

Inflation: April 2014

The wholesale price inflation number came below the market expectations for the first month of the new financial year. Compared with a market estimate of 5.7% (CARE's was lower at 5.4%), the inflation number for April was 5.2%. While this is higher than what it was in April 2013, it is lower than in March. This contrasts with the CPI inflation picture which was higher in April at 8.6% as against 8.3% in March. Therefore, while the downward movement is satisfactory in wholesale prices, it would not provide any additional signal or change in direction of price movements for further policy action.

WPI in April 2014

Table 1: WPI across sectors (%)

	Apr 13	Apr 14
All commodities	4.77	5.20
Primary articles	5.06	7.06
Food articles	6.08	8.64
Non-food articles	7.59	3.15
Fuel & power	8.33	8.93
Manufactured products	3.69	3.15

As the table above shows, the primary and fuel segments witnessed higher price increases in April 2014 relative to April 2013. Manufactured goods however witnessed a lower inflation rate. Within primary products, the pressure point is once again on food articles which have increased by 8.64% as against 6.08%. It must be pointed out that April is the time when the rabi harvest does come in big numbers which typically has a soothing effect on prices given that supplies increase. The projection for rabi crop has been good this year with higher output expected for wheat, oilseeds and pulses. A similar trend may also be witnessed in May which would be the terminal point for rabi harvest.

Table 2 below provides information of the movement of the inflation rates across the last 6 months. This enables analysis of any trend, if any, in the movement of prices across these segments.

- The overall tendency has been for the WPI inflation rate to come down over the months. While there was a deviation in March, it was still lower than 6%. Therefore, a conclusion that may be drawn is that given the developments that took place last year, the worst or high of inflation would be behind us unless there is a major distortion caused by the el Niño this year - which cannot be ruled out given the high probability of its occurrence.
- The continuous or almost continuous decline in inflation rate for primary products is encouraging as it appears we are out of the double digit primary articles syndrome which was a major concern last year.
- The lowering of primary articles inflation was more due to the decline in the inflation rate for food articles which had a high of almost 20% in November. Non-food articles on the other hand have witnessed a continuous decline over this period. Within food product the major shocks came from vegetables and fruits. However, inflation for milk and eggs, meat etc. have also been elevated and are still close to 10%

Table 2: 6-Month Trend in WPI inflation: Sector wise (%)

	Weight	Nov	Dec	Jan	Feb	Mar	April
All commodities	100.00	7.52	6.40	5.11	5.03	5.70	5.20
Primary articles	20.12	15.29	10.82	6.80	6.28	7.66	7.06
Food articles	14.34	19.69	13.73	8.85	7.94	9.90	8.64
Non-food articles	4.26	7.45	6.00	4.59	5.46	4.62	3.15
Fuel & power	14.91	11.08	10.87	9.82	8.75	11.22	8.93
Manufactured products	64.97	2.91	3.04	2.96	3.36	3.23	3.15
Food products	9.97	2.40	1.86	1.14	1.08	1.87	1.98
Cotton textiles	2.61	8.44	8.97	9.16	9.54	7.00	7.89
Manmade textiles	2.21	7.55	6.37	5.66	5.40	5.18	5.90
Wood products	0.59	4.25	3.52	4.43	6.11	5.17	5.69
Paper products	2.03	4.67	5.37	4.66	4.88	4.35	4.42
Leather products	0.84	7.77	7.40	7.36	8.43	8.39	7.08
Rubber & plastic	2.99	7.33	6.85	6.54	6.96	6.95	6.18
Chemicals	12.02	3.54	3.74	3.57	4.12	3.56	4.17
Non-metallic mineral	2.56	1.47	2.52	0.85	1.09	0.48	1.20
Basic metals alloys	10.75	-0.90	-0.18	0.54	1.33	1.70	0.67
Machinery	8.93	2.80	2.87	2.40	2.71	2.55	2.31
Transport equipment	5.21	3.82	3.58	3.35	2.88	2.72	2.73

- Fuel products do indicate a decline. However, it should be noted that prices have benefited partly from the exchange rate appreciation as well as the decision not to increase price of diesel. This decision is to be reversed which will bring pressure back on prices.
- Lower manufactured goods inflation is reflective of low demand conditions. While this has helped industries which are users of these products, the manufacturers have been at a disadvantage.

Inflation and policy response going ahead

WPI inflation would have to be monitored carefully in the light of the expected el Niño which would affect monsoon and probably the kharif harvest. The important factors would be the arrival of the monsoon, progress of rainfall and spread across various geographies and crops. While the RBI's actions so far indicates that it would be giving precedence to CPI inflation over WPI inflation, it does look as if no action would be forthcoming until a clear picture emerges on the monsoon prospects for the year.

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