Economics

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WPI Inflation: April 2015

WPI inflation for the first month of the year came in at a new low of -2.65% which was slightly lower than CARE's forecast of -2.5%. This corroborates with the lower CPI number for April which was 4.9%. ***With inflation being firmly under the desirable limits, there is a strong case now for the RBI to lower rates on June 2nd (or even before).*** The RBI now targets CPI inflation and not WPI as per its stated stance. ***We expect a rate cut of 25 bps even though there are upside risks in the form of:***

- Sub normal monsoon
- Possible increase in crude prices
- Higher US interest rates
- Weaker rupee

Wholesale prices decreased across all the three major groups: primary articles by -0.25%, fuel products by -13.0% and manufacturing goods by -0.52%. This has been due to a combination of various factors including the declining international commodity prices which affects especially metal and chemicals related goods. Food articles continue to display similar tendencies as last year, and have not been influenced except for specific products by lower production numbers.

The decline in prices of primary products was mainly due to negative growth for all non-food sub-categories like fibres, oilseeds and minerals. Food products registered positive increase of 5.7% even though it has been coming down since February. This category still remains the only one with a higher number in both the price indices. The CPI food index had witnessed growth of 5.1% while the overall index moved by 4.9%. In the WPI index, pulses, onions, fruits and milk contributed to higher inflation.

Lower fuel prices were expected as global crude oil prices remained low. However, going forward with crude oil prices likely to increase, this comfort may diminish depending on how the government tackles the issue of fuel subsidy. As the government has already decided to free the upstream companies from bearing a part of the subsidy on fuel products, there may be less room for maneuverability here.

Negative growth in prices of manufactured products was witnessed across the board with the only exceptions being beverages, tobacco (3.1%), cement and cement products (7.9%), machinery (1.1%), transport equipment (1.25%) and wood products (1.6%). While lower or negative growth in prices of manufactured products is a big positive for the users, negative inflation may not be good for producers as this reflects a loss of pricing power which finally gets reflected in their profit and loss accounts.

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