

WHOLESALE PRICE INDEX SEPTEMBER 2018

Sharper-than-anticipated rise in WPI inflation to 5.1% in September 2018 from 4.5% in August 2018, substantially faster than the muted uptick in CPI inflation

OCTOBER 2018



HIGHLIGHTS

- *The year-on-year (YoY) WPI inflation hardened considerably to 5.1% in September 2018 from 4.5% in August 2018, printing higher than our (+4.8%) and consensus forecasts (+4.9%).*
- *This sequential uptick was led by a narrowing disinflation for primary food items, and rising inflation for primary non-food articles and minerals, whereas the inflation for the other major indices recorded a dip, partly driven by the base effect.*
- *The disinflation for primary food items narrowed sharply to 0.2% in September 2018 from 4.0% in August 2018, led by vegetables, fruits, cereals, condiments and spices, and tea, which may be a precursor to a rise in the retail food inflation in the ongoing month.*
- *While the base effect led to a softening in the inflation for manufactured non-food products (core-WPI inflation) to 4.8% in September 2018 from 5.05% in August 2018, this sub-index logged a substantial month-on-month (MoM) rise of 0.6%, driven by major components such as basic metals, textiles and chemicals.*
- *The divergence in the extent of the uptick displayed by the YoY WPI and the CPI inflation prints for September 2018 relative to August 2018 (61 bps and 8 bps, respectively) reflects the underlying difference in the composition of these two indices, with a smaller weight of food items and a larger weight of globally traded commodities in the WPI than the retail basket.*

OVERVIEW

- The YoY WPI inflation hardened considerably to 5.1% in September 2018 (+3.1% in September 2017) from 4.5% in August 2018 (+3.2% in August 2017; refer Exhibits 1, 2 and Annexure), and printed higher than our (+4.8%) and consensus expectations (+4.9%).
- This sequential rise in the WPI inflation was driven by the narrowing disinflation in primary food items, and the rising inflation for primary non-food articles and minerals, whereas the YoY inflation for the other major indices recorded a dip, partly driven by the base effect.
- The disinflation in primary food articles narrowed considerably to 0.2% in September 2018 (+2.0% in September 2017) from 4.0% in August 2018 (+5.8% in August 2017), partly reflecting the unfavourable base effect. This sequential hardening was led by the trend in vegetables (to -3.8% in September 2018 from -20.2% in August 2018), fruits (to -7.3% from -16.4%), condiments and spices (to +7.8% from +6.7%), other food articles (to +3.1% from +0.7%; led by tea to +18.8% from +11.8%), and cereals (to +5.5% from +5.1%). However, there was a fall in the inflation readings in September 2018 relative to the previous month for pulses (to -18.1% from -14.3%), eggs, meat and fish (to -0.5% from +0.6%) and milk (to +2.2% from +2.9%). In MoM terms, the index for primary food articles declined by a muted 0.2% in September 2018 (-4.0% in September 2017), with an MoM fall of 8.1% in vegetables offset by the 10.0% rise in fruits.
- Inflation for primary non-food articles rose to a 19-month high 4.2% in September 2018 from 3.5% in August 2018, reflecting the trend for floriculture (to +30.2% from +0.1%) and fibres (to +10.8% from +9.9%), which was partly offset by the softening in oil seeds (to +8.2% from +10.2%) and other non-food articles (to -4.6% from -3.1%). On an MoM basis, the primary non-food articles sub-index fell by a muted 0.2% in September 2018 compared to the sharper decline of 0.8% in September 2017, led by the trend in floriculture (+17.7%; -9.5%).

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- The YoY inflation for minerals rose to 4.6% in September 2018 from 2.0% in August 2018, reflecting the trend for copper concentrate (to -6.6% from -17.6%), even as the YoY inflation for iron ore softened (to +25.9% from +38.8%). Moreover, the minerals sub-index rose by 9.7% in MoM terms in September 2018, higher than the 7.0% increase in September 2017.
- In contrast, the YoY inflation for crude petroleum and natural gas eased mildly, while remaining substantial at 41.4% in September 2018 (-6.7% in September 2017) from 43.8% in August 2018 (-9.2% in August 2017), reflecting the base effect. A decline in the inflation for crude petroleum (to +47.8% in September 2018 from +53.5% in August 2018), was partly offset by a rise in the inflation for natural gas (to +24.9% from +20.8%). The initial level for the crude petroleum index for September 2018 had been pegged at 88.4, in line with the revised level for July 2018, despite the considerable ~12% rise in the price of the Indian crude oil basket in INR terms to Rs. ~5,639/barrel from Rs. 5,054/barrel in those months. Therefore, the index level for September 2018 for crude petroleum appears likely to undergo a sharp upward revision in the subsequent readings.
- Partly led by the base effect, the inflation for fuel and power eased to 16.6% in September 2018 (+10.5% in September 2017) from 17.7% in August 2018 (+9.9% in August 2017), reflecting the decline in electricity (to +3.3% from +8.9%), even as the YoY inflation rose for mineral oils (to +28.0% from +27.7%) and coal (to +4.9% from +4.7%). In MoM terms, the fuel and power sub-index increased by 2.2% in September 2018, lower than the 3.1% rise in September 2017. In MoM terms, the sub-indices for mineral oils and coal increased by 3.7% and 0.2%, respectively, in September 2018, while the same for electricity was unchanged.
- The core inflation dipped to 4.8% in September 2018 from 5.05% in August 2018, falling below the headline WPI inflation for the just-concluded month (refer Exhibits 3 and 4). The sub-index for non-food manufactured products rose by 0.6% in MoM terms in September 2018. Fifteen of the 21 sub-indices (accounting for 44.7% of the WPI), such as basic metals (+2.0%), textiles (+1.1%), chemicals and chemical products (+0.6%), motor vehicles, trailers and semi-trailers (+0.3%) etc., recorded an MoM rise of 0.1-2.0% in September 2018. However, there was an MoM decline in September 2018 in five sub-indices (together accounting for a limited 7.2% of the WPI), namely wearing apparel (-0.4%), tobacco products (-0.3%), fabricated metal products (-0.3%), pharmaceuticals, medicinal chemical and botanical products (-0.2%), and furniture (-0.1%). The index for other non-metallic mineral products remained unchanged in MoM terms in September 2018.
- The inflation for manufactured food products dipped to a muted 0.8% in September 2018 from 1.3% in August 2018, led by vegetable and animal oil (to +10.4% from +11.9%), dairy products (to -6.0% from -4.7%) and sugar (to -12.9% from -11.1%). In MoM terms, the manufactured food items sub-index rose by 0.3% in September 2018, lower than the increase of 0.8% in September 2017.
- The build-up of the WPI inflation till September 2018 was considerably higher than the same till September 2017 (+3.9% vs. +1.5%), led by crude, petroleum and natural gas (+18.1% vs. -8.5%), fuel and power (+9.4% vs. -1.8%), primary non-food articles (+3.9% vs. -1.9%), manufactured food products (+1.2% vs. +0.9%), and manufactured non-food products (+2.5% vs. +1.4%).
- The final WPI inflation for July 2018 was revised to 5.3% from the initial 5.1%, with an upward revision in minerals (to +13.1% from +8.5%), crude petroleum and natural gas (to +47.1% from +46.4%), manufactured non-food products (to +5.1% from +4.8%), and primary food products (to -2.1% from -2.2%).
- While the YoY WPI inflation recorded a sharp uptick of 61 bps in September 2018 relative to August 2018, the CPI inflation rose by a mild 8 bps between the same months. This divergence reflects the underlying difference in the composition of these two indices, with a smaller weight of food items and a larger weight of globally traded commodities in the WPI than the retail basket. Moreover, the WPI inflation exceeded the CPI inflation for the fourth month in a row (refer Exhibit 5).

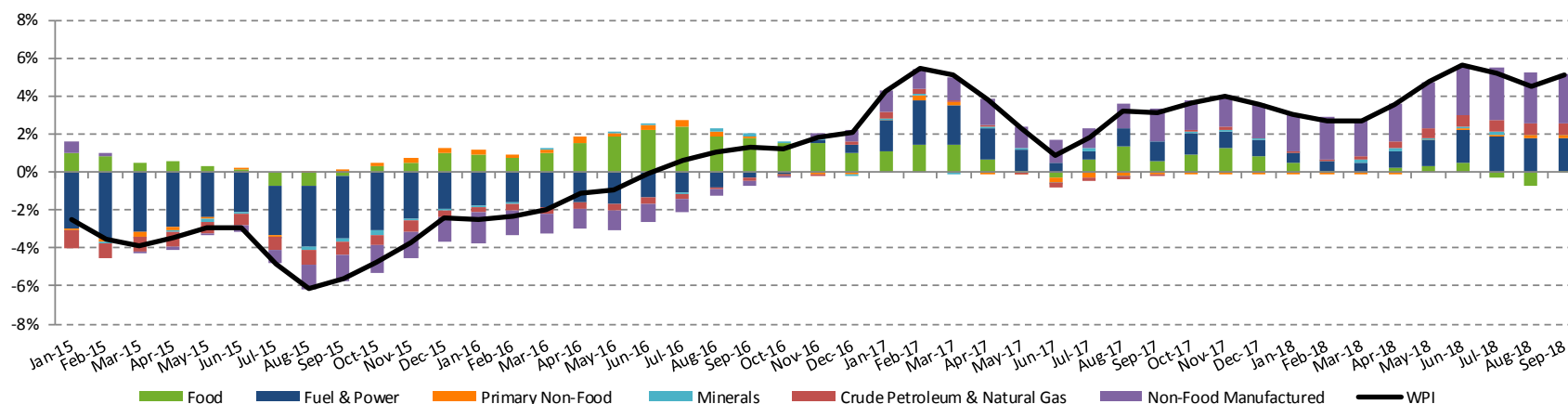
OUTLOOK

While crude oil prices have cooled in the recent sessions, and the excise duty and VAT cuts would provide some relief for fuel prices, the weaker INR would continue to push up the WPI inflation in the ongoing month. This remains a risk for the CPI inflation trajectory as well.

Moreover, the sharp narrowing in the disinflation for wholesale primary food items in September 2018 may be a precursor to a rise in the retail food inflation in the ongoing month. Subsequently, the impact of the revised minimum support prices would crucially affect the trajectory of wholesale and retail food inflation.

Overall, the WPI inflation is likely to rise mildly in October 2018 relative to the 5.1% recorded in September 2018.

Exhibit 1: Composition of WPI Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Government of India (Gol); ICRA research

Exhibit 2: Trend in Monthly WPI Inflation (YoY)

	Weight	YoY Inflation				MoM	Build-up	Contribution
		Jul-18	Jul-18	Aug-18	Sep-18	Sep-18	Sep-18	Sep-18
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
WPI	100.00	5.1%	5.3%	4.5%	5.1%	0.7%	3.9%	100.0%
Primary Articles	22.62	1.7%	2.0%	-0.1%	3.0%	0.2%	5.6%	-0.9%
- Food	15.26	-2.2%	-2.1%	-4.0%	-0.2%	-0.2%	5.2%	-17.9%
- Non-Food	4.12	4.0%	4.0%	3.5%	4.2%	-0.2%	3.9%	3.3%
- Minerals	0.83	8.5%	13.1%	2.0%	4.6%	9.7%	-2.2%	0.4%
- Crude Petroleum and Natural Gas	2.41	46.4%	47.1%	43.8%	41.4%	1.1%	18.1%	13.4%
Fuel and Power	13.15	18.1%	18.1%	17.7%	16.6%	2.2%	9.4%	40.0%
- Coal	2.14	4.7%	4.7%	4.7%	4.9%	0.2%	0.5%	2.3%
- Minerals Oils	7.95	29.5%	29.5%	27.7%	28.0%	3.7%	15.1%	32.6%
- Electricity	3.06	7.5%	7.5%	8.9%	3.3%	0.0%	4.0%	5.3%
Manufactured Products	64.23	4.3%	4.5%	4.4%	4.2%	0.6%	2.3%	61.8%
- Food	9.12	1.7%	1.7%	1.3%	0.8%	0.3%	1.2%	2.8%
- Non-Food	55.11	4.8%	5.1%	5.0%	4.8%	0.6%	2.5%	59.0%

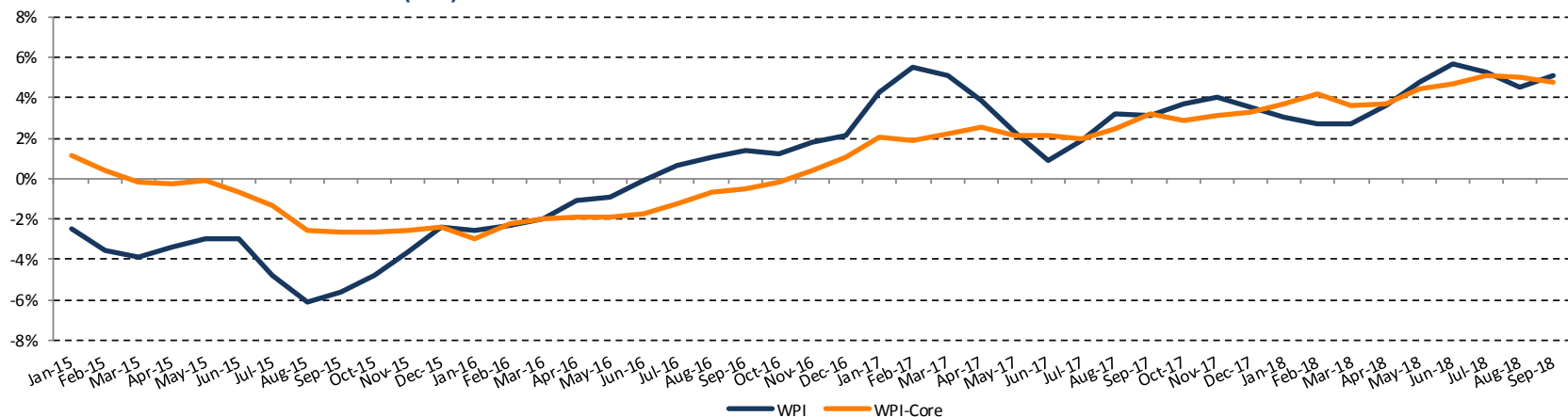
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Gol; ICRA research

Exhibit 3: Trend in Monthly Inflation related to Non-Food Manufactured Products (YoY)

	Weight	YoY Inflation				MoM	Build-up	Contribution
		Jul-18	Jul-18	Aug-18	Sep-18	Sep-18	Sep-18	Sep-18
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
Non-Food Manufactured Products	55.11	5.0%	5.1%	5.0%	4.8%	0.6%	2.5%	100.0%
Beverages	0.91	0.3%	0.3%	1.2%	1.3%	0.3%	0.6%	0.5%
Tobacco Products	0.51	2.8%	2.8%	0.3%	-0.4%	-0.3%	-0.5%	-0.1%
Textiles	4.88	3.4%	3.9%	3.4%	5.0%	1.1%	4.1%	9.5%
Wearing Apparel	0.81	1.8%	2.1%	2.2%	1.3%	-0.4%	0.7%	0.5%
Leather and Related Products	0.54	1.9%	2.5%	2.7%	2.6%	0.4%	2.2%	0.6%
Wood and Products of Wood and Cork	0.77	0.2%	0.5%	0.5%	0.8%	0.7%	1.8%	0.3%
Paper and Paper Products	1.11	2.4%	2.9%	3.8%	2.7%	0.4%	2.3%	1.2%
Printing and Reproduction of Recorded Media	0.68	1.8%	3.3%	2.9%	2.3%	0.3%	2.7%	0.8%
Chemicals and Chemical Products	6.47	6.3%	6.5%	6.8%	7.2%	0.6%	3.3%	17.6%
Pharmaceuticals, Medicinal Chemical and	1.99	1.5%	2.6%	2.3%	1.5%	-0.2%	2.1%	1.2%
Rubber and Plastics Products	2.30	2.0%	2.1%	1.5%	1.9%	0.4%	1.9%	1.6%
Other Non-Metallic Mineral Products	3.20	3.3%	3.5%	4.0%	3.6%	0.0%	1.7%	4.4%
Basic Metals	9.65	15.6%	15.6%	13.3%	12.8%	2.0%	3.8%	42.3%
Fabricated Metal Products, Except Machinery	3.15	6.4%	6.7%	8.7%	5.8%	-0.3%	2.9%	6.8%
Computer, Electronic and Optical Products	2.01	1.6%	1.5%	2.5%	1.2%	0.7%	2.2%	0.9%
Electrical Equipment	2.93	1.9%	1.7%	1.6%	1.0%	0.1%	1.5%	1.1%
Machinery and Equipment	4.79	2.4%	2.8%	2.4%	2.6%	0.2%	1.3%	4.6%
Motor Vehicles, Trailers and Semi-Trailers	4.97	2.0%	1.9%	2.6%	2.8%	0.3%	2.3%	5.2%
Other Transport Equipment	1.65	1.6%	1.9%	1.9%	1.6%	0.2%	0.9%	1.0%
Furniture	0.73	5.1%	5.3%	4.3%	0.3%	-0.1%	0.6%	0.1%
Other Manufacturing	1.06	-7.6%	-5.6%	1.5%	0.4%	0.4%	2.5%	0.1%

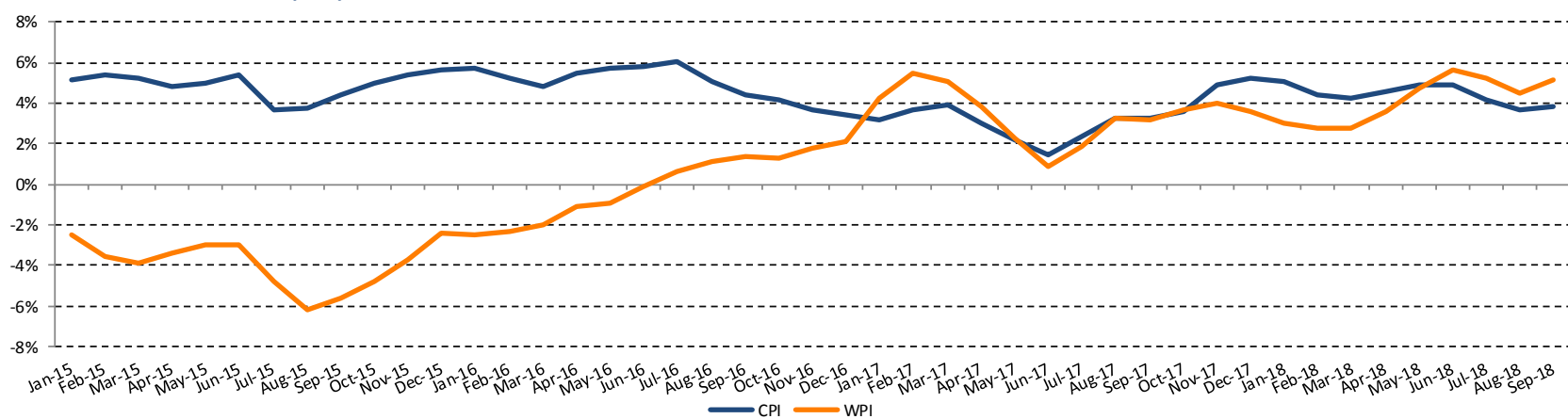
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA research

Exhibit 4: Headline and Core WPI Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Gol; ICRA research

Exhibit 5: CPI and WPI Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Gol; ICRA research

ANNEXURE

Exhibit 6: WPI Inflation (YoY)

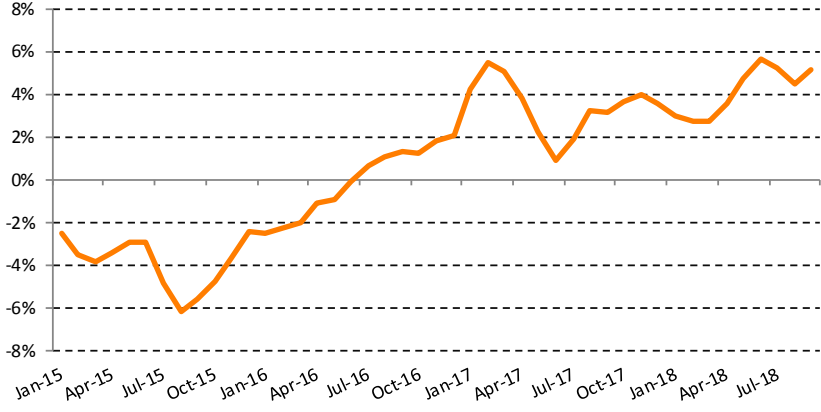
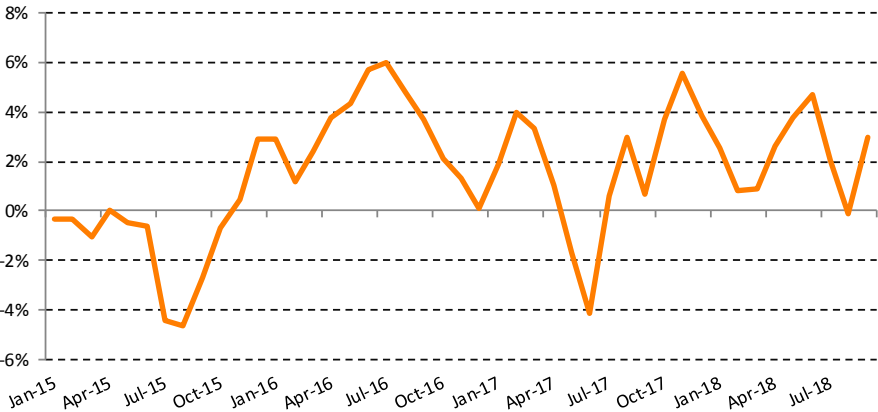


Exhibit 7: Primary Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Gol; ICRA research

Exhibit 8: Primary Food Inflation (YoY)

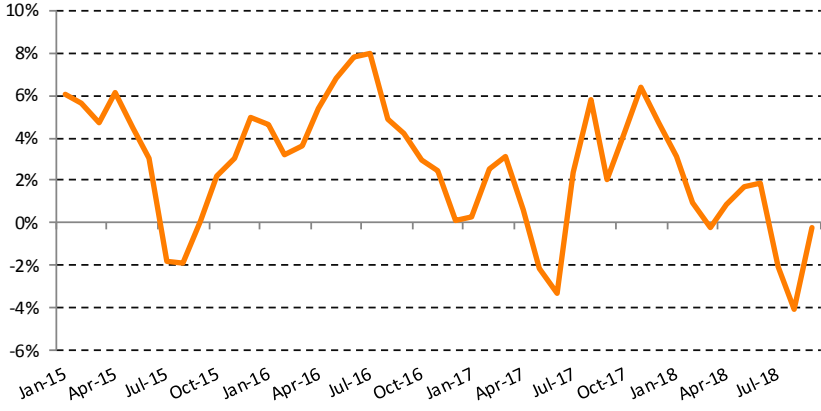
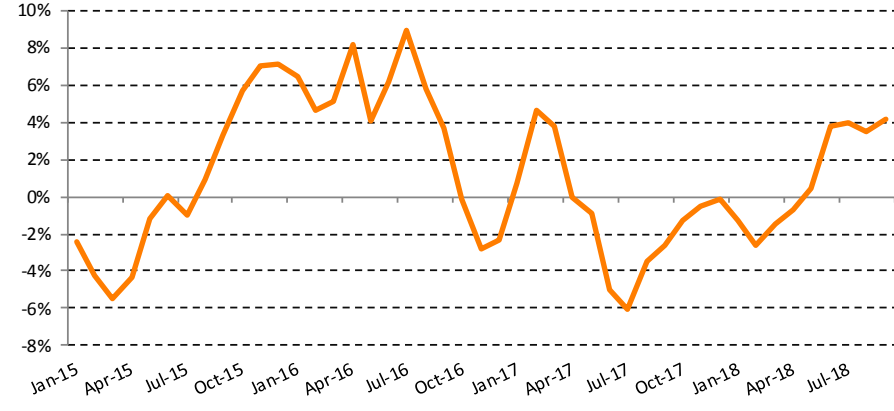


Exhibit 9: Primary Non-Food Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Gol; ICRA research

Exhibit 10: Primary Crude Petroleum Inflation (YoY)

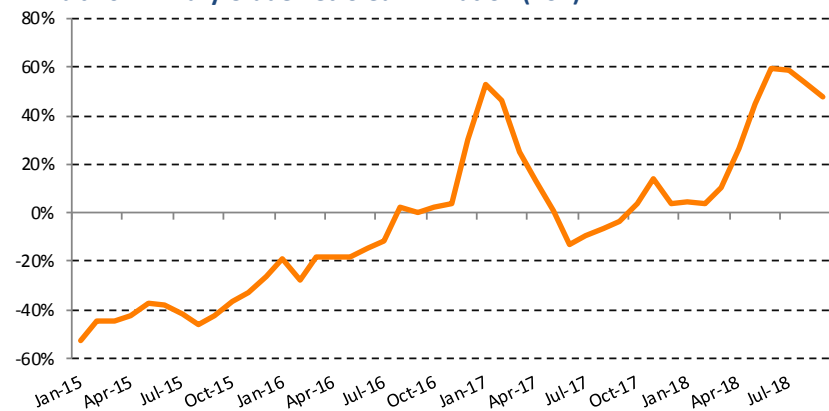
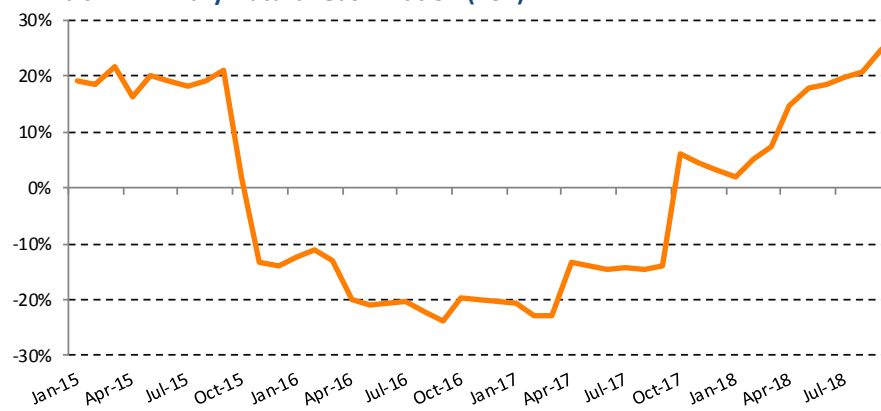


Exhibit 11: Primary Natural Gas Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Gol; ICRA research

Exhibit 12: Primary Mineral Inflation (YoY)

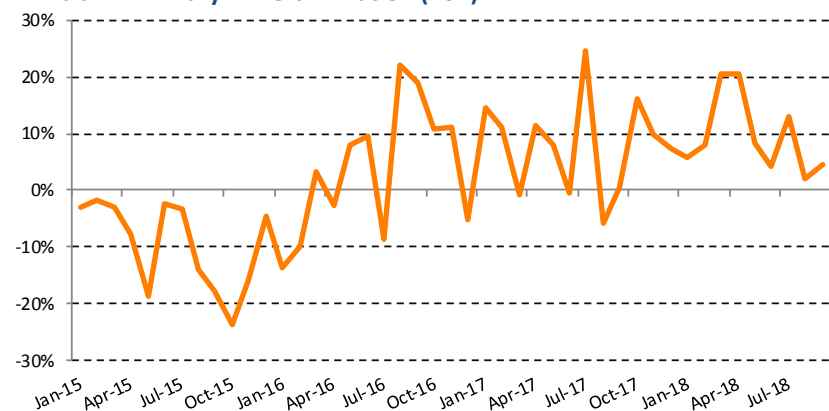
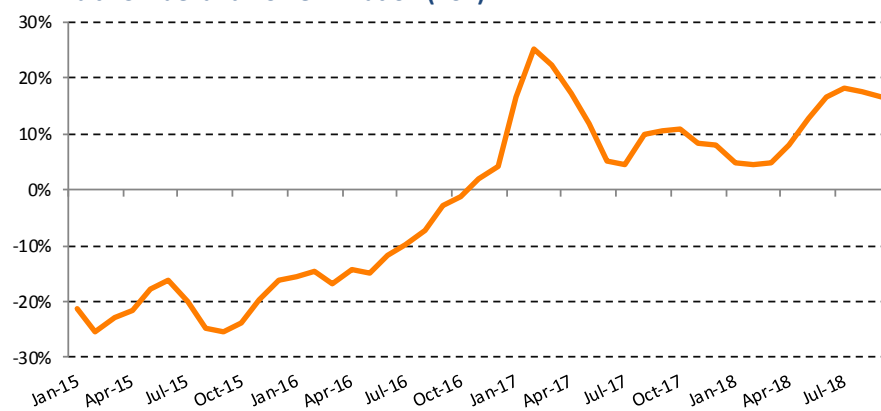


Exhibit 13: Fuel and Power Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Gol; ICRA research

Exhibit 14: Manufactured Food Inflation (YoY)

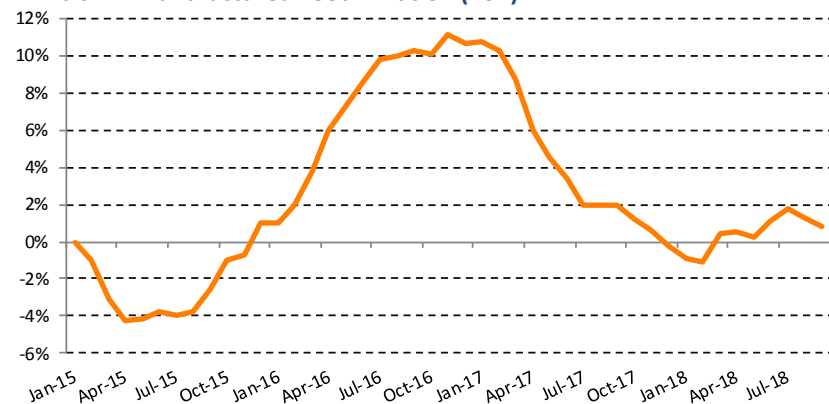
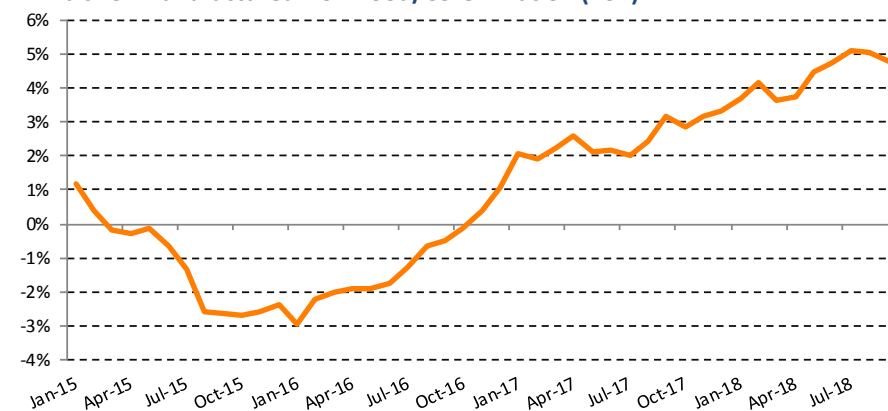


Exhibit 15: Manufactured Non-Food/Core Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Gol; ICRA research



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