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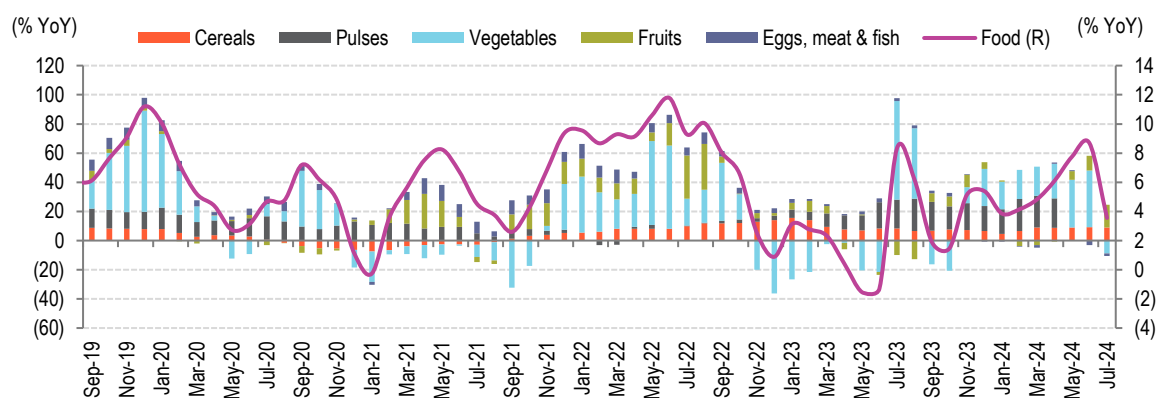
WPI inflation eases

WPI inflation moderates to a 3-month low of 2% in Jul'24 compared with 3.4% in Jun'24, supported by softening of both food and fuel & power inflation. Our forecast for headline WPI inflation was 2.2%. A sharp drop in tomato prices dragged down the vegetables prices and resulted in deflation in Jul'24. Despite this, prices of potato continued to accelerate further. For cereal inflation both paddy and wheat continue to register an uptick. Fuel and power inflation surged to 1.7%, despite a dip in global oil prices. Manufactured products inflation edged up to 1.6% in Jul'24 from 1.4% in Jun'24. Against this backdrop, we expect WPI to ease in the coming months. So far, the kharif acreage has been better than last year and monsoon has been well distributed and 5% above LPA (1 Jun-13 Aug). Given the gradual transition from El Nino to La Nina is favourable for South West monsoon, it remains positive for the food inflation.

Food inflation cools off:

Headline WPI inflation eased down to 2% in Jul'24 from 3.4% in Jun'24, marginally lower than our estimate of a 2.2% increase. The moderation was driven by lower food inflation which softened to a 9-month low of 3.6% compared with 8.7% in Jun'24 supported by favourable base. Vegetable inflation slipped in to contraction, down to 9-month low of (-) 8.9% versus 38.8% in Jun'24. Within vegetables, tomato prices fell sharply, registering a deflation at (-) 39.6% compared with an increase of 57.8% in Jun'24. Onion prices registered some moderation at 88.8% (93.4% in Jun'24). Additionally, cereal inflation slowed down marginally to 9% (9.3% in Jun'24) led by slower pace of increase in paddy (11% versus 12.1% in Jun'24). However, wheat prices inched up to 7% (6.2% in Jun'24). Notably, global wheat prices have fallen sharply due to greater availability. On the other hand, pulses inflation eased down to 3-month low of 20.3% (21.6% in Jun'24) given the higher sown area of pulses. Moreover, higher prices of fruit (15.6% versus 10.1%) and milk (4.6% versus 3.4%) has also been noted for Jul'24. Prices of egg, meat and fish has declined at a much slower pace at (-) 1.6% in Jul'24 (-3.1% in Jun'24).

Figure 1: Food inflation slows down



Source: CEIC, Bank of Baroda Research

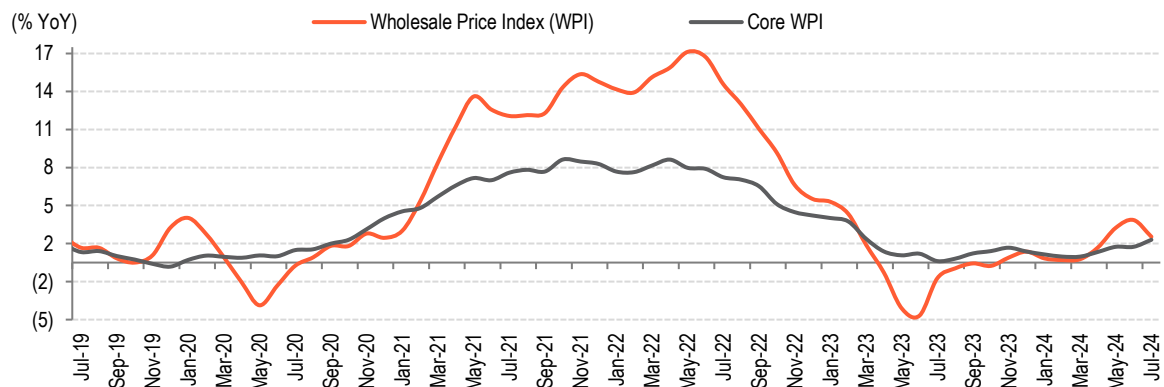
Fuel and power inflation:

Fuel and power inflation surged to 16-month high to 1.7% in Jul'24 from 1.0% in Jun'24, led by a spike in mineral oils index. The increase in the mineral oil index (3.7% versus 1.9%) was on account of higher price index of Naptha, bitumen and LPG index (6.1% from 1.5%). On the other hand, coal prices contracted further to (-) 1.5% from (-) 1.3% in Jun'24. Electricity index after rebounding last month in Jun'24, slipped back in to contraction again to (-) 1.7% from 0.2% increase in Jun'24. Internationally, average oil prices has dropped down by 4.6% in July after increasing by 10.7% in Jun'24. It must be noted that oil prices have fallen by (-) 8% in Aug'24 (till 13 Aug) due to muted demand from China. The prices needs to be monitored given the ongoing geopolitical tension in Middle East and likelihood of Fed rate cut which can boost the fuel demand.

Core WPI edges upwards:

Core inflation again scaled up to 17-month to 1.2% in Jul'24 from 0.8% in Jun'24. Inflation in manufactured products also rose to 1.6% (17-month high) from 1.4% in Jun'24. Out of the 22 sub-indices, acceleration was visible in 10 categories. Within this, categories such as pharma, chemical and chemical products, textiles, rubber and plastic products witnessed maximum acceleration. Notably, prices of paper and paper products along with fabricated metals contracted at a much slower pace. On the other hand, prices of basic metal edged down by 0.9% (1.1% in Jun'24). Within basic metals, while the aluminium prices moderated down to 7.2% (9% in Jun'24), those for lead, ingots were down further by (-) 1.3% in Jul'24. Prices of copper, zinc and gold climbed up for the same period. According to World Bank's pink sheet, at international level, moderation in prices of aluminium (8.8% versus 14.3%), copper (10.7% versus 14.9%) and zinc (15.5% versus 18.3%) were registered. Prices of precious metals including gold (22.9% versus 19.7%) and platinum (3% versus 1.5%) edged up.

Figure 2: Core WPI ticks up further



Source: CEIC, Bank of Baroda Research

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