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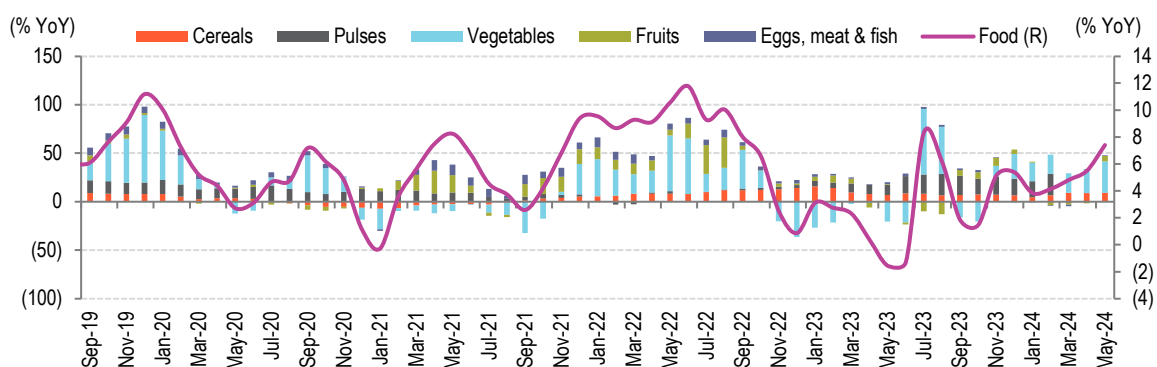
WPI inflation at a 15-month high

WPI inflation accelerated to a 15-month high of 2.6% in May'24, following an increase of 1.3% in Apr'24 due to elevated food prices. Food inflation picked up to a 10-month high led by higher prices of vegetables and fruits. Prices of tomato accelerated sharply, and onion and potato prices also remained at elevated levels. Pulses inflation also continued to show significant price pressures. Fuel inflation moderated marginally, despite an increase in global oil prices. An uptick in global metal prices has contributed to an increase in inflation in the manufacturing category. A significant mismatch in global demand and supply of metals has pushed global metal prices higher. While demand from China has so far remained muted, it is likely to pick up as the economy recovers which can push global commodity prices higher. Food inflation is also likely to remain elevated due to severe heatwaves in the country. Progress of monsoon will play a key role in determining the trajectory of food inflation going forward.

Food inflation continues to increase:

Headline WPI inflation inched up to 2.6% in May'24 from 1.3% in Apr'24, marginally lower than our estimate of a 2.7% increase. The increase was driven by higher food inflation which accelerated to a 10-month high of 7.2% compared with 5% in Apr'24. Vegetable inflation picked up to 32.4% versus 23.6% in Apr'24. It must be noted that vegetable inflation has continued to grow in double-digits since the last 7-months. Within vegetables, prices of tomato showed a significant uptick and increased by 64.5% in May'24 versus 40.6% in Apr'24. On the other hand, despite some moderation, inflation in potato and onion remained elevated at 32.4% and 64.1% respectively in May'24. Inflation in the fruits category also accelerated to 7.6%, from 5.8% in Apr'24. Food grains inflation also picked up to a 15-month of 11.4% in May'24 from 10.2% in Apr'24, led primarily by a spike in pulses inflation. For pulses, prices increased by 21.9% in May'24 compared with 16.6% in Apr'24. Cereals inflation also ticked marginally higher to 9% versus 8.7% in Apr'24, led by higher prices of wheat. With severe heatwave conditions persisting in several parts of the country, prices of vegetables and fruits are witnessing an upward momentum even in Jun'24 and are likely to keep inflation elevated in the near-term.

Figure 1: Food inflation maintains upward momentum



Source: CEIC, Bank of Baroda Research

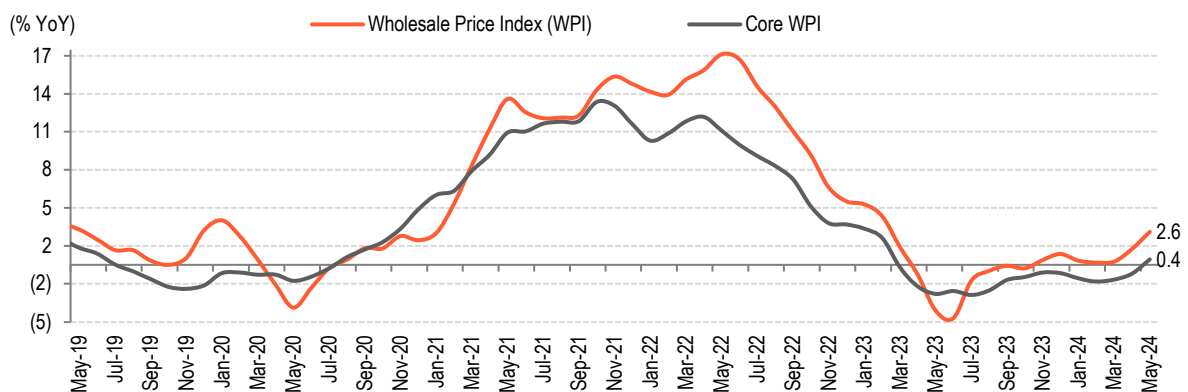
Fuel and power inflation:

Fuel and power inflation decelerated to 1.3% in May'24 from 1.4% in Apr'24, led by a contraction in electricity price index. After increasing by 6.3% in Apr'24, index for electricity prices declined by 0.4% in Apr'24. However, other categories within the fuel and power index showed acceleration. Coal inflation accelerated to 1.2% in May'24 versus 0.2% in Apr'24. Notably, global coal prices have inched up in recent months amidst an increase in demand. Mineral oil index marked its first increase in 14-months and rose by 2% in May'24, after declining by 0.2% in Apr'24. Within this, barring bitumen and lube oils, price indices for all other sub-heads noticed an uptick. Items which exhibited the maximum traction were LPG, Petroleum coke, Kerosene, ATF and Naphtha. Internationally, oil prices increased by 8.6% in May'24 versus an increase of 6.8% in Apr'24. It must be noted that oil prices have remained largely muted in Jun'24 as expectations of higher global rates and its impact on demand has kept a check on prices. We expect oil prices to remain range-bound in the near-term which should help keep fuel inflation curtailed, easing some pressure on headline WPI.

Core WPI ticks further up:

Core inflation snapped a 14-month deflation streak and increased by 0.4% in May'24 after declining by 0.7% in Apr'24. Deflation in manufactured products also ended in May'24 as the index inched up by 0.8% after contracting by 0.4% in Apr'24. Out of the 22 sub-indices, acceleration was visible in 17 categories. Within this, categories such as basic metals, food, paper and paper products and textiles witnessed maximum acceleration. Within basic metals, inflation for aluminium (7.5% versus 3.8%) and copper (6.8% versus 0.2%) inched up. Index for both zinc (-0.1% versus -6.3%) and lead (-2.2% versus -3.8%) fell at a slower pace. On an international level also, as reflected in World Bank's pink sheet, prices of aluminium (13% versus 7%) and copper (23.4% versus 7.4%) have been on an upward trajectory. Prices of zinc (19.5% versus -1.3%) and Lead (6.6% versus -0.9%) are also witnessing a significant uptick.

Figure 2: Core WPI inched up in May'24



Source: CEIC, Bank of Baroda Research

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