

WPI Inflation: February 2014

The annual rate of inflation, based on monthly WPI, stood at 4.7% (Provisional) for the month of February 2014 as against 7.3% in February 2013. Compared with the inflation rates in the last 6 months, the number of 4.7% has been the lowest. The WPI after increasing continuously from August to November declined in the months of December and January.

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

Table 1: Inflation- February 2014

%	WPI (y-o-y)	
	FY13	FY14
Primary Articles	10.5	6.3
Food Articles	11.9	8.1
Fuel & Power	10.6	8.8
Manufactured Products	4.8	2.8
All Commodities	7.3	4.7

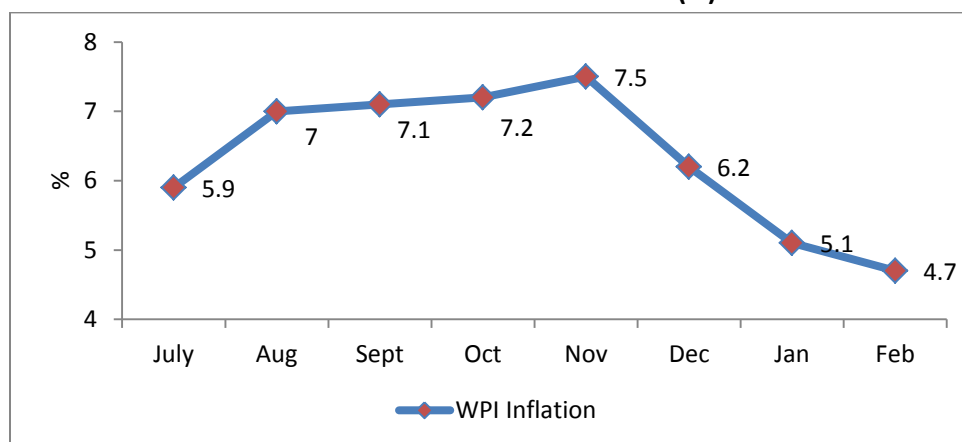
Source: Ministry of Commerce and Industry

- All commodities WPI stood at 4.7% in February 2014 as against 7.3% in the corresponding month of previous year.
 - **Primary articles** inflation declined sharply from 10.5% in February 2013 to 6.3% in February 2014.
 - Within the primary articles segment, **food inflation** moderated to 8.1% as against 11.9% in February 2013
 - Rate of inflation within the **vegetables basket** moderated to 4.0% from 19.9% earlier.
 - Prices of **potatoes** declined to 8.7% as against 50.1% in February 2013. However, **onion** prices registered a negative growth in inflation (-20.1%) as against 182.7% in February 2013.
 - Prices of milk increased by 8.4% (4.5%)
 - Rate of inflation for **Cereals** declined to 9.1% (18.6%)
 - Within Cereals, inflation of **rice** declined to 13.7% (17.8%) and **wheat** to 6.5% (21.8%)
 - **Pulses** registered a negative growth in inflation (-4.1%) as against 13.9% in February 2013
 - Inflation in the **Non food articles** segment moderated to 5.1% as against 10.7% in February 2013
 - **Oilseeds** registered a negative inflation of 0.3% as against 24.4% in February 2013

- **Minerals** also registered a negative inflation of 1.6% (2.8%)
- On the other hand, **fibres** witnessed significant increase to 19.6% (5.4%)
- **For the Fuel and power** segment, inflation moderated to 8.8% in February 2014 compared with 10.6% for the corresponding month last year.
 - Most of the decline in this category could be attributed to **Liquefied petroleum gas** which witnessed negative growth of 4.1% as against an increase of 24.4% in the corresponding month last year
 - Petrol prices increased by 6.5% (4.8%)
- **Manufactured products** segment registered moderation in inflation, moving down to 2.8% in February 2014 from 4.8% in February 2013.
 - This was on account of easing in prices of **food products**, with sugar (-6.6%) and edible oil (-1.7%) registering negative rate of inflation
 - Negative inflation was also witnessed in category of cement & lime (-2.9%),
 - However, cotton textiles (7.9%), leather & leather products (8.4%) and rubber & plastic products (6.5%) registered an increase in inflation the month of February 2014.

B. Inflation across product groups (monthly trend)

Chart 1: Inflation trend (%)



Source: Ministry of Commerce and Industry

After increasing since August 2013, headline inflation has been on downward trajectory since December 2013 and eased further in the months of December, January and February. The monthly moderation in inflation is attributed to lower growth in prices of food articles and fuel and power. The food inflation moderated from 13.7% in December to 8.8% in January 2014 and to 8.1% in February 2014. Fuel prices declined from 10.9% in December 2013 to 10.0% in January 2014 to 8.8% in February 2014

Inflation in manufacturing products segment remained constant at 2.8% in the both of February when compared with the month of January.

C. Build up Inflation from March

Build up inflation rate in the financial year so far (April – February) stood at 5.2% as against 6.2% in the corresponding period last year. Most of this build up inflation has been contributed by primary articles (7.0%) and fuel & power (11.0%). However, build up inflation for manufactured products have declined to 2.7% as against 4.2% in the previous year.

Monetary policy action

The easing of inflation for three consecutive months (since December) does provide some relief to the RBI. ***Although inflation is on a downward trend, we do expect RBI to still maintain key interest rates status quo in the April 2014 policy to ensure that the decline in inflation continues before turning the course of the monetary policy. Also the CPI inflation number, which appears to be the target for the RBI though declining, is still above 8%.***

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