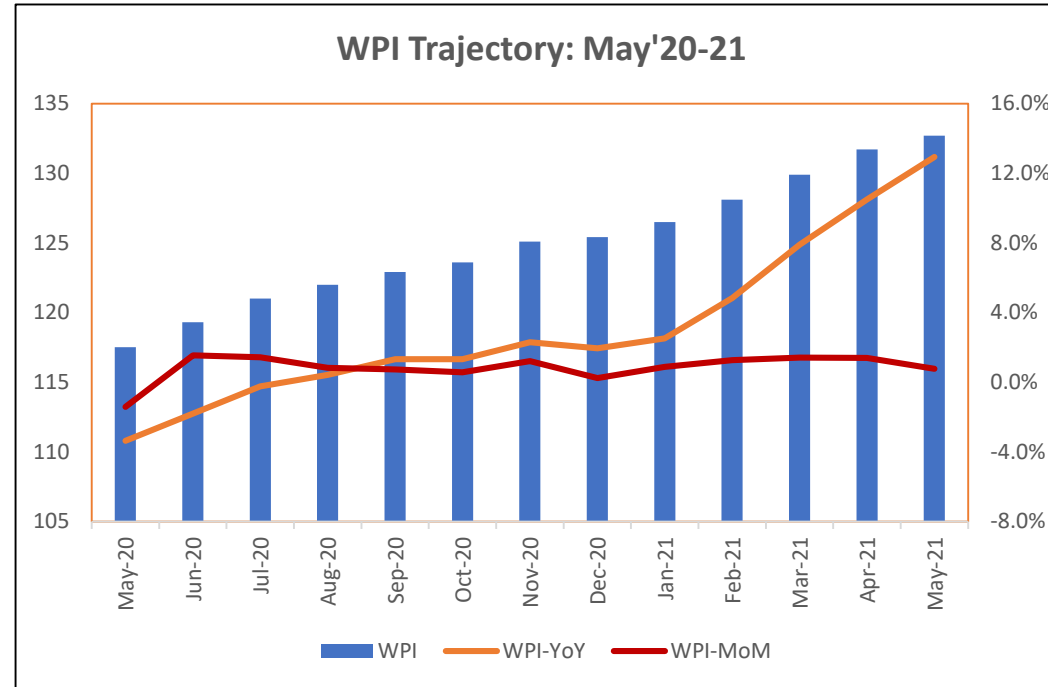


**Comments on:
WPI Inflation- May 2021**

WPI trajectory continue to reflect inflationary undercurrents



- On expected lines, WPI inflation for May 2021 has increased further to 12.9% on a YoY basis from 10.5% in Apr-21, partly aided by an unfavourable base factor.
- This is the 12th consecutive month since June 2020 that the WPI has risen on a sequential basis, primarily reflecting the steady increase in commodity prices and retail fuel prices over the last few months.

Steady pass through of higher costs visible in manufacturing

- The fuel and power component has climbed sharply by 37.6% in May on the back of the 20.9% annualised growth in the previous month which can be partly attributed to the base factor and partly to the increased retail fuel prices in May.
- However, the current driver of WPI inflation is the continuous rise in the prices of manufactured products on a sequential basis, averaging 1.2% since the last 6 months. On an annualised basis, the inflation in manufactured products has averaged 7.2%, standing at 10.8% in May 2021.
- The annualised inflation particularly for basic metals and mild steel prices stood between 28%-24% and can push up new project costs.
- Clearly, the steady pass through of increased costs in manufactured products has spill over risks to CPI inflation particularly due to potential supply constraints in the near term.
- However, a benign food inflation print and a likely moderation in overall demand may constrain any significant increase in average CPI for FY22.