

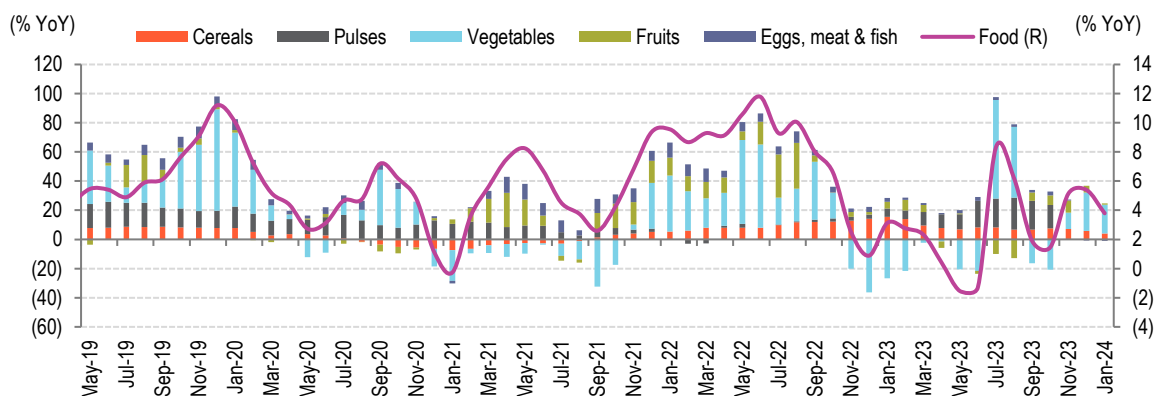
WPI inflation slows down

WPI inflation slowed to 0.3% in Jan'24 from 0.7% in Dec'23. Food and manufactured product inflation led the moderation. Food inflation softened to 3.8% from 5.4% in Dec'23. Within food, major relief came from vegetable prices, such as those of onions and tomatoes. Inflation of fruits, milk and spices also eased. Slowdown in food grain inflation was helped by paddy and wheat prices. Pulses inflation remained in double-digit, despite some softening. On the contrary, deceleration in fuel & power inflation slowed further, owing to only slight decline in mineral oil and electricity index. Coal prices eased. Going ahead, volatility in international crude oil prices will remain a concern, owing to tensions in the Red Sea region. Moderation in trend of food prices and continued decline in international commodity prices will however provide cushion to the headline number.

Food inflation at 3-month low:

Headline WPI eased to 0.3% in Jan'24 from 0.7% in Dec'23, coming in lower than our estimate of 0.5%. The moderation was driven by food inflation which softened to 3.8% in Jan'24, versus 5.4% in Dec'23. Rate of inflation slowed the most in case of vegetables (19.7% in Jan'24 versus 26.3% in Dec'23), followed by spices (26% versus 29.7%) and fruits (1% versus 4.6%). Amongst vegetables, out of 19 items, prices were down for 11 items, with major support coming from items like Onions (29.2% versus 91.8%), tomato (57% versus 81.7%), Okra (1.6%) and cucumber (-8%). Inflation for food grains (6.3% versus 8.4%) and milk (5.4% versus 6.9%) also eased. Within food grains as well, the softening was broad-based. Wheat inflation decelerated further to (-) 3.1% from (-) 0.4%, while paddy inflation was down to 9.6% from 10.5%. Inflation for pulses too slowed, but continues to remain in double digit in Jan'24 at 16.1% (19.6% in Dec'23). Wheat and paddy inflation is in line with movement in international prices. As indicated by World Bank's pink sheet, wheat prices fell by (-) 23.7% in Jan'24 compared with (-) 22.3% in Dec'23, while paddy prices rose by only 31% versus 39.6%.

Figure 1: Food inflation slowed in Jan'24



Source: CEIC, Bank of Baroda Research

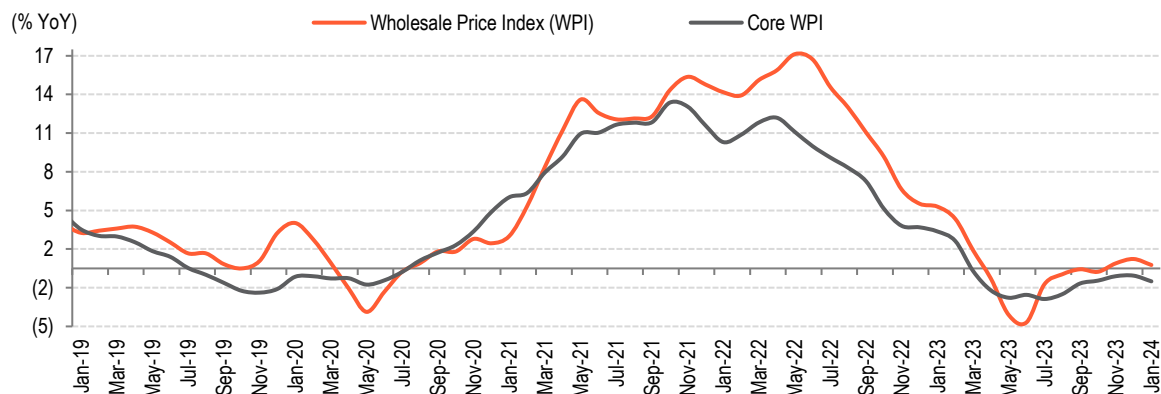
Fuel and power inflation:

Deflation in fuel and power slowed in Jan'24 as it fell by only (-) 0.5% compared with (-) 2.4% decline in Dec'23. This was on account of slowdown in deflation in mineral oil index (-1.1% versus -2.7% in Dec'23) and electricity index (-0.1% versus -3.9%). Coal inflation eased to 1.4% from 1.8%. Within mineral oils, in Jan'24, build up in pressure was visible in case of Kerosene, ATF, HSD, Naphtha and Bitumen. Notably, mineral oil index fell at a slower pace, even as dip in international oil prices on YoY basis accelerated (-5.8% in Jan'24 versus -4.9% in Dec'23). In Feb'24, oil prices are witnessing some pressure owing to ongoing tensions in the Middle East. Prices are down by only 4.2% this month so far. Tensions in Red Sea and elevated freight charges may pose a risk to fuel inflation in the coming months.

Decline in core WPI accelerates further:

Core inflation remains in deflation for the 11th consecutive month in Jan'24, and the pace accelerated as it fell by (-) 1% compared with (-) 0.6% in Dec'23. Deflation in manufactured products also deepened, as it fell by (-) 1.1% in Jan'24 following (-) 0.7% decline in Dec'23. Of the 22 commodity sub-indices, 16 indices fell at a faster pace in Jan'24 than Dec'23 led by, basic metals, other manufacturing, tobacco, computer/electronic products, other non-metallic mineral products and other transport equipment. Within basic metals, inflation for Lead (-2.3% in Jan'24 versus 1.1% in Dec'23) and Zinc (-8.1% versus -6.7%), fell most sharply. This was followed by drop in inflation index for Copper (1.8% versus 2.1%) and Aluminium (-3.9% versus -3.6%). On an international level as well, as reflected in World Bank's pink sheet, prices for these items fell. In case of Lead, prices were down by (-) 5.2% in Jan'24 (-8.6% in Dec'23), for Zinc they were down by (-) 24% (versus -20%), for Copper by (-) 7.7% (versus +0.3%), and for Aluminium by (-) 12.4% (versus -9.1%).

Figure 2: Deflation in core WPI fastens



Source: CEIC, Bank of Baroda Research

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