

Inflation: December 2013

The annual rate of inflation, based on monthly WPI, stood at 6.16% (Provisional) for the month of December 2013 as against 7.3% in December 2012. Compared with the inflation rates in the last 6 months, the number came down for the first time after increasing continuously from 5.85% in July to 7.52% in November. The WPI inflation for the month of October 2013 was revised upwards to 7.2% from the provisional estimate of 7.0% reported earlier.

There are three ways of looking at the inflation numbers. First, comparing inflation on year on year basis; second comparing the inflation number with the previous month (monthly trend) and third, inflation based on build up in the financial year so far.

A. Inflation across product groups (year on year basis)

Table 1: Inflation- December 2013

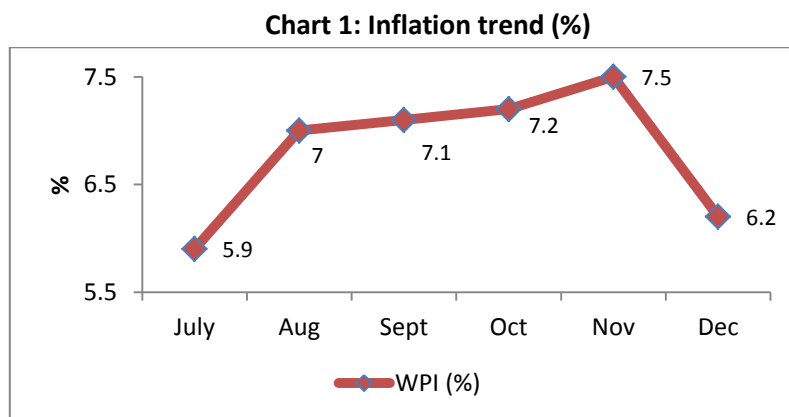
%	WPI (y-o-y)	
	FY13	FY14
Primary Articles	10.6	10.8
Food Articles	10.6	13.7
Fuel & Power	10.3	11.0
Manufactured Products	5.0	2.6
All Commodities	7.3	6.2

Source: MOSPI

- All commodities WPI stood at 6.2% in December 2013 as against 7.3% in the corresponding month of pervious year.
 - **Primary articles** inflation increased to 10.8%
 - Within Primary articles, **food inflation** jumped to 13.7% as against 10.6% in December 2012
 - Among the various food articles, rate of inflation for the **vegetables segment** was high at 57.3% even after witnessing a decline in December over November.
 - **Fruits and milk** prices increased by 9.1% (4.8%) and 6.9% (6.2%) respectively.
 - **Egg, Meat & Fish** inflation stood at 11.4% (12.7%)
 - However, **onion prices** witnessed a steep decline to 39.6% from 72.8% in December 2012
 - Potato prices also declined to 54.7% (58.0%)
 - Rate of inflation for **Cereals** declined to 10.2% (19.1%)
 - Within Cereals, inflation of **rice** declined to 13.6% (17.1%) and **wheat** to 7.9% (22.6%)
 - **Pulses** registered a negative growth in inflation (-7.2%) as against +16.3% in December 2012

- Inflation in the **Non food articles** segment moderated to 6.0% as against 13.6% in December 2012
 - **Oilseeds** registered a negative inflation of 0.1% as against 30.0% in December 2012
 - **Mineral** prices moderated to 2.1% (5.6%)
 - On the other hand, **fibres** witnessed significant increase to 15.2% (0.7%)
- **For the Fuel and power** segment, inflation increased to 11.0% in December 2013 compared with 10.4% for the corresponding month last year.
 - Most of the increase in this category could be attributed to **Petrol** (5.4%) and **High speed diesel** (17.0%)
 - Prices of **liquefied petroleum gas** declined by 1.5% as against an increase of 19.0% in the corresponding month last year
- **Manufactured products** segment has registered moderation in inflation, moving down to 2.6% in December 2013 from 5.0% in December 2012.
 - This was on account of easing in prices of **food products**, with sugar (-6.0%) and edible oil (-1.2%) registering negative rate of inflation
 - Negative inflation was also witnessed in categories such as cement & lime (-0.9%), basic metals alloys & metal products (-1.1%) and iron & semis (-2.6%)
 - However, cotton textiles (9.0%), manmade textiles (6.1%), leather & leather products (6.6%) and rubber & plastic products (6.6%) registered an increase in inflation the month of December 2013.

B. Inflation across product groups (monthly trend)



After increasing since August 2013, inflation moderated to 6.2% in the month of December 2013. The primary articles inflation declined to 13.7% in December 2013 from 19.9% in the previous month. Most of this can be attributed to the moderation in vegetable prices (from 95.3% in November to 57.3% in December) mainly those of onions which declined from 190.3% to 39.6% in December.

Fuel & Power also witnessed a marginal decline from 11.1% in November 2013 to 11% in December 2013. However, inflation for manufactured products remained steady at 2.6%.

C. Build up Inflation from March

Build up inflation rate in the financial year so far (April – December) stood at 5.4% as against 4.8% in the corresponding period last year. Most of this build up inflation has been contributed by primary articles (9.2%) and fuel & power (10.3%). However, build up inflation for manufactured products have declined to 2.2% as against 3.8% last year.

Monetary policy action

The easing of inflation for the month of December provides some relief to the RBI. With the CPI and WPI inflation coming in at a lower level in December 2013, RBI may contemplate a rate cut if the WPI and CPI figures continue to move downwards in the next two months. The expectation is that WPI and CPI inflation should remain in the range of 6.5-7% and 9-10% respectively in the next two months in the absence of any eternal shock.

The 10-year GSec yield should be range bound between 8.5-8.7% in the near term.

However, no change may be expected in RBI's stance in the January policy.

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