

Wholesale Price Inflation: September 2015

Headline inflation has decelerated for the 6th consecutive month in FY16 registering a contraction of 4.45% during Sept'15 against a positive 2.38% recorded in Sept'14. 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. Besides, food inflation though positive was at 0.69% 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. These are as follows –

- Declining international commodity prices owing to subdued demand from the three large economies viz. Japan, China and Europe.
- Similarly, global oil prices indicate no signs of moving upwards. Hence, the imported inflation remains absent in India.
- Despite weaker than expected monsoon, adequate buffer stocks of food grains and proactive supply management by the government with regard to vegetables have helped contain food inflation at lower levels.
- With sluggish demand for exports owing to weaker global demand, the domestic prices face no inflationary threat.

The table below represents the monthly trends in WPI inflation-

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

Group	Rate of Inflation for the last six months					
	Sept-15	Aug-15	July-15	June-15	May-15	Apr-15
All commodities	-4.45	-4.95	-4.00	-2.13	-2.20	-2.43
Primary articles	-2.09	-3.71	-3.98	-0.48	-1.05	0.50
Food articles	0.69	-1.13	-1.20	3.12	2.74	5.90
Fuel & power	-17.71	-16.50	-11.56	-8.86	-9.43	-12.98
Manufactured products	-1.73	-1.92	-1.54	-0.77	-0.52	-0.45

Source: Office of the Economic Advisor

Wholesale prices decelerated across all the three major categories- primary articles by -2.09%, Fuel & power by -17.71% and manufactured goods by -1.73%.

The decline in primary articles has been recorded mainly due to the continuous negative growth in the non-food products viz. fibers (-6.95%) and minerals (-30.53%). On the other food inflation after registering a negative growth for the months of July'15 and August'15 turned positive with 0.69% increase in Sept'15. The positive growth was largely on account of the 2 important commodities – onions and pulses recording 113.70% and 38.56% growth in inflation during the month.

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 -17.71% during the month with high speed diesel prices contracting by -28.06%, petrol by -14.78% and liquefied petroleum gas by 5.33%.

Simultaneously, the manufactured products prices too witnessed a decline across almost all the products barring edible oils (3.21%), beverages& tobacco (2.28%), Wood products (3.91%), paper & paper products (2.72%), non- metallic minerals (1.09%) and transport equipment and parts (1.40%). Among the sectors that witnessed decline in prices was sugar with a sharp decline of -16.30% followed by basic metals (-6.74%), Iron & Semis (-10.96%), cotton (-4.21%), manmade textiles (-4.84%), etc. However, the decline in inflation though a positive sign is pointing towards declining pricing power of the producers, which will in turn impact their profitability.

Going Forward

The WPI inflation can be expected to continue with its negative growth trajectory for next few months for various reasons -

- Global commodity prices will begin to rise only once the demand from the 3 important economies – Europe, China and Japan begins to revive with pick up in the growth of the respective economies which is yet to be seen.
- Likewise, the pickup in exports remains contingent upon the revival of the global demand which is yet to be witnessed. Hence, this should help to maintain the downward trend in domestic prices.
- Moreover, the high base effect will keep the inflation number in the negative territory.

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