

WPI Inflation: April 2023

Continued fall in manufactured products inflation bodes well for core CPI, but the falling WPI inflation suppresses nominal GDP growth and can worsen the debt metrics.

Primary articles inflation fell to 1.6% YoY in Apr'23 (Mar: 2.4%) as lower inflation in food and non-food articles more than offsets the increase in minerals, and crude petroleum.

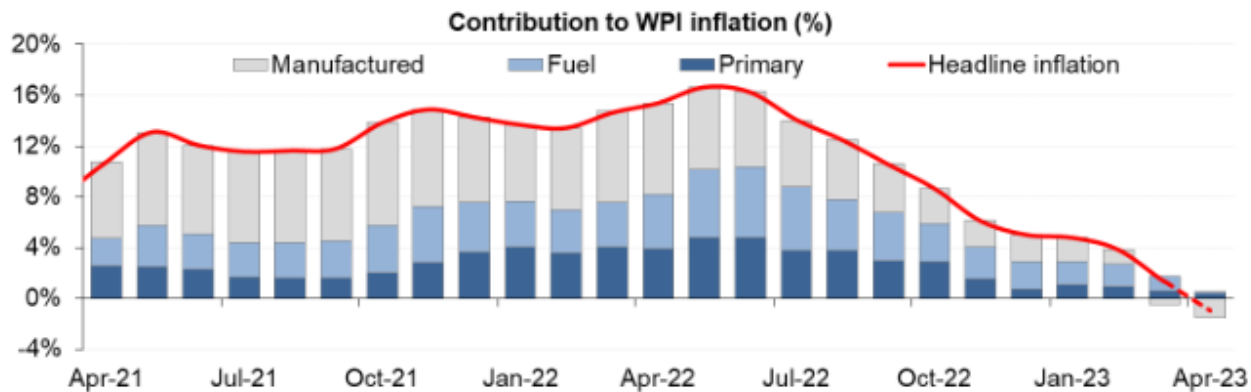
- Food article prices fell to 3.5% YoY (Mar: 5.5% YoY) due to lower inflation in fruits, vegetables, eggs, tea & coffee. Vegetables and fruits saw limited MoM increase as compared to seasonal trends, was visible in CPI inflation too.
- Wheat prices continued to correct on arrival of Rabi crop, while the prices of other cereals such as rice, jowar, bajra, and major pulses saw MoM increase. High inflation in milk was offset by a sharp deflation in eggs and chicken while the already elevated spices inflation ticked up further.
- Non-food articles inflation moved further into contraction as MoM correction in prices of major oil seeds (except groundnut) contrasted with a rise seen in Mar-Apr last year, consequent to the Ukraine war. Cotton (79% weight in fibres) prices were high last year due to low crop yield but have since then corrected.
- Minerals was driven out of deflation by MoM increases in copper concentrates and iron ore.
- Deflation in crude petroleum was milder on MoM price increase following the OPEC+ output cuts. Natural gas saw prices fall this April however prices are likely to tick up in May on revised pricing policy.

Fuel inflation dropped to 0.93% YoY in Apr (Mar: 9% YoY) on continued correction from elevated levels (up 63% YoY in Apr'22 and 74.7% YoY in May'22) consequent to the Ukraine war.

- On a MoM basis, broad based lowering was seen in various components and was led by a sharp fall in kerosene, ATF, and naphtha.

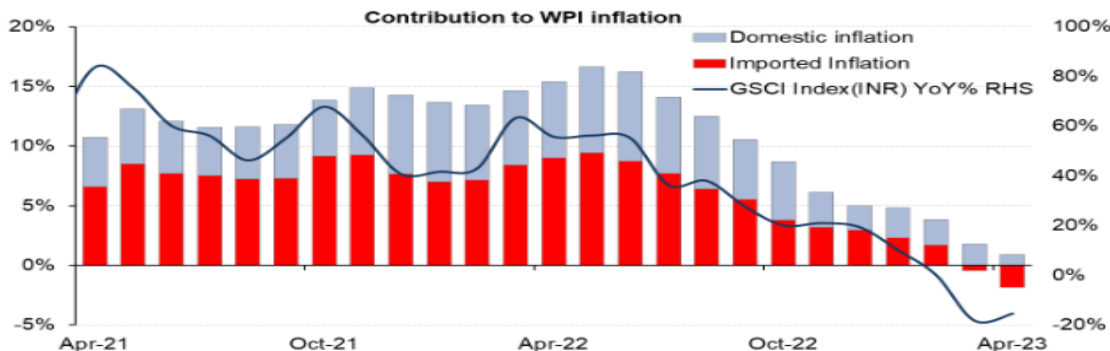
Manufactured products' inflation moved further into contraction of 2.4% YoY (Mar: -0.8% YoY) and was driven by sharp deflation in basic metals, and supported by milder inflation in textiles, food, and chemicals

Chart 1: Contribution to headline WPI inflation - continues to trend lower after peaking in May'22; first contraction since Jul'20



Source: Office of Economic Adviser, Axis Bank Research

Chart 2: Contribution of imported and domestic components to headline WPI inflation - Imported commodity prices responsible for negative inflation, but domestic trends also weak



Source: Office of Economic Adviser, Bloomberg, Axis Bank Research

Source: Axis Bank Business Economic Research

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