

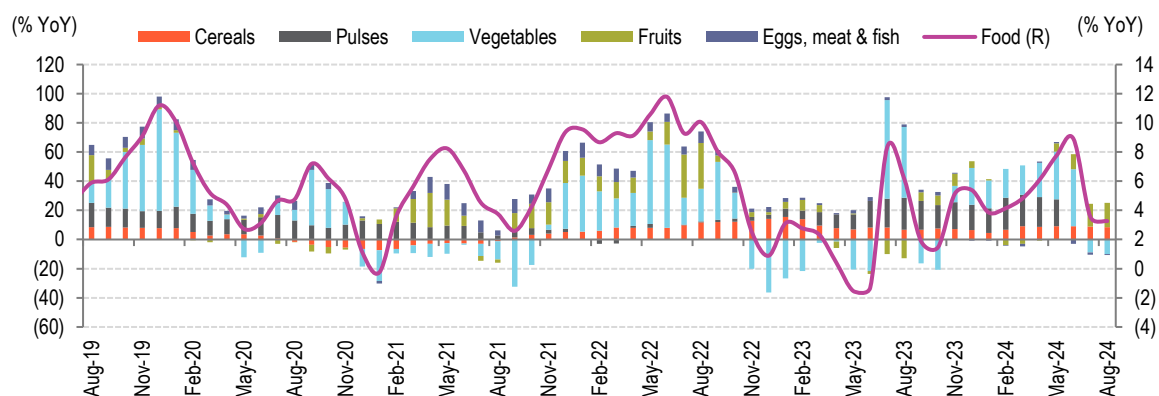
WPI inflation eases to 4-month low

WPI inflation moderates to a 4-month low of 1.3% in Aug'24 compared with 2% in Jul'24 supported by softening of both food and fuel & power inflation. Our forecast for headline WPI inflation was at 1.6%. Lower prices of both onion and tomato has dragged down the vegetables inflation. Under foodgrains, prices of pulses and paddy eased further. Fuel and power inflation slipped in to contraction at 0.7% amidst a dip in global oil prices. Manufactured products inflation edged down to 1.2% in Aug'24 from 1.6% in Jul'24. Against this back drop, we expect WPI to ease further in the coming months. Softening of global commodity prices bodes well for this outlook. So far, the kharif acreage has been better than last year and monsoon has been 8% above LPA (1 Jun-16 Sep).

Food inflation moderates:

Headline WPI inflation cooled off to 1.3% in Aug'24 from 2% in Jul'24, marginally lower than our estimate of a 1.6% increase. This was attributable to moderation in food inflation at 3.3% (10-month low) from 3.6% in Jul'24 supported by favourable base. Vegetable inflation contracted further in Aug'24, down (-) 10% versus (-) 8.9% in Jul'24. Within vegetables, onion prices decelerated further amidst excessive rainfall which was not spatially distributed. Tomato prices remained under deflation at (-) 52.6% compared with (-) 39.6% dip in Jul'24. Moreover, cereal inflation registered some moderation with paddy prices easing down to 9.1% (11% in Jul'24). While, domestic wheat prices inched up to a 5-month high to 7.3% in Aug'24 (7% in Jul'24), the global picture was tad different with lower global wheat prices amidst slower international demand and strong competition amongst exporters. Domestic price of pulses also edged down further in Aug'24 (18.6% from 20.3% in Jul'24). Additionally, other protein based items such as eggs and milk also registered lower prices at 5.7% (9.3% in Jul'24) and 3.5% (4.6% in Jul'24) in Aug'24 respectively.

Figure 1: Food inflation slows down



Source: CEIC, Bank of Baroda Research

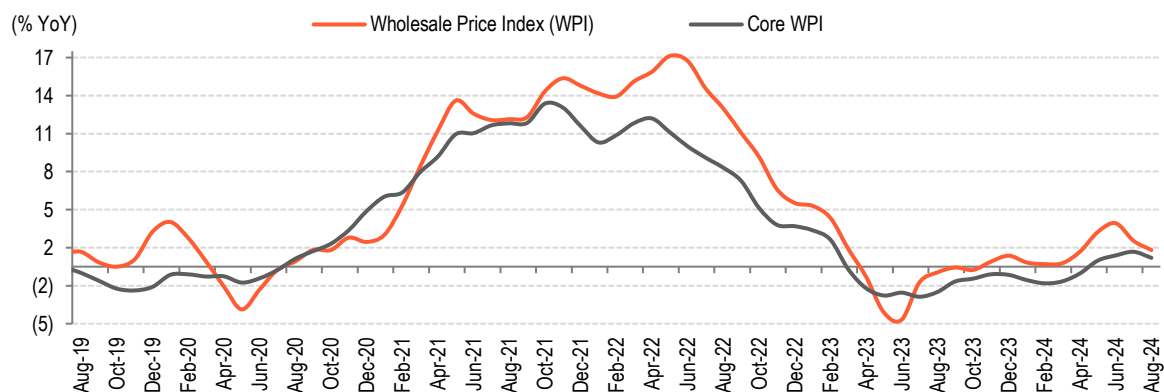
Fuel and power inflation:

Fuel and power inflation slipped in to contraction at (-) 0.7% in Aug'24 compared with an increase of 1.7% in Jul'24, owing to decline in mineral oils index. The contraction in the mineral oil index (-0.4% versus 3.7%) was on account of lower price index of Naptha, bitumen, kerosene and petrol index. On the other hand, coal prices remained steady in Aug'24 at (-) 1.5%. Moreover, slower pace of contraction was noted in the electricity index at (-) 0.8% in Aug'24. Internationally, average oil prices has dropped down by 7.3% in Aug'24 after increasing by 4.6% in Jul'24. So far, the oil prices have fallen by (-) 8% in Sep'24 (1-16 Sep) amidst lower than expected demand from China (one of the largest crude importers). The focus will also shift towards upcoming Fed rate cut which can potentially boost demand in the coming months.

Core WPI edges downwards:

Core inflation eased down to 0.7% (3-month low) in Aug'24 from 1.2% in Jul'24. Inflation in manufactured products moderated to 1.2% from 1.6% in Jul'24. Out of the 22 sub-indices, moderation was visible in 13 categories. Within this, categories such as non-metallic minerals, textiles, computer and electronics, rubber and plastic products along with other manufacturing registered lower prices. The prices of basic metal declined down to (-) 0.8% in Aug'24 after increasing by 0.9% in Jul'24. Within basic metals, prices of copper (10.6% from 11.6%), aluminium (5.4% from 7.2%) and zinc (1.8% from 3.4%) moderated down in Aug'24. On other hand, prices of those for lead, ingots declined at a much slower pace at (-) 0.9% from (-) 1.3% for the same period. Notably, under other manufacturing, prices of gold and silver edged downwards to 13.4% (previously 19.7%) and 16.1% (from 19.4%) respectively in Aug'24. According to World Bank's pink sheet, at international level, moderation in prices of silver (21.7% versus 22.7%), platinum (2.2% versus 3%), zinc (12.8% versus 15.5%) and copper (7.5% versus 10.7%) were registered. Prices of precious metals including gold (28.7% versus 22.9%) scaled up along with aluminium prices (9.7% versus 8.8%).

Figure 2: Core WPI moderates



Source: CEIC, Bank of Baroda Research

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