

## Wholesale Price Inflation: October 2015

Inflation has decelerated for the 7<sup>th</sup> consecutive month in FY16 registering a contraction of 3.81% during October 2015 against a positive growth of 1.66% recorded in October 2014. The continuous decline in the overall prices at the wholesale level has been mainly on account of falling prices of primary articles, fuel and power and manufacturing products. However, food inflation has been positive at 2.44% for the month.

This deflationary phase over the past few months is mainly owing to some important developments at the global as well as the domestic level.

- Declining international commodity prices owing to subdued demand
- Global oil prices indicating no signs of upward movement, resulting in no impact of imported inflation
- Domestic prices face no inflationary threat owing to sluggish demand for exports

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

Group	Rates of Inflation for last six months					
	May-15	June-15	July-15	Aug-15	Sept-15	Oct-15
<b>All commodities</b>	-2.20	-2.13	-4.00	-5.06	-4.54	-3.81
<b>Primary Articles</b>	-1.05	-0.48	-3.98	-4.21	-2.09	-0.36
<i>Food Articles</i>	2.74	3.12	-1.20	-1.02	0.69	2.44
<i>Non-food Articles</i>	-0.96	1.16	-0.51	-0.46	2.61	5.10
<b>Fuel &amp; Power</b>	-9.43	-8.86	-11.56	-16.21	-17.71	-16.32
<b>Manufactured Products</b>	0.52	0.77	1.54	-1.99	-1.3	-1.67

Source: Office of Economic Advisor

Wholesale prices decelerated across all the three major categories; primary articles by -0.36%, Fuel & power by -16.37% and manufactured goods by -1.67%.

In case of primary articles, two features stand out:

- The decline in prices has been lower progressively in the last 2 months.
- While food and non-food items have witnessed positive growth in prices, overall inflation has come down due to sharp fall in mining by around 31%.

The decline in primary articles has been recorded mainly due to the continuous negative growth in the non-food products viz. fibers (-12.08%) and minerals (-26.50%). On the other food inflation after registering a negative growth for the months of July'15 and August'15 turned positive in Sept'15 and Oct'15. The positive growth was largely on account of the 2 important commodities – onions and pulses recording 85.66% and 52.98% growth in inflation during the month respectively.

However, fuel prices continued with its downward trend as expected owing to the fall in global crude oil prices. The fuel and power segment witnessed a decline of -16.32% during the month with high speed diesel prices contracting by 26.21%, petrol by 13.16% and liquefied petroleum gas by 5.83%.

Simultaneously, the manufactured products prices too witnessed a decline across almost all the products barring edible oils (4.53%), beverages& tobacco (2.43%), Wood products (3.90%), paper & paper products (2.65%), non-metallic minerals (1.08%), cement & lime (0.23%) and transport equipment and parts (1.25%). Among the sectors that witnessed decline in prices was sugar with a sharp decline of -14.54% followed by Iron & Semis (-13.72%), basic metals (-7.50%), manmade textiles (-5.31%), cotton textiles (-3.94%) etc.

### **Going Forward**

- The WPI inflation can be expected to continue with its negative growth trajectory for next few months owing to weak global demand.
- Global commodity prices will begin to rise only after economic growth picks up.
- Exports are also contingent on the pickup in demand which will help in maintaining low level of inflation.
- Lastly, the high base effect will keep the inflation number in the negative territory. There could be marginal positive inflation by March end if these trends reverse.

Contact:

**Madan Sabnavis**

**Chief Economist**

[madan.sabnavis@careratings.com](mailto:madan.sabnavis@careratings.com)

91-022-67543489

**Anuja Shah**

**Economist**

[anuja.jaripatke@careratings.com](mailto:anuja.jaripatke@careratings.com)

91-022-67543568

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