

WHOLESALE INFLATION

14 December 2020

Core inflation drives WPI higher

WPI inched up to a 9-month high of 1.6% in Nov'20 from 1.5% in Oct'20 led by manufactured inflation which increased to 3% in Nov'20 (2.1% in Oct'20). Fuel and power index declined at a slower pace of 9.9% in Nov'20 (10.9% in Oct'20). More importantly, food prices showed further moderation at 4.3% in Nov'20 (5.8% in Oct'20, 7.2% in Sep'20), led by vegetables, eggs, meat and fish and grains. While a base effect implies a dip in WPI inflation in coming months, higher oil and global commodity prices implies it will inch up from Feb'21.

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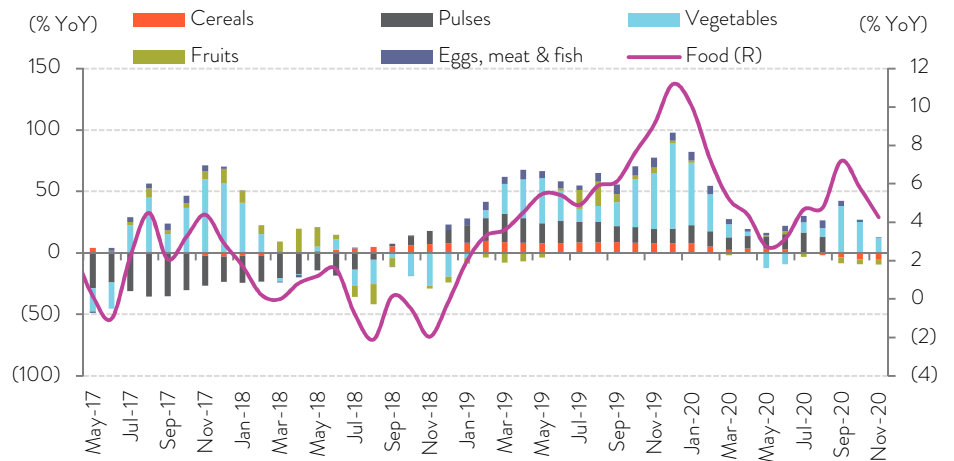
Food inflation moderates: Food inflation eased to a 5-month low of 4.3% in Nov'20 from 5.8% in Oct'20. This was led by moderation in vegetable prices to 12.2% in Nov'20 compared with 25.2% in Oct'20 on the back of sharp drop in prices of onion (declined by 7.6% in Nov'20 from an increase of 8.5% in Oct'20). Cereal prices contracted at an accelerated pace of 5.5% in Nov'20 led by sharp decline in wheat prices (10.1% in Nov'20 from 8.1% in Oct'20). Prices of pulses also moderated to 13% in Nov'20 (15.9% in Oct'20). Other protein based items such as eggs, meat and fish too edged downwards to 0.6% in Nov'20. While milk prices remained unchanged.

Deceleration in fuel and power slows: Fuel and power inflation contracted by 9.9% in Nov'20 after a 10.9% drop in Oct'20. This was due to lower pace of contraction in mineral oil index, which fell by 16% in Nov'20 compared with a 17.9% dip in Oct'20. This was led by pick-up in prices of petroleum coke and furnace oil. Prices of Kerosene, ATF and Bitumen contracted less sharply. Electricity prices fell by 4.3% in Nov'20 and coal prices remained flat, after 0.1% drop in Oct'20. International oil prices are down by 22.9% in Dec'20 (YoY) versus 29.9% decline in Nov'20. Thus deflation in fuel and power is likely to ease going forward.

Core inflation hardens: Core inflation rose to 2.6% in Nov'20 from 1.7% in Oct'20. Manufactured inflation too picked up to 3% from 2.1% in Oct'20. Of the 22 commodities, prices of 16 commodities rose, with basic metals, textile, rubber and plastic products and other manufacturing items taking the lead. With improvement in global demand and roll out of Covid-19 vaccine, international commodity prices were up by 10.9% in Nov'20 on YoY basis versus an increase of 5.2% seen in Oct'20.

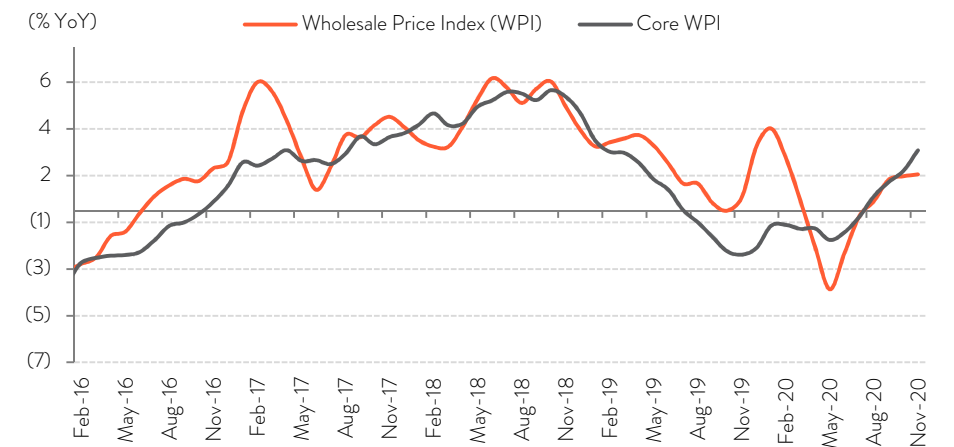


FIG 1 – WHOLESALE FOOD INFLATION SLOWS DOWN IN NOV'20



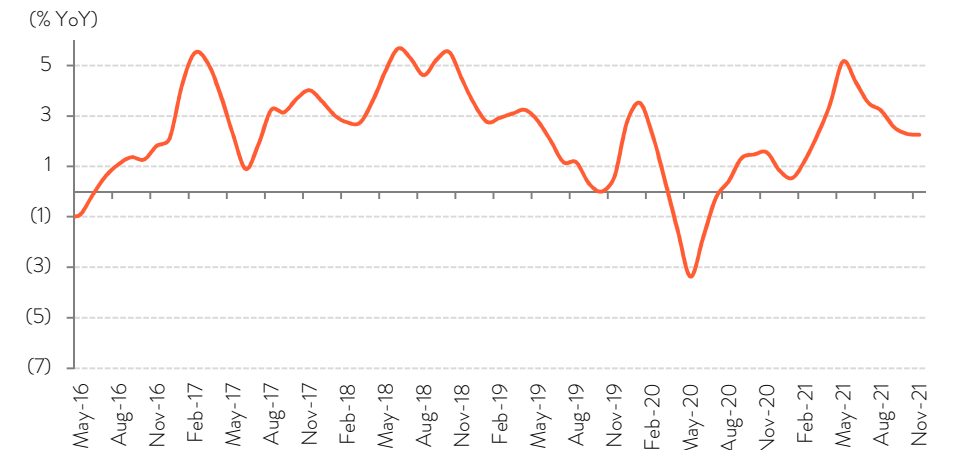
Source: CEIC, Bank of Baroda Research

FIG 2 – HEADLINE AND CORE INFLATION JUMP SIGNIFICANTLY



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO BEGIN INCREASING TOWARDS THE END OF Q4FY21



Source: CEIC, Bank of Baroda Research

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