

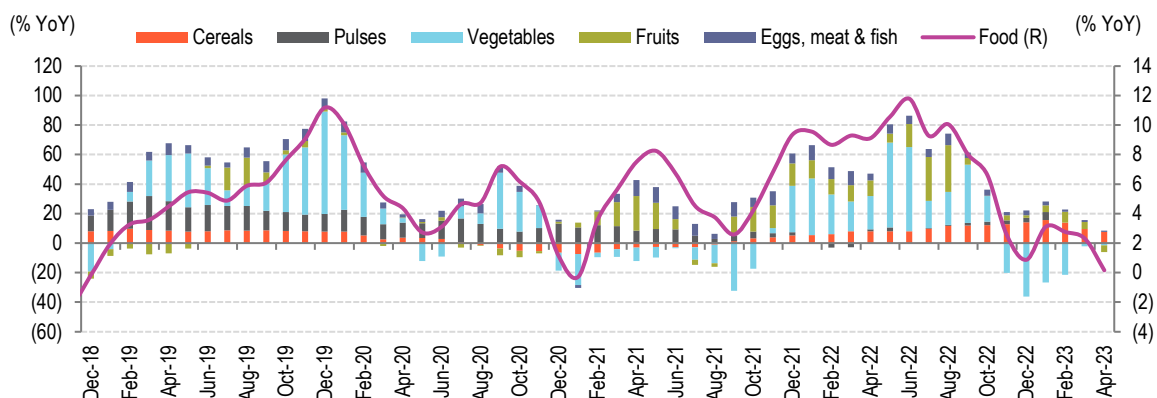
WPI at 34-month low

WPI inflation continues went into contraction in Apr'23 as it came in at (-) 0.9%, down from 1.3% in Mar'23. All three sub-indices saw a significant decline. Dip in mineral oil index (0.9% versus 9% in Mar'23) was supported by favourable base. Food (0.2% versus 2.3%) and manufactured product inflation (-2.4% versus -0.8%) also noted significant drop. Within food, while prices of vegetables, milk, eggs, meat and fish exhibited downward pressure, upward movement in prices of food grains, particularly pulses and paddy needs to be watched more closely. Manufactured products, have benefited much from decline in international commodity prices. This trend is likely to continue as weak global growth momentum (led by US and China) will maintain downward pressure on prices. As a result, even oil prices are seen weakening, which in turn will provide support to fuel and power inflation index. Going ahead, we maintain that trajectory of food prices in the wake of ongoing heat wave conditions and performance of monsoon will be critical.

Food inflation eases significantly:

Headline WPI fell more than expected in Apr'23. It was down by (-) 0.9% versus our estimate of (-) 0.6% and 1.3% in Mar'23. This is the first time it has entered deflationary territory since Jul'20 (-0.2%) and is currently at its 34-month low (-1.8% in Jun'20). Food inflation also cooled down significantly from 2.3% in Mar'23 to 0.2% in Apr'23. Within food, deflation in price index for milk (-0.2% in Apr'23 versus 0.7% in Mar'23), eggs, meat & fish (-0.6% versus 1.2%), and moderation in vegetable inflation (4.5% versus 5.5%) helped drag the overall index down. Within vegetables, tomato, okra, gourd and pumpkin prices exerted downward pressure. On the other hand, upward price pressures were visible in case of food grains (0.3% versus -1.3%), particularly pulses (2.2% versus 1.3%). Cereal price index fell less sharply (-0.1% versus -1.9%). Increase in paddy prices and less sharp decline in wheat prices was in line with trend in international commodity prices. As indicated by World Bank's pink sheet, paddy prices have risen by 15.4% in Apr'23 from 12.8% in Mar'23, while wheat prices continue to decline, albeit slowly (-29% versus -29.8%). Price index for fruits also noted sharp increase (8% versus 3.5%), followed by spices (2.5% versus 0.6%).

Figure 1: Food inflation showing signs of moderation in Mar'23



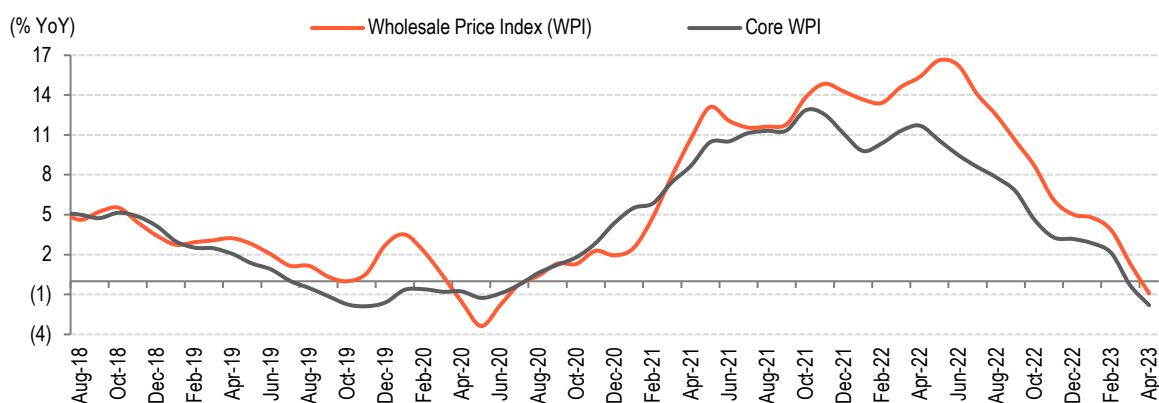
Fuel and power sharply down:

Fuel and power inflation in Apr'23 came down drastically to 0.9% from 9% in Mar'23, mainly owing to favourable base (38.8% in Apr'22 versus 31.8% in Mar'22). In Apr'23, mineral oil index entered deflation (-4.9%) for the first time since Jan'21 (-6.8%), declining from 6% in Mar'23. This was again on account of base effect (63% in Apr'22 versus 50% in Mar'22). Within mineral oil, barring Bitumen (less sharp decline), all other sub-components declined even more sharply in Apr'23. Index for Kerosene (-16% versus 18%), ATF (-14% versus 7%), petroleum coke (-12% versus 10%), and furnace oil (-27% versus -9%) fell the most. Even coal (3.2% versus 3.4%) and electricity (20% versus 22.7%) price index showed moderation. Going forward, as US and China's economy are showing some signs of slowdown, risks to global demand still persists. As a result, even oil prices have come under strain and have declined to US\$ 75.3/bbl on an average in May'23 (MTD) compared with US\$ 83.4/bbl in Apr'23. This along with favourable base, will keep fuel inflation in check even next month.

Core WPI enters deflation:

Core inflation remains in deflation for the 2nd consecutive month in Apr'23 as it fell to (-) 1.8% from (-) 0.3% in Mar'23. Manufactured products inflation also fell further to (-) 2.4%—lowest since Oct'15, and down from (-) 0.8% in Mar'23. Of the 22 commodity sub-indices, 18 indices rose at a slower pace in Apr'23 than Mar'23 led by basic metals, fabricated metals, paper & products, and chemicals. Within basic metals, faster deceleration was visible in price index for Zinc (-9.3% versus -5.2%), Copper (-1.7% versus -0.5%), and Aluminium (-13.5% versus -12.3%). On the other hand, price index for lead declined at a slower pace (-1.5% versus -4.4%). On international level, as reflected in World Bank's pink sheet, prices of zinc fell the most (-36.5% versus -25.1%), followed by prices of aluminium (-27.8% versus -34.4%). Decline in prices of copper (-13.3% versus -13.4%) and lead (-9.7% versus -9.8%) remained broadly steady.

Figure 2: Core enters deeper into deflation zone in Apr'23



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