

## WHOLESALE INFLATION

14 July 2020

### WPI contracts, but at a slower pace

**WPI contracted by 1.8% in Jun'20 from 3.2% in May'20 led by 13.6% decline in fuel and power index in Jun'20 compared with 19.8% in May'20. Food inflation inched up to 3.1% in Jun'20 from 2.3% in May'20. Manufactured inflation rebounded as it rose by 0.1% in Jun'20 from a decline of 0.4% in May'20. Higher international commodity and fuel prices along with rising domestic food prices imply WPI has bottomed out. However, the difference between CPI and WPI will be elevated in the year due to rigidities associated with lockdown.**

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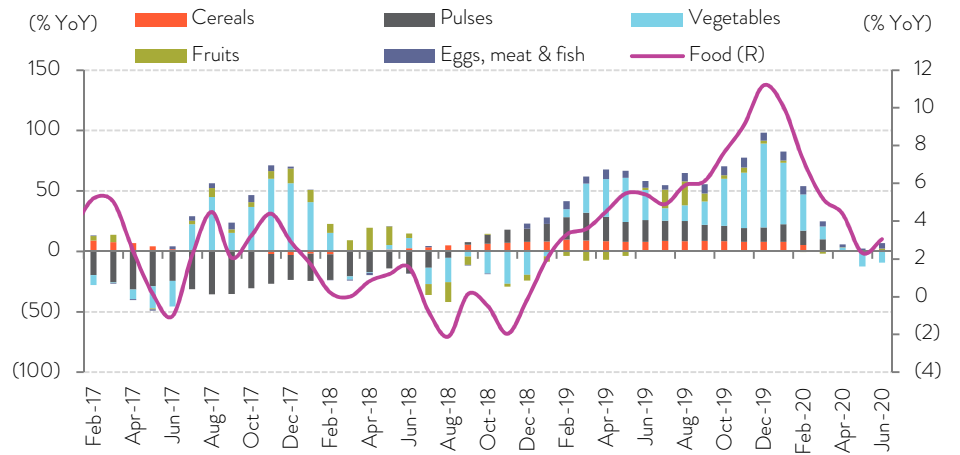
**Food inflation accelerates:** Food inflation rose to 3.1% in Jun'20 from 2.3% in May'20 led by fruits and vegetables. Prices of vegetables declined at a much slower pace of 9.2% in Jun'20 from a decline of 12.5% in May'20 led by tomato (drop of 45.6% in Jun'20 from 56.5% in May'20) and potato (increase of 56.2% in Jun'20 from 52.2% in May'20). Cereal prices too edged upwards to 2.7% in Jun'20 on the back of sharp jump in paddy prices (4.5% in Jun'20 from 1.2% in May'20). Prices of protein-based items such as eggs, meat and fish also inched up to 4.5% in Jun'20 from 1.9% in May'20. Food inflation is expected to moderate on the back of normal rainfall and improved sowing.

**Deflation in fuel and power eases:** Fuel and power inflation fell by 13.6% in Jun'20 versus 19.8% drop in May'20. Key drivers were mineral oil and electricity. Mineral oil price index fell by 27.4% versus 37.4% decline seen in May'20. On the other hand, electricity prices rose by 5.2% compared with increase of 2.9% in the last month. Within the mineral oils index, deflation in ATF, Naphtha and LPG reduced the most. Coal prices fell in Jun'20 (2%) after remaining steady at 2.3% for last 5 months. High base effect in mineral fuel index will play out till Dec'20.

**Core still in deflation:** Core inflation contracted by 0.9% in Jun'20 versus decline of 1.3% in May'20. Manufactured inflation rose by 0.1% versus 0.4% drop seen in May'20. Of the 22 commodities, prices of 13 commodities rose, with basic metals, electrical equipment, chemical products and pharma products taking the lead. With improvement in global demand, international commodity prices are now inching up and are 10.3% lower in Jul'20 (MTD) as against a decline of 11.7% in Jun'20.

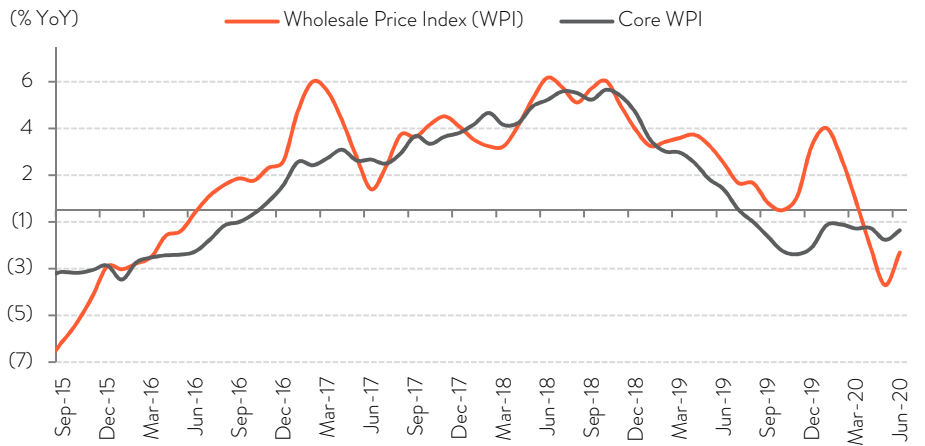


**FIG 1 – WHOLESALE FOOD INFLATION PICKS UP PACE IN JUN'20**



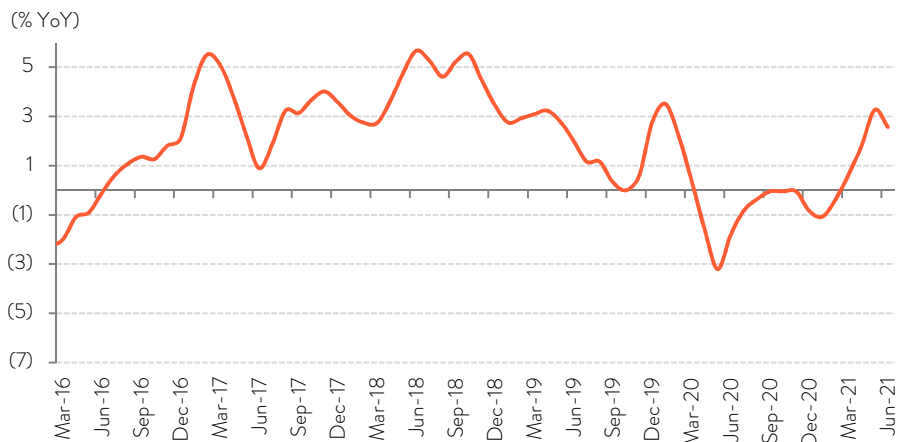
Source: CEIC, Bank of Baroda Research

**FIG 2 – HEADLINE AND CORE INFLATION INCH UP IN JUN'20**



Source: Bloomberg, CEIC, Bank of Baroda Research

**FIG 3 – HEADLINE WPI TO PICK UP IN THE NEAR-TERM**



Source: Bloomberg, CEIC, Bank of Baroda Research

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