

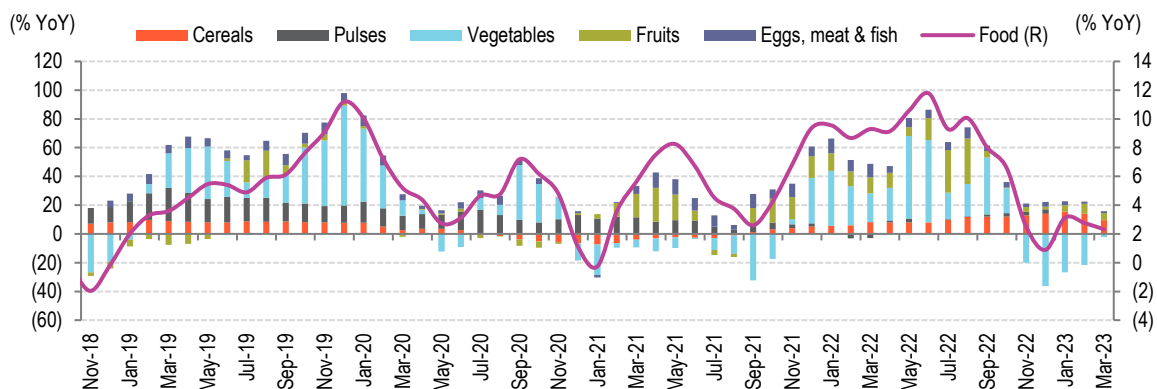
WPI continues to decelerate

WPI inflation continues to decelerate at a faster pace than CPI and was down to 1.3% in Mar'23 compared with 3.9% in Feb'23. The dip was led by significant moderation seen in fuel and power inflation, and deflation in manufactured product inflation. Food inflation too cooled down, but less sharply. Within food, while cereal, fruit and milk inflation is seen easing, pulses and vegetable inflation is showing some signs of pressure. Within fuel, the dip was mainly owing to drop in international crude prices. However, if they begin to strengthen again on account of better than anticipated demand outlook from China, then it could add pressure on our WPI. Continuous increase in electricity price index in WPI also needs to be watched. Going ahead, trajectory of food prices in the wake of ongoing heat wave conditions in the country will also be critical to monitor.

Food inflation showing steady moderation:

Headline WPI eased sharply lower to 1.3% in Mar'23 (BoB est.: 2.4%), from 3.9% in Feb'23. This is the 10th consecutive month of moderation and has fallen significantly from the peak of 16.6% in May'22. Food inflation cooled down less slowly and was at 2.3% in Mar'23, compared with 2.8% in Feb'23. Within food, inflation index for grains, fruits, milk, spices moderated, while that of vegetables contracted less sharply and of protein based items was steady. Food grain inflation index eased to 8.2% from 11.8% in Feb'23, mainly led by cereal index (9.5% versus 13.9%). On the other hand, price index for pulses showed signs of pressure (3% versus 2.6%). Within cereals, decline in paddy and wheat prices was in line with trend in international commodity prices. As indicated by World Bank's pink sheet, paddy prices have eased to 12.8% in Mar'23 from 15.4% in Feb'23, while wheat prices have collapsed (-29.8% versus -3.2%). Amongst the vegetable index, less sharp decline in Mar'23 (-2.2% versus -21.5%) was owing to pressure buildup in prices of items such as, tomato, onion, okra, cucumber, bitter gourd. On the other hand, inflation index for fruits (4.9% versus 7%) and milk (8.5% versus 10.3%) remains low.

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



Source: CEIC, Bank of Baroda Research

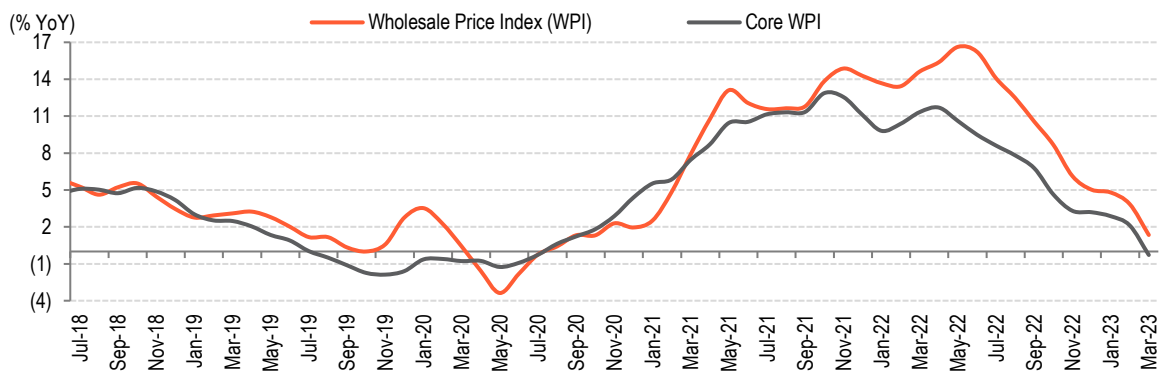
Fuel and power sharply lower:

Fuel and power inflation in Mar'23 dipped to 9%—lowest since Feb'21, and down from 14.8% in Feb'23. This was on account of drag in mineral oil index, which eased to 6% from 15.8%. On the other hand, coal price index remained unchanged from the previous month at 3.4%, while electricity prices index rose to 22.7% from 19.7%. Movement in mineral oil index is in line with trend in international crude oil prices, which have fallen by (-) 29.6% in Mar'23 following (-) 11.2% decline in Feb'23. Domestically, within mineral oils, prices of ATF (7% versus 31%), Kerosene (18% versus 39%), Naphtha (-9% versus 6%) and HSD (12% versus 25%) fell the most. Going forward, as risks to recession still linger, oil prices are further down by 18% in Apr'23 so far (MTD). This is likely to further ease pressure on fuel inflation next month. However, if global demand (led by US and China) does not slow as much as anticipated, then we could see build up of pressure in prices.

Core WPI enters deflation:

Core inflation entered deflation for the first since Jul'20 as it fell to (-) 0.3% in Mar'23 from 2.1% in Feb'23. Manufactured products inflation also fell considerably to (-) 0.8%—lowest since Dec'19, and down from 1.9% in Feb'23. Of the 22 commodity sub-indices, 19 indices rose at a slower pace in Mar'23 than Feb'23 led by basic metals, paper & products, other manufacturing, food, and chemicals. Within basic metals, faster deceleration was visible in price index for Zinc (-5.2% versus -4.1%), Aluminum (-12.3% versus -11.3%) and lead (-4.4% versus -3.9%). On the other hand, price index for copper slower contraction (-0.5% versus -1%). On international level, as reflected in World Bank's pink sheet, prices of zinc fell the most (-25.1% versus -13.4%), followed by prices of aluminum (-34.4% versus -25.6%), copper (-13.4% versus -10.1%) and lead (-9.8% versus -8.9%).

Figure 2: Core fell sharply in Mar'23



Source: CEIC, Bank of Baroda Research

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