

Press Release

WPI inflation rises to a record high

Consolidated fuel & food inflation play spoilsport, core inflation remains elevated

14 December 2021

Belying market expectations of a moderation in WPI inflation, the print surprised negatively by surging to a record high level (considering base year 2011-12) of 14.2% YoY in Nov-21 from 12.5% in Oct-21. The sequential momentum also continued its upward march by increasing at the highest pace on record by 2.7% MoM in Nov-21 vs. an expansion of 2.3% in the previous month. The spike in inflation is driven primarily by consolidated fuel (comprising of crude petroleum & natural gas and fuel & power inflation) and food inflation (comprising of both manufactured and primary food prices).

Consolidated fuel inflation on annualized and sequential basis rose significantly by 44.1% and 6.5% respectively, driven by increase in the categories of crude petroleum (12.2% MoM from 9.5%), mineral oils (8.7% MoM from 7.7% in Sep-21) and coal (1.2% MoM from 0.9%). Despite spurt in crude oil prices in Nov-21, petrol or diesel prices at the retail outlets were cushioned by the excise duty reduction by the government which led fuel inflation to contract by 0.2% MoM. However, the fuel inflation at the wholesale level remained elevated given spike in crude oil prices and higher weightage of crude oil and its derivatives in the WPI basket. Notably, the recent correction in crude oil prices which is hovering close to USD 75 pb in Dec-21 is likely to provide some comfort to fuel inflation in the near term.

Food inflation trajectory has remained volatile since the beginning of FY22. While supply side interventions taken by the government through custom duty cuts in the case of pulses and edible oils helped in moderating the price pressures, incessant and irregular rains led consolidated food inflation surge by 6.7% YoY and 3.5% MoM. Within food, fruit and vegetable prices continued to play a spoilsport rising by 17.1% MoM in Nov-21 followed by meat, fish, eggs and condiments.

Notwithstanding the jump in prices in Oct-Nov'21, we believe that food inflation is likely to remain broadly comfortable over the coming months as vegetable prices could see some seasonal normalization amid winter arrivals and healthy rabi sowing (as of 10th Dec-21, actual area sown as % of normal area stands at 82%). However, the recent unseasonal rains in certain parts of India could lead the vegetable mandi prices to remain volatile in the short term.

On the other hand, core inflation (non-food manufacturing) continued its uptrend coming at 12.3% YoY in Nov-21 from 11.9% in Oct-21. Resumption in economic activities along with elevated raw material prices has been weighing on manufactured product prices. This was also reflected in the latest PMI manufacturing release which stated that input cost had risen to a near eight-year high amidst increase in global commodity prices. We expect this momentum to continue given supply side bottlenecks and raw material shortages. Going forward, with improving demand scenario and narrowing profit margins amidst limited ability of the companies to absorb pressure from continued increase in commodity prices, we expect a further pass-through of input cost to consumers thereby gradually feeding into India's core retail inflation.

ANNEXURE

Chart 1: Fuel and food inflation record an increase, core remains elevated

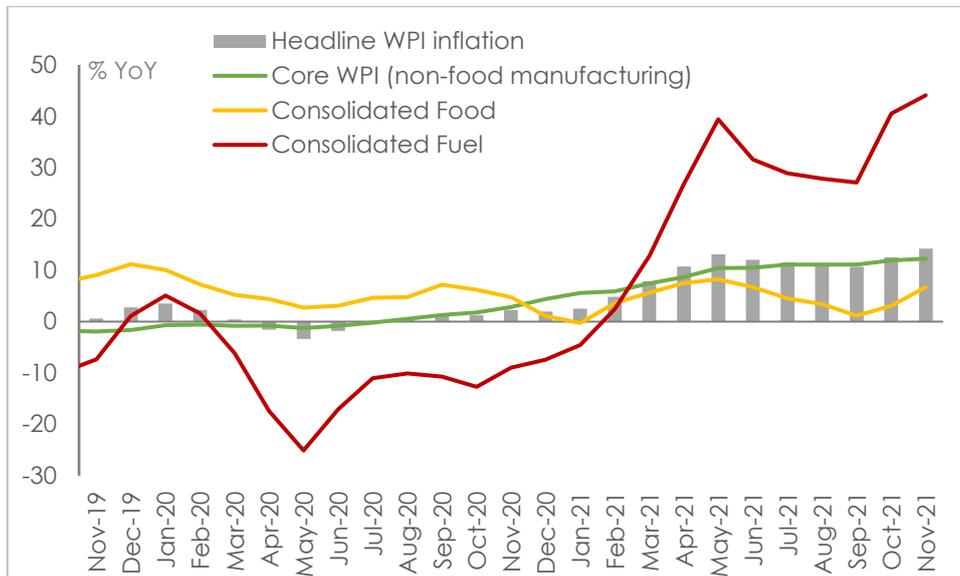
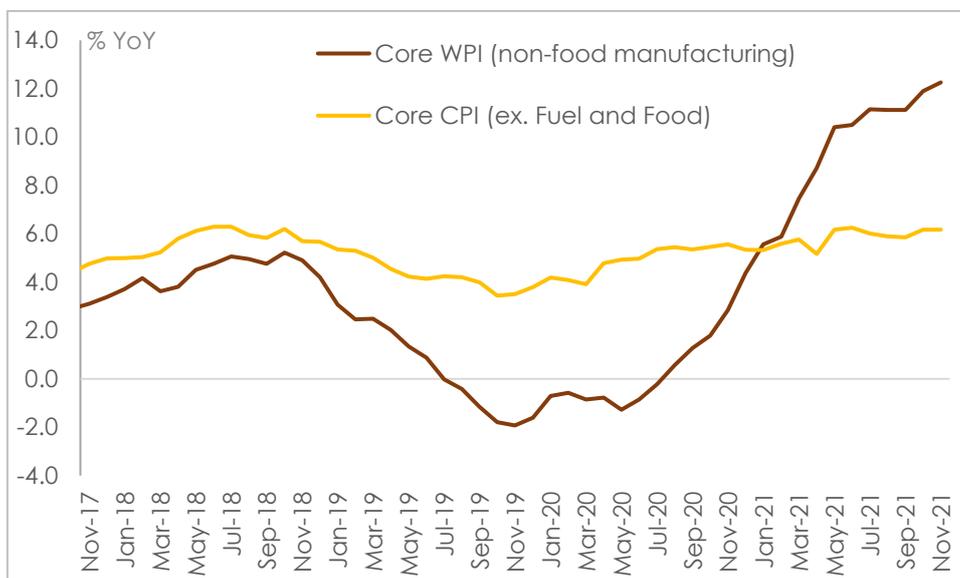


Chart 2: Pass-through of higher input price to gradually feed in into Core CPI



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