

Press Release

WPI inflation rises to a 5-month high Core wholesale inflation remains elevated in double digits

15 November 2021

Unlike a marginal rise in CPI inflation for Oct-21, WPI inflation rose significantly to a 5-month high of 12.5% YoY from 10.7% in Sep-21. On the other hand, sequential momentum surged to a highest pace on record by 2.3% MoM in Oct-21 from 0.1% in Sep-21, driven primarily by consolidated fuel (comprising of crude petroleum & natural gas and fuel & power inflation) and consolidated food inflation (comprising of manufactured and primary food prices).

Consolidated fuel inflation on annualized and sequential basis rose significantly by 40.5% and 8.8% respectively, driven by broad-based increase in the categories of electricity (18.8% MoM from near flat levels in previous three months), crude petroleum (9.5% MoM from -4.1% in Sep-21), mineral oils (7.7% MoM from -1.7% in Sep-21) and coal (0.9% MoM). Given the surge in global crude oil prices, the increase in fuel inflation on both wholesale and retail level was expected. However, the impact of the rise in crude oil is more evident in WPI inflation as compared to CPI given higher weightage of crude oil and its derivatives in the WPI basket. Further, the recent energy crisis triggered by lower coal supplies further led to a rise in electricity and coal prices thereby keeping consolidated fuel inflation elevated.

After peaking out in Apr-21, food inflation trajectory (until Sep-21) had been in a moderation mode on account of less severity in the summer seasonality (which typically impacts vegetable prices) along with positive supply side interventions taken by the government through custom duty cuts in the case of pulses and edible oils. However, sequential price pressures for consolidated food inflation suddenly surged from 0.1% in Sep-21 to 3.31% MoM in Oct-21. This was predominantly led by spike in wholesale vegetable prices which rose by 22.4% MoM in Oct-21 from a contraction of 2.7% in Sep-21, due to erratic rains in some parts of India which damaged certain crops. Nevertheless, we believe that a strong backloaded monsoon performance, favourable kharif crop estimates along with healthy reservoir levels that is set to aid rabi sowing activity, adequate buffer stock of food grains and onset of winter season would help in keeping a lid on food inflation pressures going forward.

While the food inflationary pressures are likely to be transient, core inflation (non-food manufacturing) continued its uptrend coming in at 11.9% YoY in Oct-21 from 11.2% in Sep-21. Resumption in economic activities along with elevated raw material prices has been weighing on manufactured product prices. This was also reinforced by the latest PMI manufacturing release which stated that input cost inflation has risen a near eight-year high amidst increase in global commodity prices. We expect this momentum to continue given supply side bottlenecks, raw material shortages and high crude oil prices. 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 retail inflation.

Annexure

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

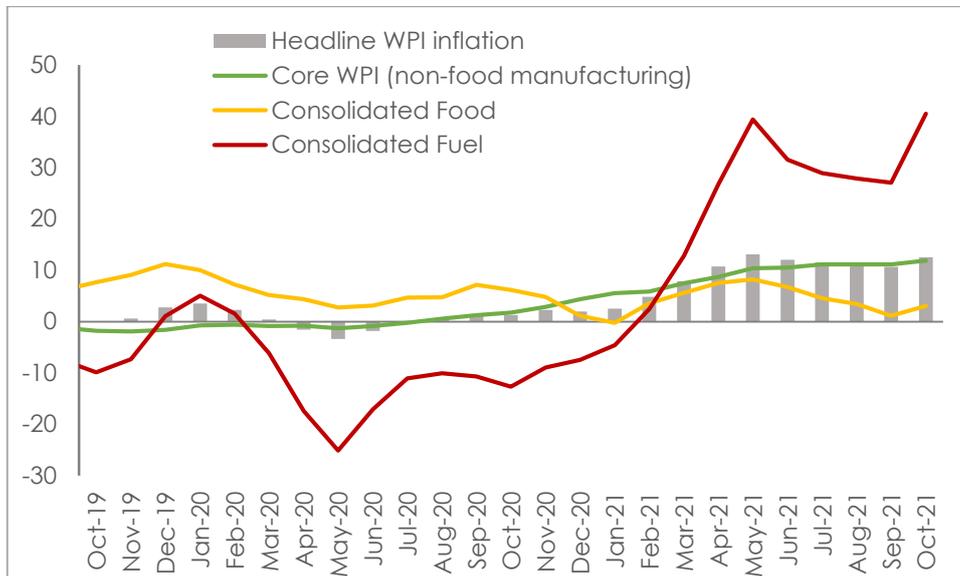
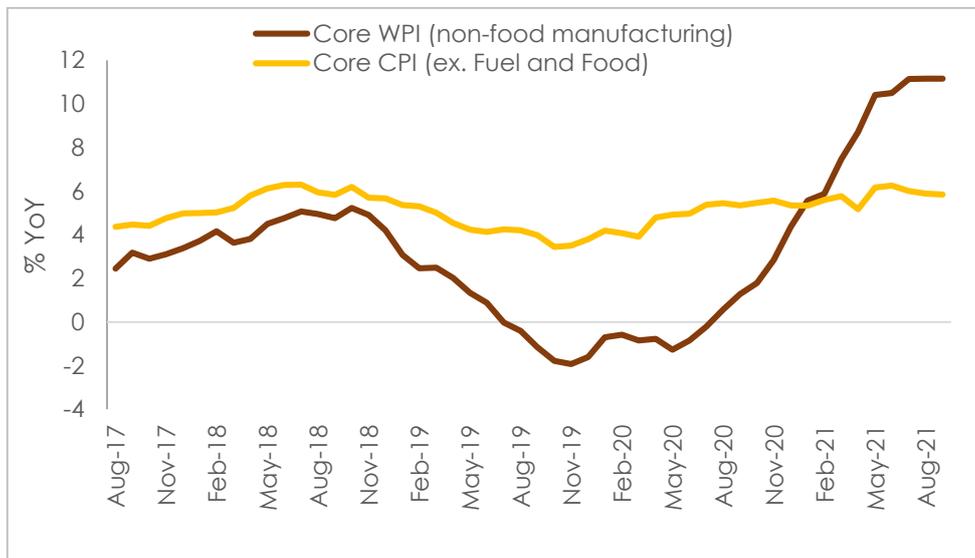


Chart 2: Pass-through of higher input price to gradually feed into Core CPI



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