kerosene (65% versus 62%) and petrol (17% versus 14%) edged upwards. On a MoM basis, overall index indicates fuel and power inflation has declined (-1% versus 1%), led by contraction in mineral oil index (-4.6% versus 3.6%). The pressure might return as international oil prices might inch up with improved demand outlook from China.

**Figure 2: Core WPI continues to slip down**



Source: CEIC, Bank of Baroda Research

### **Core inflation drops further:**

Core inflation continued to ease further to 2-year low of 3.2% in Dec'22 from 3.5% in Nov'22. Manufactured products inflation dropped down to 3.4% in Dec'22 from 3.6% in Nov'22. Of the 22 commodity sub-indices, 10 indices rose at a slower pace in Dec'22 than Nov'22 led by paper products, chemicals, furniture, leather products, fabricated metals and motor vehicles. Textile prices contracted in Dec'22 (-0.6% from 1.6% in Nov'22).

Prices of basic metals moved up to 0.8% in Dec'22 after contracting by (-) 0.1% in Nov'22. On the global front, prices of copper (-12.3% from -17.3% in Nov'22), zinc (-7.9% against -11.2% in Nov'22) and lead (-3.7% against -9.9% in Nov'22) have contracted at a much slower pace. However, aluminum and iron ore prices declined further by (-) 10.9% (-10.8% in Nov'22) and (-) 4.4% (-3% in Nov'22) respectively in Dec'22.

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