

WPI and CPI Inflation: August 2015

WPI inflation for August 2015, stands at -5.0%, lower than CARE's forecast of -4.4%. CPI inflation for the same period is 3.7% also lower than CARE's forecast of 3.9%.

- WPI inflation was in the negative territory for the 5th month of this fiscal year as it lessened to -4.95% from -4.05 % in July'15 as major commodity prices continue to fall.
- CPI rate also moderated for the month as it fell to 3.66% from 3.69% in Jul'15.
- The lower rates of WPI and CPI are likely to have a positive bearing on both industry and consumer sentiments.

A) WPI Inflation

Table 1: WPI inflation over the last 6 months (%)

Group	Rates of Inflation for last six months					
	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
All commodities	-2.33	-2.43	-2.20	-2.13	-4.05	-4.95
Primary Articles	-0.17	0.50	-1.05	-0.48	-3.66	-3.71
<i>Food Articles</i>	6.27	5.90	2.74	3.12	-1.16	-1.13
<i>Non-food Articles</i>	-6.94	-2.90	-0.96	1.16	-0.74	-0.69
Fuel & Power	-12.23	-12.98	-9.43	-8.86	-12.81	-16.5
Manufactured Products	-0.19	-0.45	-0.52	-0.77	-1.47	-1.92

Source: Office of the Economic Advisor

The WPI inflation has seen a broad –base deepening due to several factors:

- Declining crude oil prices due to supply glut and low demand from world's major economies have not only brought down retail prices of petroleum products but have also helped producers' cut down on transportation costs .
 - High speed diesel fell to -8.75% (m/m) in August'15 and by -24.5% (y/y) in FY16 compared to last year, weighing down fuel and power.
- Lower international commodity prices especially gold and precious metals due to low demand amid economic slowdown have pulled down prices for manufactured products.
 - Producers' inflation was low for manufactured products on account of sugar (-19.1%), metals (-7.6%) and iron (-12.8%).
- Primary articles inflation was lower than previous month's level brought about two major sub-categories- vegetables (except onions) and non-food articles (especially minerals).
 - Prices of onions rose by 65.3% in Aug'15 from -0.49% in July'15 pushing up food inflation. However, the continued moderation in potato prices to -51.2% in Aug'15 more than compensated vegetables' price to -21.2% for Aug'15 , a tad higher from -24.4% in Jul'15.
 - As reflected in food articles inflation, prices of pulses and fruits also showed some increase last month. Pulses prices have been climbing up since last six months, reached 36.5% in Aug'15 compared to 35.8% in Jul'15. Prices of fruits fell after falling in last 3 months (May'15-Jul'15) increased last month to -1.3% from -4.5% in Jul'15.

Although the falling WPI number seems favorable for the industry however, this could be a reflection of slowing economy. The falling prices of manufactured products hints at low demand and high supply situation.

A) CPI Inflation

Retail inflation for the month of August'15 is at an all time low of 3.7%, well in tandem with the low WPI numbers.

- Food inflation is apparent in the CPI numbers as 'Food & beverages' component of the index shows some increase. This sub-category has been showing increasing trend since May'15 due to rising prices of 'Pulses'.
- It is interesting to note that, despite the fall in global oil prices, CPI inflation for the group 'Fuel and light' has increased in the last month.
- 'Housing' category has shown higher number in Aug'15 compared to Jul'15 as real estate demand booms, putting pressure on land prices.
- **Consumer Food Price Index (CFPI)** has climbed up from 2.15% in Jul'15 to 2.20% in Aug'15 led by pulses, fruits and cereals.

Table 2: Retail Inflation in April'15 - August'15

%	Apr-15	May -15	Jun-15	Jul-15	Aug-15
Food, beverages	5.4	5.13	5.7	2.89	2.92
Pan, tobacco and intoxicants	9.2	9.5	9.8	9.9	9.3
Cereals and products	2.2	2.0	2.0	1.1	1.2
Pulses and products	12.5	16.6	22.2	22.9	25.8
Meat and Fish	5.5	5.4	7.0	7.0	5.8
Milk and milk products	8.2	7.4	7.2	6.1	5.3
Fruits	5.1	3.8	3.5	1.5	1.0
Vegetables	6.6	4.6	5.4	-7.9	-6.4
Non-alcoholic beverages	4.7	4.8	4.8	4.4	4.4
Sugar and Confectionary	-6.0	-7.3	-8.6	-12.3	-13.3
Clothing and footwear	6.2	6.1	6.3	5.9	5.8
Housing	4.7	4.6	4.5	4.4	4.7
Fuel and light	5.6	5.96	5.9	5.4	5.7
Miscellaneous	3.3	3.85	4.2	3.4	3.1

Source: MOSPI

What could this mean from the policy perspective?

The new WPI and CPI numbers are in favor of the RBI's stance on inflation. It does provide a positive outlook for industries if RBI cuts interest rate in its upcoming monetary policy. With the demand slackening on the back of poor monsoon, strong case remains for a rate cut. However, RBI has been cautious and waits for the base effect to wear off by the month ending September and may further delay its rate change decision until its fifth bi-monthly policy.

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