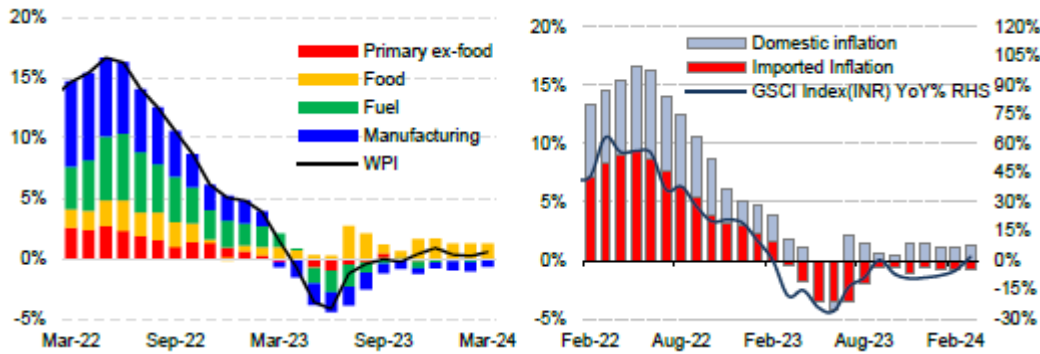


India Data WPI Update

India WPI inflation higher, with further increase baked in.

Exhibit: India WPI inflation breakup by subindex (L), and by source (R)



Source: Axis Bank Business and Economic Research

India WPI inflation picks up to 0.53% with early recovery in commodity prices.

India's WPI inflation rose to 0.53% in line with recovery in the fuel and manufactured sub-indices, while food inflation held steady. Numbers indicate the strongest level of WPI inflation since Dec'23, but this is still at levels that are historically low. Increases were largely driven by wholesale prices of diesel, tracking moves higher in crude oil prices in the month (even though consumer fuel pump prices were lower on account of government price cuts). Apart from this, increases in other petro product prices were offset by cuts to prices of LPG in the month. The increase was also driven by pickup in edible oil prices globally and locally, as well as other industrial commodities.

Risks skewed to higher inflation given global commodity prices, domestic food.

April has seen a continued recovery in prices of crude oil and other metal prices in line with geopolitical developments and some evidence of improved industrial activity. This adds to risks in food prices stemming from lower soil moisture and reservoir levels in select states, unusually warm weather, as well as uncertainty around the monsoon. Notably, a chunk of WPI inflation, that coming from imported prices, is sensitive to the GSCI commodities index and is shown above.

Commodities-driven inflation, if realized, can optically affect 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. However, WPI inflation forms a large chunk of the GDP deflator, predominantly in manufacturing, larger WPI inflation represents both higher input prices, and also brings about a larger deflator to manufacturing GVA growth pushing back on growth. The negative deflator in FY24 has boosted manufacturing GVA growth. The extent by which this affects manufacturing margins though transmission of increased costs is another variable in this calculation.

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