

Press Release

WPI inflation eases to a five month low

Food and core inflation moderate, while fuel inflation plays spoilsport

16-Aug-2022

In line with the trend seen in headline CPI inflation, India's wholesale inflation also eased to a five-month low of 13.93% YoY in Jul-22 from 15.18% in Jun-22. The easing price pressures both at the retail and wholesale level have raised expectations that the peak in inflation is behind with some comfort accruing from moderating commodity prices and easing of supply chain pressures. Additionally, interest rate hike by the central banks has also had a salutary impact on inflationary expectations. The results of the Reserve Bank of India's July 2022 inflation expectation survey of households showed that their median inflation perception moderated by 80 basis points from the May 2022 round of the survey to 9.3%.

Along with the moderation in the headline WPI inflation, the sequential print also contracted but marginally by 0.1% MoM since the surge in consolidated fuel inflation by 4.6% MoM has broadly offset the impact of a decline in core inflation (non-food manufacturing) and consolidated food inflation.

Consolidated fuel inflation (comprising of crude petroleum and fuel & power) rose by 46.8% YoY in Jul-22 from 45.6% in Jun-22. Sequentially, consolidated fuel inflation rose by 4.6% MoM in Jul-22 from 1.6% in Jun-22 primarily because of spike in mineral oils and electricity within fuel & power segment. On the other hand, price of crude petroleum recorded a contraction after a hiatus of 6 months. The concerns of recession in some nations have started to have a counter effect on the global commodity prices with price of crude oil currently hovering lower than USD 100 pb. The pass-through of this correction could offer some reprieve to domestic price pressures and help to further tame inflation expectations going forward although it will be partly offset by the rupee depreciation.

Consolidated food inflation (comprising of manufactured and primary food prices) eased to 9.41% in Jul-22 from 12.41% YoY in Jun-22 with continuing price pressures in perishable especially fruits & vegetables and eggs, meat & fish. Sequentially, consolidated food inflation recorded a contraction of 2.2% similar from an increase of 1.3% MoM in the previous month. While moderation in global food prices and catch-up in southwest monsoon bodes well for future food inflation trajectory, the intertemporal and geographical spread of monsoon remains on watch, as the crop acreage will be critical to assuage food price pressures especially in the post-harvest season i.e., Sep-22 onwards.

WPI core inflation (non-food manufacturing inflation) is estimated to have eased marginally to 8.4% YoY in Jul-22 from 9.3% in Jun-22, with sequential print declining for the second consecutive month of -0.2% vs. -0.8 % in the previous month. Nevertheless, we continue to believe that core inflation will remain sticky as the accrued pressure from higher input cost is expected to get increasingly transmitted to retail inflation with demand normalization. Another major reason for discomfort is the significant rupee depreciation which has led the imported inflation to surge given India's heavy reliance of crude oil imports. As per RBI's own study, a 5% depreciation in rupee leads the inflation to rise by nearly 10-15 bps. INR's ~6% depreciation in 2022 so far and the higher weightage of crude oil and its derivatives in WPI

basket as compared to CPI, could continue to weigh on WPI inflation. Nevertheless, a continued correction in commodity prices could outweigh the impact of rupee depreciation, from inflation perspective.

Annexure

Chart 1: Food & core inflation lead WPI to ease, consolidated fuel inflation remains elevated

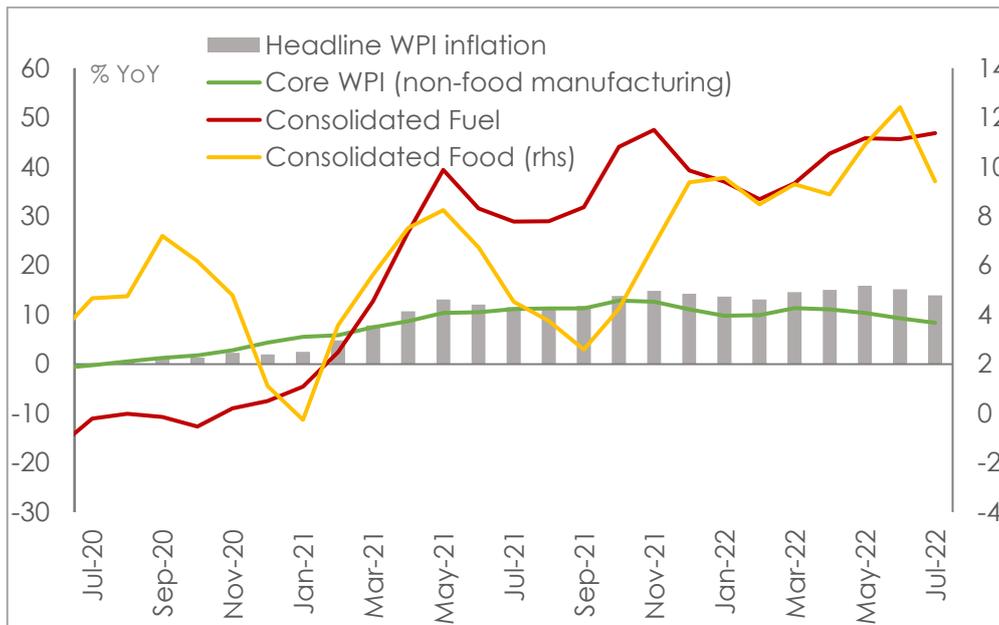
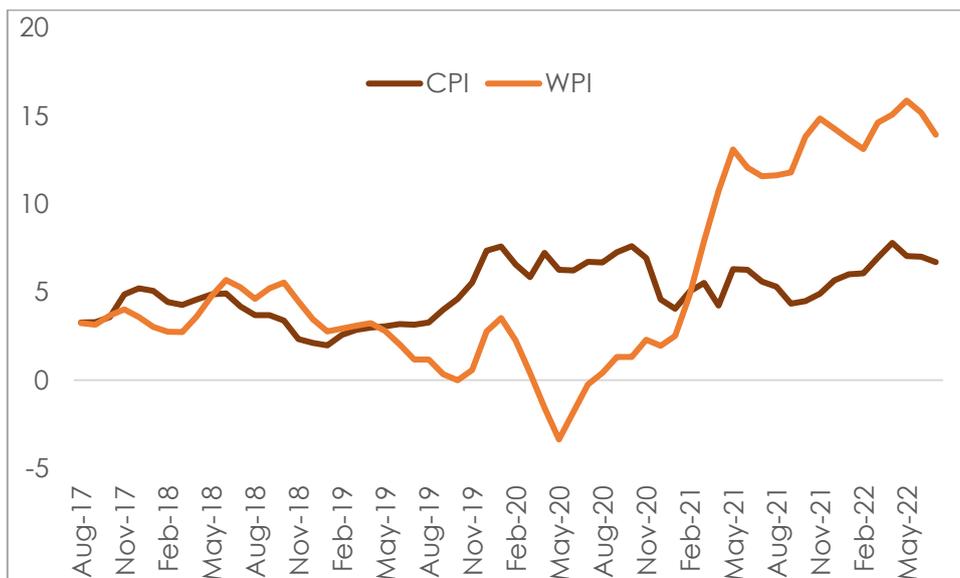


Chart 2: CPI and WPI inflation in Jul-22 ease to their respective 5-month low



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