

## Wholesale Price Inflation: November 2014

Wholesale inflation decelerated for the fifth consecutive month this fiscal as it came in at nil in November'14 (y-o-y) as against 7.5% during the corresponding period of the previous fiscal year. The slowdown in price rise is a positive sign with a marked decline across the broad heads of the WPI :

- Food prices have come down
- Fuel prices continue to fall
- Manufactured goods inflation remains weak
- Some downward bias due to high base effect

We have here compared inflation on a year-on-year basis, month-on-month basis as well as examined the build-up in price levels in the financial year so far.

### A. Yearly trend : Inflation across product groups

**Table 1: Inflation- November 2014**

%	WPI (y-o-y)	
	FY14	FY15
Primary Articles	15.3	-1.0
<i>Food Articles</i>	19.7	0.6
Fuel & Power	2.3	-7.1
Manufactured Products	2.9	2.0
<b>All Commodities</b>	<b>7.5</b>	<b>0.0</b>

Source: Ministry of Commerce & Industry

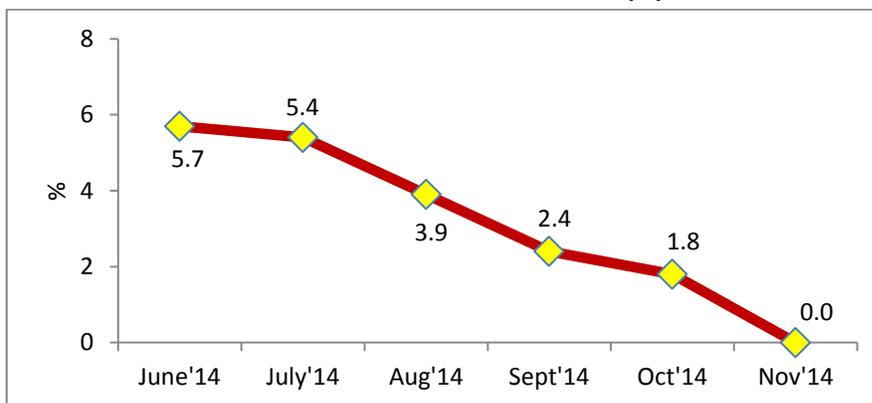
- WPI inflation for all commodities moderated to zero percent in November'14 as against 7.5% in the corresponding month of pervious year.
  - **'Primary articles'** inflation declined from 15.3% in November'13 to -1.0% in November'14
    - **This was mainly owing to a significant decline in food articles prices to 0.6% as against 19.7% in November'13**
      - There has been a deceleration in inflation across all major food articles namely cereals, rice, wheat, vegetables, onions etc. **In case of the latter two the base effect has been very sharp.**
      - **Potato and milk continue to show high increase, while rice and pulses have registered increase of 5.6% and 4.4% respectively.**
    - Non – food articles witnessed negative growth of 3.7% in November'14 (7.4%)
  - **'Fuel & Power'** has been another contributor to the low wholesale inflation in November'14, witnessing negative inflation of 7.1%.This does not come as a surprise as global crude prices have moderated significantly from a year ago levels. The significant decline in the WTI and

Brent largely explains the fall in domestic fuel and power inflation as stated in the table above.

- **‘Manufactured Products’** declined from 2.9% in November’13 to 2.0% in November’14. Industrial growth so far continues to stagnate at 1.9% for the first 7 months of the year. Declining global commodity prices has contributed to this movement.

## B. Monthly Trend : Inflation across product groups

**Exhibit 1: Inflation trend in FY15 (%)**



Source: Ministry of Commerce & Industry

It is evident from the above the graph that the inflation during this fiscal has been downward bound. While it did rise in May '14 to 6.2%, it has since been slowing down. This easing of inflation in the past six months is mainly due to continuous moderation in prices of vegetables in the food basket and the fuel & power segment even as a higher base in the previous year provided assistance.

## C. Build up Inflation in current fiscal year

Build up inflation rate in the financial year so far (April – November'14) stood at 0.7% as against 6.7% in the corresponding period last year. The build-up inflation for primary articles stood at 5.4%, with food articles inflation at 9.8%. Build up inflation for fuel & power declined to -7.0% as against 9.4% last year while manufacturing declined to 0.8% as against 2.4% for April – November'13

### CARE's View

The decline in WPI inflation is a welcome sign which appears to be sustainable given the direction of movement of farm and fuel prices. The only risk factor is a possible increase in agricultural product prices in the next two months as kharif crop is estimated to be lower this year. However, so far this has not manifested in any significant increase in prices. Crude oil prices are expected to prevail in the present range. The base effect however, is unlikely to impact the overall changes in WPI significantly and hence WPI inflation is unlikely to be a concern for the rest of the year.

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