

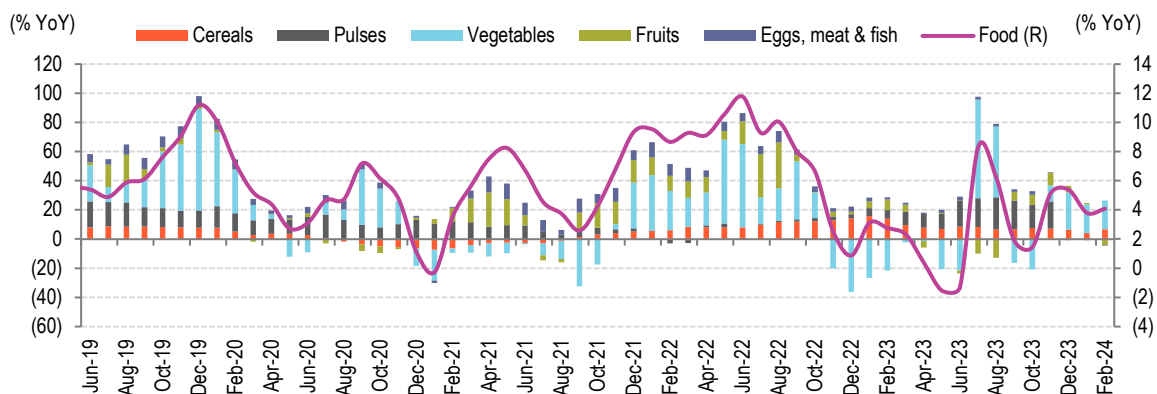
WPI inflation at its lowest since Oct'23

WPI inflation slowed further to 0.2% in Feb'24 from 0.3% in Jan'24. Fuel and manufactured product inflation led the moderation. Food inflation accelerated to 4.1% from 3.8% in Jan'24. Within food, built-up in pressure was on account of cereals, vegetables, spice, milk and eggs. Within cereals, wheat and pulses are a cause of concern. Within vegetables, onion inflation appears to be sticky, while that of tomatoes and potatoes is seen inching up. Only fruit inflation provided some relief. On the other hand, fuel & power inflation fell at a faster pace, owing to steep decline in mineral oil index. Coal index registered some moderation, while electricity price index jumped up. Manufactured inflation also softened, led by dip in basic metals. International commodity prices also remain subdued. Going ahead, volatility in international crude oil prices will remain a concern, owing to tensions in Middle-East.

Food inflation picks up again:

Headline WPI eased to 0.2% in Feb'24 from 0.3% in Jan'24, coming in lower than our estimate of 0.5%. This was despite pick up seen in food inflation which inched up by 4.1% in Feb'24, versus 3.8% in Jan'24. Inflation increased the most in case of spices (29.8% in Feb'24 versus 26% in Jan'24) and food grains (8.7% versus 6.3%). Broad-based increase was visible within food-grains and amongst those, inflation for wheat (2.3% versus -3.1%) and pulses (18.5% versus 16.1%) picked up the most. Paddy inflation also inched up (10.3% versus 9.6%). This in contrast with movement in international prices. World Bank's pink sheet data shows that wheat prices fell by (-) 25.8% in Feb'24 versus (-) 23.7% in Jan'24. Rice price growth eased to 29.7% in Feb'24 following 31% increase in Jan'24. Domestically, stickiness in vegetable inflation (19.8% versus 19.7%) also contributed to hardening of food inflation. Within vegetables, elevated onion prices, increase in tomato, potato, cauliflower, and cabbage prices were the key drivers of the trend. Additionally, increase in milk (5.5% versus 5.4%) and egg (14.8% versus 4.5%) inflation is also a cause of concern. Out of the major sub-categories, only fruit inflation provided some relief (-4% versus 1%).

Figure 1: Food inflation picked up pace in Feb'24



Source: CEIC, Bank of Baroda Research

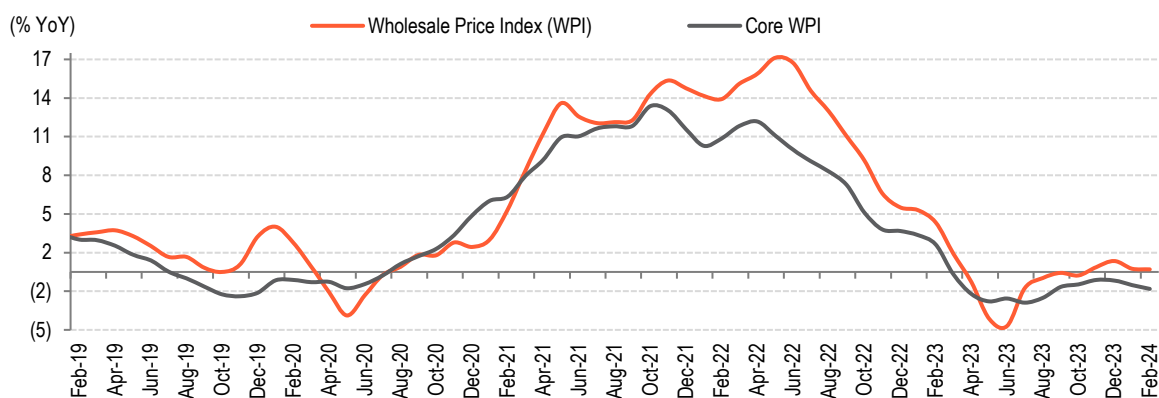
Fuel and power inflation:

Fuel and power fell at a faster pace in Feb'24 (-1.6%) compared with (-) 0.5% decline in Jan'24. This was on account of faster pace of contraction in mineral oil index (-3.8% in Feb'24 versus -1.1% in Jan'24) and slowdown in coal index (0.3% versus 1.4%). On the other hand, electricity inflation jumped to 3.5% following (-) 0.1% decline in the previous month. Within mineral oils, in Feb'24, the decline was led by Naphtha, Furnace Oil, Kerosene and ATF. Compared with international oil prices, there appears to be some deviation in trends as Brent had declined (YoY basis) at a slower pace (-2.2%) in Feb'24 compared with (-) 5.8% decline noted in Jan'24. On MoM basis, prices were up by 3.2% internationally versus 0.1% increase seen in mineral oil index. In Mar'24 so far, Brent is down by only (-) 0.1% on YoY basis. If this trend continues, it may exert some pressure on fuel inflation in the coming months.

Core WPI at 5-month low:

Core inflation has remained in deflation ever since Mar'23 and now in Feb'24 it remains at 5-month low of (-) 1.3%, following (-) 1% decline in Jan'24. Deflation in manufactured products also deepened, as it fell by (-) 1.3% in Feb'24 following (-) 1.1% decline in Jan'24. Of the 22 commodity sub-indices, 16 indices fell at a faster pace in Feb'24 than Jan'24 led by, basic metals, fabricated metal products, other manufacturing, machinery & equipment, other transport equipment, leather products and beverages. Within basic metals, inflation for Copper (-2.4% versus 1.8% in Jan'24) and Aluminium (-5.3% versus -3.9%) fell the most. Zinc inflation remained unchanged from the previous month at (-) 8.1% in Feb'24, while Lead inflation fell at a slower pace (-0.8% versus -2.3%). On an international level, as reflected in World Bank's pink sheet, prices of Copper (-7.1% versus -7.7%), Aluminium (-9.8% versus -12.4%) and Lead (-0.6% versus -5.2%) have fallen at a slower pace in Feb'24 versus Jan'24. Zinc prices fell at a faster pace (-24.7% versus -24%).

Figure 2: Deflation in core WPI continues



Source: CEIC, Bank of Baroda Research

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