

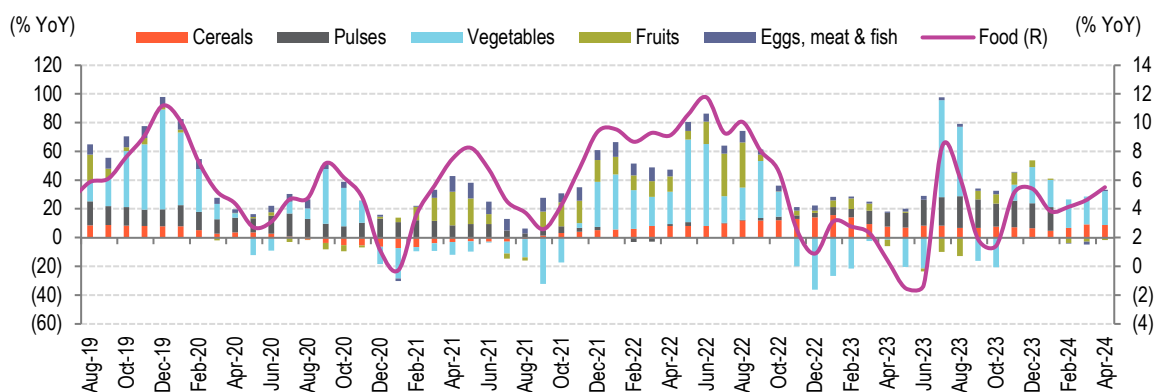
WPI inflation accelerates

WPI inflation accelerated at the fastest pace in 13 months, as it rose by 1.3% in Apr'24 from 0.5% in Mar'24. This was due to jump in both food and fuel inflation. Food inflation rose by 5.5%, on account to steep increase in vegetable prices. Within this, basic items like onions, tomato and potato have seen build-up in prices. Apart from this, food grain inflation remains relatively sticky. Paddy prices are exerting pressure, while wheat prices have noted some moderation. Separately, elevated international oil prices have had an impact on domestic fuel inflation, which rebounded to 1.4% from (-) 0.8% in Mar'24. ATF, Kerosene prices were the most impacted. Increased prices of other commodities on an international level, have also led to inching up of manufactured inflation, driven by basic metals. Prices of Aluminium and Copper have registered a steep jump in Apr'24. Commodity prices have seen a revival on hopes of increased demand from China. Going forward, 'higher for longer' rate scenario in the US, and demand revival in China will drive the international commodity prices. Domestically, heat wave conditions will decide the trajectory of food inflation.

Food inflation jumps sharply:

Headline WPI inflation accelerated to 1.3% in Apr'24 from 0.5% in Mar'24, higher than our estimate of 1%. This was primarily due to pick up seen in food inflation which inched up by 5.5% in Apr'24 versus 4.6% in Mar'24. Inflation increased the most in case of vegetables (23.6% in Apr'24 versus 19.5% in Mar'24), eggs, meat & fish (0.9% versus -1.9%) and other food items like tea and coffee. Amongst the vegetables, prices of potato, tomato, onion, cucumber, bottle gourd and pumpkin accelerated. On the other hand, food grain inflation slowed a tad, but remains in double digit (10.2% versus 10.5%). Within this, both cereal (8.7% versus 9%) and pulses inflation (16.6% versus 17.2%) cooled down. Amongst major cereals, while wheat inflation moderated, paddy prices picked up pace. On a global level, World Bank's pink sheet data reveals that wheat prices continue to decelerate and at a faster pace (-23.7% versus -23.1%). Paddy prices have also cooled down (19.5% versus 29.2%). Domestically, ongoing heat wave conditions in most parts of the country pose a threat to vegetable inflation going forward.

Figure 1: Food inflation maintains upward momentum



Source: CEIC, Bank of Baroda Research

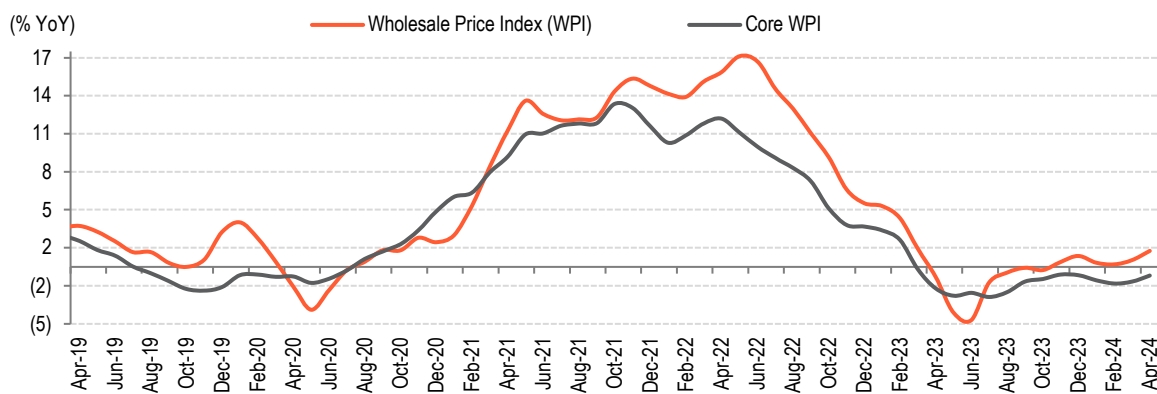
Fuel and power inflation:

Fuel and power inflation turned positive after one year as it rose by 1.4% in Apr'24 (1% in Apr'23) from (-) 0.8% in Mar'24. This was on account of sharp slowdown in pace of contraction in mineral oil index (-0.1% versus -3.5% in Mar'24). On the other hand, coal price index moderated slightly (0.2% from 0.5%), while electricity price index remained broadly unchanged at 6.3% from 6.4% in Mar'24. Within mineral oils, barring Bitumen and Lube oils, price index for all other sub-head increased. Items which noted the most increase were: Kerosene, ATF, Naphtha and Furnace Oil. Internationally, Brent jumped (YoY basis) by 6.8% in Apr'24 versus 6.9% in Mar'24. On MoM basis, prices were up by 5.1% internationally versus 0.1% increase seen in mineral oil index. In May'24 so far, Brent prices have fallen by (-) 2.5%, as 'higher for longer' rate scenario in the US, has dented hopes of revival in demand. If this trend continues, it may help ease pressure on fuel inflation in the coming months.

Core WPI ticks further up:

Core inflation has remained in deflation ever since Mar'23 and now it is beginning to contract at a slower pace, as it registered (-) 0.7% decline in Apr'24, following (-) 1.2% decline in Mar'24. Deflation in manufactured products also eased, as it fell by (-) 0.4% in Apr'24, following (-) 0.8% in Mar'24. Of the 22 commodity sub-indices, 13 indices fell at a slower pace in Apr'24 than Mar'24 led by, basic metals, wearing apparel, chemicals, electrical equipment, machinery, and motor vehicles. Within basic metals, inflation for aluminium (3.8% versus -2.9%) and copper (0.2% versus 2.3%) inched up. Index for Zinc fell at a slower pace (-6.3% versus -8.9%), while that of Lead continued to decline steeply (-3.8% versus -0.4%). On an international level also, as reflected in World Bank's pink sheet, prices of aluminium (7% versus -3.1%) and copper (7.4% versus -1.9%) have rebounded sharply. Zinc (-1.3% versus -17.1%) and Lead (-0.9% versus -2.8%) prices are also seeing some build-up in pressure.

Figure 2: Deflation in core WPI slowed further in Apr'24



Source: CEIC, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com