Wholesale Inflation: August 2014

Wholesale inflation decelerated for the third consecutive month this fiscal as it came in at 3.74% in August ’14 (y-o-y) as against a rate of 6.99% during the corresponding period of the previous fiscal year. While this slowdown in price rise is a positive sign with a marked decline across the broad heads of the WPI, **it must be noted that the fall in inflation can also be attributed to the relatively higher base index in August ’13.**

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- August 2014

%	WPI (y-o-y)	
	FY14	FY15
Primary Articles	9.7	3.9
Food Articles	13.6	5.2
Fuel & Power	12.7	4.5
Manufactured Products	2.3	3.5
All Commodities	**6.99**	**3.74**

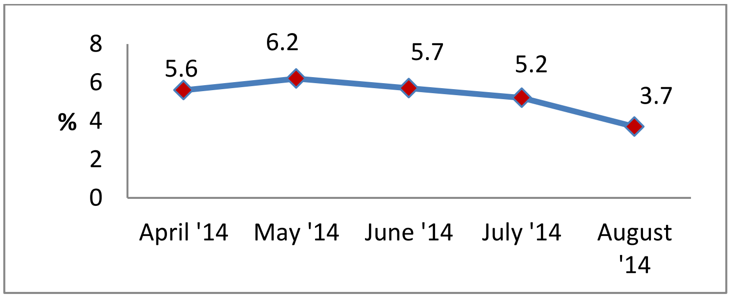
Source: MOSPI

- WPI inflation for all commodities moderated to 3.74% in August ’14 as against 6.99% in the corresponding month of pervious year.
  - There has been an across the board slowdown as all major heads recorded a dip in price rise. ***‘Primary articles’ inflation fell from 13.6% in August ’13 to 3.9% in August ’14 owing to the drastic fall in the price rise of ‘food articles’ to 5.2% from 19.2% (Aug ’13) which more than offset the rise in ‘non-food articles’ inflation over the same period.*** There has been a deceleration in inflation across all major food articles namely cereals, rice, wheat, vegetables, onion and egg, fish and meat. However certain articles such as fruits, potato and milk recorded higher inflation than the corresponding month of the previous fiscal.
  - ***‘Fuel & Power’*** has been another contributor to the low wholesale inflation in August ’14. ***This does not come as a surprise as global crude prices have moderated significantly from a year ago levels***. WTI hovered around a monthly average of $106.7/barrel in August’13 and Brent Crude averaged $110.9/barrel at the time. The same fell to $95.9/barrel and $103.5/barrel respectively in August ‘14. This largely explains the fall in domestic fuel and power inflation as stated in the table above.
  - ***‘Manufactured Products’ on the other hand recorded a slight increase from 2.3% in August ’13 to 3.5% in August ’14.*** However this can be interpreted as a positive development if

viewed in conjunction with the industrial production data which stands at a growth rate of 3.3% in FY15 so far vis-à-vis a contraction of 0.5% over the same period in FY14, which thereby imply that the manufacturing sector is on an uptick compared with the previous fiscal.

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 the first half of the fiscal year 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 three 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 –August’14) stood at 3% as against 5.2% in the corresponding period last year. This increase in build-up inflation has been contributed by primary articles (9.3%) particularly food articles (13.1%).Build up inflation for fuel & power declined to -0.1% as against 6.8% last year while manufacturing remained largely unchanged with a build-up inflation of 1%.

CARE’s View

The lowering of inflation for the third consecutive month is indeed a positive sign for the economy, albeit with some statistical factors also at play. Going ahead, oil prices are likely to remain subdued owing to the low demand- excess supplies fundamental prevailing overseas. However, it remains to be seen how agricultural produce prices move from here on and particularly in the October – November ’14 period given the monsoon this year has been delayed and largely subdued.

We do not expect any change in RBI’s policy stance later this month and thereby expect the repo rate to be status-quo at 8%.

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