

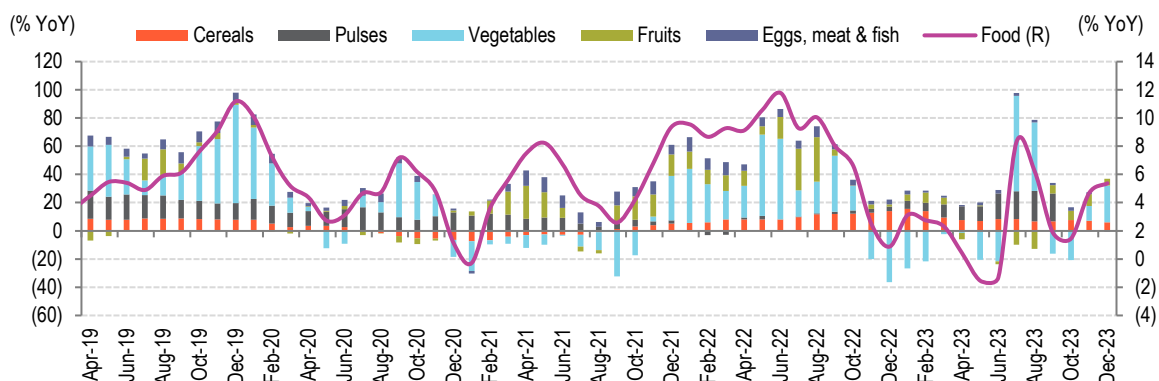
## **WPI inflation creeping up**

WPI inflation remains out of deflation as it rose by 0.7% in Dec'23 from 0.3% in Nov'23. In CY23, it came in flat (0%), following 12.2% increase in CY22. The monthly trend (Dec'23) was again driven by uptick in food inflation which jumped to 5.4% in Dec'23 from 4.7% in Nov'23. Sharp increase was noted in case of vegetables and spices. On the other hand, inflation for food grains, fruits, and milk, rose at a slower pace in Dec'23. Deflation in manufactured products accelerated. Pressures were seen building up in case of basic metals, fabricated metals, tobacco, and motor vehicles. On the contrary, deceleration in fuel & power inflation slowed, owing to softer decline in mineral oil index, which in turn mirrored the movement in international oil prices (YoY basis). Coal prices were steady, and build up of pressure in electricity index continued. Going ahead, food prices are expected to remain a strain, owing to weakness in Rabi sowing. Fuel prices can also be volatile due to ongoing geopolitical tensions in the Middle East. Subdued commodity prices, will however provide cushion to headline WPI.

### **Food inflation at 4-month high:**

Headline WPI fastened to 0.7% in Dec'23, lower than our estimate of 1.5%, but following 0.3% increase in Nov'23. The jump was driven by food inflation which rose by 5.4% in Dec'23, up from 4.7% in Nov'23. Within food, rate of inflation in case of vegetables (26.3% in Dec'23 versus 10.4% in Nov'23), spices (29.7% versus 27.5%) and other food items (9.4% versus 1.6%) rose significantly. Amongst vegetables, out of 19 items, prices were up for 12 items, with major push coming from items like Onions (+91.8% in Dec'23), tomato (81.7%) carrot (19%) and cauliflower (13%). Inflation for items like food grains (8.4% versus 9.7%), milk (6.9% versus 7.9%), and fruits (4.6% versus 8.4%) also rose, but at a slower pace. Within food grains, paddy inflation inched up a tad (10.5% versus 10.4%), while wheat inflation decelerated (-1.4% versus 2.5%). Pulses inflation remains elevated, but is showing signs of slowdown (19.6% versus 21.6%). These trends are in line with movement in international prices. As indicated by World Bank's pink sheet, paddy prices had risen by 39.6% in Dec'23 following 39% increase in Nov'23, while wheat prices continue to decline, albeit at a slower pace (-22.3% in Dec'23 versus -29% in Nov'23). In CY23, our food inflation moderated to 2.8% from 8% in CY22.

**Figure 1: Food inflation jumps again in Dec'23**



Source: CEIC, Bank of Baroda Research

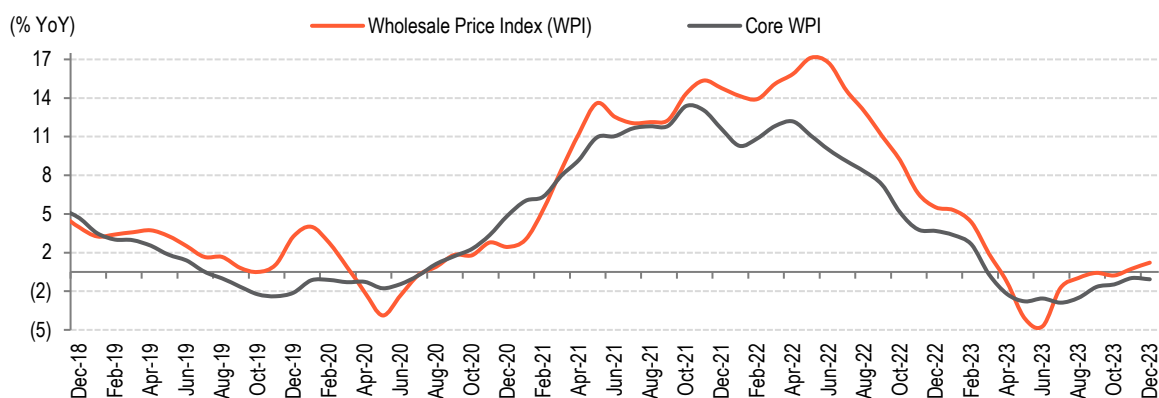
### **Fuel and power inflation:**

Deflation in fuel and power inflation accelerated once again in Dec'23 as it fell by only (-) 2.4% compared with (-) 4.6% decline in Nov'23. This was on account of slowdown in deflation in mineral oil index (-2.7% versus -5.7% in Nov'23) and electricity index (-3.9% versus -5.3%). On the other hand, coal inflation remained unchanged from last month for the 4<sup>th</sup> consecutive month at 1.8% in Dec'23. In CY23, fuel & power inflation fell by (-) 1.2% after noticing 34.3% jump in CY22. Within mineral oils, in Dec'23, build up in pressure was visible in case of Petrol, HSD, Naphtha, and Furnace Oil. The movement is in line with international crude prices which on YoY basis, fell by only (-) 4.9% in Dec'23 compared with (-) 9.7% decline in Nov'23. Oil prices remain broadly steady so far around US\$ 77-78/bbl in Jan'24. If prices inch back up owing to geopolitical risks (Red Sea tensions) then it can add pressure on headline WPI in the coming months.

### **Decline in core WPI accelerates:**

Core inflation remains in deflation for the 10<sup>th</sup> consecutive month in Dec'23, and the pace accelerated as it fell by (-) 0.6% compared with (-) 0.5% in Nov'23. Deflation in manufactured products also deepened, as it fell by (-) 0.7% in Dec'23 following (-) 0.6% decline in Nov'23. Of the 22 commodity sub-indices, 12 indices fell at a faster pace in Dec'23 than Nov'23 led by, basic metals, other manufacturing, tobacco, fabricated metal products computers/electronics, and motor vehicles. Within basic metals, pace of contraction in case of zinc slowed (-6.7% in Dec'23 versus -7.6% in Nov'23), while inflation index for Copper (2.1% versus 4%) and Lead (1.1% versus 2.9%) continued to inch up, though at a slower pace. Index aluminium fell further in Dec'23 (-3.6% versus -1.6%). On an international level, as reflected in World Bank's pink sheet, deflation fastened in case of Zinc (-20% in Dec'23 versus -13.5% in Nov'23), Lead (-8.6% versus 4.2%) and Aluminium (-9.1% versus -6.3%). on the other hand, increase in copper prices softened (0.3% versus 1.7%).

**Figure 2: Deflation in core WPI fastens**



Source: CEIC, Bank of Baroda Research

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