

WPI inflation hits 11-month low of 12.41%

SHIVA RAJORA

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The wholesale price index- (WPI-) based inflation rate for August decelerated for the third consecutive month to an 11-month low of 12.41 per cent as pricing pressure from manufactured and fuel items eased despite an increase in food inflation.

Data by the industry department on Wednesday showed food inflation accelerating to 12.37 per cent in August, as prices of wheat, vegetables, fruits and protein-rich items shot up, compared to their level a year ago. Inflation for fuel (33.67 per cent) and manufactured (7.51 per cent) items decelerated. Benefitting from the softening in key commodity prices amid global slowdown concerns, the core WPI inflation dipped to a 17-month low of 7.9 per cent in August.

However, this is the 17th consecutive month since April 2021 that the factory-gate inflation has remained in double-digits, primarily driven by rising energy and food prices.

What remains worrying is that August WPI inflation of 12.41 per cent comes on the back of

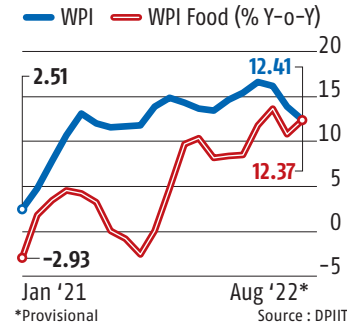


a high base of 11.64 per cent for the same month last year.

WPI inflation for LPG, petrol and diesel decelerated to 19.75 per cent, 38.68 per cent and 60.15 per cent, respectively, as global crude oil prices fell below the \$100-mark in August for the first time since April.

“Notwithstanding the broad-based sequential hardening in prices of food items in the early part of the ongoing month, we expect the

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WPI inflation to ease to around 11-12 per cent in September, aided by the correction in global commodity prices. Consequently, the WPI inflation is likely to ease to around 13 per cent in Q2 FY23 from 16.1 per cent in Q1 FY23, before slipping into single digits by October, after a gap of 18 months, if the downtrend in commodity prices sustains,” Aditi Nayar, chief economist, Icria said.

A round of expected monetary tightening

by the United States Federal Reserve and fears of a global slowdown are expected to drive down commodity prices, thus reducing wholesale inflationary pressures.

“While easing wholesale inflation is a positive development, it remains to be seen if firms pass on the benefit to consumers. If not, bringing retail inflation within the target range could take even longer. If the easing of global commodity prices sustains, we could expect wholesale inflation easing to single digit by October. We expect WPI inflation to fall below CPI inflation by the end of this fiscal year,” says Rajani Sinha, chief economist, CARE Ratings.

Though the Reserve Bank of India’s (RBI’s) monetary policy committee (MPC) is tasked with containing retail inflation and not wholesale price inflation, the latter seeps into the former. Economists expect RBI to sharply increase policy rates in the Monetary Policy Committee meeting later this month. Data released on Monday showed CPI-based inflation reversed its three-month downward trend in August, rising to 7 per cent driven by a surge in food prices.