

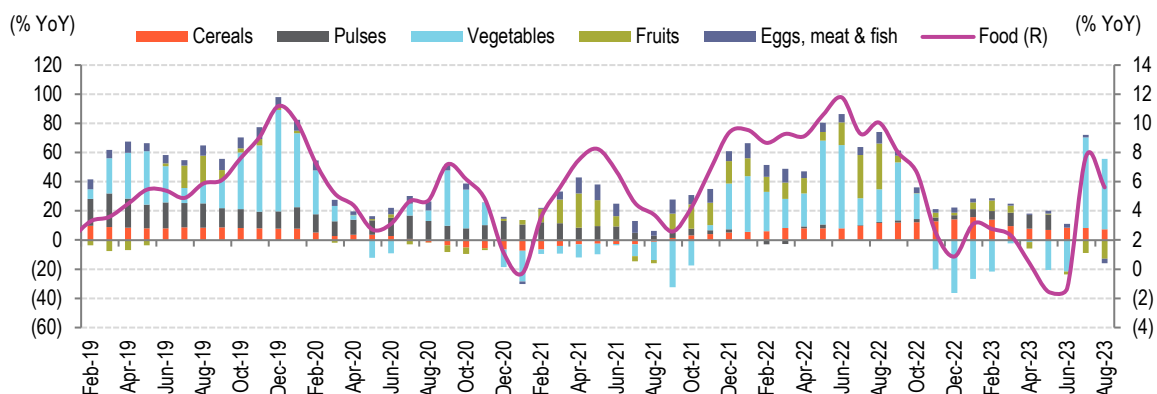
WPI at highest since Mar'23

WPI inflation continued to remain in deflation in Aug'23, although its pace slowed, as it fell to (-) 0.5% compared with (-) 1.4% in Jul'23. Food inflation also inched up at a slower pace, while fuel and manufactured products inflation continue to remain in deflation. In case of food, moderation was on account of vegetables, milk, wheat and fruits. However, items like onion and tomatoes continue to exert upside pressure. Other items like paddy, pulses and spices are also putting upside pressure on prices. Within fuel, pace of deflation has slowed as international crude prices once again begin to inch up. If the current pace of increase is maintained then it may exert significant pressure on headline WPI in the coming months. Some of the commodity prices have also picked up pace. Going forward, global economic outlook will be critical in determining trends in oil and other commodity prices. Domestically, sowing activity and distribution of rains, will guide food inflation.

Food inflation rises, but slowly:

Headline WPI came in line with our expectations in Sep'23. It was down by (-) 0.5% versus our estimate of (-) 0.5% and (-) 1.4% in Jul'23, to reach its highest point since Mar'23. Food inflation rose, but at a slower pace again (5.6% in Aug'23 versus 7.7% in Jul'23). Within food, moderation in inflation was visible in case of vegetables (48.4% versus 62.1%), milk (7.8% versus 8.2%), food grains (7.9% versus 8.6%), and deflation in fruits accelerated (-12.9% versus -8.9%). However, within vegetables, prices of tomato and onion, continue inch up. Price growth in cereals eased, led by wheat (5.8% versus 8%). On the other hand, paddy (9.2% versus 9%), pulses (10.4% versus 9.6%) and spices (34.3% versus 28.2%), continue to put upward pressure on inflation. on the international level also, as indicated by World Bank's pink sheet, paddy prices have risen by 44.7% in Aug'23 following 28% increase in Jul'23, while wheat prices have fallen at a faster pace (-21.9% versus -14.9%).

Figure 1: Food inflation moderates in Aug'23



Source: CEIC, Bank of Baroda Research

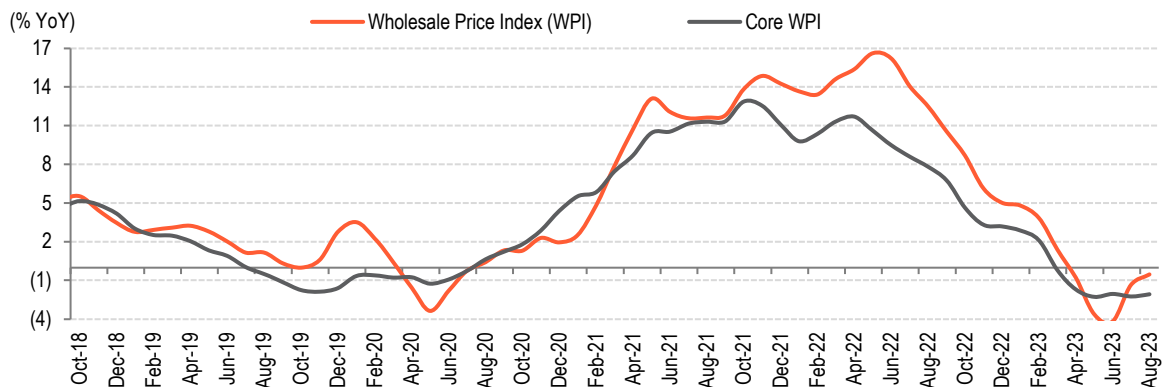
Fuel and power inflation at 4-month high:

Deflation in fuel and power inflation has begun to slow as it fell by (-) 6% in Aug'23 from (-) 12.8% in Jul'23. This was on account of slowdown in deflation in mineral oil index (-9.6% versus -19.6% in Jul'23. Electricity index fell by (-) 0.1% from 0.1% gain in Jul'23, while coal prices eased to 2.5% from 5.1% in Jul'23. within mineral oils, apart from LPG and lube oils, all other sub-indices posted an increase in Aug'23 compared from last month. in case of bitumen and furnace oil, price index came out of deflation and posted 1% and 10% increase in Aug'23, respectively. build-up of price pressure could also be noted in case of ATF, Kerosene, Naphtha and Petrol. The movement is broadly in line with international crude prices which jumped from US\$ 80/bbl in Jul'23 to US\$ 85/bbl in Aug'23. Even on YoY basis, decline in oil prices was only (-) 13% in Aug'23 compared with (-) 24% decline recorded in Jul'23. Oil prices continue to exert pressure in Sep'23 (so far) as they have risen to US\$ 91/bbl. if prices to continue to inch up, it will have a significant on headline WPI in the coming months.

Decline in core WPI broadly steady:

Core inflation remains in deflation for the 6th consecutive month in Aug'23 as it fell to (-) 2.1% from (-) 2.2% in Jul'23. Manufactured products inflation also fell by (-) 2.4% in Aug'23 following (-) 2.5% decline in Jul'23. Of the 22 commodity sub-indices, 10 indices rose at a faster pace in Aug'23 than Jul'23 led by, basis metals, leather, tobacco, textiles and motor vehicles. Within basic metals, price index for copper (5.8% versus 5.2%) and lead (2.6% versus 1.7%) inched up in Aug'23, while that of zinc (-9.9% versus -7.8%) and aluminium (-3.5% versus -2.1%) continued to decline. On an international level, as reflected in World Bank's pink sheet, prices of copper (4.6% versus 12.4%) and lead (3.9% versus 6.2%) increased, but at a slower pace. on the other hand, prices of aluminium (-12.1% versus -10.3%) and zinc (-32.9% versus -22.6%) fell even more.

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



Source: CEIC, Bank of Baroda Research

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