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Comments: WPI Data- March, 2021

Sharp rise in WPI Inflation a worry in context of second Covid wave

The WPI trajectory over the last 3 months further reinforces the concerns on the underlying inflationary pressures which can get further aggravated by a re-emergence of supply constraints in the wake of the second Covid wave. The YoY print in WPI has almost tripled from 2.51% in Jan 2021 to 7.39% in March 2021 although the base effect has played a role in the figures.

Signs of transmission of higher input costs by producers

While the sharp rise in the fuel and power component to 10.25% in the previous month is understandable in the light of the rise in global crude and domestic retail fuel prices, the rise in prices of manufactured products by 7.34% reflects a steady transmission of input costs. One case in point is the 14.51% rise in wholesale prices of mild steel prices on a YoY basis.

Base factor may come to the rescue to moderate inflation in FY22

The rise in prices of intermediate goods does not augur well for retail inflation (CPI) in the near term; nonetheless, the favourable base factor in the previous year may help to moderate the average CPI print for FY22. We also continue to believe that inflation will not drive RBI's monetary policy in the near term given the overriding growth concerns in the economy.