

## WHOLESALE INFLATION

14 October 2020

### Food inflation drives WPI higher

**WPI rose to 1.3% in Sep'20 from 0.2% in Aug'20 led by increase in food (6.9% in Sep'20 from 4.1% in Aug'20) and manufactured inflation (1.6% in Sep'20 from 1.3% Aug'20). Vegetable prices increased by 36.5% in Sep'20. Inflation in protein based items also accelerated. Core inflation too increased in-line with higher global commodity prices. We expect WPI inflation to remain at current levels in Q3FY21 and decelerate in Q4FY21. A US stimulus and vaccine availability may drive commodity prices and WPI higher.**

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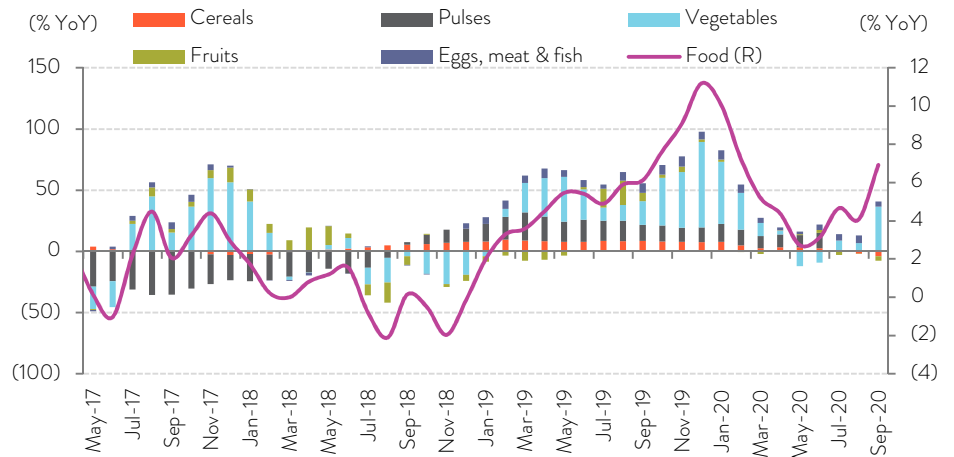
**Food inflation accelerates:** WPI inflation inched to 1.3% in Sep'20 from 0.2% in Aug'20. This was largely led by food inflation increasing to 6.9% in Sep'20 from 4.1% in Aug'20 driven by acceleration in vegetable prices (increase of 36.5% in Sep'20 from 7% in Aug'20). Potato prices rose by an all-time high of 107.6% (in this series) in Sep'20 compared with 82.9% in Aug'20. Prices of protein based items such as pulses, milk and eggs have also risen by 12.5%, 5.6% and 14% respectively in Sep'20. However, cereal prices fell by 3.9% in Sep'20 led by sharp decline in wheat prices (decline of 5.2% in Sep'20 from 1.5% in Aug'20).

**Deflation in fuel and power continues:** Fuel and power inflation contracted by 9.5% in Sep'20 compared with decline of 9.7% in Aug'20. Mineral oil index (7.95% weight) fell by 14.1% versus 14.4% in Aug'20. Electricity prices declined by 8.2% versus 8.8% drop in Aug'20. The dip in mineral oil index is attributable to lower pace of contraction in petrol and industrial fuels (Naphtha, Bitumen, and Furnace Oil) and disinflation in LPG. International oil prices were down by 32.8% in Sep'20 (YoY) versus 24.3% decline in Aug'20. We expect deflation in fuel and power to continue going forward.

**Core inflation inches up:** Core inflation rose to 1% in Sep'20 following a 0.6% increase in Aug'20. Manufactured inflation too rose further to 1.6% from 1.3% in Aug'20. Of the 22 commodities, prices of 15 commodities rose, with basic metals, tobacco, rubber and plastic products and furniture items taking the lead. With improvement in global demand, international commodity prices are up by 4.8% in Oct'20 on YoY basis versus an increase of 4.3% seen in Sep'20. A US stimulus and availability of vaccine may drive international prices higher.

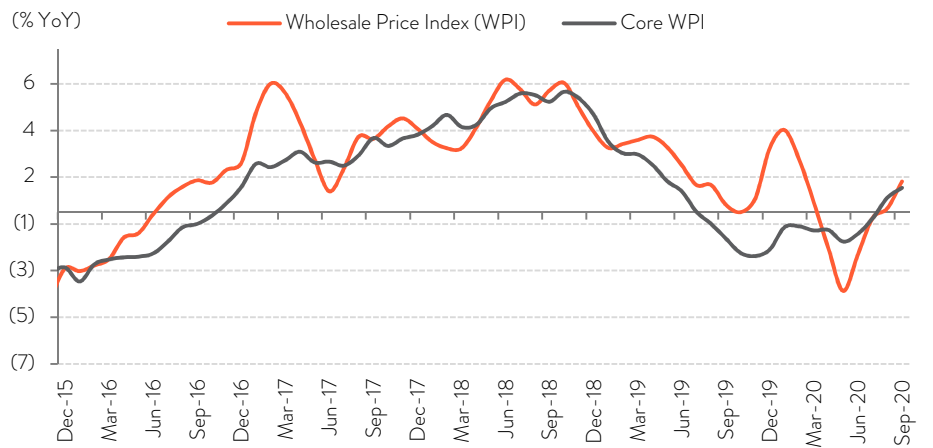


**FIG 1 – WHOLESALE FOOD INFLATION INCHES UP IN SEP'20**



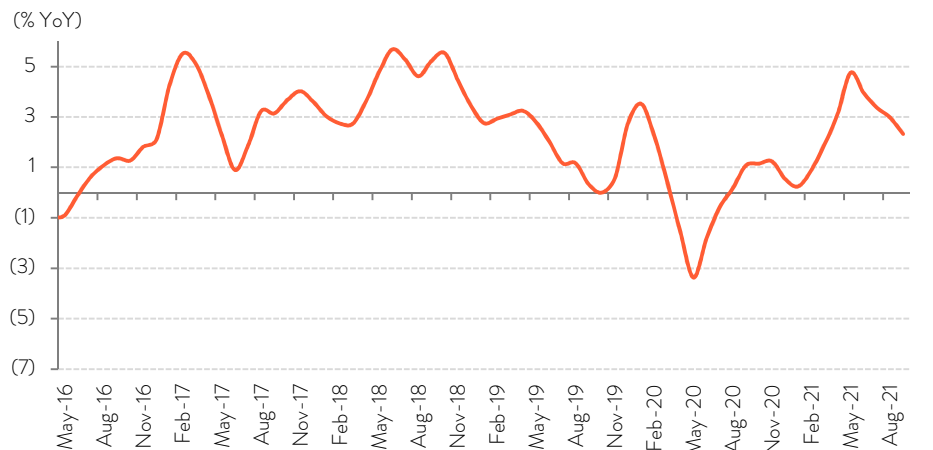
Source: CEIC, Bank of Baroda Research

**FIG 2 – HEADLINE AND CORE INFLATION JUMP SIGNIFICANTLY**



Source: CEIC, Bank of Baroda Research

**FIG 3 – HEADLINE WPI TO INCREASE IN Q1FY22 ON LOWER BASE BEFORE EASING**



Source: CEIC, Bank of Baroda Research

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