

Higher oil and vegetable prices nudge WPI inflation

- **WPI inflation for May inched up to a high of 15.9% from 15.1% in April**
- **Food inflation rose to 10.9% vs. 8.9% last month led by increase in vegetables (56.4% YoY). On the other hand, inflation in cereals and edible oils moderated sequentially**
- **Fuel and power index is now higher by 40.6% (vs. 38.7% last month). Electricity prices are up by 16.2%. With oil prices inching up in June, fuel inflation will remain elevated**
- **Manufactured products inflation eased on the back of government's supply side measures and easing of global metal prices**
- **WPI inflation to remain elevated as oil prices have increased. High vegetable prices to push food inflation. Pass-through of higher oil prices is incomplete. Our CPI projection for FY23 is at 6.8% for FY23**

Vegetables drive food inflation higher: WPI inflation accelerated to 15.9% in May 2022 from 15.1% in April. The increase was led by food inflation, which increased to 10.9% from 8.9% in April. On a sequential basis, food inflation came down to 1.9% in May from 2.8% in April. Sequential momentum went up in case of primary food items such as vegetables, eggs, meat and fish, spices and milk. Cereals, pulses and fruits saw a dip in momentum. On a YoY basis, vegetable inflation inched up to 56.4% in May from 23.2% in April. Within this, tomato prices increased by 219%, cabbage by 80% and radish by 74%. Prices should correct after a few months when fresh arrivals happen. In case of non-food primary articles too, inflationary pressure was visible led by cotton at 102%, flowers at 81.8% and fodder at 20%. On the other hand, oilseeds have seen a drop to 7.1% from 16.1% in April. Government's supply side measures seem to be working here. The near-term trigger for food prices is monsoon at -37% below normal, but widely expected to pick-up.

Fuel inflation continues to go up: Fuel and power inflation climbed to 40.6% YoY in May (vs. 38.7% last month). On a MoM basis, fuel and power index rose by 2.3% (vs. 4.9% last month). On a YoY basis, mineral oils index is up by 61.9% compared with 62.5% in April. Within mineral oils, different sub-components have shown an acceleration ranging from 48% for LPG to 125% for Kerosene. Given oil prices at USD 120/barrel now (USD 112/ barrel in May), minerals oil index is expected to remain elevated. Electricity index also has showed a substantial uptick at 16.2% compared with 10% in April. It is a reflection of base effect and will only go up from here in the next two months. This is again due to base effect as index had come-off in June and July 2021.

Manufactured inflation eases a bit: Manufactured products inflation eased marginally to 10.1% YoY in May (vs. 10.9% last month). Core WPI also fell to 10.4% YoY vs. 11.1% in April. The dip is driven by deceleration in basic metal and fabricated metals inflation to 18.9% and 10.4% respectively in May from 24.8% and 12.4% in April. Lower global prices along with government's supply side measures seemed to have worked here. At the same time, other categories such as textiles and apparel, wood, chemicals, rubber and plastics, non-metallic minerals and vehicle and electrical equipment continue to see hardening of price pressures. Thus, some more pass-through into domestic prices is inevitable.

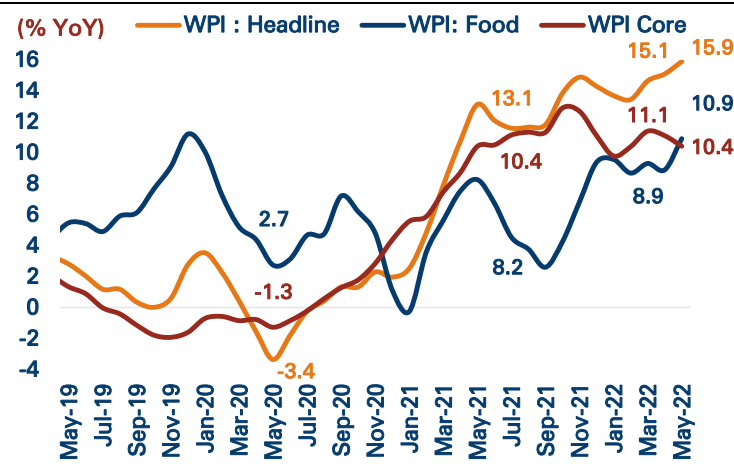
WPI to stay elevated: With oil prices continuing to inch higher and a few food categories such as vegetables reporting substantial acceleration in price pressures, we expect WPI inflation to remain elevated. It also means that pass-through into domestic prices is yet incomplete. While retail inflation has moderated on the back of government's supply side measures, international oil prices have moved up again. At the same time, impact of supply side measures taken by government is visible in WPI as well—steel prices and edible oils/ oilseeds. Depreciation pressure on INR will also have an impact on both WPI and CPI.

WPI : Higher oil and vegetable prices nudge WPI inflation

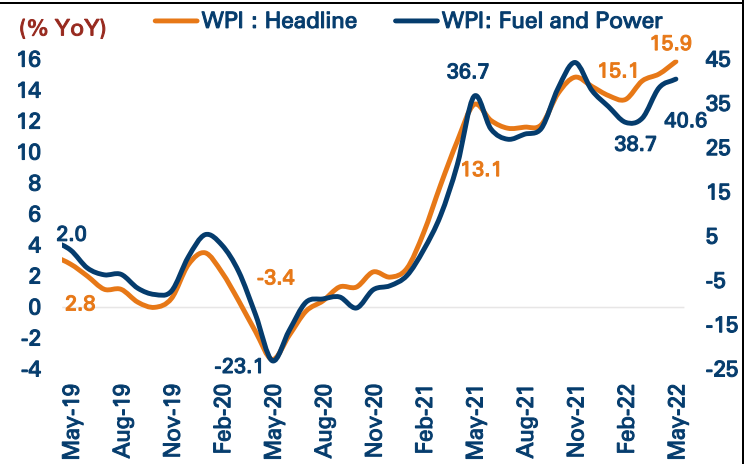
(% YoY)	Weight	May-21	Apr-22	May-22
Headline	100.0	13.1	15.1	15.9
Primary articles	22.6	9.4	15.4	19.7
of which				
Food		4.2	8.4	12.3
Non food		18.4	23.8	24.1
Minerals		13.3	21.0	33.9
Crude , petroleum and natural gas		59.5	69.1	79.5
Fuel and Power	13.2	36.7	38.7	40.6
Manufacturing	64.2	11.3	10.9	10.1
Food index	24.4	8.2	8.9	10.9
WPI Core	55.1	10.4	11.1	10.4

Source : CEIC , ICICI Bank Research

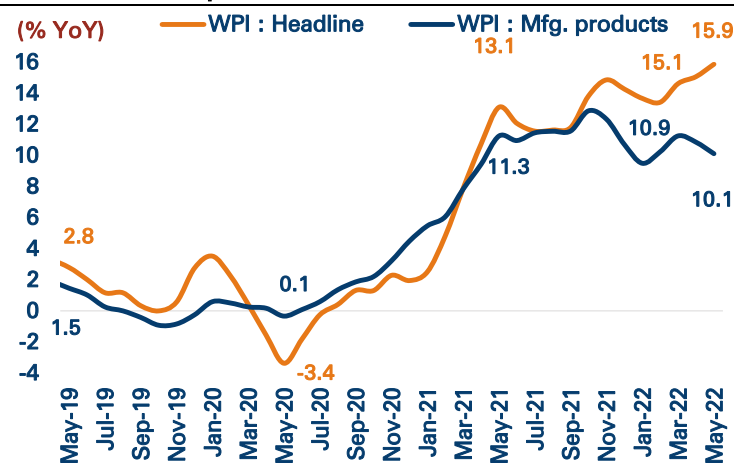
Wholesale price index climbs further to 15.9% YoY



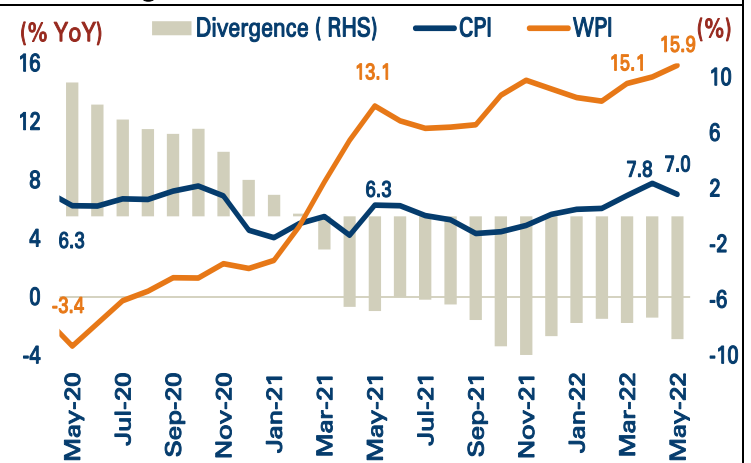
Fuel inflation accelerated to 40.6% YoY vs. 38.7%



Manufactured products inched down to 10.1% YoY



The divergence between WPI and CPI continues



Source : CEIC , ICICI Bank Research

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