

WPI update: June 2023

A continued fall in manufactured products' inflation brings about twin positives in lower core CPI inflation, and a higher reading on real GDP growth.

Primary articles contracts faster at 2.9% on a YoY basis in Jun'23 (May: -1.8%) on sharp contraction in crude petroleum and non-food articles.

- Food articles inflation eased marginally to 1.3% YoY (May: 1.5% YoY) as sharp increases last year in vegetables formed a supportive base.
- Pulses moved up and cereals also moved up due to increased prices in jowar, wheat and rice.
- Prices of milk, eggs, meat, fish, spices (ginger, garlic, and cumin) moved up in June.
- Non-food articles inflation remains in deep contraction of 9.7%YoY. On MoM basis, there was correction in cotton (79% weight in fibres) and oilseeds which compounded by a high base on weak output in the former and effects of the Ukraine war on the latter.
- Minerals inflation softened to 4.1% YoY on broad-based MoM price fall across products especially in copper concentrates and phosphorite.
- Domestic natural gas prices are revised twice a year, in April and in October. The price hikes this year was delayed to May and were muted compared to sharp increases last year which led to accelerated fall in inflation (but this is still-high at 22%YoY).
- Crude oil inflation in deep negative territory as the MoM fall in June adds to sharp fall of the previous month.

Fuel inflation moved further into deep deflation of 12.6% YoY in June (May: 9.2% YoY) with the high base of Ukraine war.

- Elevated increases (sharp MoM increases in minerals oils during Feb to May last year) in the aftermath of Ukraine war were exacerbated by MoM corrections this May and June in LPG, petroleum coke, SKO, ATF, naphtha, and other products. Electricity costs have been trending lower since Dec'22 and prices of non-coking were raised for the first time since Dec'20.

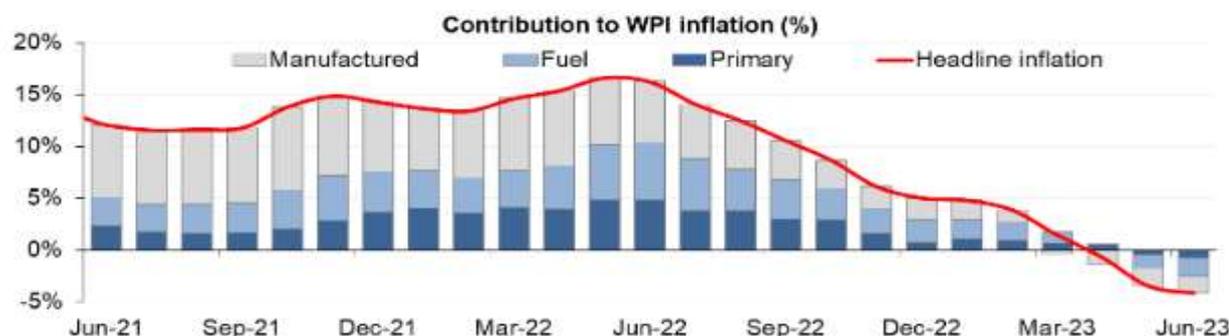
Manufactured products' inflation remains in contraction at 2.7% YoY (May: -3% YoY)

- It is driven by sharp deflation in basic metals, textiles, chemicals, paper, and food, and supported by milder disinflation in rubber, plastics and fabricated metal products.

Softer WPI inflation will likely bring GVA and GDP deflators lower with reasonable levels of nominal growth, this flatters real growth.

- The effect would be more pronounced in the manufacturing sector where nominal indicator based on corporate results is deflated by an index with a large weight to WPI inflation.
- In addition, the effect will more likely be pronounced in H1 as compared to H2.

Chart 1: Headline WPI inflation continues to trend lower after peaking in May'22 and has moved further into contraction



Source: Axis Bank Business and Economic Research Team

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