

## Wholesale Price Inflation- May 2015

WPI inflation continued with its decline in May'15, the seventh month in a row, and came in at -2.36% (compared with the -2.65% in Apr'15 and 6.18% in May'14). This decline in WPI was lower than CARE's expectation of -1.5% and is in contrast to the trend reversal in CPI Inflation (increase of 5% in May'15).

The contraction in wholesale prices continued to be broad based with the 3 main segments of the WPI recording a protracted decline in prices. Primary articles declined by -1.8% (-0.3% in the previous month), fuel & power by -10.5% (-13% in previous month) and manufactured products by -0.6% (-0.5% in Apr'15). The decline in domestic prices of manufactured products and fuel & power can be attributed to the decline in global commodity prices viz. of crude oil and metals.

	May-14	Mar-15	Apr-15	May-15
<b>All commodities</b>	<b>6.18</b>	<b>-2.33</b>	<b>-2.65</b>	<b>-2.36</b>
<b>Primary articles</b>	<b>8.58</b>	<b>0.08</b>	<b>-0.25</b>	<b>-0.77</b>
<i>Food articles</i>	9.64	6.31	5.73	3.80
<i>Non-food articles</i>	4.94	-7.12	-6.18	-2.24
<b>Fuel &amp; power</b>	<b>10.53</b>	<b>-12.56</b>	<b>-13.03</b>	<b>-10.51</b>
<b>Manufactured products</b>	<b>3.88</b>	<b>-0.19</b>	<b>-0.52</b>	<b>-0.64</b>

In case of primary articles, which comprises of food and non-food articles, the decline in prices was supported by the decline in prices of non-food articles viz. fibers and minerals which contracted by -12% and -28% respectively (compared to than in May'14). The prices of food-articles on the other hand rose 3.8% (9.6% in May'14 and 5.7% in Apr'15) and was mainly driven by the increase in prices of pulses (23%), onions (20%), fruits (9%) and milk (7%). This increase in prices of these food products can be attributed to supply constraints/ shortfalls. Nevertheless, a steady decline in prices of food articles in WPI has been observed since Jan'15 i.e. from 8% to 3.8% as of May'15.

The decline in prices of manufactured products is in part a reflection of the decline in global crude and metal prices which has lowered the cost of raw materials and inputs used in the production process. It also shows the inability of the producers to raise prices in the absence of pick-up in demand and prevailing excess capacity. Negative price growth was mainly recorded in the manufacture of food products (-0.6%), textiles, chemicals, leather, rubber & plastic products and basic metals & alloys. The segments that recorded an increase in prices were wood & wood products, paper & paper products, cement & lime, non-metallic mineral products and transport equipment.

**CARE's View**

WPI inflation is likely to remain subdued in the coming month given that a large weightage in the index is accorded to manufactured products (65%) which are unlikely to see a sharp and sudden spike given the prevailing and foreseeable conditions in the global crude oil and metal prices and with domestic demand yet to register noteworthy pick-up.

Agricultural prices on the other hand bear the risk of sub-normal monsoons in the country. It needs to be seen how the monsoons develop and progress in the coming months, especially in July when the bulk of the Kharif crop sowing takes place.

Although the latest India Meteorological Department (IMD) announcements state that conditions are becoming favorable for the advance of monsoons and that most of the country, barring the North-West, will be covered by rainfall by the end of the month, the RBI can nevertheless be expected to wait a while to see how the inflation situation unfolds (especially CPI inflation) and the US federal reserve action on interest rates for formulating its policy stance. A further cut in interest rates can be expected only in H2FY16 provided inflation continues to be within the RBI's comfort levels.

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