Economics

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Wholesale Price Inflation: June 2015

WPI inflation continues to remain in the negative territory for the 5th successive month. This has been witnessed across the three major segments for the last 2 months. Food inflation too has moved downwards in the last 2 months and remained below the 5% mark.

The main reasons for this are:

1. Lower international commodity prices especially for metals due to low demand conditions in the rest of the world have put downward pressure on prices of manufactured products. With China being expected to register growth of not more than 7%, these prices would continue to remain depressed.
2. Low crude oil prices mainly due to the global developments in the area of shale production. Here too the future scenario is positive for importers of crude oil.
3. Lower primary products inflation with food prices cooling down at the wholesale level.
    a. Within food prices there were high increases in case of pulses and onion in June. However a sharp fall in potato prices led to a negation of this increase resulting in an increase of just 2.9%.
    b. If the kharif crop is normal there could be further moderation in WPI for these products.

Table 1: WPI inflation over the last 6 months (%)

	Rate of Inflation for the last six months					
Group	June-15	May-15	Apr-15	Mar-15	Feb-15	Jan-15
All commodities	-2.40	-2.36	-2.43	-2.33	-2.17	-0.95
Primary articles	-0.76	-0.77	0.50	-0.17	1.01	1.38
Food articles	2.88	3.80	5.90	6.27	7.83	8.00
Fuel & power	-10.03	-10.51	-12.98	-12.23	-14.77	-11.02
Manufactured products	-0.77	-0.64	-0.45	-0.19	0.26	1.05

Source: Office of the Economic Advisor

On the whole the movement of the sub-indices has been favourable for the economy. However, negative growth in manufactured prices is a reflection of the loss of pricing power for industry, and while there are gains to be made as users of these products as inputs, their profitability has also been under pressure when sales growth has slowed down in physical terms. The quarterly results of companies in this quarter would need to be monitored closely.

The fall in fuel prices would continue for some more time as prices had reined high last year. The advantage here would be felt more by the government which will have to spend less on subsidy and would hence be able to control the expenditure on this front. Interestingly, in the CPI the two equivalents of fuel and light and transport showed positive increases of 5.92% and 0.89% respectively. This may be attributed to the revision in final retail prices of petrol and diesel as well as transport charges across private and public transport facilities.

The table below maps some of the food products price increases under the WPI and CPI for June to get an idea of the variation in prices as one moves from the wholesale to the retail side. The two sets may not be identical in terms of coverage but have been assumed to be almost similar for comparison purposes.

Table 2: Inflation of food products by the two indices in June (%)

Product	WPI	CPI
Cereals and products	-0.43	1.98
Meat and fish	2.41*	6.99
Eggs		5.09
Milk	5.18	7.18
Fruits	7.47	3.51
Vegetables	-7.07	5.37
Pulses	33.67	22.24
Sugar and confectionary	-11.9	-8.55
Prepared meals	-0.12 (food products)	7.84
Overall food inflation	***2.88***	***5.48***

**: for meat, fish and eggs*

The table shows that while overall food inflation was higher for the CPI, it was lower in case of vegetables where prices have decline in case of WPI but increased at the retail level. In case of fruits retail prices have risen at a lower rate than at the wholesale level.

What could this mean from the policy perspective?

The RBI has been cautious in its inflation outlook even though CPI inflation was around 5% last time the policy was announced. There is absence of clarity on the ultimate outcome of monsoons as well as final impact on kharif crops and hence inflation. While the monsoon appears to be close to normal so far, the months of July and August will be critical in terms of impact on sowing patterns which has again been normal so far.

As CPI inflation has inched upwards to 5.4% for June, the RBI would probably wait for some more trends in the monsoon, output and inflation before taking any decision in interest rates. The high base effect will keep inflation numbers below 6% in the absence of any monsoon shock till around August. Besides, as there has been no pick-up in bank credit, there is no pressing need to lower rates at this point of time. Therefore no rate action is expected in the August review.

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022-67543489

Jyoti Wadhwani
Associate Economist
jyoti.wadhwani@careratings.com
91-022-61443518