

WPI inflation eases to 29-mth low in March

Fall in manufactured product prices, lower fuel costs drag index to 1.34%

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The wholesale price index (WPI)-based inflation rate fell to a 29-month low of 1.34 per cent in March from 3.85 per cent in February due to higher base effect amid contraction in the prices of manufactured products and softening of fuel costs.

The factory-gate inflation was 14.63 per cent in March 2022. It was for the sixth consecutive month that the wholesale inflation was down to single digits, after remaining in double digits for 18 months. It was 1.31 per cent in October 2020.

Data released by the commerce and industry ministry on Monday showed that prices for manufactured items (-0.77 per cent) contracted in March from 1.94 per cent in February, led by a decelerated price rise in items like chemicals, pharmaceuticals and cement, and a dip in the prices of manufactured food products (-2.96 per cent), paper (-1.01 per cent), and wood (-0.83 per cent). Contraction in prices continued in textiles (-4.93 per cent) and fats (-21.33 per cent).

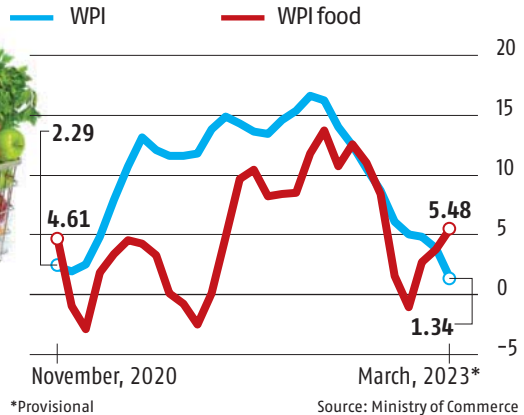
Rajani Sinha, chief economist at CARE ratings, said manufactured products had seen a deflation for the first time in about three years, largely due to lower textile and metals prices.

However, food inflation, excluding manufactured food items, rose to 5.48



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(YoY in %)



per cent in March from 3.81 per cent in February. This was led by an acceleration in price rise of pulses (3.03 per cent) and only a marginal contraction in the prices of vegetables (-2.2 per cent). On the other hand, prices of cereals (9.48 per cent), paddy (7.54 per cent), wheat (9.16 per cent), milk (8.48 per cent), and fruits (4.89 per cent) decelerated in March. While a high base and the downtrend in wholesale prices of most essential commodities in early April 2023 are likely to soften the year-on-year food inflation slightly, the possibility of a heatwave in the ongoing month could impart upward pressures on prices of perishables, ICRA Chief Economist Aditi Nayar said.

Besides, fuel inflation eased to 8.96 per cent in March from 14.82 per cent in February. It was led by deceleration in price rise of petrol (6.48 per cent) and high-speed diesel (11.85 per cent). However, after contracting for four straight months, LPG prices accelerated to 3.31 per cent in March.

The fall in WPI comes after retail inflation declined to 5.66 per cent in March, coming below the central bank's upper tolerance limit of 6 per cent for the first time in 2023.

In April, the Monetary Policy Committee kept the policy repo rate unchanged at 6.5 per cent but declined to concede that the rate cycle had peaked. Though the RBI tracks retail inflation for its policy decisions, easing wholesale price inflation may lead to expectations of a fall in retail inflation in the coming months. The divergence between retail and wholesale price inflation has risen to 432 basis points in March from 24 bps in November. Madan Sabnavis, chief economist at Bank of Baroda, said the indications were that the WPI inflation would be in the lower range of 2-3 per cent in the coming months. "However, this will not be important from the point of view of credit policy, though it may not spell good news for manufacturing in terms of pricing power," he said.