

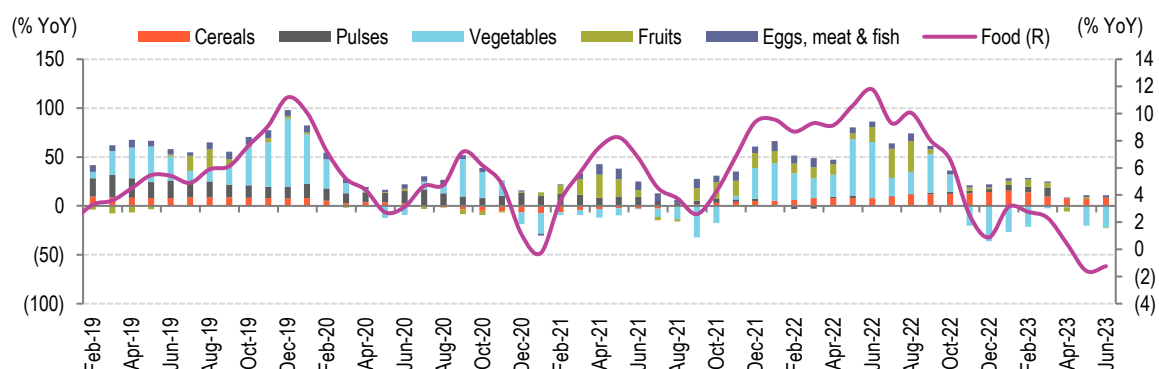
WPI at lowest since Oct'15

WPI inflation continued to remain in deflation in Jun'23 as it fell to (-) 4.1% from (-) 3.5% in May'23. All three sub-indices continued to remain in deflation, however the pace of contraction eased in case of food and manufactured products. It accelerated further in case of fuel and power inflation. While drop in food inflation was helped by continued decline in vegetable and fruit prices, cereal and pulses inflation inched up, thus showing signs of upside pressure. Fuel and power inflation was supported by decline in mineral oil and electricity price index. However, coal prices are showing build up in pressure. Core WPI also fell at a slower pace. With prices of certain metals inching up at the international level, deceleration in basic metals sub-index also eased. Going ahead, as Fed is expected to end its rate hike cycle soon, oil and other metal prices may see inching up in the coming months, in the hope of improved global demand. This can add to upside pressures on WPI.

Food inflation still in deflation, but pressure building up:

Headline WPI fell more than expected in Jun'23. It was down by (-) 4.1% versus our estimate of (-) 2.7% and (-) 3.5 % in May'23, to reach its lowest point since Nov'15. Food inflation eased, albeit at a slower pace in Jun'23 (-1.2%) compared with last month (-1.6%), and continues to remain in deflation for the second consecutive month now. Within food, deflation accelerated in the category of vegetables (-22% in Jun'23 versus -20.1% in May'23), and fruit price index also fell (-0.9% versus 1.9%). Within vegetables, price index for potato, radish, cucumber, cabbage fell at a faster pace. On the other hand, pressure was visible in case of price index for food grains (8.5% versus 6.6%). within this, index for both cereals (8.3% versus 6.9%) and pulses (9.2% versus 5.8%) reversed its declining trends and inched up in Jun'23. Within cereals, both paddy and wheat price index jumped higher. This is broadly in line with the trend seen in international prices. As indicated by World Bank's pink sheet, paddy prices rose by 16.8% in Jun'23 following 11.1% increase in May'23, and wheat prices declined at a slower pace (-28.2% versus -34.6%). Domestically, price index for milk and spices also increase in Jun'23.

Figure 1: Food inflation dropped further in Jun'23



Source: CEIC, Bank of Baroda Research

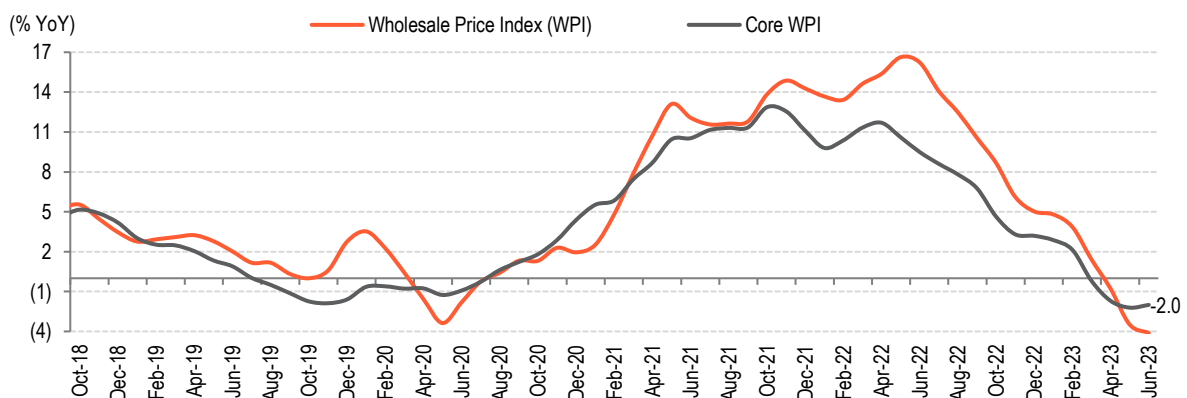
Fuel and power inflation at 3-year low:

Fuel and power inflation slipped further into deflationary territory as it came in at (-) 12.6% in Jun'23, down from (-) 9.2% in May'23, supported by favourable base (50.9% in Jun'22 versus 49% in May'23). In Jun'23 as well, deflation in mineral oil index continued for the third consecutive month (-19.5% versus -16.2% in May'23). Within this, except for LPG, furnace oil and lube oils, prices declined in all other sub-categories. Amongst which, most significant drop in prices was seen in case of ATF (-34% versus -22%), kerosene (-33% versus -22%) and petroleum coke (-41% versus -33%). Under the other major head of fuel and power, inflation index for electricity (0.6 % versus 9.7%) also cooled down, while that for coal recorded notable increase (5.0% versus 2.5%). Going forward, as prospects of Fed ending its rate hike cycle sooner than anticipated increase, risks to global demand have seen some ebbing. As a result, average international crude oil prices in Jul'23 (MTD), have seen inching up (US\$ 78.3/bbl), compared to the same period last month (US\$ 75/bbl). In addition, as base effect begins waning from Jul'23 onwards, an increase in international oil prices can slowdown the drag that headline WPI gets from fuel & power inflation index.

Core WPI declines again, but pace slowing:

Core inflation remains in deflation for the 4th consecutive month in Jun'23 as it fell to (-) 2% from (-) 2.2% in May'23, thus recording a slower pace of contraction, indicating build up in pressure. Manufactured products inflation also declined at a slower pace to (-) 2.7% from (-) 3% in May'23. Of the 22 commodity sub-indices, 14 indices rose at a slower pace in Jun'23 than May'23 led by chemicals, electrical equipment, other non-metallic minerals, and textiles. Inflation index for basic metals registered slowdown in its pace of deceleration (-5.5% versus -9.2%). Within this, while price index for aluminium (-5.3% versus -9.3%) continued to decelerate at a slower pace, in case of zinc (-11.8% versus -9.5%) and copper (-1.7% versus -1.6%), the decline was faster. On an international level, as reflected in World Bank's pink sheet, prices of all these commodities declined at a slower pace. For instance, in case of aluminium, prices in Jun'23 were down by (-) 14.8% versus (-) 19.8% in May'23, in case of copper by (-) 7% versus (-) 12.4%, and lead by 2.7% versus (-) 2.7%. Only prices for zinc fell even more by (-) 34.6% from (-) 34%.

Figure 2: Core inflation still in deflation in Jun'23



Source: CEIC, Bank of Baroda Research

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