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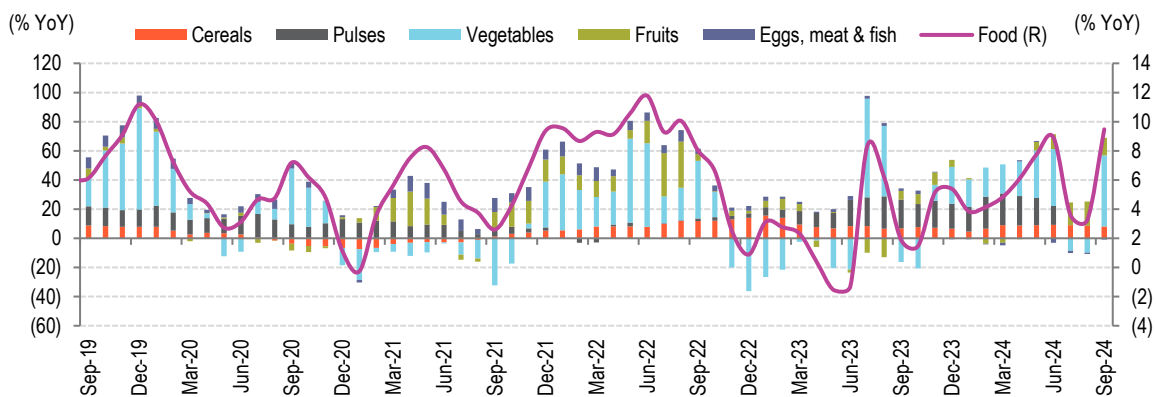
## WPI inflation scales up

WPI inflation climbs up to 1.8% in Sep'24 compared with 1.3% in Aug'24 driven by food inflation. Our forecast for headline WPI inflation was at 2.2%. Uptick in both onion and tomato prices pushed vegetables inflation higher. Under foodgrains, moderation in prices of paddy and pulses was noted. Fuel and power inflation remained in deflation at 4% supported by dip in both domestic and global oil prices. Manufactured products inflation softened to 1% from 1.2% in Aug'24. The evolving geopolitical condition needs careful monitoring specially in terms of outlook on global commodity prices for oil and metals. With higher sowing better than last year, the arrivals of kharif crops is likely to be better this year. Against this back drop, we expect WPI to ease in Q4 in line with CPI provided oil and food shocks are not triggered. Any rate action by RBI is warranted only by Q4FY25.

### Food inflation surges:

Headline WPI inflation rose to 1.8% in Sep'24 from 1.3% in Aug'24, marginally lower than our estimate of a 2.2% increase. This was driven by acceleration in food inflation at 9.5% (2 year-high) from 3.3% in Aug'24 owing to unfavourable base. After contracting in Aug'24 (-10%), vegetable inflation climbed up sharply to a 14-month high of 48.7% in Sep'24. Within vegetables, onion (78.8% in Sep'24 from 65.8%) and tomato prices (74.5% from -52.6%) soared higher due to untimely and excessive rains. On the other hand, cereal inflation registered some moderation (8.1% from 8.4%) as paddy prices eased down to 8.1% (9.1% previously). However, wheat prices continue to inch up at 7.6% from 7.3% in Aug'24. Even globally, wheat prices have edged up due to unfavourable weather conditions which resulted in harvest delays and hence there is an expectation of a cut in production output too. Domestic price of pulses cooled off further down to 13% (from 18.6%). Notably, prices of milk (3.2% from 3.5%) and eggs (3.3% from 5.7%) have also registered some moderation in Sep'24.

**Figure 1: Spike in Food inflation**



Source: CEIC, Bank of Baroda Research

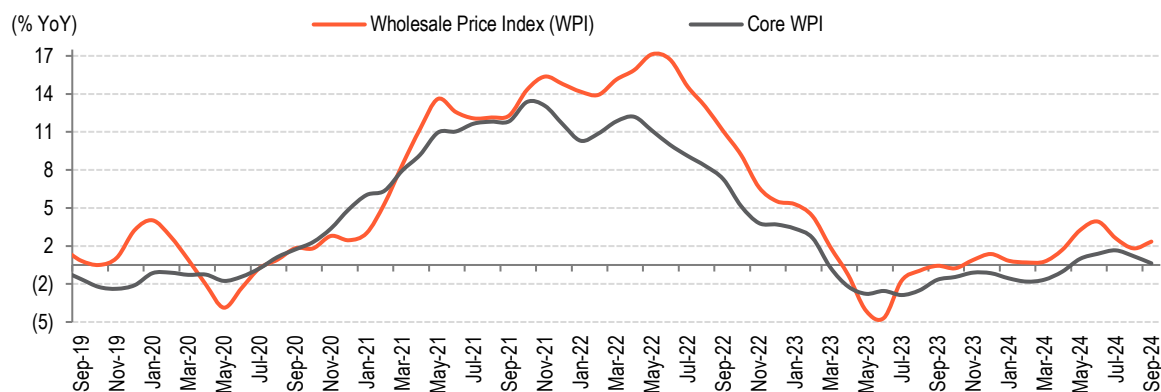
### Deflation: Fuel and power prices

Fuel and power inflation contracted further in Sep'24 to (-) 4% in Sep'24 from (-) 0.7% in Aug'24 and was dragged down by sharp fall in mineral oils index. The contraction in the mineral oil index (-5.8% versus -0.4%) was on account of broad based moderation including petrol, kerosene, Naptha, bitumen, and furnace oil index. Electricity index declined further to (-) 0.9% compared with (-) 0.8% in Aug'24. Moreover, slower pace of contraction was noted in the coal prices at (-) 0.8% (from -1.5% in Aug'24). Internationally, average oil prices have fallen by (-) 18.1% in Sep'24 from (-) 7.3% in Aug'24. Aug'24. So far, the oil prices have declined by (-) 11% in Oct'24 (1-11 Oct) amidst subdued demand from China (one of the largest crude importers) which has even outweighed concerns of any production cut due to the ongoing Middle East conflict.

### Core WPI edges downwards:

Core inflation eased down further to 5-month low of 0.1% in Sep'24 from 0.7% in Aug'24. Inflation in manufactured products moderated to 1% in Sep'24 compared with 1.2% in Aug'24. Out of the 22 sub-indices, moderation was visible in over 11 categories. Within this, categories such as basic metals, wood products, textiles, rubber and plastic products and pharma registered lower prices. The prices of basic metal declined sharply down to (-) 3.1% from (-) 0.8% in Aug'24. Within basic metals, prices of lead, ingots (-4.7% from -0.9%) declined in Sep'24. On the other hand, prices of copper (11.2% from 10.6%), aluminium (6.2% from 5.4%) and zinc (5% from 1.8%) advanced in Sep'24. Notably, under other manufacturing, prices of gold and silver also edged higher to 16.6% (previously 13.4%) and 21.3% (from 16.1%) respectively in Sep'24. At international level, as per World Bank, aluminium and copper prices have scaled up further. On the other hand, prices of iron ore (-23.3% versus -9.3%) and lead (-11.2% from -7.4%) have declined significantly. Prices of precious metals including gold (34.2 % versus 28.7%), silver (30.4% versus 21.7%) and platinum (5% versus 2.2%) continue to soar higher. Weaker dollar and likelihood of more cuts has pushed gold prices higher in the recent times.

**Figure 2: Core WPI moderates further**



Source: CEIC, Bank of Baroda Research

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