

WHOLESALE INFLATION

14 January 2022

WPI eases in Dec'21

WPI inflation fell from 14.2% in Nov'21 to 13.6% in Dec'21. But the rate is still very high and not a major consolation. This was attributed to decrease in both fuel and power and manufactured products. Core inflation also softened but remained high at 11%. Food inflation however accelerated, led by vegetable. Going forward, WPI is likely to ease supported by a favourable base though absolute prices may not come down significantly. We expect WPI to average around 11.5-12% in FY22.

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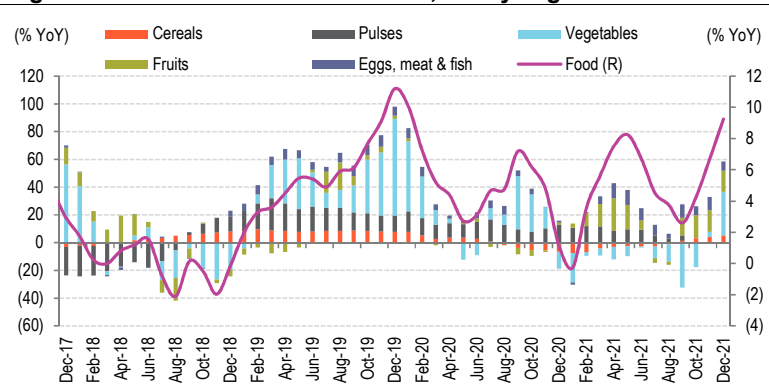
Food inflation further up: Food inflation rose to a 23-month high of 9.2% in Dec'21 from 6.7% in Nov'21. This was led by sharp jump in prices of vegetables (31.6% in Dec'21 versus 3.9% in Nov'21) and cereals (5.1% versus 4%). Within vegetables, spike in tomato prices to 15-month high at 93.7% in Dec'21 (65.5% in Nov'21) was notable. This is in contrast to the CPI where the effects of base as well as value-chain costs exhibited negative inflation. Fruit prices on the other hand came down to 15.1% from 15.5%. Price of protein based items such as milk (2.1% versus 1.8%) and eggs (18.7% versus 14.7%) edged upwards. Within cereals, uptick was broad-based, with prices of wheat going up by 11.4% (10.1% in Nov'21) and that of paddy up marginally 0.2% (-0.2% in Nov'21). Prices of pulses also rose by 3.9% in Dec'21 from 2.9% in Nov'21.

Fuel and power inflation softens: Fuel and power inflation eased to 32.3% from 39.8% in Nov'21 but was still very high. While coal prices remained unchanged (3.1%) and contraction in electricity prices eased (-0.2% versus -0.6%), mineral oil index decelerated significantly (62.6% versus 79.9%). This was in line with easing international oil prices (49% in Dec'21 versus 84% in Nov'21). Within this index, prices of bitumen (43% versus 83%), ATF (62% versus 104%) and naphtha (70% versus 95%) slowed the most. Going ahead, with slight inching up seen in international oil prices (49.7% in Jan'22 so far) we expect strains could emerge on fuel inflation in the coming months.

Core inflation too eases: Core inflation in Dec'21 slowed for the second consecutive month to 11% from 12.2% in Nov'21. Manufactured products inflation was also down to 10.6% in Dec'21 from 11.9% in Nov'21. Of the 22 commodity indices, 15 indices rose at a slower pace in Dec'21 than Nov'21 led by basic metals, rubber and plastic products, manufactured food and computer and electronic products. Notably, in Dec'21, international commodity prices (CRB index) inched up by 0.3% (MoM), and have further increased by 2.4% in Jan'22. However, resurgence in global Covid-19 cases may pose downside risk to international commodity prices going forward.

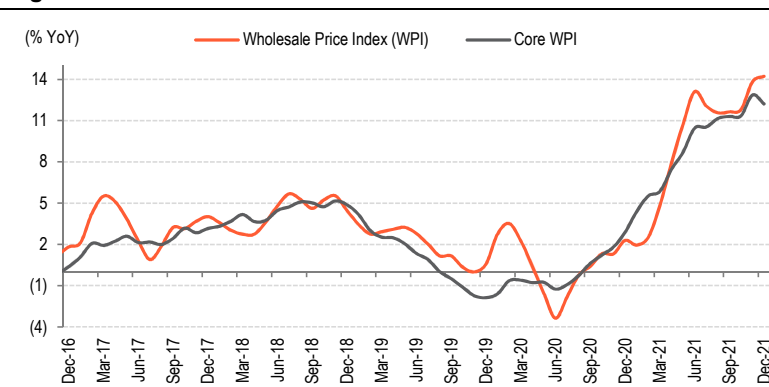


Fig 1 – Wholesale food inflation rises, led by vegetables



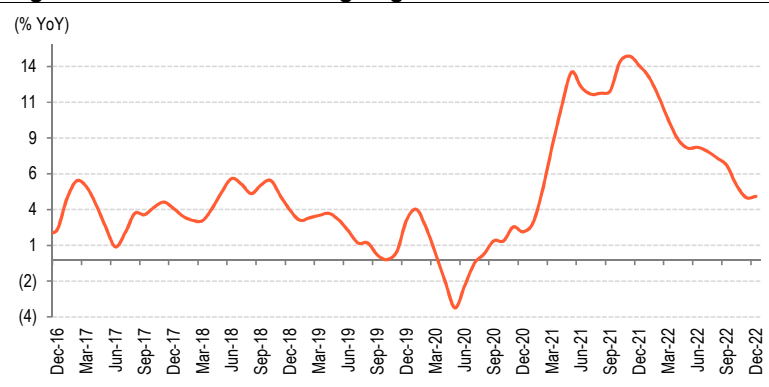
Source: CEIC, Bank of Baroda Research

Fig 2 – Core inflation softens



Source: CEIC, Bank of Baroda Research

Fig 3 – Headline WPI to ease going ahead



Source: CEIC, Bank of Baroda Research

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