

Wholesale inflation surges to record high 15.08% in April

With this, WPI-based inflation has hit double digits for 13 consecutive months

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India's wholesale price index (WPI)-based inflation rate rose to the highest level in the current 2011-12 series at 15.08 per cent in April on the back of hardening commodity and vegetable prices. With this, the WPI rate has risen in double-digits for 13 consecutive months.

What makes this particularly worrisome is the fact that the increase was reported despite a high base of 10.74 per cent inflation rate last year.

Data released by the industry department on Tuesday showed vegetable inflation picked up in April to 23.24 per cent, leading to a food inflation of 8.35 per cent, even as the rise in wheat price softened.

Though down marginally from the previous month, at 15.05 per cent in April edible oil inflation remained in double digits for the twenty-ninth consecutive month.

Core inflation, which excludes food and fuel inflation, rose marginally to a four-month high of 11.1 per cent. Fuel inflation climbed to 38.66 per cent, while inflation for manufactured products increased to 10.85 per cent.

Sunil Kumar Sinha, principal economist at India Ratings and Research, said manufacturers



ILLUSTRATION: BINAY SINHA

are increasingly passing on surging input costs to customers, leading to higher inflation in manufactured products.

"Though this trend started well before the Russia-Ukraine conflict, it has aggravated due to further spike in input cost, especially of crude oil and raw materials. As the conflict does not seem to be coming to an end soon, the headwinds arising out of the disruption in the global supply chain, coupled with uncertainty, will continue to put pressure on domestic wholesale inflation," he added.

Aditi Nayar, chief economist at ICRA, said with some correction in commodity prices, as a result of the bleaker demand outlook in China offsetting the

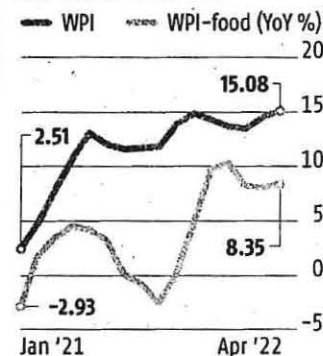
depreciation in the rupee, the WPI inflation may recede mildly below 15 per cent in May, while remaining uncomfortably elevated.

However, Nayar believes the probability of a repo rate hike in the June review of monetary policy has risen further, with the WPI inflation remaining solidly in double digits.

"We expect a 40 bps hike in June followed by a 35 bps rise in August, amidst a terminal rate of 5.5 per cent to be reached by mid-2023. With the source of inflation being global supply issues and not exuberant domestic demand, we maintain our view that over-tightening will douse the fledgling recovery without having a commensurate impact on the origins of inflationary pressures," she cautioned.

While the central bank is

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Source: DPMI

mandated to anchor retail inflation, rising wholesale price inflation may lead to higher retail inflation with a lag.

Morgan Stanley last week said within Asia, India would be the economy most exposed to upside risks to inflation because of higher energy import burden and sustained strength in domestic demand.

The investment bank expects front-loaded policy rate hikes by the central bank to preserve macro stability, with inflation concerns rising.

"We expect front-loaded rate hikes and pencil in hikes of 50 bps each in the June and August meetings, to be followed by back-to-back rate hikes to take the policy rate to 6 per cent by December 2022. We expect the terminal policy rate to be 6.5 per cent," it said.