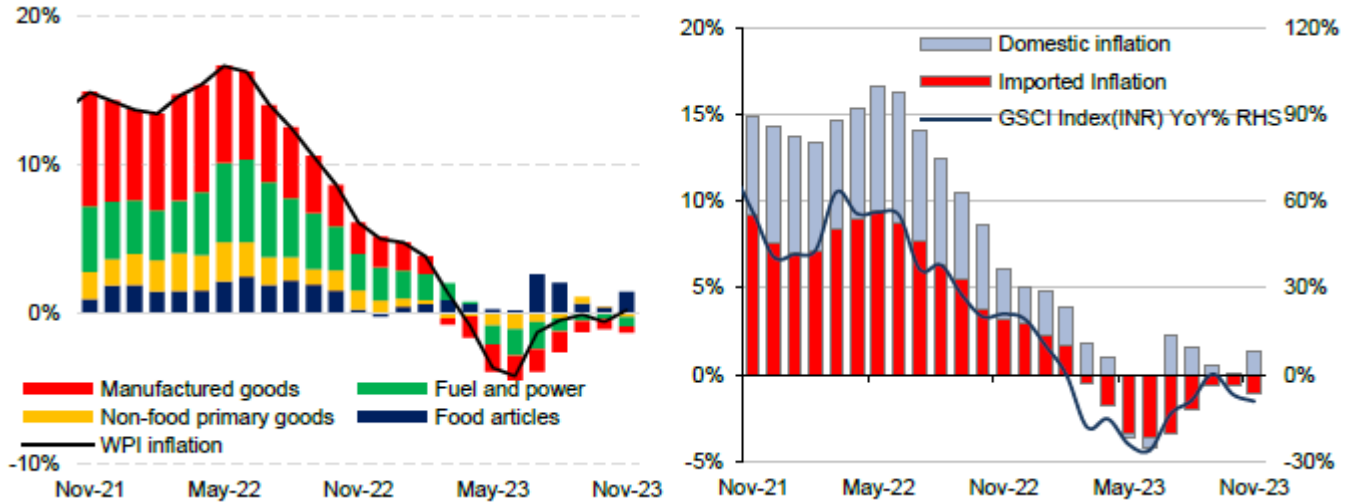


India Data WPI Update

India WPI inflation rises with higher vegetable prices.

Exhibit: WPI inflation boosted by food, while imported inflation lower



Source: Axis Bank Business and Economic Research

India WPI inflation rises to 0.26% in line with vegetable prices

India's November WPI inflation came in at 0.26%, with strong gains seen from tomatoes, onions, as well as other vegetables thus matching trends seen in daily prices data as well as in CPI inflation. Unlike in CPI inflation, where lowering inflation in other vegetables on winter crop arrivals offset onions and tomatoes, WPI inflation had no offset from within vegetables. Apart from vegetables, elevated inflation in cereals, pulses, milk and fruits sustained, keeping overall food inflation high.

Higher food inflation was offset to a small extent by moves lower in crude oil prices, and to a much larger extent in wholesale prices of diesel as seen in lower Asian crack spreads in November.

Steady disinflation in metals and chemicals also continued, largely tracking developments in global commodity prices. In line with these trends, wholesale non-food manufacturing inflation, thought to be a core measure, rose to -0.5%, the highest level since Feb'23 before the Ukraine war led to a high base in global commodity prices.

Though limited as a policy tool, WPI inflation shapes income and growth

The anchor for domestic monetary policy has been CPI inflation since the adoption of the FIT framework, leaving WPI inflation only as an accessory indicator helping study underlying trends in high-frequency wholesale prices, since these are often inputs to consumer facing goods and services, some see WPI inflation as a form of input inflation, but information is limited beyond already-known moves in high-frequency food and global commodity prices.

WPI inflation forms a large chunk of the GDP deflator, predominantly in manufacturing. The impact was clear in Q2 data where manufacturing GVA in real terms was significantly higher than that seen in nominal terms, owing to a negative deflator. WPI inflation rising back to positive territory will largely support nominal income trends across households, corporates and the government – a similar effect post the pandemic was at least partly responsible for the shrinking of corporate debt metrics as a percent of nominal balance sheet.

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