Wholesale Inflation: September 2014

Wholesale inflation decelerated for the fourth consecutive month this fiscal as it came in at 2.4% in September ’14 (y-o-y) as against a rate of 7.0% 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 September ’13, which will also be available in October and 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- September 2014

%	WPI (y-o-y)	
	FY14	FY15
Primary Articles	14.0	2.2
Food Articles	18.7	3.5
Fuel & Power	11.7	1.3
Manufactured Products	2.4	2.8
All Commodities	**7.1**	**2.4**

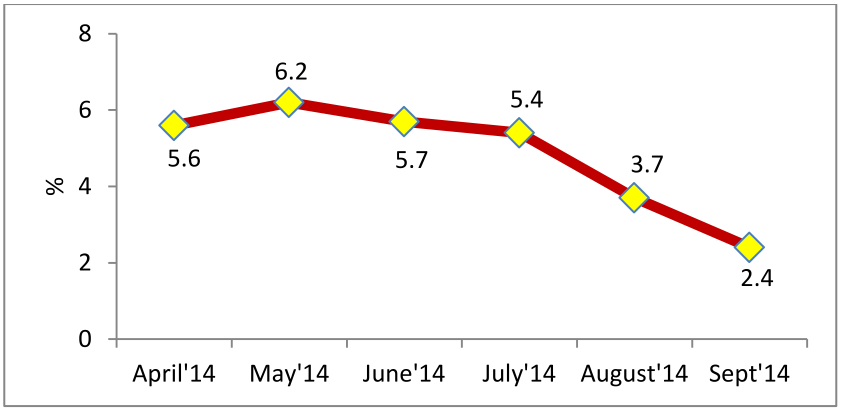
Source: Ministry of Commerce & Industry

- WPI inflation for all commodities moderated to 2.4% in September’14 as against 7.1% in the corresponding month of pervious year.
  - **‘Primary articles’** inflation declined from 14.1% in September’14 to 2.2% in September’14
    - This was mainly owing to a significant decline in food articles prices to 3.5% as against 18.7% in September’13
      - There has been a deceleration in inflation across all major food articles namely cereals, rice, wheat, vegetables, onions etc
    - Non – food articles also witnessed a decline to 0.5% in September’14 (4.9%)
  - **‘Fuel & Power’** has been another contributor to the low wholesale inflation in September’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 $106.1/barrel in September’13 and Brent Crude averaged $111.2/barrel at the time. The same fell to $93.0/barrel and $98.3/barrel respectively in September‘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 September’13 to 2.8% in September’14. However, the industrial production data which

stands at a growth rate of 2.8% in FY15 so far vis-à-vis a zero 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

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 four 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 –September'14) stood at 2.6% as against 6.2% in the corresponding period last year. The build-up inflation for primary articles stood at 7.9%, with food articles inflation at 11.6%. Build up inflation for fuel & power declined to -0.4% as against 9.9% last year while manufacturing declined to 4.7% as against 8.9% for April – September'13

CARE's View

The lowering of inflation for the fourth consecutive month is indeed a positive sign for the economy. 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.

While positive signs prevail, RBI would observe these movements in October and November before taking a call on interest rates. ***If these positive trends are sustained a rate cut would be likely in Q4-FY15.***

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