

WHOLESALE INFLATION

14 August 2020

WPI contracts, food inflation soars

WPI contracted by 0.6% in Jul'20 from 1.8% in Jun'20 led by 4.3% increase in food and 0.5% increase in manufactured inflation. Fuel and power index contracted at a slower pace of 9.8% in Jul'20 from a decline of 13.6% in Jun'20 as international oil prices rose. We expect WPI inflation to inch up steadily on the back of higher food inflation (supply bottlenecks owing to lockdowns) and higher international commodity prices (global fiscal and monetary stimulus). These supply factors will also have an impact on CPI inflation.

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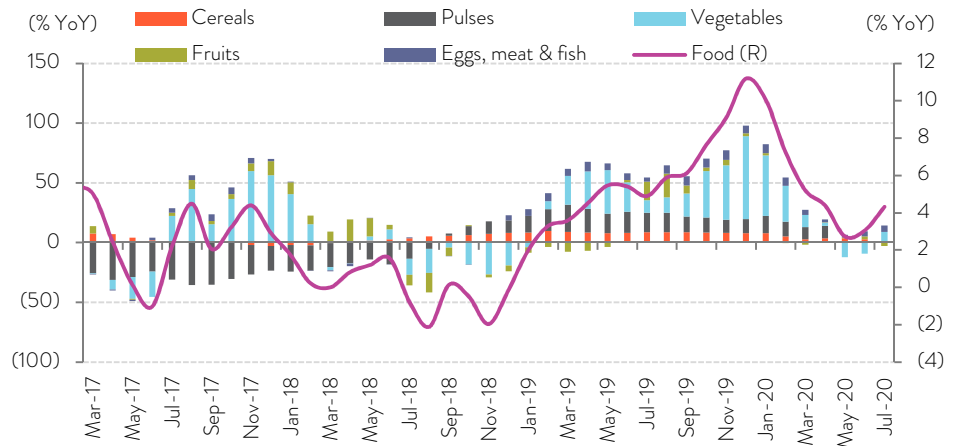
Food inflation edges up: Food inflation rose to 4.3% in Jul'20 from 3.1% in Jun'20 led by sharp increase in vegetable prices (an increase of 8.2% in Jul'20 from a decline of 9.2% in Jun'20). Prices of tomato soared by 19% in Jul'19 compared with a drop of 45.6% in Jun'20 on the back of supply constraints, owing to localized lockdown and heavy rainfall. In addition, prices of protein based items such as eggs, meat and fish too inched up to 5-month high of 5.3% in Jul'20 (4.5% in Jun'20). However, cereal inflation eased to more than 2 year low of 0.7% in Jul'20 led by moderation in prices of both paddy (3.8% in Jul'20 from 4.5% in Jun'20) and wheat (2.7% in Jul'20 from 5.2% in Jun'20).

Deflation in fuel and power easing: Fuel and power inflation fell by 9.8% in Jul'20 versus a decline of 13.6% in Jun'20. Mineral oil price index fell by 15.5% in Jul'20 versus a decline of 27.4% seen in Jun'20. Within the mineral oils index, deflation in Kerosene, Naphtha, ATF and LPG reduced the most. Electricity prices which had increased by 5.2% in Jun'20, fell by 6.7% in Jul'20. We expect deflation in fuel and power to ease going forward as international crude prices are sustaining current levels (-24.4% in MTD Aug'20 versus -32.7% in Jul'20).

Core inflation picking up pace: Core inflation contracted less sharply in Jul'20 by 0.3% versus 0.9% in Jun'20. Manufactured inflation gathered pace and rose by 0.5% versus 0.1% increase in Jun'20. Of the 22 commodities, prices of 11 commodities rose, with basic metals, motor vehicles, leather products and other manufacturing items, taking the lead. With improvement in global demand, international commodity prices are now inching up and are 4.7% lower in Aug'20 on YoY basis as against a decline of 6.3% seen in Jul'20.

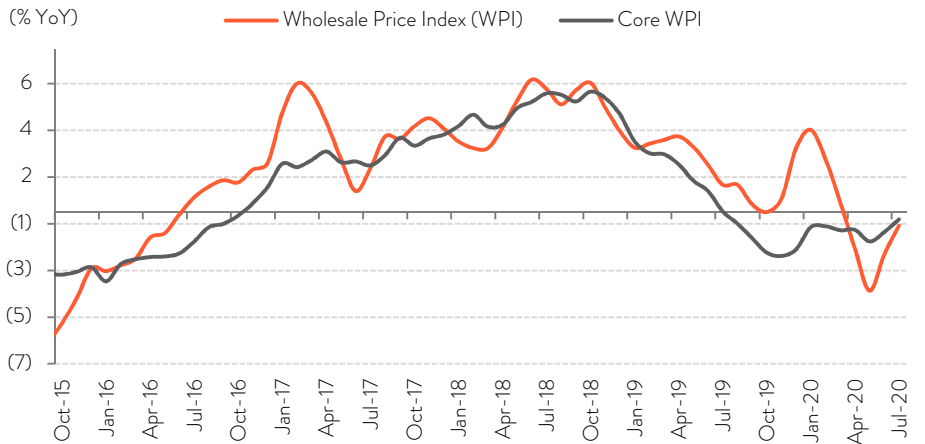


FIG 1 – WHOLESALE FOOD INFLATION PICKS UP PACE IN JUL'20



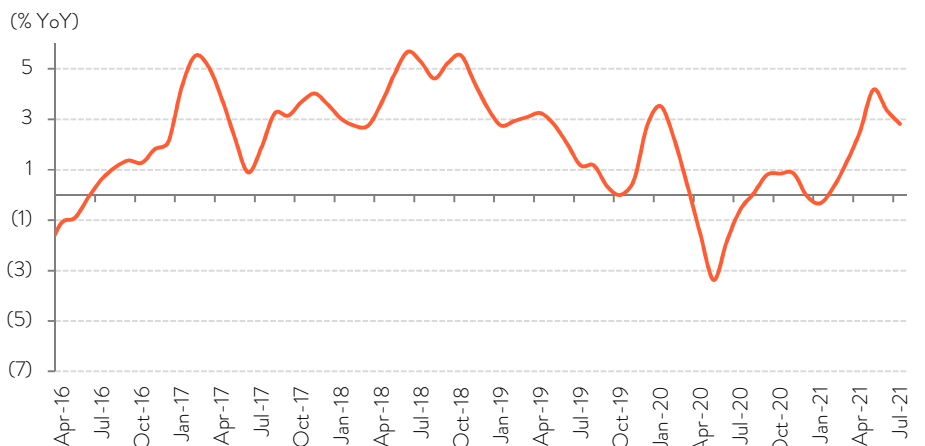
Source: CEIC, Bank of Baroda Research

FIG 2 – HEADLINE AND CORE INFLATION INCH UP FURTHER IN JUL'20



Source: Bloomberg, CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO PICK UP IN THE NEAR-TERM



Source: Bloomberg, CEIC, Bank of Baroda Research

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