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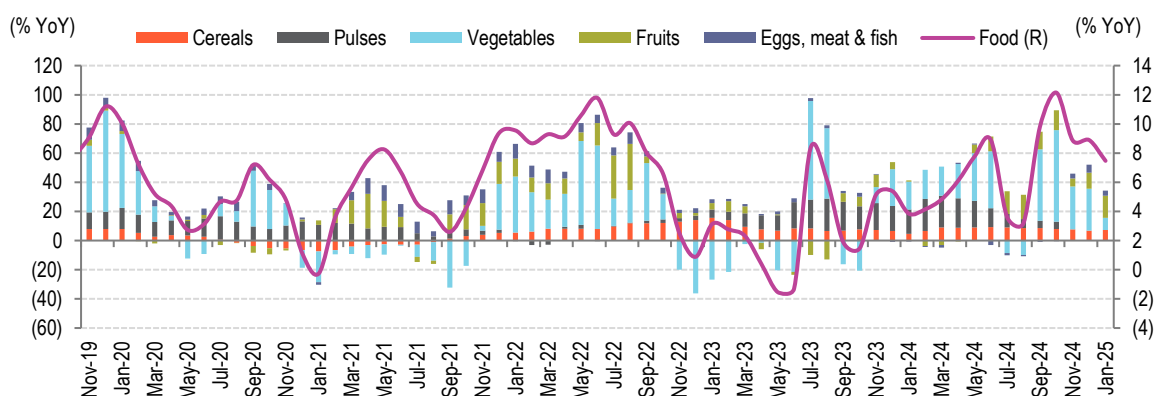
WPI inflation cools down

WPI inflation eased to 2.3% in Jan'25 from 2.4% in Dec'24, led by moderation in food inflation. On the other hand, manufactured product inflation inched up and slower pace of deceleration was noted in fuel and power inflation. As a result, core inflation rose to 0.9% from 0.7%. Food inflation softened to 7.5% in Jan'25. Within this, vegetables and protein based items noted moderation, while inflation for food grains, fruits and condiments and spices noted upward pressure. Amongst vegetables, tomato and potato prices registered a decline. Within fuel, mineral oil and electricity indices decelerated at a slower pace. Mineral oil index mirrors the movement in international oil prices. Within manufactured products, food, wearing apparels, basic metals (mainly aluminium) and electronic items led inflation higher. Going forward, as Fed decides to keep rates 'higher for longer', global demand prospects have been dented and are putting some downward pressure on oil and other commodity prices. However, based on retaliatory measures announced by countries with regard to tariffs imposed by the US, the global inflation situation will evolve. In India's case, imported inflation, due to stronger US\$ remains a key risk, but lower oil and commodity prices may help ease upside risks.

Food inflation eased sharply:

Headline WPI inflation slowed to 2.3% in Jan'25 (BoB est.: 2.4%) from 2.4% in Dec'24. This was supported by moderation in food inflation to 7.5% in Jan'25 from 8.9% in Dec'24. Vegetable inflation index noted significant cooling down (8.4% in Jan'25 versus 28.7% in Dec'24), helped by easing pressures in prices of potato, tomato, carrot, cucumber, ginger etc. Inflation index for eggs/meat/fish (3.6% versus 5.4%) and spices also inched down (-5.5% versus -3.2%). In contrast, inflation index for fruits (15.1% versus 11.2%), milk (2.7% versus 2.3%), and food grains (6.9% versus 6.5%) exerted upward pressure. Both cereal (7.3% versus 6.8%) and pulses (5.1% versus 5%) inflation ticked higher. Amongst cereals, while wheat inflation increased, paddy inflation slowed, in line with global prices. On a global level, World Bank's pink sheet data reveals that wheat prices decelerated at a slower pace (-8.9% versus -11.7%). Paddy prices in contrast have dropped further (-27.6% versus -19.5%).

Figure 1: Food inflation softened in Jan'25



Source: CEIC, Bank of Baroda Research

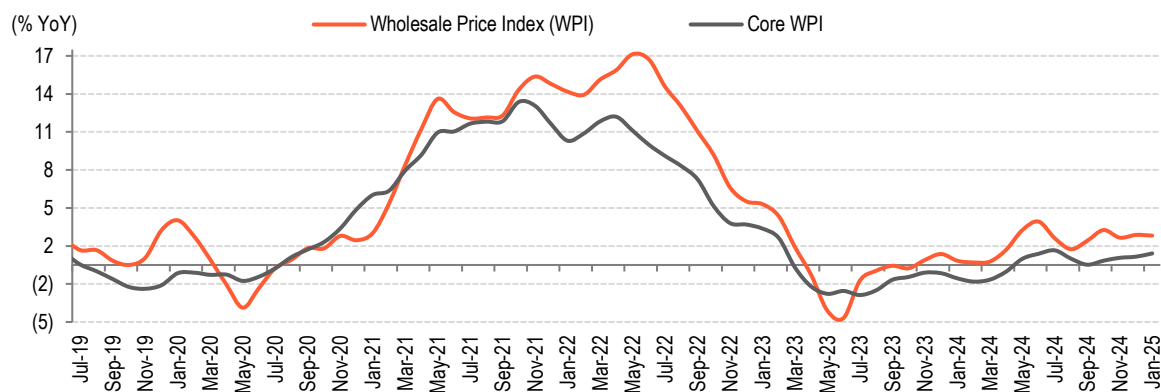
Fuel and power inflation:

Fuel and power inflation decelerated at a slower pace of (-) 2.8% in Jan'25 versus (-) 3.8% in Dec'24. Amongst the sub-heads, pace of deceleration slowed across board. Coal price index was down by (-) 0.4% in Jan'25 versus (-) 0.8% in Dec'24, and mineral oil index was down by (-) 2.6% following (-) 3.8%, drop in Dec'24. This mirrors the trend seen in international oil prices which on an average fell by (-) 1% in Jan'25 versus (-) 5.4% decline registered in Dec'24, on YoY basis. Electricity price index also noted some price pressures as it fell by only (-) 4.8% in Jan'25 versus (-) 5.7% in Dec'24. Within mineral oils, barring LPG and Lube oils, price index for all other sub-head witnessed upward pressure. Items which noted the most increase were: bitumen, ATF, furnace oil, kerosene, and petrol. In Feb'25 so far, Brent prices have fallen sharply by 6%, as prospects of higher global demand have been hurt by narrative of 'higher for longer' rates in the US and ongoing trade war between US and other countries. In MoM terms as well, prices have come to average at US\$ 75.40/bbl versus US\$ 78.35/bbl in Jan'25. If this trend continues, this may take off some pressure from fuel inflation in the coming months.

Core WPI inches up again:

Core inflation rose for the fourth consecutive month in Jan'25, to 0.9% from 0.7% in Dec'24. Manufactured product inflation rose for the fifth consecutive month, and was up by 2.5% in Jan'25 versus 2.1% in Dec'24. Of the 22 commodity sub-indices, 14 indices rose at a faster pace in Jan'25 than Dec'24 led by, food, wearing apparel, basic metals, chemicals, pharmaceuticals, non-metallic mineral products, and computers/electronics. Within basic metals, inflation for Aluminium rose for the 5th consecutive month (13.4% in Jan'25 versus 11.3% in Dec'24) and that of Lead was flat (0% versus -1% decline). In contrast, inflation index for Copper (11.7% versus 12.8%) and Zinc (7% versus 7.2%) noted softening. In comparison, international prices have shown some diverging trends. As reflected in World Bank's pink sheet, prices of Copper (7.8% versus 6.1%) and Aluminium (17.4% versus 16.4%) inched up, while that of Zinc moderated (12.1% versus 21.3%) and Lead declined (-7.9% versus -1.8%).

Figure 2: Core inflation continues to rise higher



Source: CEIC, Bank of Baroda Research

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