

Inflation: No relief in sight

Retail and wholesale inflation moved up in tandem last month. Wholesale inflation rebounded in February after two months of moderation, while retail inflation sustained its climb of the last six months.

Both measures of inflation recorded an annual as well as sequential rise in February. Wholesale inflation, as measured by the wholesale price index (WPI), grew 13.1% YoY and was 1.4% higher than that a month ago. Retail inflation rose 6.07% YoY and 0.24% MoM.

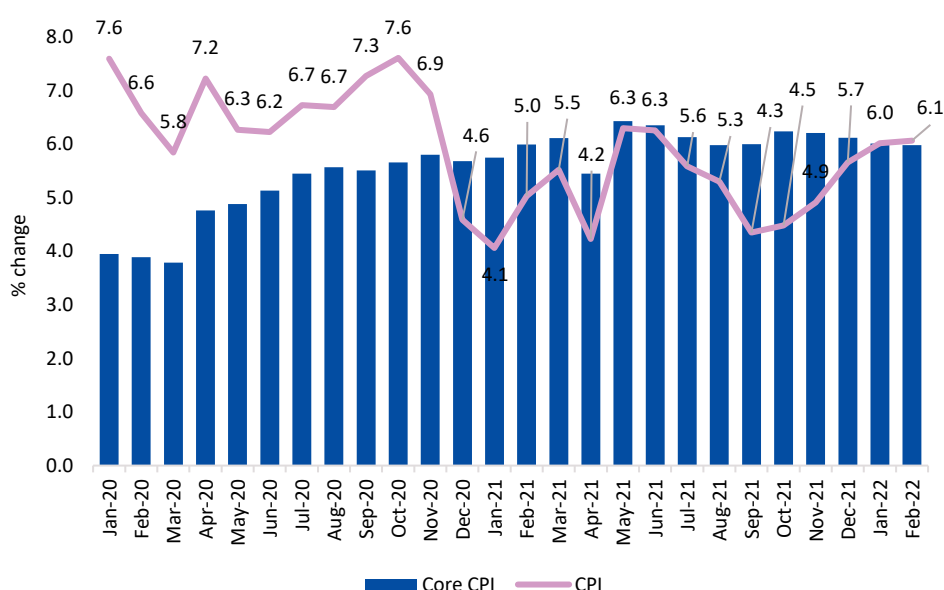
In case of both retail and wholesale inflation, food inflation moderated on sequential or MoM basis in February but was notably higher than that a year ago.

Drivers of retail inflation

- Food and beverage inflation rose to a 15-month high of 5.9% (YoY).
 - Within the food group, edible oil (16.5%) and vegetables (6%) rule high. Edible oil prices have been elevated for the last two years and there are concerns over further price rise in the aftermath of the Russia-Ukraine crisis.
 - Cereals (3.95%), meat fish & eggs (7.56%), vegetables (6.13%), pulses (3.1%) and spices (6.1%) also recorded a rise in prices (YoY).
- Miscellaneous items recorded an increase in price levels, viz. household goods (7%), health (6.8%), transport (8%), recreation (7%), education (3.7%) and personal effects (5.5%). Further increase in prices is expected.
- Fuel & light inflation eased to the lowest level (8.7%) on YoY basis in 10 months. With revisions in fuel prices expected, inflation in this segment is estimated to increase.
- Core inflation (excluding food and fuel & light) moderated to a six-month low in February'22. However, at 5.98%, it continues to be high.

Kavita Chacko
Chief Economist
kavita.chacko@edelweissfin.com

Exhibit 1: Headline and Core Inflation

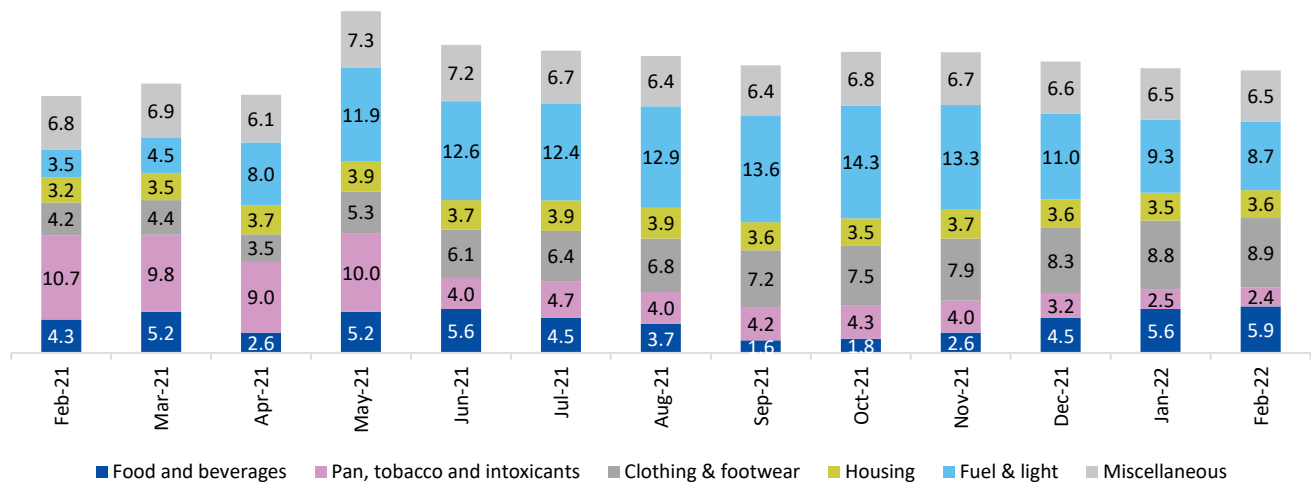


Source: Mospi and Edelweiss Wealth Research

March 14, 2022

Inflation

Exhibit 2: Price Change in Key Segments of CPI (% YoY)



Source: Mospi and Edelweiss Wealth Research

Wholesale inflation

Wholesale inflation has been ruling in double digits for the last 11 months (since April'21). The increase in WPI in the ongoing financial year indicates the producers have been passing on the price increase to wholesalers.

- The rise in wholesale inflation in February (YoY) was driven by crude petroleum (55% increase), mineral oils (50%) and manufactured products (9.8%).
- Primary articles rose 13.4% (YoY) and within this, non-food articles registered growth of 24% and food articles of 8%.
- Of the 22 manufactured product groups, 18 recorded increase in prices, while 3 registered decrease in prices in February'22 from those a month ago.
- The increase in prices is mainly contributed by basic metals (20%), textiles (14%,; paper and paper products (13%) and chemical and chemical products (13%).
- Some groups that witnessed decrease in prices are manufacture of fabricated metal products (to 10% from 11.7%) and tobacco products (1.1%).
- Prices of manufacture of rubber and plastic products (9.3%) remained unchanged in February 2022 compared with those in January 2022.

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Exhibit 3: Components of Wholesale Price Index

	All commodities	Primary articles					Fuel & power				Manufactured products
		Total	Food articles	Non-food articles	Minerals	Crude petroleum & natural gas	Total	Coal	Mineral oils	Electricity	
Apr-21	10.7	9.9	4.6	15.6	20.6	80.8	21.3	0.6	46.0	-2.5	9.4
May-21	13.1	9.4	4.2	18.4	13.3	59.5	36.7	0.7	83.0	0.2	11.3
Jun-21	12.1	8.6	3.3	18.6	15.3	47.0	29.3	0.7	61.8	-2.8	11.0
Jul-21	11.6	6.3	0.1	22.9	12.6	42.3	27.0	0.9	53.7	-2.8	11.5
Aug-21	11.6	5.9	-0.8	28.7	7.2	34.5	28.2	1.0	52.7	2.9	11.6
Sep-21	11.8	6.0	-2.6	29.5	30.8	49.0	29.5	1.0	51.7	10.8	11.6
Oct-21	13.8	7.4	0.1	18.4	16.6	86.4	38.6	2.0	70.1	10.8	12.9
Nov-21	14.9	10.2	4.8	13.4	26.2	71.1	44.4	3.1	81.9	12.0	12.3
Dec-21	14.3	13.8	9.7	19.3	18.9	47.5	38.1	3.1	65.2	15.7	10.7
Jan-22	13.0	13.9	10.3	19.7	14.9	39.1	32.3	3.1	52.2	15.7	9.4
Feb-22	13.1	13.4	8.2	24.2	11.1	46.1	31.5	3.2	49.6	15.1	9.8

Source: Edelweiss Wealth Research

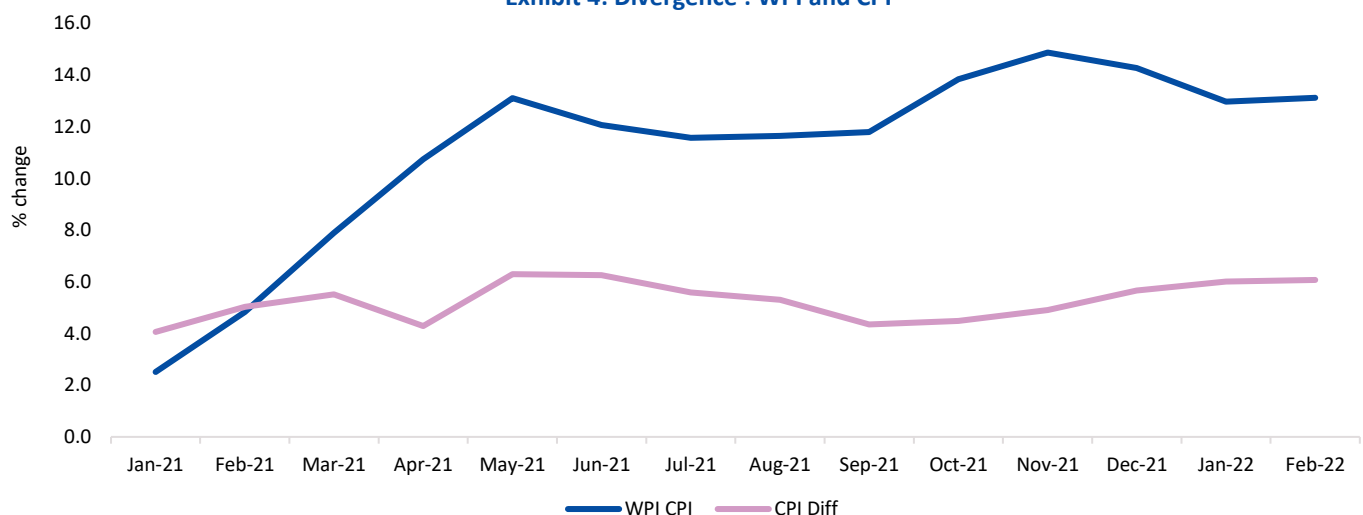
Divergence: Wholesale and retail inflation

The divergence or gap between the retail (CPI) and wholesale (WPI) inflation has been notable in the current financial year. In the first eleven months (April-February) of FY22, the difference between the two averaged 7.3% and ranged between 5.8% and 10%. This divergence is led by the sharp increase in WPI inflation. WPI inflation averaged 12.7% during Apr'21-Feb'22 and ranged between 10.7% and 14.9%. CPI inflation, on the other hand, averaged 5.4% and moved in the range of 4.3% to 6.3%.

The growth in WPI inflation can be largely attributed to the low statistical base effect.

The inflation indicated by WPI and CPI tends to differ due to composition of the indices. While the CPI has a higher weightage for the food segment (46%), in case of WPI, the manufacturing segment has a higher weightage of 64%.

Exhibit 4: Divergence : WPI and CPI



Source: Edelweiss Wealth Research

Inflation

Our View

Inflation is unlikely to level off soon with the Russia–Ukraine crisis showing no clear signs of abating. As such, the surge in commodity prices and fresh disruption in global supply chains brought about by the geopolitical crisis would persist until trade flows re-route. Retail inflation would be ruling around the upper tolerance limit (6%) of the RBI's target for the next 1-2 months.

The RBI will necessarily have to revise its inflation outlook upwards for the coming fiscal (currently at 4.5%). It will also be compelled to relook its accommodative policy stance if commodity prices do not show signs of moderation. We however do not expect any change in interest rates in the upcoming policy meet of RBI.

Edelweiss Broking Limited, 1st Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kiroi Road, Kurla(W)
Board: (91-22) 4272 2200

Vinay Khattar
Head Research
vinay.khattar@edelweissfin.com

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