

Press Release

WPI inflation further eases to an 11-month low Fuel inflation eases, while food inflation plays spoilsport

14-Sep-2022

Unlike the retail inflation which rose marginally in the month of Aug-22 to 7.0% YoY, India's wholesale inflation continued to ease further to an eleven-month low of 12.41% YoY in Aug-22 from 13.93% in Jul-22. Notwithstanding the sequential gyrations in the monthly price momentum, the peak inflationary concerns on the retail as well as on the wholesale front seems to be behind us with some comfort derived from the significant moderation in crude oil prices and easing of supply chain constraints.

Sequentially the print declined for the second consecutive month by 0.5% MoM in Aug-22 from 0.1% in Jul-22, primarily led by decline in consolidated fuel inflation (comprising of crude petroleum and fuel & power). On the other hand, core inflation (non-food manufacturing) and consolidated food inflation (comprising of manufactured and primary food prices) rose from their respective contractions recorded in the previous month.

Consolidated fuel inflation (comprising of crude petroleum & natural gas and fuel & power) moderated to a five-month low of 37.1% YoY in Aug-22 from 46.8% in Jul-22. Sequentially, consolidated fuel inflation recorded its first decline in eight-months contracting by 5.2% MoM in Aug-22, led by significant moderation in prices of crude oil and its derivatives in the month. On sub-sector basis, mineral oils recorded a broad-based contraction with significant correction recorded in price of Aviation Turbine Fuel (ATF) followed by kerosene and furnace oil. The crude oil prices have corrected further in the month of Sep-22 to average ~USD 90 pb on the back of renewed fears of recession in Europe and decline in demand from China, which brought in new Covid lockdown measures amid weakening factory activity. While this has brought in a major relief to the OMC's profit margins which were reeling under pressure due to higher input costs, we don't expect a significant impact on retail fuel inflation as domestic pump prices may remain unchanged until crude oil prices continue to tread lower on a prolonged basis.

On the other hand, food inflation played a spoilsport in both CPI and WPI. On the wholesale price front, consolidated food inflation (comprising of manufactured and primary food prices) rose to 9.93% in Aug-22 from 9.41% YoY in Jul-22 with price pressures recorded in perishable especially fruits & vegetables and foodgrains. Sequentially, consolidated food inflation recorded rose by 0.9% from a contraction of 2.2% MoM seen in the previous month. Although moderation in global food price and catch-up in southwest monsoon bodes well for future food inflation trajectory, the uneven monsoon distribution (with state level cumulative deficits of 45% in Uttar Pradesh, 38% in Bihar, 26% in Jharkhand, and 10% in Kerala) remains on watch, as any shortfall in the kharif output will be critical to assuage food price pressures especially in the post-harvest season i.e., Oct-22 onwards.

WPI core inflation (non-food manufacturing inflation) is estimated to have eased marginally to 7.9% YoY in Aug-22 from 8.4% in Jun-22, with sequential print increasing marginally by 0.14% MoM from a contraction of 0.26% in the previous month. Despite some easing of commodity prices, the accrued pressure from higher input cost is expected to get further transmitted to

retail inflation with demand normalization thereby keeping core CPI inflation sticky at elevated levels. This has become increasingly evident as the dichotomy between WPI, and CPI core inflation has narrowed significantly to a seventeen-month low indicating the impact of pass-through of higher input prices. A similar narrative also emerged from the PMI indexes wherein the rate of input-cost inflation eased to a one-year low amid softer pressures from commodity prices, however, the manufacturers and service providers continued to pass on the accumulated higher freight, material and labour costs to the end consumers.

Going forward, there is a scope of further easing in wholesale inflation trajectory owing to the rising base, softening of commodity prices on intensifying recessionary fears across major advanced economies and weaker demand conditions in China. However, prolonged geopolitical tensions and currency depreciation may offset some of these comfort factors.

Says Suman Chowdhury, Chief Analytical officer, Acuite Ratings & Research "Clearly, the differential between CPI and WPI inflation is on its way down with moderation in commodity prices and gradual pass through of the input cost pressures that producers have faced earlier. The rate of further decline in the WPI inflation will be dependent on the kharif harvest and the extent of unwinding of global crude oil prices. The trajectory of CPI, however, may not be similar to that of WPI, given the expected recovery in demand. We expect a gradual moderation in the CPI print in the current year with an average of 6.7% for FY23."

Annexure

Chart 1: Fuel infaltion leads WPI to ease, cons. food and core inflation rises marginally

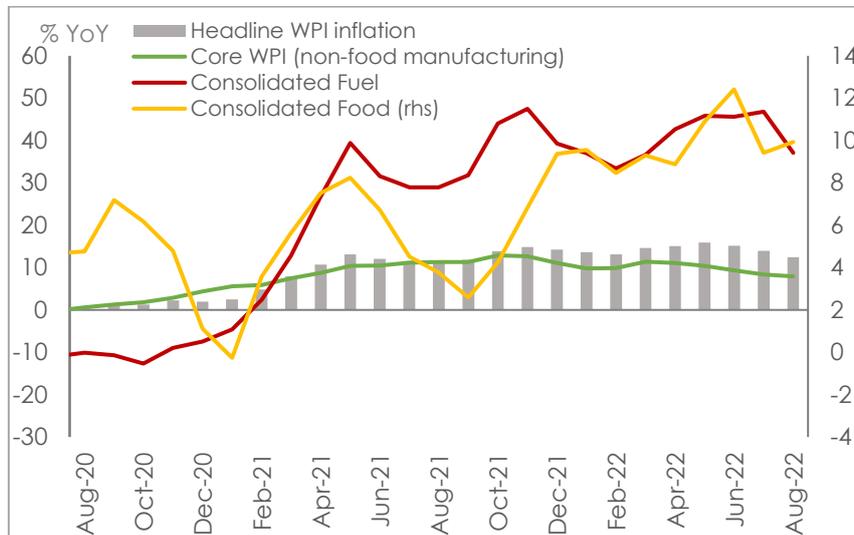
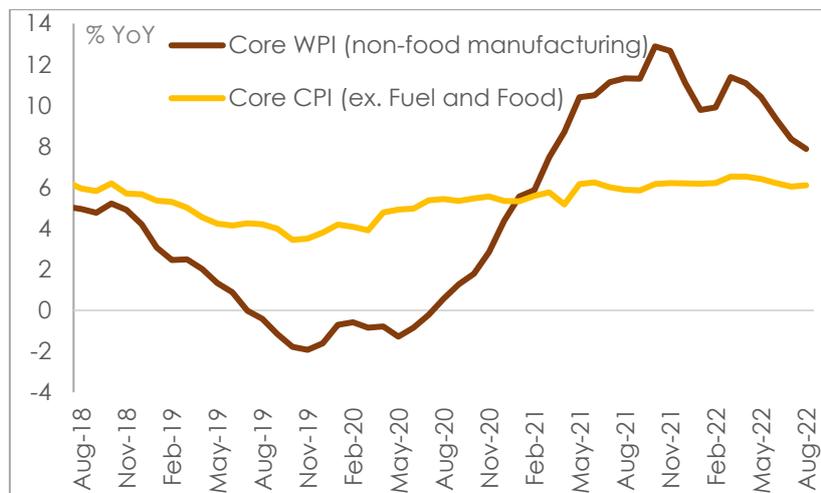


Chart 2: Reducing gap b/w core WPI and CPI inflation show pass-through of higher input cost



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