

## Wholesale Inflation: October 2014

Wholesale inflation decelerated for the fifth consecutive month this fiscal as it came in at 1.8% in October'14 (y-o-y) as against a rate of 7.2% 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 October'13, which will also be available in November.**

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- October 2014

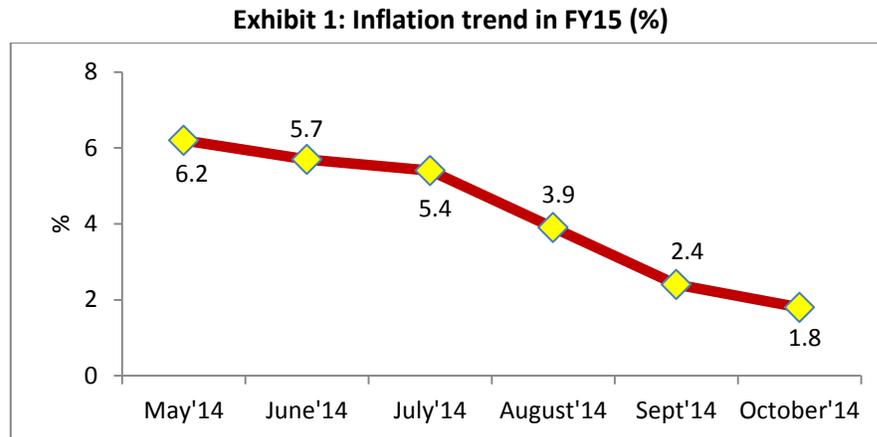
%	WPI (y-o-y)	
	FY14	FY15
Primary Articles	14.6	1.4
<i>Food Articles</i>	18.3	2.7
Fuel & Power	10.5	0.4
Manufactured Products	2.8	2.4
<b>All Commodities</b>	<b>7.2</b>	<b>1.8</b>

Source: Ministry of Commerce & Industry

- WPI inflation for all commodities moderated to 1.8% in October'14 as against 7.2% in the corresponding month of previous year.
  - **'Primary articles'** inflation declined from 14.6% in October'13 to 1.4% in October'14
    - This was mainly owing to a significant decline in food articles prices to 2.7% as against 18.3% in October'13
      - There has been a deceleration in inflation across all major food articles namely cereals, rice, wheat, vegetables, onions etc
    - Non – food articles witnessed negative growth of 1.4% in October'14 (7.1%)
  - **'Fuel & Power'** has been another contributor to the low wholesale inflation in October'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 \$100.4/barrel in October'13 and Brent Crude averaged \$109.4/barrel at the time. The same fell to \$84.6/barrel and \$88.3/barrel respectively in October'14. This largely explains the fall in domestic fuel and power inflation as stated in the table above.
  - **'Manufactured Products'** declined from 2.8% in October'13 to 2.4% in October'14. Also, the industrial production data which stands at a growth rate of 2.8% in FY15 so far vis-à-vis a 0.5%

growth over the same period in FY14, imply a pick up in the manufacturing sector compared with the previous fiscal.

### B. Monthly Trend : Inflation across product groups



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 five 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 – October'14) stood at 2.0% as against 6.2% in the corresponding period last year. The build-up inflation for primary articles stood at 6.5%, with food articles inflation at 10.2%. Build up inflation for fuel & power declined to -1.6% as against 9.5% last year while manufacturing declined to 1.0% as against 2.3% for April – October'13

#### CARE's View

The lowering of inflation for the fifth consecutive month is indeed a positive sign for the economy. However, these numbers should be viewed with caution. The base effect is pronounced and will be so in November too. Also, the Ministry of Agriculture has forecasted lower kharif output for cereals, pulses and oilseeds; this could result in some upward bias on inflation in the coming months.

There could be a strong case for the RBI to consider a rate cut given the continuous decline in the CPI and WPI inflation numbers in the last few months. However, the RBI may defer the decision for the next review, depending on how the inflation moves in the coming months.

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