

Press Release

Wholesale inflation cools slightly in Jun-22

Moderation in commodity prices but INR depreciation an emerging risk factor

15 July 2022

In congruence with some moderation recorded in CPI inflation, India's inflation at the wholesale level also eased marginally to 15.18% in Jun-22, slightly cooling down from a record high level (in the 2011-12 series) of 15.88% YoY in May-22. There was no uptick in the wholesale index on a MoM basis with marginal decline in core inflation (non-food manufacturing) broadly offsetting the impact of rise in consolidated food and fuel inflation.

Consolidated food inflation (comprising of manufactured and primary food prices) continued to record a double-digit increase for the second consecutive month coming in at 12.41% YoY in Jun-22 from 10.89% YoY in May-22 with price pressures in perishables especially fruits and vegetables rising by 40.12% YoY in Jun-22 from 32.31% in May-22. Sequentially, consolidated food inflation rose at a similar pace of 2.4% MoM as compared to the previous month. While the spike in prices of perishables has primarily been led by the ongoing summer seasonality and higher cost of agricultural inputs, increase in feed costs are also translating into escalation in poultry, and dairy product prices. Nevertheless, government measures including the domestic wheat export ban, reversal of export ban on edible oils by Indonesia, the stronger prospects of a normal monsoon and good kharif sowing will likely help in moderating the food price trajectory in H2 FY23.

The elevated crude oil prices which averaged at USD 115 pb in Jun-22 continued to put upward pressure on crude petroleum (within primary articles) and fuel and power index causing consolidated fuel inflation to remain elevated at 45.6% YoY in Jun-22 from 45.8% in May-22. Sequentially, consolidated fuel inflation rose at a slower pace of 1.6% MoM in Jun-22 from 3.2% in May-22. The headline index for crude petroleum as well as fuel & power surged to their respective record high levels with increased prices of ATF and kerosene. However, the latest data indicate that the concerns of slowdown or even recession in some nations have started to have a counter effect on the global commodity prices with some of the metal prices at a one year low and crude oil also going down below USD 100 pb.

WPI core inflation (non-food manufacturing inflation) is estimated to have eased marginally to 9.4% YoY in Jun-22 after remaining in double-digits for the past two months, with sequential print recording a decline of -0.76% vs 0.45% in the previous month. While incremental pressures on commodity prices have eased, the accrued pressure from higher input cost is expected to get increasingly transmitted to retail inflation with demand normalization, thereby holding core CPI inflation sticky at elevated levels. Further, the significant rupee depreciation is clearly an emerging risk that has led 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 depreciation of nearly 7% in 2022 so far and the higher weightage of crude oil and its derivatives in WPI basket as compared to CPI, could weigh on WPI inflation, partly offsetting the impact from cooling commodity prices.

Annexure

Chart 1: Headline WPI eases marginally, consolidated food & fuel inflation remains elevated

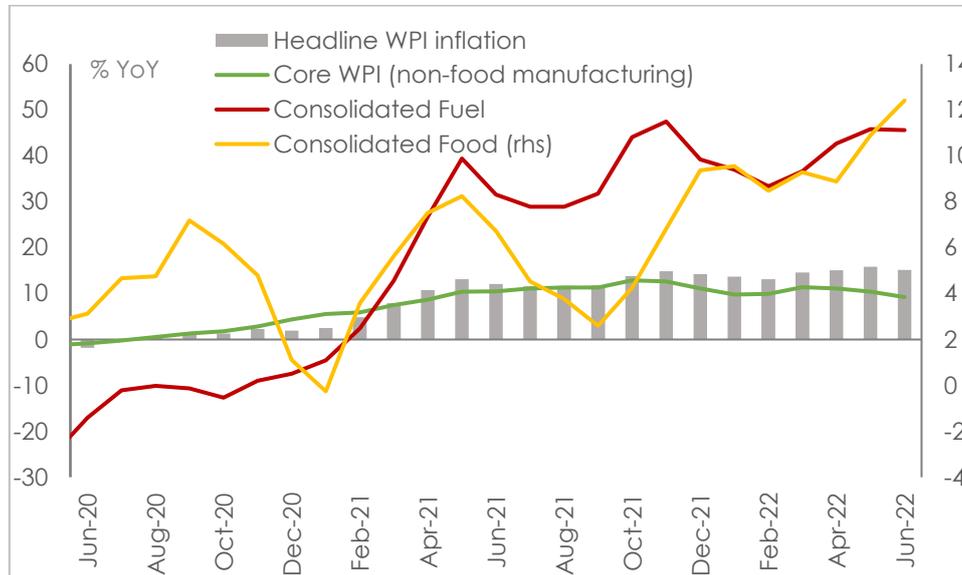
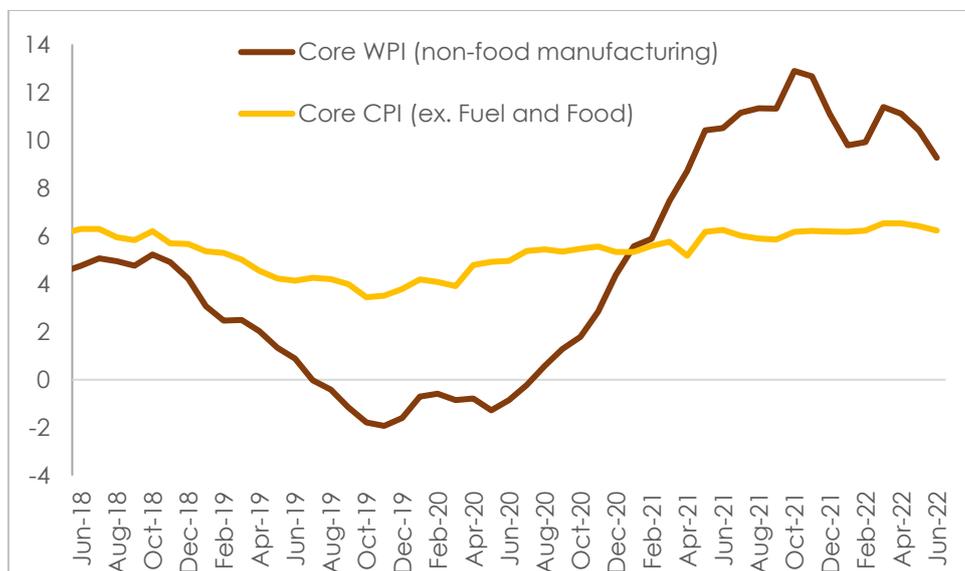


Chart 2: Core inflation at retail and wholesale level eased marginally in Jun-22



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