

Press Release

WPI inflation- yet to be in comfort zone

Nevertheless, sequential moderation in food, fuel and core inflation comes as a relief

14 January 2022

In line with market expectations, WPI inflation eased marginally to 13.56% YoY in Dec-21 from a record high print of 14.23% in Nov-21. Nevertheless, it continued to stay in double-digits for the ninth consecutive month with the average WPI inflation climbing to 13.44% in Q3 FY22 vs. 11.21% in Q2 FY22.

Sequentially, however momentum in wholesale inflation eased with the print recording a 0.3% contraction for the first time after a hiatus of 19 months in Dec-21. The decline was primarily driven by sequential contraction in consolidated fuel (comprising of crude petroleum & natural gas and fuel & power inflation) and consolidated food inflation (comprising of manufactured and primary food prices). While the pass through of higher input costs to manufactured products has continued in Dec-21, the sequential growth is low at 0.22% for that category due to the loss of momentum in demand recovery.

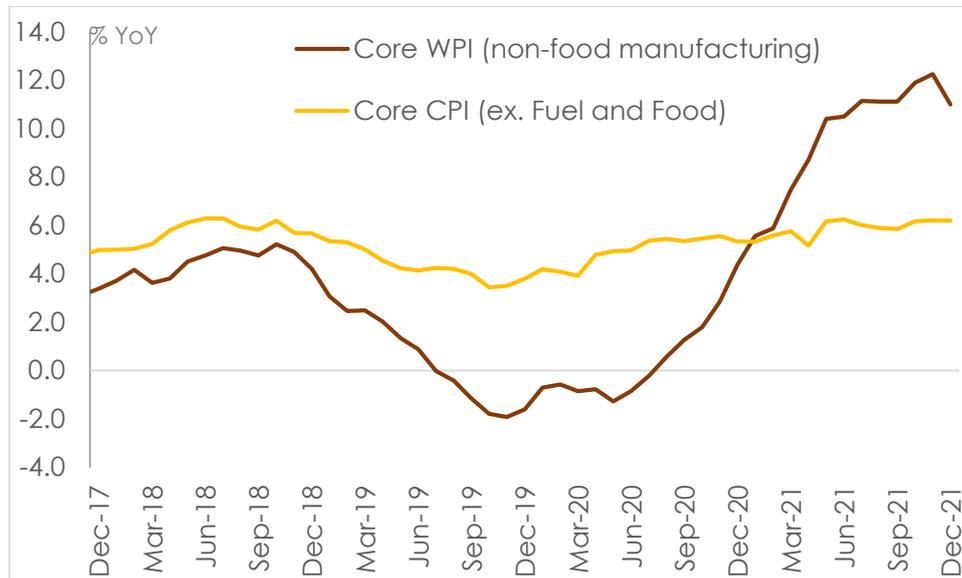
Consolidated fuel inflation on annualized and sequential basis eased significantly by 35.18% and -2.73% respectively, driven by decline in the categories of crude petroleum (-3.2% MoM from +12.2%), and mineral oils (-4.3% MoM from 8.8 % in Nov-21). The comfort on the fuel front is derived from the correction in crude oil prices in Dec-21, which declined by ~ 9% MoM to USD 73 pb. However, the moderation has only been transient and crude oil prices are currently hovering at USD 84 bn which is likely to again put some upside pressure on WPI fuel inflation in the coming months.

The seasonal normalization amid winter arrivals in the market expectedly, led food inflation to decline by 0.82% MoM in Dec-21 from an increase of +3.4% in Nov-21. The decline was primarily led by fruits & vegetables along with eggs, meat & fish. Although, winter seasonality has helped in the moderation of food price pressures, the sequential decline has been visibly lower than the average decline of ~1.4% MoM (average of last three years) usually recorded in the month of December. Going forward, food inflation to likely remain the biggest source of comfort both on the WPI and CPI front. Expectation of a record Kharif output, healthy traction of acreage in the ongoing Rabi season along with policy interventions in case of edible oils and pulses will continue to provide comfort.

On the other hand, core inflation (non-food manufacturing) also moderated a tad coming at 11.0% YoY in Dec-21 from a series high of 12.3% in Nov-21. Notwithstanding the marginal easing of core price pressures in Dec-21, elevated raw material costs have remained a major cause of concern for manufacturers. This was also reflected in the latest PMI manufacturing release which stated that input cost pressures are still hovering close to eight-year high levels with companies facing high price pressures for a wide range of items including chemicals, food items, electronic components, metals, and textiles. Acuite thus expects a gradual pass-through of input costs in manufactured goods thereby feeding into India's retail inflation if demand continues to revive or additional supply chain challenges surface due to the new pandemic wave. We expect continuing logistical bottlenecks, raw material shortages and high commodity prices to hold the core inflation at high levels in the near term.

ANNEXURE

Chart 1: Pass-through of higher input price to gradually feed in into Core CPI



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