Inflation woes: Here's how experts have interpreted CPI, WPI numbers

The recent economic data, especially the inflation trajectory, has been a cause for concern for experts. The spike in inflation comes on the back of a steady rise in crude oil prices at the global level, which have fed into a rise in the auto fuel pump prices back home.

While industrial production (IIP) contracted 1.6 per cent in January, retail inflation (CPI) soared to a three-month high of 5.03 per cent in February on costlier food items, data released Friday showed.

On Monday, WPI inflation came in at 4.17 per cent in February, up 2.03 per cent from January.

Most experts say the numbers are worrisome and can dent the economic recovery going ahead. Here's how economists at leading brokerages and research houses have interpreted the numbers.

Nomura

CPI inflation rose in line with consensus expectations in February at 5 per cent y-o-y, but we find the composition concerning. Overall, the main takeaway from the February inflation data are growing signs that a combination of higher commodity prices and normalizing domestic demand are resulting in higher momentum in core inflation. Looking to March, the inflation dynamics appear adverse, not least due to adverse base effects. Overall we expect inflation to average around 5 per cent in 2021, while core inflation is expected to average higher at around 5.5 per cent.

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Barclays

Given continued supply disruptions and international commodities continuing to rise, we expect core WPI inflation to remain elevated over the medium-term. However, core WPI has limited pass-through to core CPI, especially when the output gap is negative. That said core WPI's current elevated momentum should be closely monitored.

Approaching summer, elevated core inflation and surging fuel prices remain key risks for inflation over the medium-term. While part of the current surge in prices could be due to supply disruptions that could reverse, the MPC will likely remain cautious and stay on the sidelines throughout the 2021. We maintain our FY22 inflation projections at 4.8 per cent y/y average, and in terms of its half-yearly trajectory, we see inflation averaging 5.2 per cent in H1FY22, moderating to 4.5 per cent in H2FY22.

CARE Ratings

Wholesale inflation is likely to see a further pickup in March 2021 on the back of persistent high inflation in the manufacturing segment and sustained uptick in the inflation of the fuel segment. A low base effect is also likely to pressure wholesale inflation for the next few months. Localised lockdowns in a few states could add to supply disruptions and weigh on wholesale prices to some extent.

ICRA

Looking ahead, we expect large uptick in the WPI inflation over the next three months, as the wedge between the commodity prices and their year-ago level intensifies. We expect the headline and core WPI inflation to rise to around 6 per cent each in March 2021. Subsequently, we expect the headline WPI inflation to harden further to between 9-9.5 per cent, and the core-WPI inflation to climb to 7-7.5 per cent by May 2021, before displaying a more gradual moderation to 4 per cent each by the end of 2021.

CPI