

WHOLESALE INFLATION

14 September 2021

WPI inflation at elevated levels, food inflation dips

WPI inflation inched up to 11.4% in Aug'21 from 11.2% in Jul'21. While food inflation did moderate due to lower fruits and vegetable inflation, manufactured products and fuel and power inflation remained entrenched at elevated levels. WPI inflation is likely to remain elevated upto Q3 after which base effect will ensure some moderation. The dip in CPI inflation is a positive but high international commodity prices imply pass-through into domestic prices in the foreseeable future.

Sameer Narang

+91 22 6698 5713

chief.economist@bankofbaroda.com

Jahnavi

jahnavi@bankofbaroda.com

Sonal Badhan

sonal.badhan@bankofbaroda.com

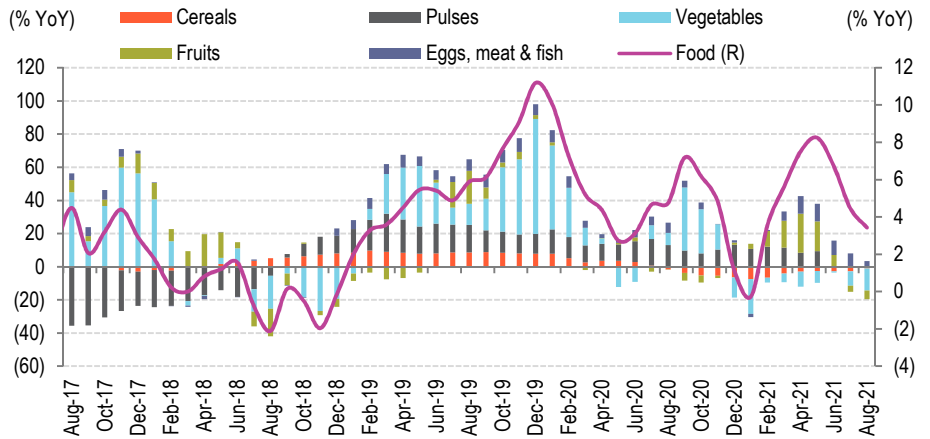
Food inflation moderates: Food inflation eased to a 7-month low of 3.4% in Aug'21 from 4.5% in Jul'21. Fruits and vegetables index declined sharply by 10.1% in Aug'21 compared with a decline of 6.7% in Jul'21. Within this, prices of potatoes (declined by 39.8% from 36.4% in Jul'21) and onion (62.8% from 72% in Jul'21) dropped the most. Egg inflation moderated to a 6-month low of 9.1% in Aug'21 from 22.8% in Jul'21. However, slower pace of decline was noted in cereal prices (-1.1% from -2.8% in Jul'21) led by both wheat (-0.2% from -2.4% in Jul'21) and paddy (-2.2% from -2.7% in Jul'21). Prices of both pulses and milk accelerated to 9.4% and 3% respectively in Aug'21. Uptick in September rains and cut in duties on edible oils is a positive for reigning in food inflation.

Fuel and power inflation steady: Fuel and power inflation remained entrenched at an elevated level of 26.1% in Aug'21 compared with 26% in Jul'21. Within the index, electricity prices reported a decline of 5% compared with 2.8% dip in Jul'21. At the same time, coal index went up by 1%. Minerals oils index continued to be at elevated levels with an increase of 52.7% (51.8% in Jul'21). Notably, international oil prices were a tad bit lower in Aug'21 on the back of concerns over Delta variant. However, prices have seen an upward trajectory in Sep'21. International oil prices remained below US\$ 50/bbl until Nov'21. Hence, fuel and power index is likely to remain entrenched at these levels and only see easing from Dec'21 onwards.

Core inflation rises further: Core inflation rose to 11.1% in Aug'21 from 10.8% in Jul'21. Manufactured products inflation also hardened to 11.4% from 11.2% in Jul'21. Of the 22 commodity indices, 14 indices rose at a faster pace in Aug'21 than Jul'21 led by electrical equipment, tobacco, textiles, fabricated metal products and rubber products. While on an aggregate basis, in Sep'21 (MTD), international commodity prices (CRB index) is down by 0.8% (MoM) in Sep'21 after a 0.5% decline seen in Aug'21, aluminium and copper prices are still scaling up. Slowdown in activity in China may lead to dip in international commodity prices.

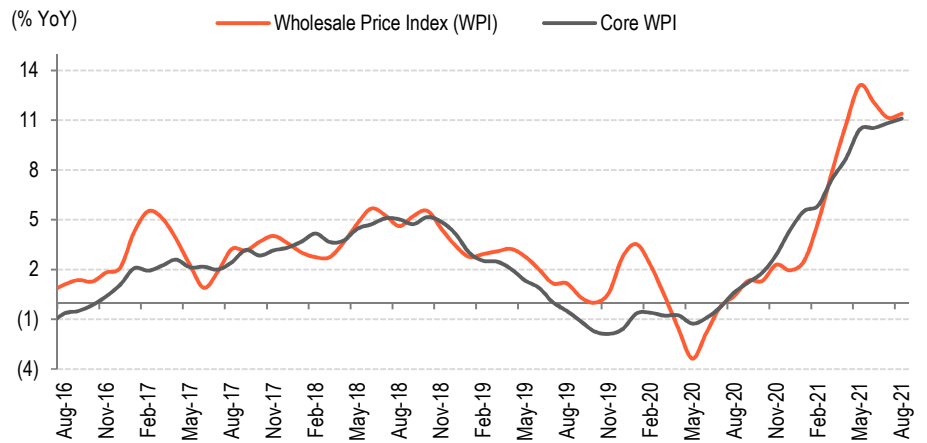


Fig 1 – Wholesale food inflation eases led by fruit and vegetable index



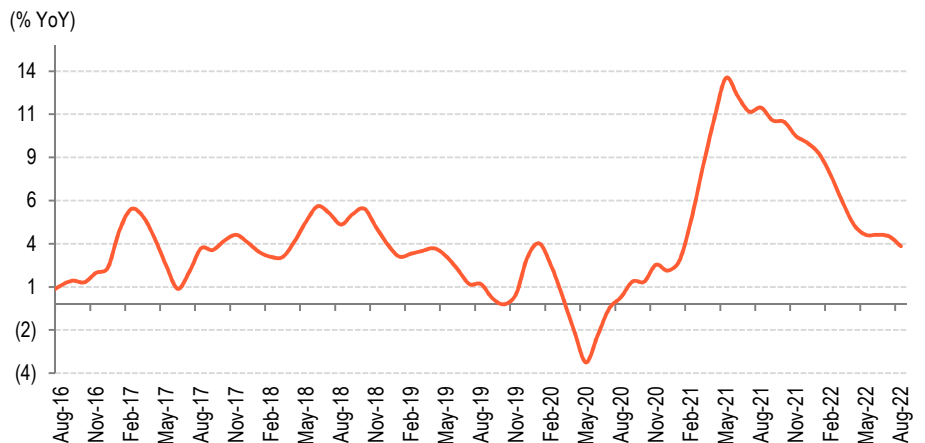
Source: CEIC, Bank of Baroda Research

Fig 2 – Core inflation continues to inch up



Source: CEIC, Bank of Baroda Research

Fig 3 – Headline WPI to ease in the coming months



Source: CEIC, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com