

WHOLESALE PRICE INDEX OCTOBER 2018

WPI inflation hardened to 5.3% in Oct 2018, in line with our expectation, in contrast to correction in CPI inflation

NOVEMBER 2018



HIGHLIGHTS

- *The year-on-year (YoY) WPI inflation hardened to 5.3% in October 2018 from 5.1% in September 2018, in line with our expectation, driven by higher inflation for fuel and power, minerals, manufactured non-food products and manufactured food products.*
- *Inflation for manufactured non-food products (core-WPI inflation) rebounded to a three-month high 5.1% in October 2018 from 4.8% in September 2018, reflecting the impact of the INR depreciation on the landed price of imports.*
- *Primary food articles recorded a YoY disinflation for the fourth month in a row, which widened to 1.5% in October 2018 from 0.2% in September 2018. The YoY disinflation in primary food items in October 2018 was driven by vegetables (-18.7%) and protein items such as pulses (-13.9%), and egg, meat and fish (-0.6%).*
- *The rise in the WPI inflation in October 2018 stands in contrast to the correction in the CPI inflation (to +3.3% in October 2018 from +3.7% in September 2018). The uptick in the WPI inflation in October 2018 reflected the impact of the pass through of higher commodity prices and the INR depreciation, whereas the disinflation in food prices had a smaller impact on wholesale inflation than the CPI inflation, given the difference in weights for food items in the two indices.*

OVERVIEW

- The YoY WPI inflation hardened to 5.3% in October 2018 (+3.7% in October 2017) from 5.1% in September 2018 (+3.1% in September 2017; refer Exhibits 1, 2 and Annexure), and printed in line with our expectation (+5.3%).
- This sequential rise in the YoY WPI inflation in October 2018 was driven by higher inflation for fuel and power, minerals, manufactured non-food products and manufactured food products. In contrast, inflation eased in October 2018 relative to the previous month for crude petroleum and natural gas, and primary non-food articles, while the disinflation deepened for primary food articles.
- The inflation for fuel and power rose to 18.4% in October 2018 (+10.9% in October 2017) from 16.6% in September 2018 (+10.5% in September 2017), reflecting an uptick in mineral oils (to +30.3% from +28.0%) and electricity (to +5.9% from +3.3%), even as the YoY inflation for coal eased to 4.3% from 4.9% between these two months. In month-on-month (MoM) terms, the fuel and power sub-index increased by 3.6% in October 2018, considerably higher than the 2.1% rise in October 2017; the sub-indices for mineral oils, electricity and coal increased by 5.4%, 2.6% and 0.2, respectively, in October 2018, in MoM terms.
- The YoY inflation for minerals hardened to 5.8% in October 2018 from 4.6% in September 2018, reflecting the trend for copper concentrate (to -0.7% from -6.6%), even as the YoY inflation for iron ore softened (to +19.5% from +25.9%). The minerals sub-index fell by 4.3% in MoM terms in October 2018, narrower than the 5.4% decline in October 2017.
- Reflecting the impact of the INR depreciation on the landed price of imports, the core inflation rose to a three-month high 5.1% in October 2018 from 4.8% in September 2018, while remaining below the headline WPI inflation for the second month in a row (refer Exhibits 3 and 4). The sub-index for non-food manufactured products rose by 0.3% in MoM terms in October 2018. Fourteen of the 21 sub-indices (accounting for 40.0% of the WPI), such as chemicals and chemical products (+0.9%), basic metals (+0.7%), fabricated metal products

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(+0.4%), textiles (+0.1%) etc., recorded an MoM rise of 0.1-0.9% in October 2018. However, there was an MoM decline in October 2018 in seven sub-indices (with a weight of 15.1% in the WPI), such as printing and reproduction of recorded media (-1.0%), leather and related products (-0.8%), wood and products (-0.7%), motor vehicles, trailers and semi-trailers (-0.6%), electrical equipment (-0.2%), etc.

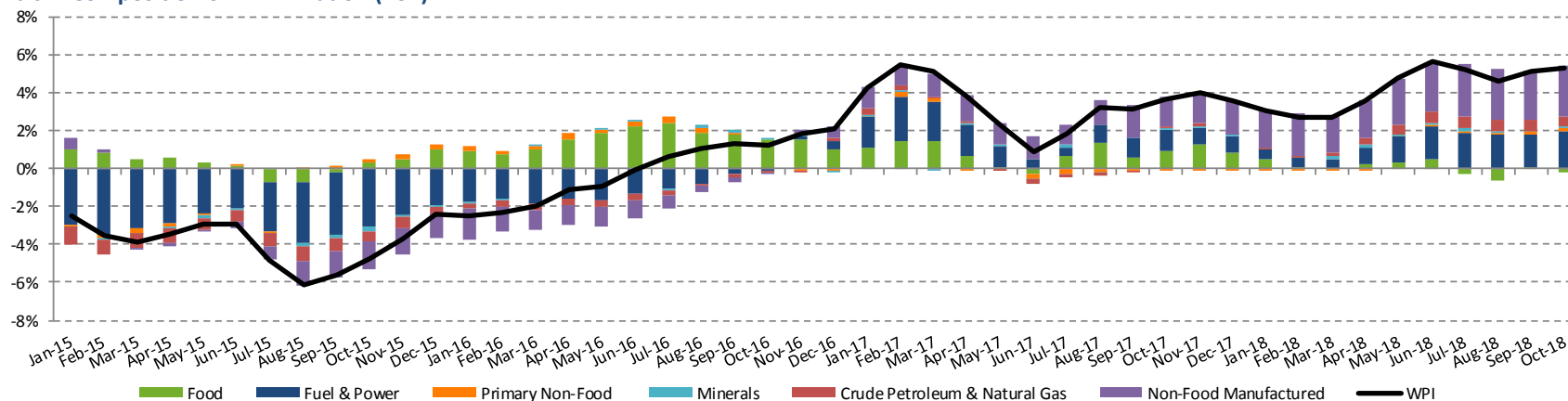
- The inflation for manufactured food products inched up to 1.0% in October 2018 from the muted 0.8% in September 2018, led by sugar (to -11.2% from -12.9%), prepared animal feeds (to +5.4% from +3.7%) and dairy products (to -5.6% from -6.0%). In MoM terms, the manufactured food items sub-index rose by 0.1% in October 2018, in contrast to the decline of 0.2% in October 2017.
- In contrast, the YoY inflation for crude petroleum and natural gas eased to a six-month low 33.8% in October 2018 (+4.6% in October 2017) from 41.4% in September 2018 (-6.7% in September 2017). This was led by the dip in the inflation for natural gas (to +13.5% in October 2018 from +24.9% in September 2018), as well as crude petroleum (to +42.2% from +47.8%). The initial level for the crude petroleum index for October 2018 had been pegged at 99.8, ~5% higher than the revised level for August 2018 (95.4), despite the substantial ~16% rise in the price of the Indian crude oil basket in INR terms to Rs. ~5,867/barrel from Rs. 5,050/barrel in those months. Therefore, the index level for October 2018 for crude petroleum appears likely to undergo an upward revision in the subsequent readings.
- Inflation for primary non-food articles slipped mildly to 4.1% in October 2018 from the 19-month high 4.2% in September, reflecting the trend for floriculture (to +9.8% from +30.2%), and oil seeds (to +7.5% from +8.2%), which was largely offset by the pickup in inflation for fibres (to +15.1% from +10.8%), and other non-food articles (to -3.6% from -4.6%). On an MoM basis, the primary non-food articles sub-index fell by 1.1% in October 2018, in line with the decline in October 2017.
- Moreover, the disinflation in primary food articles widened to 1.5% in October 2018 (+4.3% in October 2017) from 0.2% in September 2018 (+2.0% in September 2017), partly reflecting the base effect. This sequential decline was led by the trend in vegetables (to -18.7% in October 2018 from -3.8% in September 2018), condiments and spices (to +5.5% from +7.8%), other food articles (to +2.9% from +3.1%), and eggs, meat and fish (to -0.6% from -0.5%). However, there was an uptick in the inflation readings in October 2018 relative to the previous month for fruits (to +0.9% from -7.3%), pulses (to -13.9% from -18.1%), cereals (to +6.2% from +5.5%), and milk (to +2.8% from +2.2%). In MoM terms, the sub-index for primary food articles rose by 0.9% in October 2018 (+2.2% in October 2017), with an MoM rise of 3.3%, 1.6%, and 1.4%, respectively, in fruits, vegetables, and pulses.
- The build-up of the WPI inflation till October 2018 was considerably higher than the same till October 2017 (+4.6% vs. +2.1%), led by crude, petroleum and natural gas (+22.9% vs. +0.7%), fuel and power (+13.4% vs. +0.2%), primary non-food articles (+2.7% vs. -2.8%), manufactured food products (+1.3% vs. +0.7%), and manufactured non-food products (+2.8% vs. +1.4%).
- The final WPI inflation for August 2018 was revised to 4.6% from the initial 4.5%, with an upward revision in minerals (to +7.1% from +2.0%), crude petroleum and natural gas (to +44.5% from +43.8%), and manufactured food products (to +1.7% from +1.3%), partly offset by the downward revision in primary non-food products (to +2.6% from +3.5%).
- The WPI inflation exceeded the CPI inflation for the fifth month in a row in October 2018. The wedge between the two widened sharply in that month, with the rise in the WPI inflation in October 2018 relative to September 2018, and a considerable fall in the retail inflation (to +3.3% from +3.7%; refer Exhibit 5). The uptick in the WPI inflation in October 2018 reflected the impact of the pass through of higher commodity prices and the INR depreciation, whereas the disinflation in food prices had a smaller impact on wholesale inflation than the CPI inflation, given the difference in weights for food items in the two indices.

OUTLOOK

Available trends suggest an MoM rise in the prices of pulses, cereals, edible oils and some vegetables in November 2018. Whether the market prices for various crops move closer in line with the revised MSPs, would crucially impact the outlook for food inflation in the near term. While the uptick in both the core-CPI and core-WPI inflation in October 2018 warrants some caution, the recent pullback in the INR and crude oil prices has softened the risks to the inflation trajectory. Based on this, we expect the WPI inflation to range between 4.5-5.0% in the remainder of H2 FY2019.

Despite the change in the monetary policy stance to calibrated tightening and the uptick in the core-CPI and core-WPI inflation in October 2018, the Monetary Policy Committee appears likely to maintain a status quo on the repo rate in the December 2018 policy review, following the decline in the October 2018 headline CPI inflation, the deep correction in crude oil prices, and the pullback in the INR.

Exhibit 1: Composition of WPI Inflation (YoY)



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

Exhibit 2: Trend in Monthly WPI Inflation (YoY)

	Weight	YoY Inflation				MoM	Build-up	Contribution
		Aug-18	Aug-18	Sep-18	Oct-18	Oct-18	Oct-18	Oct-18
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
WPI	100.00	4.5%	4.6%	5.1%	5.3%	0.7%	4.6%	100.0%
Primary Articles	22.62	-0.1%	-0.1%	3.0%	1.8%	0.7%	6.3%	-0.4%
- Food	15.26	-4.0%	-4.0%	-0.2%	-1.5%	0.9%	6.2%	-17.6%
- Non-Food	4.12	3.5%	2.6%	4.2%	4.1%	-1.1%	2.7%	2.5%
- Minerals	0.83	2.0%	7.1%	4.6%	5.8%	-4.3%	-6.4%	1.4%
- Crude Petroleum and Natural Gas	2.41	43.8%	44.5%	41.4%	33.8%	4.1%	22.9%	13.4%
Fuel and Power	13.15	17.7%	17.7%	16.6%	18.4%	3.6%	13.4%	39.2%
- Coal	2.14	4.7%	4.7%	4.9%	4.3%	0.2%	0.7%	2.2%
- Minerals Oils	7.95	27.7%	27.7%	28.0%	30.3%	5.4%	21.4%	31.9%
- Electricity	3.06	8.9%	8.7%	3.3%	5.9%	2.6%	6.6%	5.1%
Manufactured Products	64.23	4.4%	4.4%	4.2%	4.5%	0.3%	2.6%	60.6%
- Food	9.12	1.3%	1.7%	0.8%	1.0%	0.1%	1.3%	3.8%
- Non-Food	55.11	5.0%	5.0%	4.8%	5.1%	0.3%	2.8%	57.6%

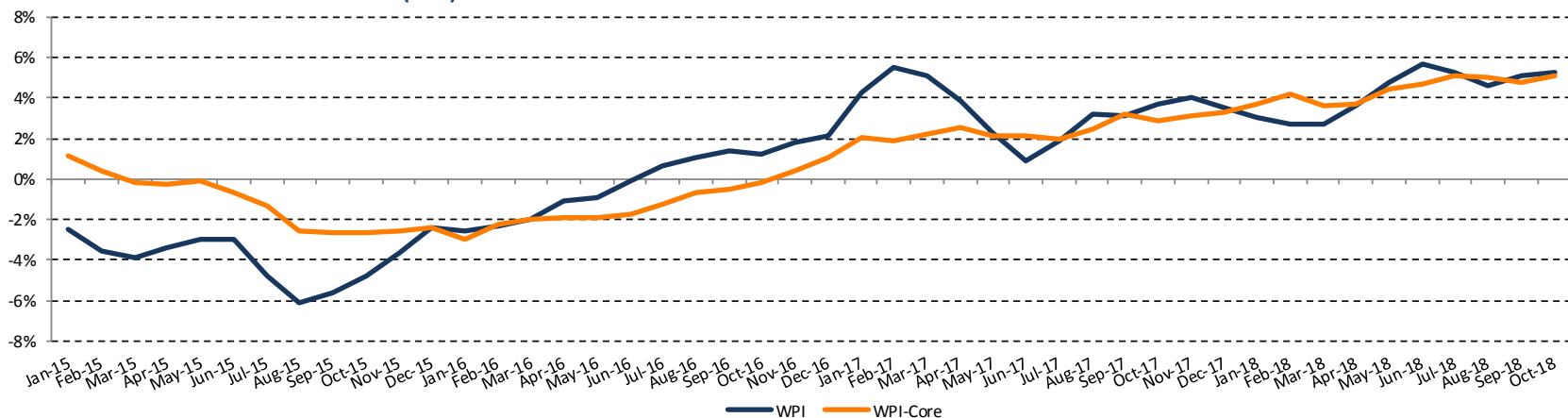
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA research

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

	Weight	YoY Inflation				MoM	Build-up	Contribution
		Aug-18	Aug-18	Sep-18	Oct-18	Oct-18	Oct-18	Oct-18
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
Non-Food Manufactured Products	55.11	5.0%	5.0%	4.8%	5.1%	0.3%	2.8%	100.0%
Beverages	0.91	1.2%	1.2%	1.3%	1.7%	0.4%	1.0%	0.6%
Tobacco Products	0.51	0.3%	0.3%	-0.4%	0.5%	0.7%	0.2%	0.1%
Textiles	4.88	3.4%	4.0%	5.0%	5.6%	0.1%	4.2%	9.9%
Wearing Apparel	0.81	2.2%	2.0%	1.3%	1.2%	0.7%	1.4%	0.4%
Leather and Related Products	0.54	2.7%	1.8%	2.6%	1.3%	-0.8%	1.3%	0.3%
Wood and Products of Wood and Cork	0.77	0.5%	0.8%	0.8%	0.8%	-0.7%	1.0%	0.2%
Paper and Paper Products	1.11	3.8%	3.6%	2.7%	3.8%	0.6%	3.0%	1.6%
Printing and Reproduction of Recorded Media	0.68	2.9%	3.4%	2.3%	2.7%	-1.0%	1.7%	0.8%
Chemicals and Chemical Products	6.47	6.8%	6.9%	7.2%	7.6%	0.9%	4.2%	17.6%
Pharmaceuticals, Medicinal Chemical and	1.99	2.3%	1.9%	1.5%	1.8%	0.9%	3.0%	1.4%
Rubber and Plastics Products	2.30	1.5%	1.8%	1.9%	2.4%	0.5%	2.3%	1.9%
Other Non-Metallic Mineral Products	3.20	4.0%	3.9%	3.6%	3.7%	-0.1%	1.6%	4.2%
Basic Metals	9.65	13.3%	13.3%	12.8%	13.8%	0.7%	4.6%	43.0%
Fabricated Metal Products, Except Machinery	3.15	8.7%	8.6%	5.8%	5.6%	0.4%	3.3%	6.2%
Computer, Electronic and Optical Products	2.01	2.5%	3.0%	1.2%	1.5%	-0.1%	2.1%	1.1%
Electrical Equipment	2.93	1.6%	1.7%	1.0%	1.3%	-0.2%	1.4%	1.3%
Machinery and Equipment	4.79	2.4%	2.5%	2.6%	2.2%	0.1%	1.4%	3.7%
Motor Vehicles, Trailers and Semi-Trailers	4.97	2.6%	2.6%	2.8%	2.4%	-0.6%	1.6%	4.1%
Other Transport Equipment	1.65	1.9%	1.6%	1.6%	1.4%	0.5%	1.4%	0.8%
Furniture	0.73	4.3%	4.2%	0.3%	4.3%	1.5%	2.2%	1.2%
Other Manufacturing	1.06	1.5%	-4.2%	0.4%	-1.2%	0.1%	2.6%	-0.4%

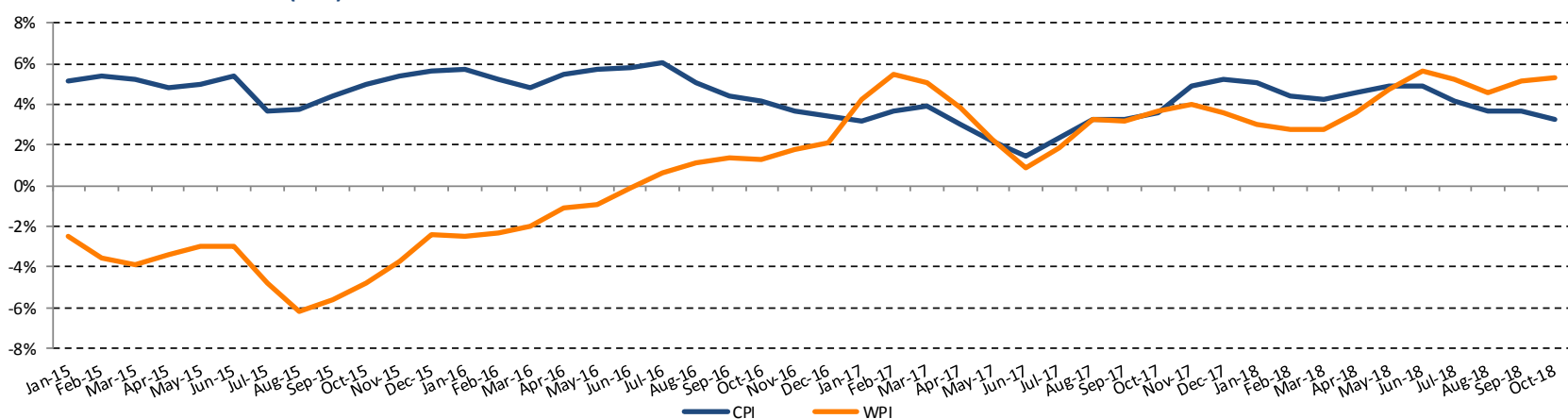
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Gol; ICRA research

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)

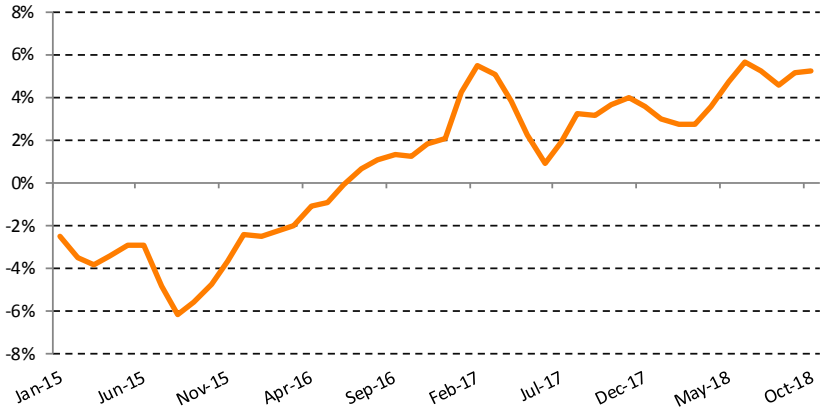
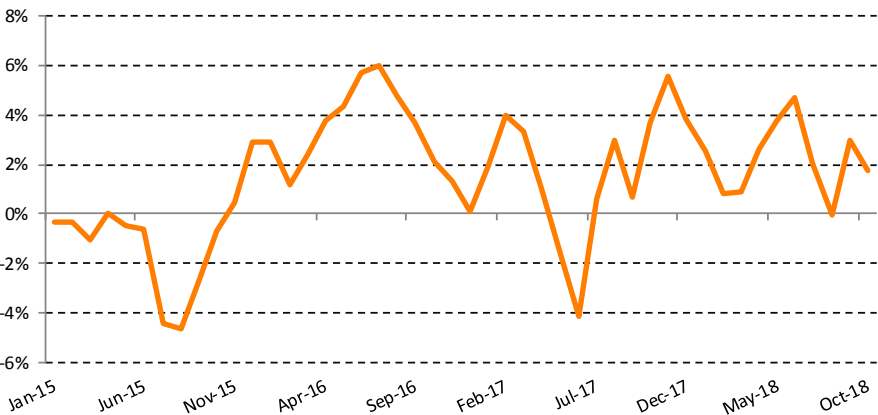


Exhibit 7: Primary Inflation (YoY)



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

Exhibit 8: Primary Food Inflation (YoY)

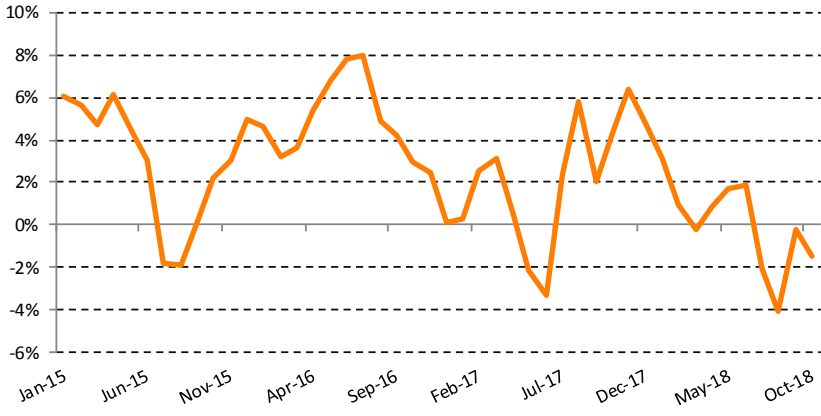
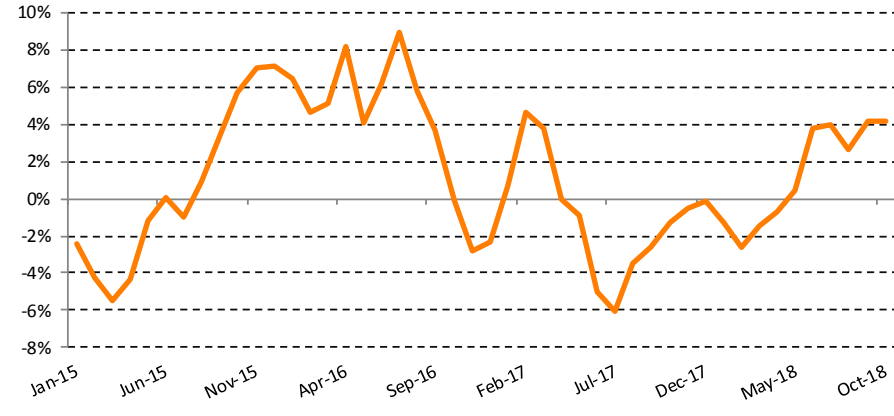


Exhibit 9: Primary Non-Food Inflation (YoY)



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

Exhibit 10: Primary Crude Petroleum Inflation (YoY)

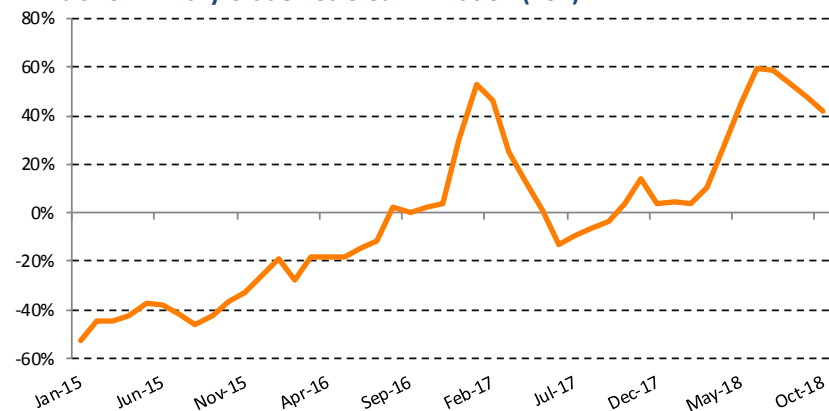
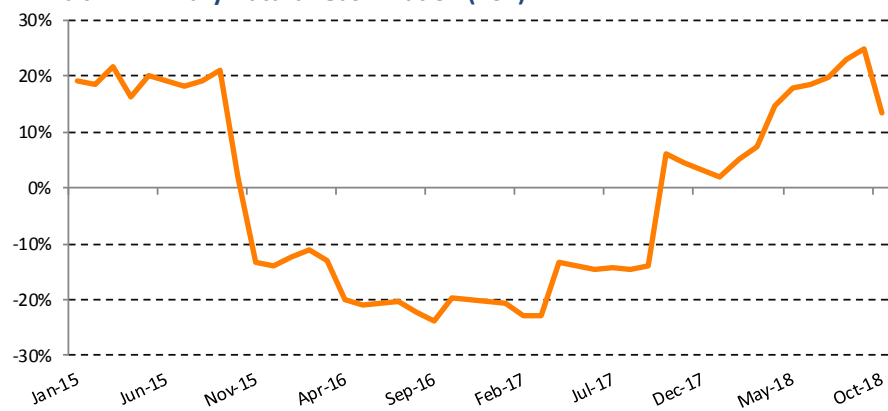


Exhibit 11: Primary Natural Gas Inflation (YoY)



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

Exhibit 12: Primary Mineral Inflation (YoY)

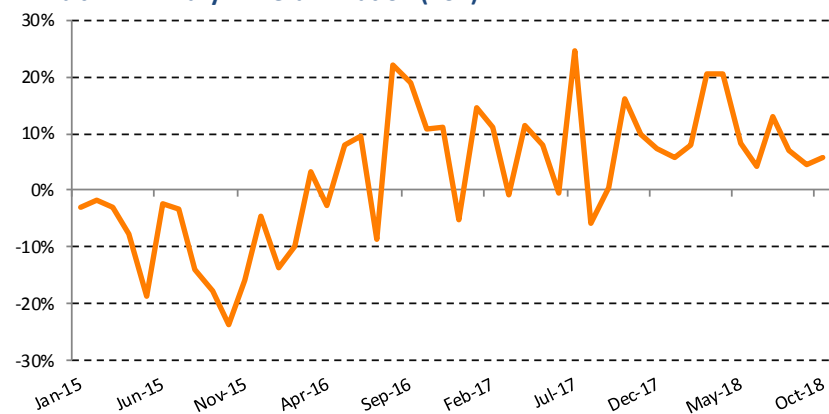
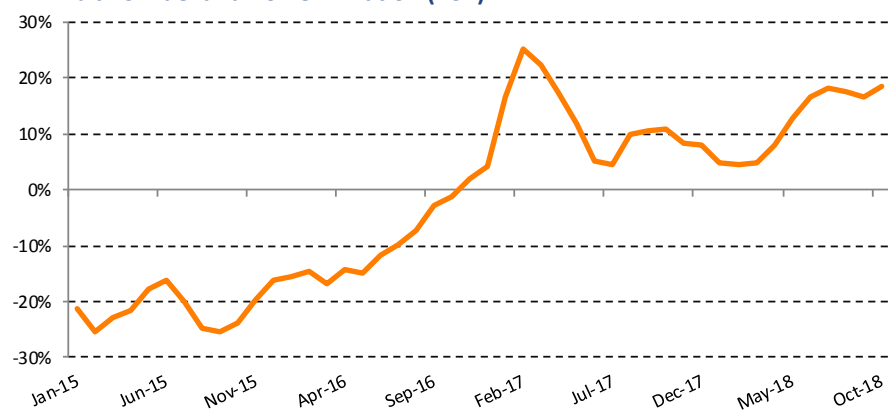


Exhibit 13: Fuel and Power Inflation (YoY)



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

Exhibit 14: Manufactured Food Inflation (YoY)

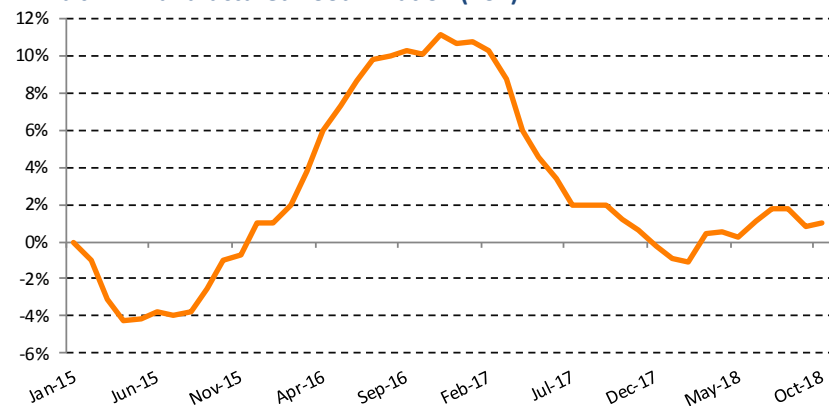
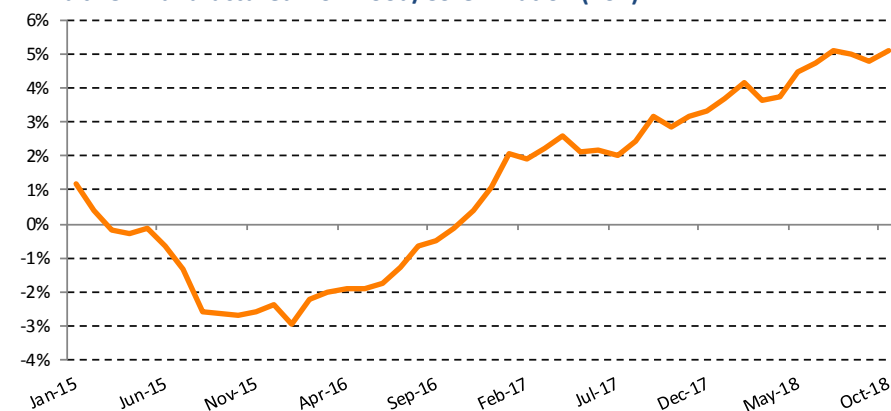


Exhibit 15: Manufactured Non-Food/Core Inflation (YoY)



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



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