

Press Release

WPI Inflation remains high despite easing to a 5 month low Sequential contraction in wholesale food and fuel inflation comforting

14 October 2021

Unlike a substantial moderation in headline CPI for Sep-21, the WPI inflation has shown a modest decline to 10.7%YoY vs 11.4%YoY recorded in Aug-21. The sequential momentum eased from 1.04% in Aug-21 to 0.1% in Sep-21 driven by easing of consolidated food (comprising of manufactured and primary food) prices along with fuel inflation (Chart 1).

Consolidated food inflation has been on a declining trajectory since May-21 led by a combination of favourable base effect and supply side interventions taken by the government related to pulses and oilseeds. We expect this trend to continue given a strong backloaded monsoon performance that is set to aid rabi sowing activity, prospects of healthy kharif arrivals, adequate buffer stock of food grains and winter seasonality that would help in keeping a lid on food inflation pressures. The moderation in food inflation to 0.8%YoY in Sep-21 is mainly driven by a strong contraction in fruits and vegetable prices (-22.3% in Sep-21 vs. -10.1% in Aug-21YoY).

While the annualised fuel and power inflation is still high at 24.8%, it has sequentially contracted in Sep-21. The contraction is led by decline in prices of mineral oils with prices of coal and electricity remaining unchanged as compared to the previous month. However, we expect this comfort to be short lived given the recent surge in global crude oil prices currently standing at a one-year peak of USD 84 pb. Additionally, the energy crisis triggered by lower coal supplies could further lead to a rise in coal and electricity prices thereby keeping overall fuel inflation elevated.

We particularly note that the manufactured products annualised inflation has been hovering around 11.0% since May-21 and importantly, there is a material as well as broad based sequential momentum across the various manufacturing segments in the second quarter i.e. Q2FY22. Interestingly, even the inflation of manufactured food products has been reigning in the range of 12.0%-15.0%YoY in the first half of the current fiscal despite the overall moderation in food prices and we reckon it is primarily due to exceptionally high inflation in the edible oil processing category (35%-50%YoY).

The diverging trend between CPI and WPI inflation indicates that the current inflationary risks are primarily emerging from the impact of commodity prices on manufacturing sector where further pass through is likely as demand continues to improve. WPI core inflation has continued to be firm at 11.16% YoY and 0.58% MoM amidst the increase in input prices. The pass-through of input price pressures is mainly seen in the sub-sectors such as basic metals, textiles, furniture, and chemicals (Chart 2) which have been registering a double-digit price increase since the beginning of FY22. Although the food category is expected to provide relief in the near term, such transmission of production costs may keep core inflation (non-food manufacturing) at elevated levels.

While we believe that the peak in the headline wholesale inflation is behind us, continuing supply side bottlenecks, raw material shortages and high commodity prices are expected to act as headwinds to any substantial moderation in the inflation trajectory over the near term.

Chart 1: Food and Fuel inflation eases, Core WPI remains elevated (% YoY)

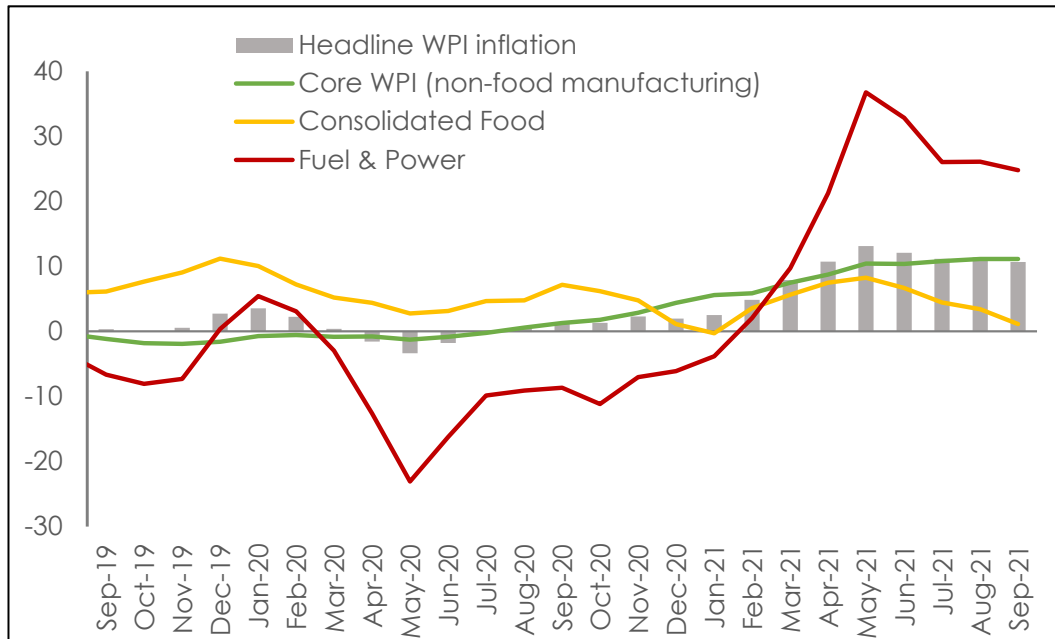
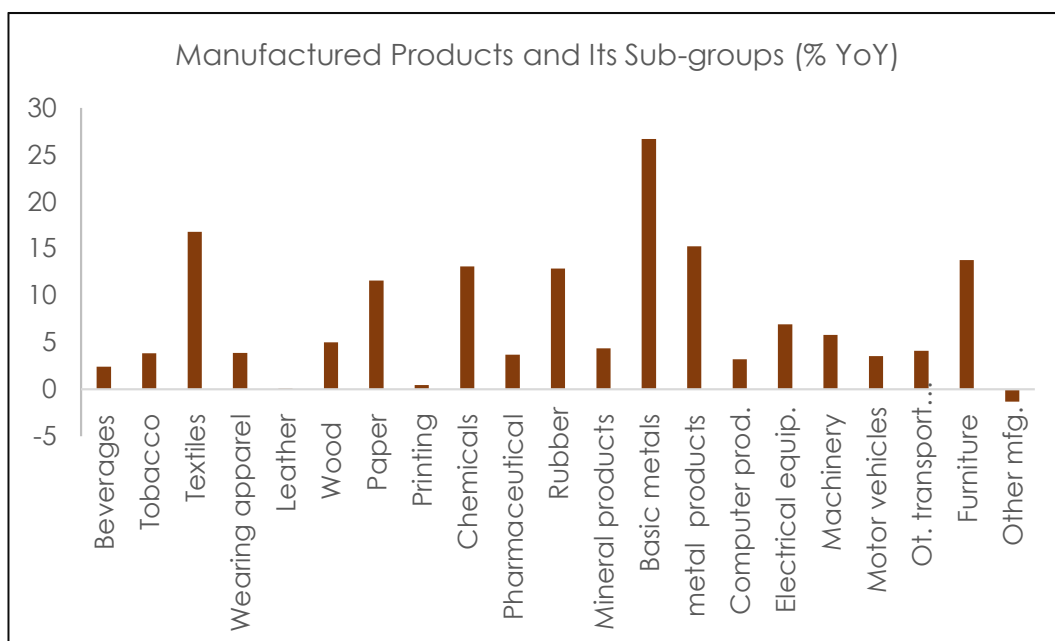


Chart 2: Pass-through of higher input costs particularly seen in base metals and textiles



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