

## WHOLESALE INFLATION

16 November 2020

### Core drives WPI higher, food moderates

**WPI rose to 1.5% in Oct'20 (1.3% in Sep'20) led by core which increased to 1.7% in Oct'20 from 1% in Sep'20. Manufactured products too turned costly (2.1% in Oct'20 from 1.6% in Sep'20). Food prices showed moderation (5.8% in Oct'20 from 6.9% in Sep'20), led by cereals and a few protein based items. Low oil prices remain the biggest driver of benign WPI outlook. The moderation in food inflation bodes well for much anticipated decline in CPI. However, its trajectory will remain above RBI's target thus leaving limited room to reduce policy rates.**

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**WPI inflation firms up:** WPI inched up to 1.5% in Oct'20 compared with 1.3% in Sep'20. This was on account of higher core inflation. Food inflation eased to 5.8% in Oct'20 from 6.9% in Sep'20.

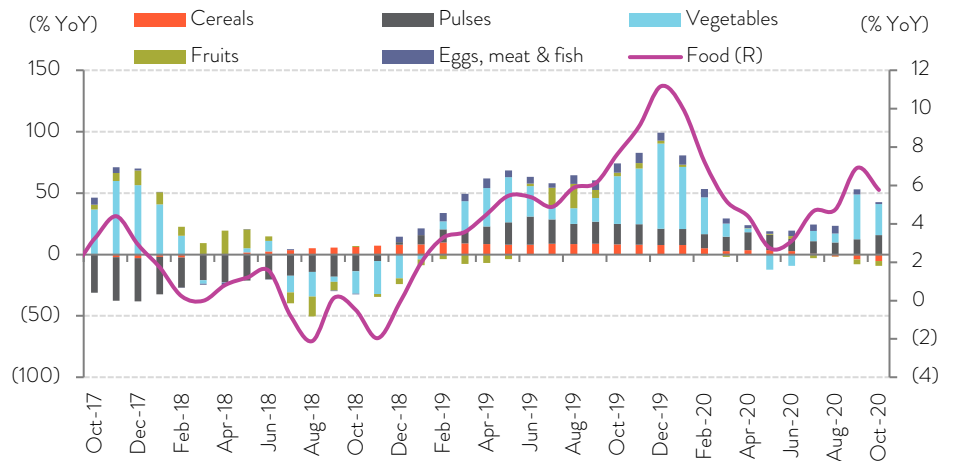
**Core inflation inches up:** Core inflation rose to 1.7% in Oct'20 from 1% in Sep'20. Manufactured inflation rose to 2.1% from 1.6% in Sep'20. Of the 22 commodities, prices of 14 commodities rose, with manufactured food, basic metals, and pharmaceutical products taking the lead. This was in-line with higher international commodity prices which went up by 5.2% in Oct'20 on YoY basis versus an increase of 4.7% in Sep'20. A further increase in global commodity prices is not ruled out with potential vaccine on the horizon.

**Food inflation eases:** Food inflation moderates to 5.8% in Oct'20 from 6.9% in Sep'20 driven by sharp deceleration in vegetable prices (increase of 25.2% in Oct'20 from 36.5% in Sep'20). Tomato prices reached a 4-month low of 14% in Oct'20 compared with 99.3% in Sep'20. Cereal inflation increased by 5.2% in Oct'20 led by sharp contraction in wheat prices (8.1% in Oct'20 from 5.2% in Sep'20). Paddy prices too moderated by 0.6% in Oct'20. Protein based items such as pulses and eggs continue to see inflationary pressure at 15.9% and 17.3% respectively in Oct'20. Milk prices edged lower marginally to 5.5% in Oct'20.

**Deflation in fuel and power continues:** Fuel and power inflation contracted by 10.9% in Oct'20 versus decline of 9.5% in Sep'20. Mineral oil index fell by 15.8% versus decline of 15% in Sep'20. This is attributable to sharp pace of contraction in petrol, diesel, ATF and Kerosene. International oil prices were down by 30.4% in Oct'20 (YoY) versus 32.8% decline in Sep'20. We expect deflation in fuel and power to continue given oil price outlook remains favourable.

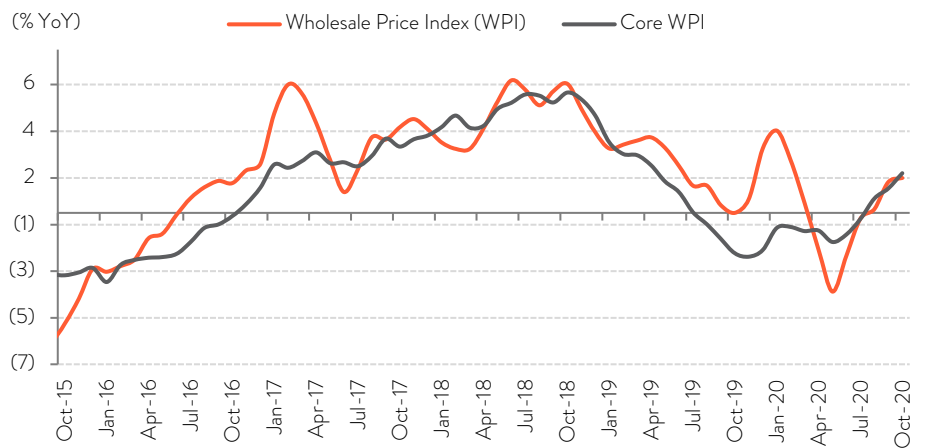


**FIG 1 – WHOLESALE FOOD INFLATION SHOWED MODERATION IN OCT'20**



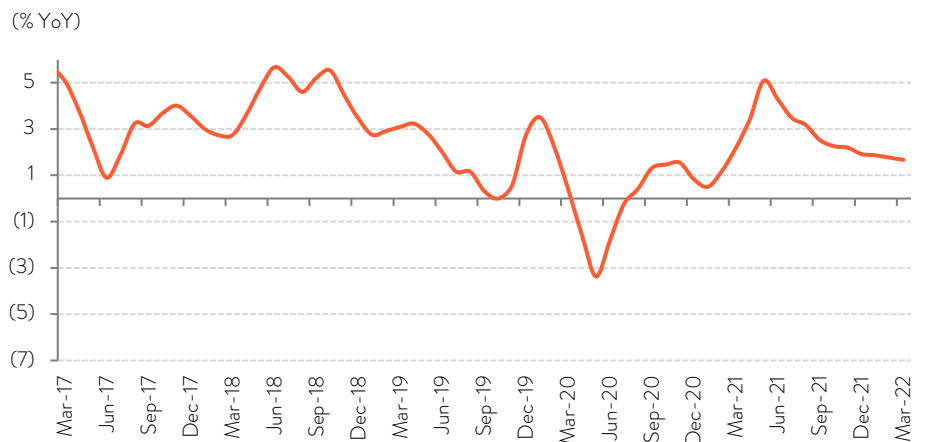
Source: CEIC, Bank of Baroda Research

**FIG 2 – HEADLINE AND CORE INFLATION ROSE IN OCT'20**



Source: CEIC, Bank of Baroda Research

**FIG 3 – HEADLINE WPI TRAJECTORY**



Source: CEIC, Bank of Baroda Research

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