

Press Release

May-22 WPI inflation moves up to a new high Food and fuel inflation have kept price pressures elevated

14 June 2022

Defying the moderation recorded in CPI inflation, India's inflation at the wholesale level rose higher, registering yet another record high level (in the 2011-12 series) of 15.88% YoY in May-22 from 15.08% in Apr-22. Nevertheless, on sequential basis, the index rose at a slower pace of 1.4% MoM as compared to 2.0% in the previous month.

Consolidated food inflation (comprising of manufactured and primary food prices) recorded a double-digit increase for the first time in nearly two years coming in at 10.9% YoY in May-22 from 8.9% YoY in Apr-22 with price pressures in perishable especially fruits and vegetables nearly doubling by 32.3% YoY in May-22 from 16.8% in Apr-22. Sequentially, consolidated food inflation rose by 1.9% MoM from 2.8% in 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, milk, and dairy product prices. Nevertheless, government measures including the domestic wheat export ban along with reversal of export ban on edible oils by Indonesia and the stronger prospects of a normal monsoon will likely help in moderating the food price trajectory in FY23.

Persistent rise in crude oil prices (averaging at USD 109 pb so far in FY23) and other commodity prices has continued to put upward pressure on crude petroleum (within primary articles) and fuel and power index causing consolidated fuel inflation to remain elevated at 45.8% YoY in May-22 from 42.7% in Apr-22. Sequentially, consolidated fuel inflation rose at a slower pace of 3.2% MoM in May-22 from 4.2% in Apr-22. The headline index for crude petroleum as well as fuel & power surged to their respective record high levels with furnace oil and petroleum coke continuing to record double-digit sequential expansion. Going forward, the relentless rise in crude oil price which is currently hovering close to USD 120 pb is expected to keep fuel inflation elevated. Given higher weightage of crude oil and its derivatives in the WPI basket the impact of rise in oil prices would likely be higher in WPI as compared to CPI with the consolidate fuel inflation trajectory in WPI expected to remain in double-digits.

WPI core inflation (non-food manufacturing inflation) is estimated to have eased marginally to 10.4% YoY in May-22 from 11.1% YoY in Apr-22, with a lower sequential uptick of 0.5% vs 1.0% in the previous month. While the incremental pass-through pressures have slightly eased due to the weaker demand sentiments, Acuite expects the further opening up of the economy, gradual pick-up in retail demand, and vaccination attaining critical mass (with 70% of the population having achieved two doses) to hasten the pass-through of elevated input prices which will continue to feed into India's retail inflation.

Says Suman Chowdhury, Chief Analytical Officer, Acuite Ratings & Research "It is perhaps too early to seek comfort from the 75 bps moderation in the CPI inflation print in May-22 since WPI inflation has been persistently high and into high double digits since the last 14 months. This highlights the severity of input cost pressures which are likely to get increasingly transmitted to retail inflation with demand normalization."

Annexure

Chart 1: Consolidated food and fuel inflation keeps WPI inflation at record high levels

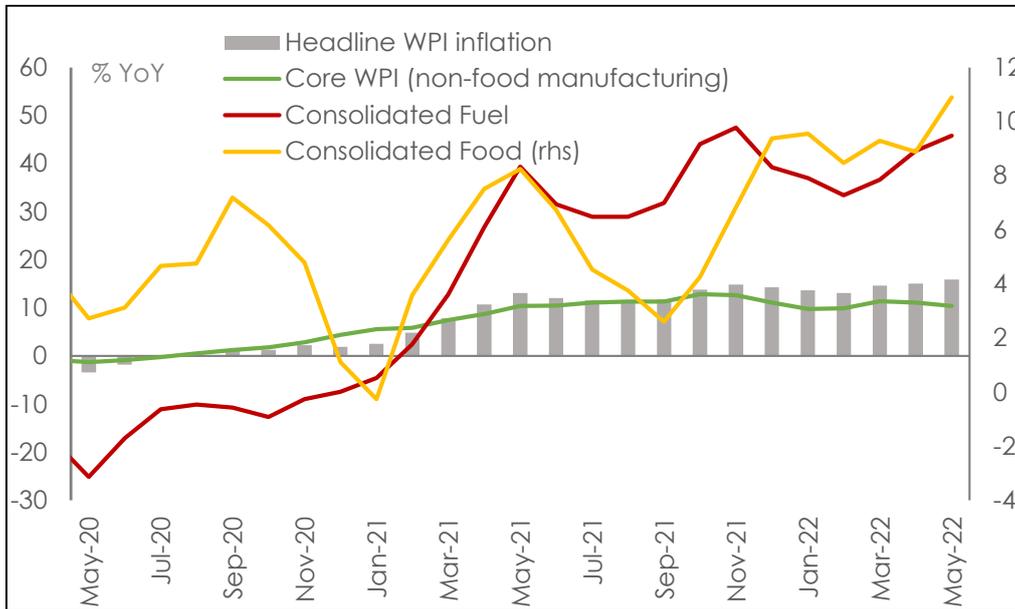
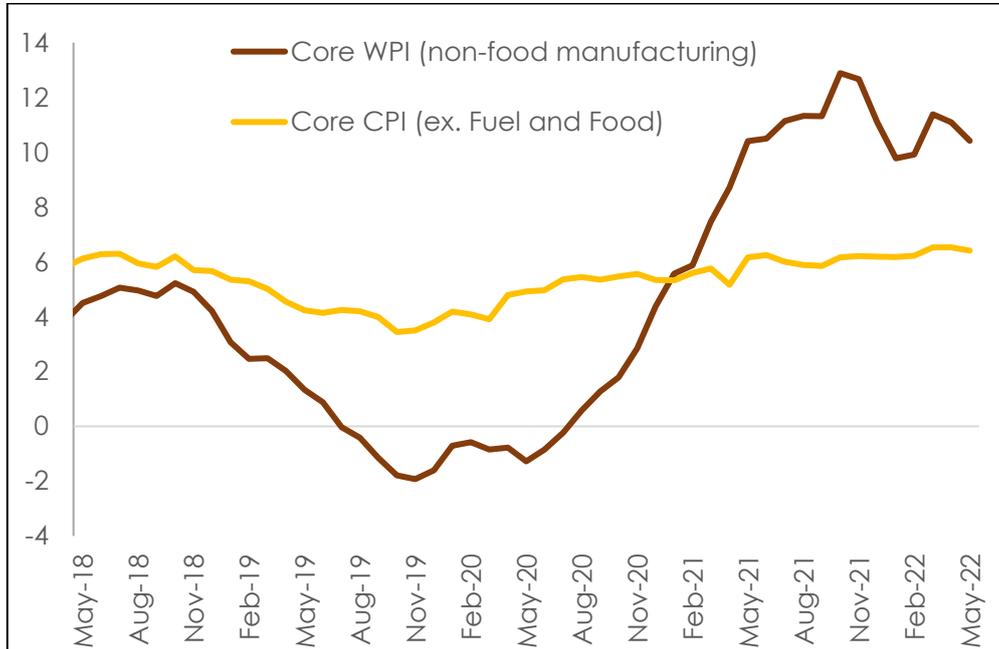


Chart 2: Core inflation at retail and wholesale level eased marginally in May-22



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