

WHOLESALE INFLATION

14 September 2020

WPI inflation turns positive

WPI rose to 0.2% in Aug'20 after declining for 4 straight months (0.6% in Jul'20) led by increase in manufactured inflation. Fuel & power index contracted at a marginally slower pace of 9.7% in Jul'20 (9.8% in Jul'20). Food inflation eased to 4.1% in Aug'20. However, protein based food items are showing an increase. Higher global commodity prices may drive WPI higher in the coming months once vaccine is launched. This along with supply side bottlenecks in India is likely to drive WPI higher in the coming months.

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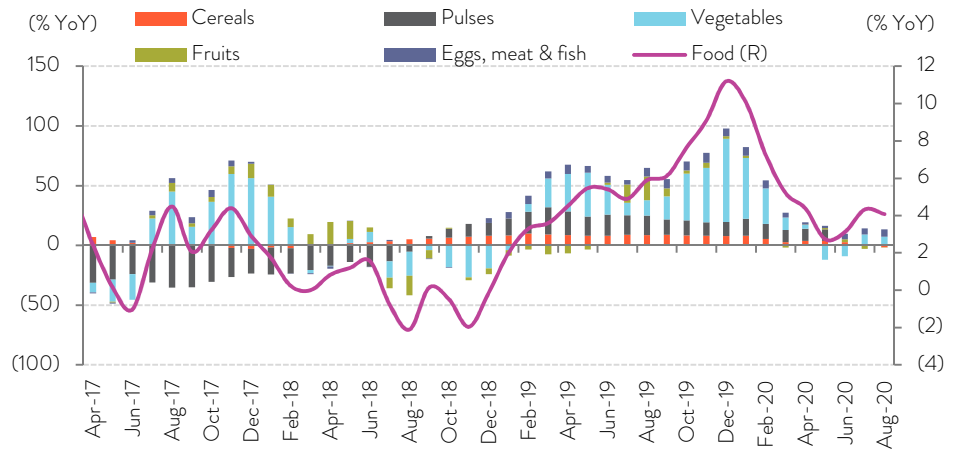
Food inflation moderates: Food inflation eased to 4.1% in Aug'20 from 4.3% in Jul'20 driven by a drop in vegetable prices (7% in Aug'20 from 8.2% in Jul'20). Onion prices contracted to an 18-month low of 34.5% in Aug'20 compared with 25.6% in Jul'20. Tomato prices eased to 15.1% in Aug'20 (19% in Jul'20). Additionally, cereal inflation also contracted by 1.8% in Aug'20 led by wheat prices declining to a near 3-year low (declining by 1.5% in Aug'20 from an increase of 2.7% in Jul'20). Prices of paddy too dropped to 2.5% in Aug'20 from 3.8% in Jul'20. However, prices of protein based items such as eggs, meat and fish accelerated to 6-month high of 6.2% in Aug'20 (5.3% in Jul'20).

Deflation in fuel and power steady: Fuel and power inflation continued to contract at a steady pace of 9.7% in Aug'20 compared with decline of 9.8% in Jul'20. The sub-indices showed mixed trend. While coal prices increased at the same pace as last month at 1.9%, electricity prices witnessed steeper decline of 8.8% in Aug'20 versus 6.7% in Jul'20. Mineral oil index contracted less sharply by 14.4% in Aug'20 versus 15.5% drop in Jul'20. This is in line with the trend seen in international oil prices, wherein prices fell by 24.3% in Aug'20 (YoY) versus 32.7% decline seen in Jul'20. We expect deflation in fuel and power to continue going forward as international crude prices are down again (-30.6% in MTD Sep'20 versus -24.3% in Aug'20).

Core inflation rises: Core inflation rose by 0.6% in Aug'20 following a 0.3% decline in Jul'20. Manufactured inflation too gathered pace and rose by 1.3% versus 0.5% increase in Jul'20. Of the 22 commodities, prices of 16 commodities rose, with basic metals, print and record media, electronic equipment and other manufacturing items taking the lead. With improvement in global demand, international commodity prices are now inching up and are up by 4.1% in Sep'20 on YoY basis versus increase of 2% seen in Aug'20.

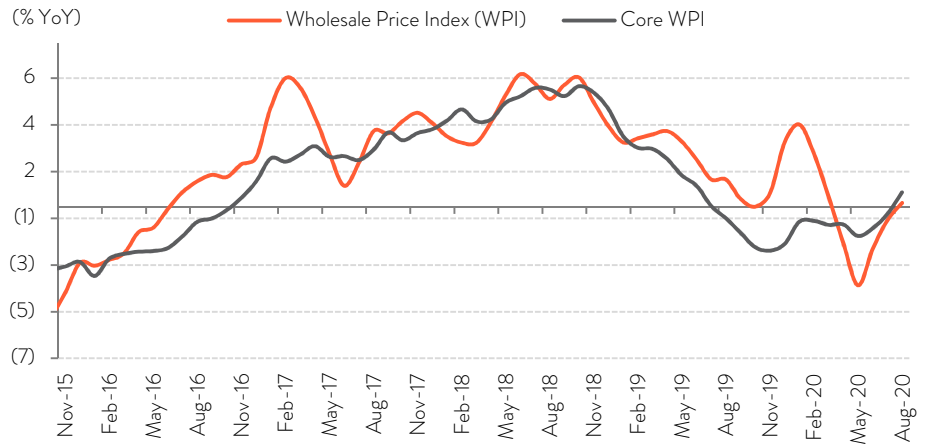


FIG 1 – WHOLESALE FOOD INFLATION EASES IN AUG'20



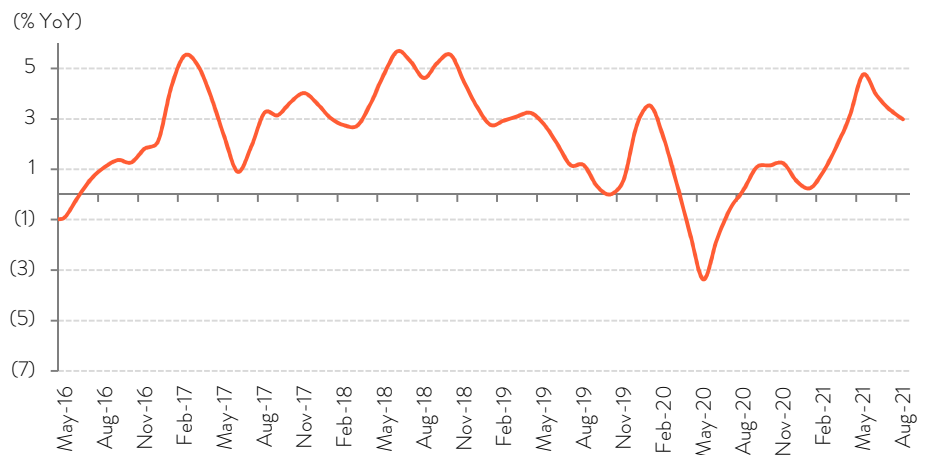
Source: CEIC, Bank of Baroda Research

FIG 2 – HEADLINE AND CORE INFLATION TURNS POSITIVE IN AUG'20



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI OUTLOOK



Source: CEIC, Bank of Baroda Research

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