

## Press Release

### WPI inflation continues its descent

#### Broad-based moderation in fuel and core inflation recorded in Sep-22

14-Oct-2022

Unlike the retail inflation that has been trailing higher around the 7.0% mark for two consecutive months, India's wholesale inflation continued to ease further to an eighteen-month low of 10.7% YoY in Sep-22 from 12.4% in Aug-22. Looking at the overall trajectory, while the print has continued to remain in double-digits, wholesale inflation has been easing since the record high print of 16.6% YoY registered in May-22 reiterating the view that the WPI inflation might have peaked. This is likely on the back of significant correction in commodity prices along with the timely supply side measures announced by the government.

Interestingly, even on sequential basis the price momentum recorded a third consecutive month of contraction of -0.7% MoM in Sep-22 from -0.5% in Aug-22 signaling the easing in input cost inflation even though they remain high historically. This was underscored in the PMI manufacturing index wherein the lower price pressures helped input cost to rise at the slowest pace in two years. Additionally, sustained input buying amidst moderating price pressures helped firms to lift pre-production stocks before the onset of festivities. The sequential contraction in WPI inflation was led by a broad-based decline in the categories of consolidated fuel inflation (comprising of crude petroleum and fuel & power), consolidated food inflation (comprising of manufactured and primary food prices) and core inflation (non-food manufacturing).

Consolidated fuel inflation moderated to a seven-month low of 34.2% YoY in Sep-22 from 37.1% in Aug-22. Sequentially, consolidated fuel inflation recorded its third consecutive decline of 0.9% MoM in Sep-22, led by significant easing of crude oil and its derivatives from the peak recorded in Jun-22. On sub-sector basis, mineral oils recorded a contraction with significant decline recorded in price of Petroleum coke, Naphtha, LPG, Petrol and Kerosene. Post a significant correction in oil prices to USD 85 pb in the month of Sep-22, the prices are once again hovering at USD 90+ pb levels with OPEC+ countries opting for 2 million barrels per day cut in oil production. Notwithstanding this marginal rise in crude oil, renewed recession fears in the key developed economies coupled with Zero Covid policy in China, is expected to keep the crude oil prices capped at ~USD 100 pb in FY23 from USD 105 pb expected earlier which would continue to provide comfort to WPI inflation going forward.

The deviating trend seen in WPI and CPI is primarily on the back of differential in the food price trajectory. While the retail food inflation acted as a deterrent, consolidated food inflation at the wholesale level eased to 8.08% YoY in Sep-22 vs 9.93% in Aug-22 and contracting sequentially by 0.5% MoM in Sep-22. Given the lower weightage of food in WPI basket as compared to CPI, the impact of higher food prices due to uneven rainfall distribution and delayed monsoon withdrawal is modest in the case of WPI inflation. Going forward, while lower acreage for rice and wheat sowing along with an anticipated decline in production is likely to weigh on the prices of cereals, government's efforts to tame supply side inflation in the form of export ban on broken rice and the imposition of a 20% export duty on non-basmati rice exports along with export restrictions on wheat and atta could offer some reprieve.

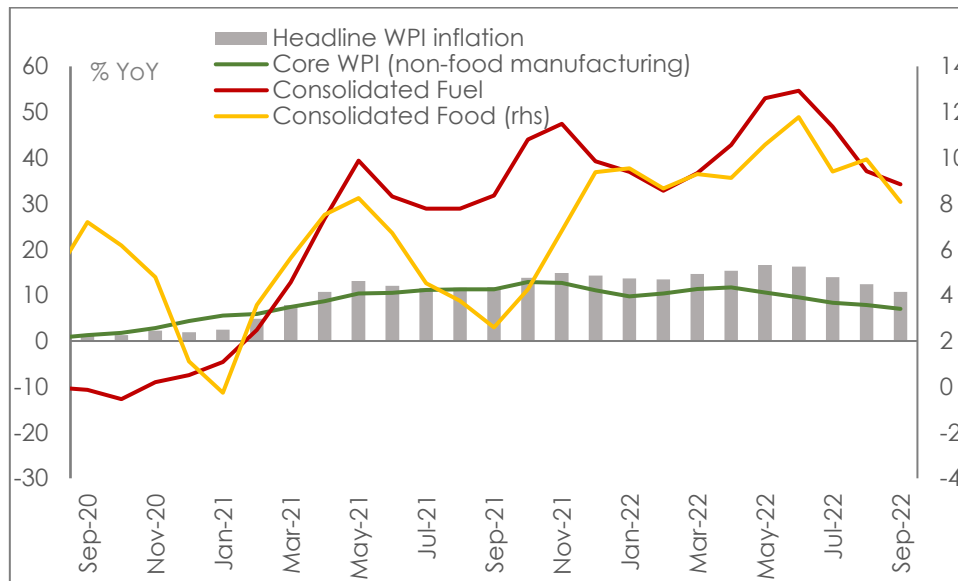
WPI core inflation (non-food manufacturing inflation) is estimated to have eased marginally to 7.0% YoY in Sep-22 from 7.9% in Aug-22, with sequential print declining by 0.23% MoM from +0.14% in the previous month. Notably the gulf between WPI and CPI inflation has narrowed significantly to a nineteen-month low indicating the continued passthrough of the accrued higher input cost to the retail consumers. This has caused the core CPI inflation to remain sticky at elevated levels at above 6.0% for the last one year.

Going forward, there is a scope of further easing in wholesale inflation trajectory owing to rising base, softness of commodity prices on intensifying recessionary fears across major advanced economies and weaker demand conditions in China. However, prevalent geopolitical tensions and rupee depreciation could impart upside risks to India's wholesale inflation trajectory.

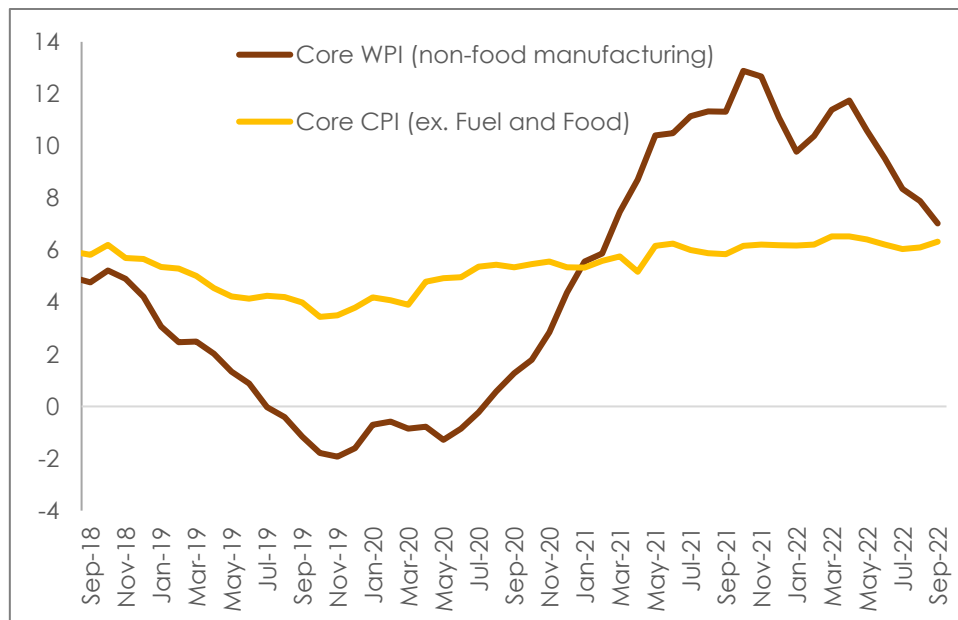
**Says Suman Chowdhury, Chief Analytical Officer, Acuite Ratings & Research** "The wholesale price index has been in a contraction mode for the last three months primarily due to the moderation in commodity prices. The share of food on a consolidated basis in WPI stands much lower at 24.3% as compared to 45.9% weightage in the CPI construct. Therefore, the impact of higher food prices continues to be modest in the WPI trajectory. What is driving the downward trajectory in the WPI inflation is the moderation in the fuel prices and the sequential contraction in manufactured products inflation though it is partly offset by the increase in power tariff in some regions. This reflects the limited ability of producers to pass through higher input costs in the context of the global slowdown and the increase in interest rates. Core WPI print has accordingly, dropped from 7.9% in the previous month to 7.0% in Sep-22. We expect the WPI trajectory to moderate further and over the next few months, the headline retail inflation is likely to start mirroring such a trend but that process may be gradual given the uptick in supply driven food inflation."

**Annexure**

**Chart 1: WPI inflation eases to a 17-month low of 10.7% in Sep-22**



**Chart 2: Continued passthrough of higher input cost narrowed the gap between WPI and CPI core inflation**



### About Acuité Ratings & Research Limited:

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