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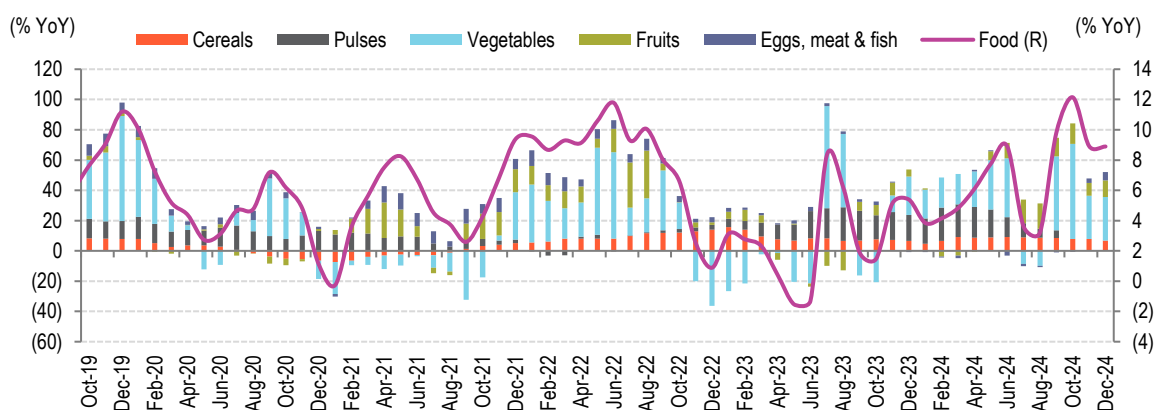
WPI inflation accelerates

WPI inflation rose to 2.4% in Dec'24 from to 1.9% in Nov'24, led by increase in manufactured product inflation and slower pace of deceleration in fuel and power inflation. Food inflation remained steady at 8.9% in Dec'24. With this, headline WPI averaged at 1.7% in CY24 (0.1% in CY23), with inflation for food items at 6.8% (2.8%), fuel at -1.7% (-1%) and manufactured at 0.7% (-1%). In Dec'24, within food, barring food grains and condiments and spices, all other sub-categories noted upward pressure. Amongst vegetable prices, onion and potato prices registered an increase. Within fuel, mineral oil and electricity indices decelerated at a slower pace. Mineral oil index mirrors the movement in international oil prices. Core inflation rose for the 4th consecutive month in Dec'24. Within manufactured products, food, textiles and electronic items led inflation higher. Commodity prices broadly eased. Going forward, if Fed decides to keep to rates higher for longer, it will dent demand prospects and ease oil and other commodity prices. However, tariff announcement by Present-elect Donald Trump may exert upward pressure on prices. Imported inflation, due to stronger US\$ also poses upside risk to domestic inflation.

Food inflation eased sharply:

Headline WPI inflation quickened to 2.4% in Dec'24 (BoB est.: 1.9%) from 1.9% in Nov'24. This was despite food inflation remaining broadly unchanged at 8.89% in Dec'24 (8.92% in Nov'24). Vegetable inflation remains sticky (28.7% in Dec'24 versus 28.6% in Nov'24). Inflation index for fruits (11.2% versus 8.4%), milk (2.3% versus 2.1%), and eggs/meat/fish (5.4% versus 3.2%) ticked higher. Amongst vegetables, notable increase was seen in the case of potato, onion, and green peas, while softening was driven by items like tomato, ginger, and carrot. Food grain inflation moderated (6.5% versus 7.4%). Both cereal (6.8% versus 7.8%) and pulses (5% versus 6%) inflation eased. Amongst cereals, wheat and paddy inflation softened, in line with global prices. On a global level, World Bank's pink sheet data reveals that wheat prices decelerated at a faster pace (-11.7% versus -8%). Paddy prices have also dropped further (-19.5% versus -15.9%). In CY24, international rice prices rose by 8.1% (domestic WPI: 9.9%) and wheat prices declined by (-) 16.6% (domestic WPI: +6%).

Figure 1: Food inflation remained steady in Dec'24



Source: CEIC, Bank of Baroda Research

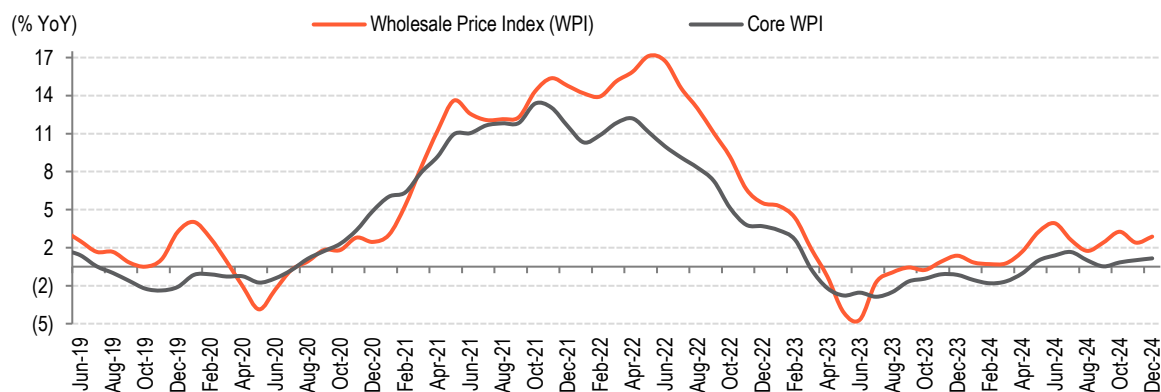
Fuel and power inflation:

Fuel and power inflation decelerated at a slower pace of (-) 3.8% in Dec'24 versus (-) 5.8% in Nov'24. Amongst the sub-heads, pace of deceleration slowed across board. Coal price index was down by (-) 0.8% in Dec'24 versus (-) 0.9% in Nov'24, and mineral oil index was down by (-) 3.8%, following (-) 5.2% drop in Nov'24. This mirrors the trend seen in international oil prices which on an average fell by (-) 5.4% in Dec'24 versus (-) 10.5% decline registered in Nov'24, on YoY basis. Electricity price index also noted some price pressures as it fell by only (-) 5.7% in Dec'24 versus (-) 10.4% in Nov'24. Within mineral oils, barring Naphtha and Lube oils, price index for all other sub-head witnessed upward pressure. Items which noted the most increase were: bitumen, kerosene, ATF, diesel and petrol. In Jan'25 so far, Brent prices have increased by 0.4%, as news of possible sanctions on Iran and Russia have again raised global supply concerns. In Mom terms, the increase is even starker as Brent prices have averaged at US\$ 77.81/bbl versus US\$ 73.13/bbl in Dec'24. If this trend continues, this may add to the pressure on fuel inflation in the coming months.

Core WPI inches up again:

Core inflation rose for the third consecutive month in Dec'24, to 0.7% from 0.5% in Nov'24. Manufactured product inflation rose for the fourth consecutive month, and was up by 2.1% in Dec'24 from 2% in Nov'24. Of the 22 commodity sub-indices, 11 indices rose at a faster pace in Dec'24 than Nov'24 led by, food, textiles, chemicals, pharmaceuticals, fabricated metals, and computers/electronics. Basic metal inflation eased. Within basic metals, inflation for lead declined (-1% versus -0.6%), while that of zinc (7.2% versus 8.8%) and copper (12.8% versus 13.7%) eased. Aluminium prices in contrast rose for the 4th consecutive month in Dec'24 (11.3% versus 9.7%). In comparison, international prices have shown some diverging trends. As reflected in World Bank's pink sheet, prices of copper (4.6% versus 6.6%), lead (15.9% versus 20.1%) and aluminium (14% versus 15%) slowed. Price of zinc on the other hand inched up (25.5% versus 24.9%).

Figure 2: Core inflation continues to rise higher



Source: CEIC, Bank of Baroda Research

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