

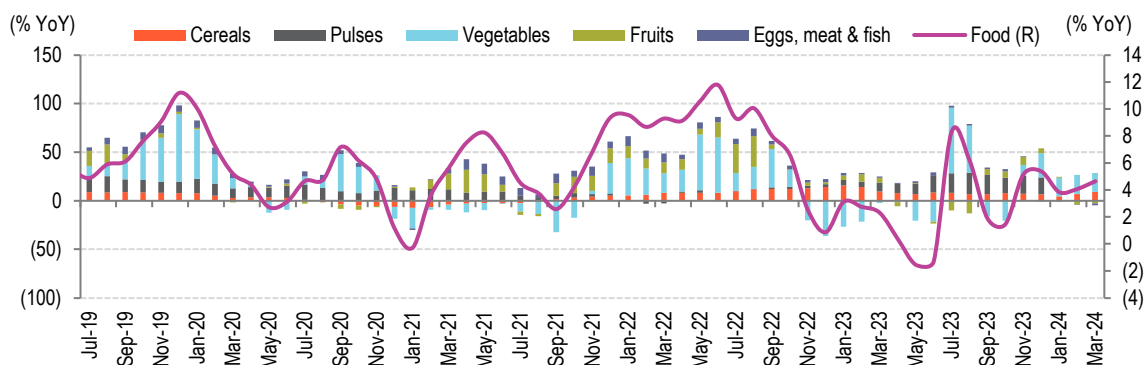
## WPI inflation picks up pace

WPI inflation rose to 0.5% in Mar'24 from 0.2% in Feb'24, bringing the FY24 headline inflation to (-) 0.7% from 9.6% in FY23. Within this, food inflation stood at 3.2%, down from 6.4% in FY23, fuel inflation at (-) 4.4% versus 29.4%, and manufactured product inflation at (-) 1.7% versus 5.7% last year. In Mar'24, the build-up was visible across all three major sub-heads—food, fuel and manufactured products. Food inflation accelerated to 4.6% from 4.1% in Feb'24. Within food, built-up in pressure was on account of cereals (both wheat and paddy), vegetables, fruits and other items. Within cereals, inflation for pulses eased slightly but still remains at elevated levels. Within vegetables, onion and potato inflation inched up sharply. Fuel & power inflation fell at a slower pace, owing to jump in electricity price index, and slower rate of deflation in mineral oil index. Manufactured inflation also picked up, led by increase in basic metals. International commodity prices are showing signs of increased pressure. Going ahead, continued escalation in international crude oil prices, heat wave conditions impacting electricity demand and vegetable inflation, remain key causes of concern.

### Food inflation continues to accelerate:

Headline WPI inflation accelerated to 0.5% in Mar'24 from 0.2% in Feb'24, but came in lower than our estimate of 1.5%. This was primarily due to pick up seen in food inflation which inched up by 4.6% in Mar'24, versus 4.1% in Feb'24. Inflation increased the most in case of food grains (10.5% in Mar'24 versus 8.7% in Feb'24) and was sticky in case of vegetables (19.5% versus 19.8%). Amongst food grains, inflation for pulses registered only marginal easing in Mar'24 but still remains at elevated levels (17.2% versus 18.5%). On the other hand, cereal inflation has come under pressure (9% versus 6.6%) with inflation for wheat jumping the most (7.4% versus 2.3%), followed by paddy (11.7% versus 10.3%). On a global level, World Bank's pink sheet data reveals that wheat prices continue to decelerate but at a slower pace (-23.1% versus -25.8%). Paddy prices are relatively more stable on the higher end (29.2% versus 29.7%). Domestically, stickiness in vegetable inflation is another cause of concern, with inflation for basic items like potato (53% versus 15.3%) and onion (57% versus 29.2%) rising sharply. Fruit inflation decelerated at a slower pace (-2.9% versus -4%).

**Figure 1: Food inflation rises further in Mar'24**



Source: CEIC, Bank of Baroda Research

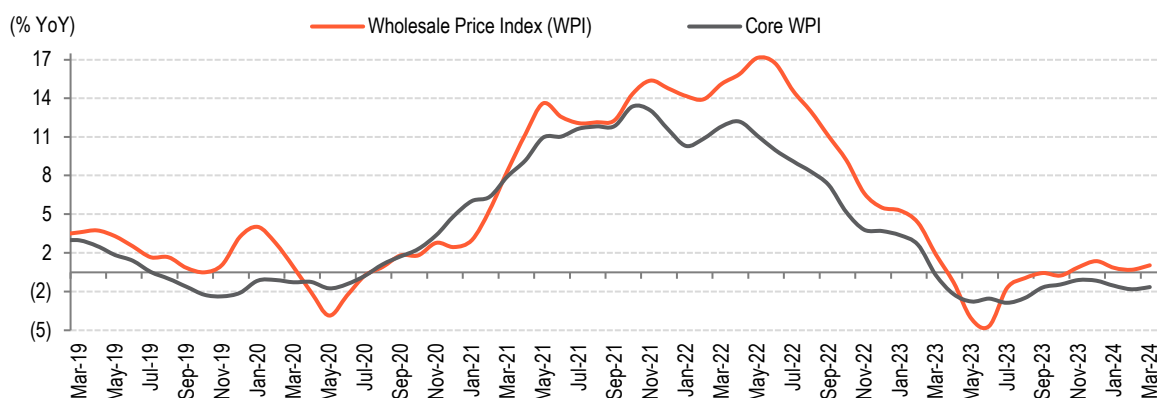
### **Fuel and power inflation:**

Fuel and power inflation fell at a slower pace in Mar'24 (-0.8%) compared with (-) 1.6% decline in Feb'24. This was on account of slowdown in pace of contraction in mineral oil index (-3.5% in Mar'24 versus -3.8% in Feb'24) and sharp jump in electricity inflation index (6.4% versus 3.5%), followed by increase in coal inflation (0.5% versus 0.3%). Within mineral oils, of the 10 sub-heads, increase in Mar'24 was on account of only 4 items—ATF, diesel, kerosene and naphtha. Compared with international oil prices, Brent had jumped (YoY basis) by 6.9% in Mar'24 compared with (-) 2.2% decline noted in Feb'24. On MoM basis, prices were up by 3.6% internationally versus 0.1% increase seen in mineral oil index. In Apr'24 so far, Brent is up by another 5.2% on YoY basis, due to escalated geo-political tensions in the Middle East. If this trend continues, it may exert some further pressure on fuel inflation in the coming months.

### **Core WPI ticks up:**

Core inflation has remained in deflation ever since Mar'23 and now it is beginning to contract at a slower pace, as it registered (-) 1.2% decline in Mar'24, following (-) 1.3% decline in Feb'24. Deflation in manufactured products also eased, as it fell by (-) 0.8% in Mar'24, following (-) 1.3% in Feb'24. Of the 22 commodity sub-indices, 12 indices fell at a slower pace in Mar'24 than Feb'24 led by, basic metals, chemicals, pharma products, other non-metallic minerals, computer/electronic products, and electrical equipment. Within basic metals, inflation for aluminium (-2.9% versus -5.3%), lead (-0.4% versus -0.8%) and copper (-2.3% versus -2.4%) fell at a slower pace, while the decline accelerated in case of Zinc (-8.9% versus -8.1%). On an international level also, as reflected in World Bank's pink sheet, prices of aluminium (-3.1% versus -9.8%) and copper (-1.9% versus -7.1%) have fallen at a slower pace. Zinc prices are also seeing some build-up in pressure (-17.1% versus -24.7%), while lead prices continue to decline further (-2.8% versus -0.6%).

**Figure 2: Deflation in core WPI slowed in Mar'24**



Source: CEIC, Bank of Baroda Research

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