

Wholesale inflation in December eases marginally to 13.56% after 4 months

Synopsis

The wholesale price index (WPI), though, remained in double digits for the ninth successive month and some experts expect it to stay that way for the rest of this fiscal year.



India's [wholesale inflation](#) eased marginally to 13.56% year on year in [December](#) after climbing for four straight months to a record high of 14.23% in November, data released by the commerce and industry ministry on Friday showed.

The wholesale price index ([WPI](#)), though, remained in double digits for the ninth successive month and some experts expect it to stay that way for the rest of this fiscal year.

WPI declined 0.35% month on month in December.

The persistent high wholesale inflation has created the risk of further hardening in retail inflation, which is closely watched by the Reserve Bank of India ([RBI](#)) while setting interest rates. "Elevated prices at the wholesale level could be passed onto retail consumers, posing upside risks to the [CPI](#) (consumer price index) trajectory in the coming months," said Rahul Bajoria, managing director and chief India economist of Barclays.

Retail inflation hardened to a six-month high of 5.59% in December from 4.91% in November, data released earlier this week showed. The RBI has a target consumer inflation rate of 2-6%.

However, given the concerns over the economic recovery - industrial growth dropped to a nine-month low of 1.4% in November - the central bank is not expected to raise rates in its February review.

"Notwithstanding the continued double-digit WPI inflation in December 2021, we expect the MPC (Monetary Policy Committee) to pause in February 2022," said Aditi Nayar, chief economist at ratings agency ICRA.

Primary surge

The primary articles inflation was at a 12-year high of 13.38% in December, reflecting the sharp rise in the prices of commodities. Food articles inflation climbed to 9.56% in December from 4.88% a month ago. Wholesale prices of food accelerated 6.7% versus 3.06% in the previous month.

"Part of the reason for such a rise in fruits and vegetables inflation is supply disruption caused by excess rains in the southern parts of the country," said Sunil Kumar Sinha and Paras Jasrai, economists at India Ratings and Research (Ind-Ra).

Cereals inflation rose to 5.1% in December, a 22-month high. Edible oils inflation despite some easing was at elevated levels of 16.84%.

Wholesale fuel and power prices in December rose 32.3% on year against 39.81% in November, while manufactured product prices rose 10.62% against 11.92% in the prior month.

Core inflation was 11% and has now remained in excess of 11% for six months.

Core inflation has become sticky because high input costs are increasingly passed on to the output prices by manufacturers despite anaemic demand, and is gradually finding its reflection in price hikes of FMCG and telecom firms, India Ratings' economists said.

Distribution costs of companies stay high with fuel being a major input into their transportation cost. Consequently, inflation in seven groups - textiles, paper, chemicals, rubber & plastics, basic metals, fabricated metals and furniture - has been in double-digits now for seven successive months.

Firm outlook

The renewed rally in commodities following expectations of lesser disruption to the global economy due to the spread of the Omicron variant of coronavirus is expected to keep wholesale inflation elevated.

The higher primary prices are expected to offset the seasonal moderation in food prices. "Against this backdrop, India Ratings & Research expects the wholesale inflation to be in double-digits in rest of the fiscal," Sinha said.