

Sonal Badhan
Economist

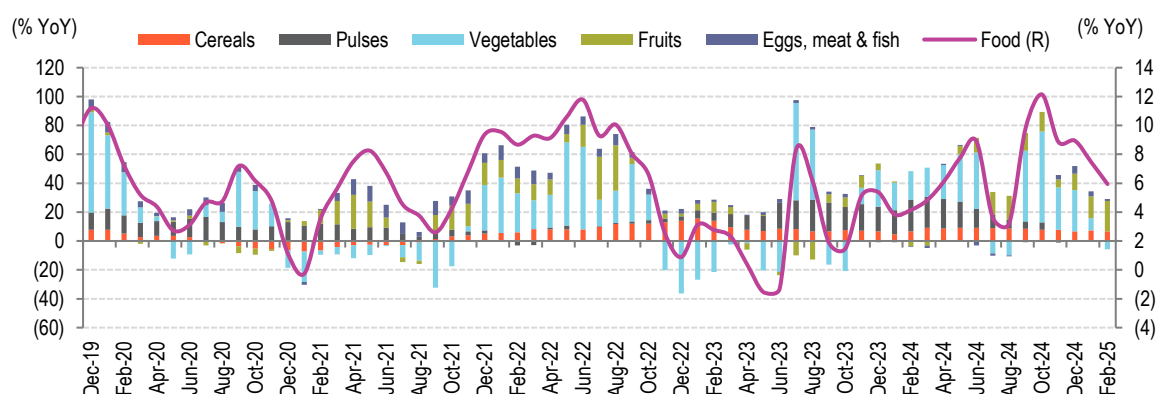
WPI inflation ticks higher

WPI inflation rose a tad to 2.4% in Feb'25 from 2.3% in Jan'25, led by slower pace of contraction in fuel and power inflation and pick up in manufactured product inflation. On the other hand, food inflation moderated further. As a result, core inflation rose to 1.3% from 0.9%. Food inflation softened to 5.9% in Feb'25, helped by largely broad-based slowdown. Vegetable inflation index eased the most, followed by food-grain inflation and inflation of protein-based items (milk, eggs meat and fish). Amongst vegetables, tomato and potato prices registered a decline, while that of onions are showing some build up. Within fuel, mineral oil and electricity indices decelerated at a much slower pace, even as international oil prices fell, thus reflecting the impact of pressure on domestic currency. Within manufactured products, food, basic metals (mainly aluminium and copper) and equipment (electrical/machinery/ transport) led inflation higher. Going forward, as trade war deepens further and uncertainty around Fed rate cut looms, volatility in market is expected to remain. Commodity prices are seeing some build up in pressure as demand rose ahead of tariff implementation dates.

Food inflation moderates further:

Headline WPI inflation inched up a tad to 2.4% in Feb'25 (BoB est.: 2.5%) from 2.3% in Jan'25. This was despite notable easing in food inflation to 5.9% in Feb'25 from 7.5% in Jan'25. Vegetable inflation index registered deflation (-5.8% in Feb'25 from 8.4% in Jan'25), helped by easing pressures in prices of potato, tomato, carrot, radish, cucumber, cauliflower etc. Onion prices recorded some built-up in pressure. Inflation index for food grains (5.3% versus 6.9%), milk (1.6% versus 2.7%), eggs/meat/fish (1.5% versus 3.6%) and spices also inched down (-14.4% versus -5.5%). In contrast, inflation index for fruits (20.9% versus 15.1%) exerted upward pressure. Amongst food grains, while cereal inflation slowed (6.8% versus 7.3%), pulses inflation fell (-1% versus 5.1%). Amongst cereals, wheat inflation was broadly sticky, but paddy inflation slowed further, in line with global prices. On a global level, World Bank's pink sheet data reveals that wheat prices decelerated at a slower pace (-3.2% versus -8.9%). Paddy prices in contrast dropped even more in Feb'25 (-31.4% versus -27.6%).

Figure 1: Food inflation softened further in Feb'25



Source: CEIC, Bank of Baroda Research

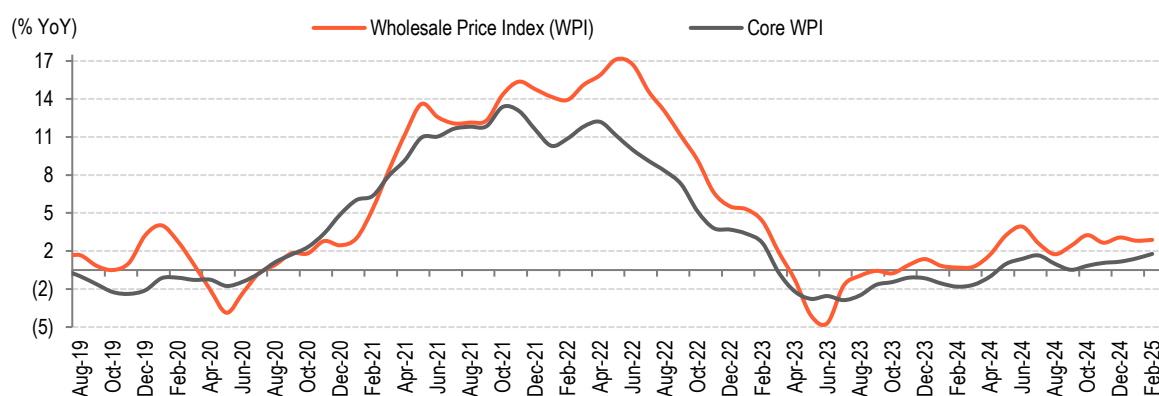
Fuel and power inflation:

Fuel and power inflation decelerated at a much slower pace of (-) 0.7% in Feb'25 versus (-) 2.8% in Jan'25. Amongst the sub-heads, this trend was more visible in case of mineral oil index (-0.8% in Feb'25 versus -2.6% in Jan'25) and electricity index (-0.6% versus -4.8%). Deflation in coal price index was broadly stable at (-) 0.3% in Feb'25 versus (-) 0.4% in Jan'25. In case of mineral oils, the trend seen in international oil prices is contrasting. Brent on an average fell by (-) 8.3% in Feb'25 following (-) 1% in Jan'25, on YoY basis. A part of this could be explained by pressure on domestic currency, which was down on an average by (-) 4.7% in Feb'25 (DXY: 3.1%) versus (-) 3.6% in Jan'25 (DXY: 5.5%), on YoY basis. Within mineral oils, items which noted the most increase were: ATF, furnace oil, kerosene, and Naphtha. In Mar'25 so far, Brent prices have fallen even more sharply by (-) 15.6%, as trade war has accelerated and is set to dent demand prospects. To add to this, uncertainty around Fed rate cuts has also hurt prices. In MoM terms as well, prices have come down, to average at US\$ 70.2/bbl versus US\$ 75/bbl in Feb'25. If this trend continues, then it may help take off some pressure from fuel inflation in the coming months.

Core WPI continues to move up:

Core inflation rose for the fifth consecutive month in Feb'25 to 1.3% from 0.9% in Jan'25. Manufactured product inflation rose for the sixth consecutive month, and was up by 2.9% in Feb'25 from 2.5% in Jan'25. Of the 22 commodity sub-indices, 14 indices rose at a faster pace in Feb'25 than Jan'25 led by, basic metals, food, tobacco, chemicals, electrical equipment, machinery and equipment, and other transport equipment. Within basic metals, inflation for Aluminium rose for the 6th consecutive month (19.5% in Feb'25 versus 13.4% in Jan'25) and that of Copper also rose (14% versus 11.7%). In contrast, price index for Zinc softened (6.5% versus 7%) and that of Lead fell again into deflation (-1.4% versus 0%). In comparison, international prices have shown some diverging trends. As reflected in World Bank's pink sheet, prices of Copper (12.3% versus 7.8%) and Aluminium (21.9% versus 17.4%) inched up. Zinc prices are also showing an upside bias (18.6% versus 12.1%), while that of Lead are declining at a slower pace (-5.9% versus -7.9%).

Figure 2: Core inflation hardening



Source: CEIC, Bank of Baroda Research

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com

sonal.badhan@bankofbaroda.com