

Wholesale Price Inflation: January 2015

Wholesale inflation decelerated for the eighth consecutive month this fiscal as it came in at -0.4% in January'15 (y-o-y) as against 5.1% 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:

- Primary articles have come down on y-o-y basis
- Fuel prices continue to fall
- Manufactured goods inflation remains weak

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

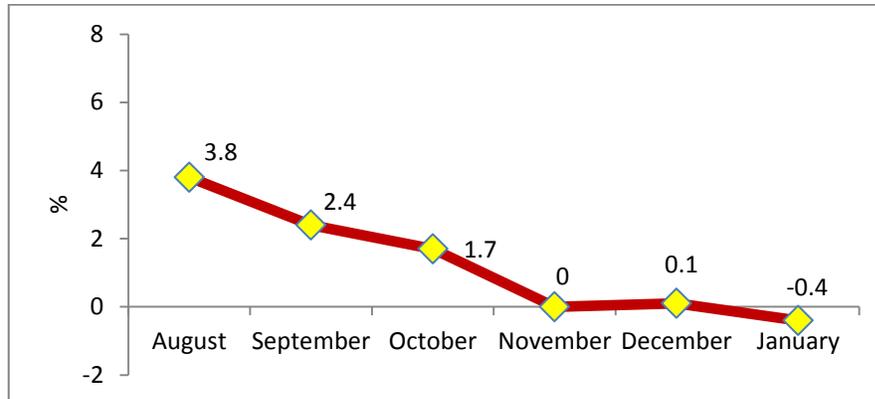
%	WPI (y-o-y)	
	FY14	FY15
Primary Articles	6.8	3.3
<i>Food Articles</i>	8.8	8.0
Fuel & Power	9.8	-10.6
Manufactured Products	3.0	1.1
All Commodities	5.1	-0.4

Source: Ministry of Commerce & Industry

- WPI inflation for all commodities registered a negative growth of 0.4% in January'15 as against 5.1% in the corresponding month of previous year.
 - **'Primary articles'** inflation declined from 6.8% in January'14 to 3.3% in January'15
 - **Food articles prices declined to 8.0% as against 8.8% in January'14**
 - There has been a deceleration in inflation across all major food articles namely cereals, rice, wheat, potatoes, onions etc.
 - **Fruits and milk continue to show high increase, while pulses have registered increase of 12.3%**
 - Non – food articles witnessed negative growth of 4.1% in January'15 (4.6%)
 - **'Fuel & Power'** has been another contributor to the low wholesale inflation in January'15, witnessing negative inflation of 10.6%. 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 3.0% in January'14 to 1.1% in January'15. Declining global commodity prices has contributed to this movement.

B. Monthly Trend

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, it has since been slowing down with marginal increase in the month of December. The month of January 2015 witnessed negative growth mainly owing to the steep decline in fuel and power inflation.

C. Build up Inflation in current fiscal year

Build up inflation rate in the financial year so far (April – January'15) stood at -1.1% as against 5.2% in the corresponding period last year. The build-up inflation for primary articles stood at 3.0%, with food articles inflation at 7.0%. Build up inflation for fuel & power declined to -11.4% as against 10.9% last year while manufacturing declined to 0.2% as against 2.8% for April – January'14

CARE's View

- The negative WPI inflation is a welcome sign.
- However, the negative inflation number has been brought about by the sharp fall in the fuel prices which is due to global developments. Food prices continue to be high and increasing.
- In the coming months, the factor that can push up prices would be the result of the rabi harvest.
- On the positive side, low global commodity prices will ensure that prices are largely under control.
- With the negative inflation number, and hopefully declining CPI inflation numbers in February and March, we expect RBI to reduce the repo rate by 25 bps in the post budget policy. Also, based on ceteris paribus conditions we still expect rates to be cut by another 75 bps this calendar year.

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