



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

Soumyaditya Pal
+91 124 4545 848
soumyaditya.pal@icraindia.com

Medha Sinha
+91 124 4545 399
medha.sinha@icraindia.com

WHOLESALE PRICE INDEX JUNE 2019

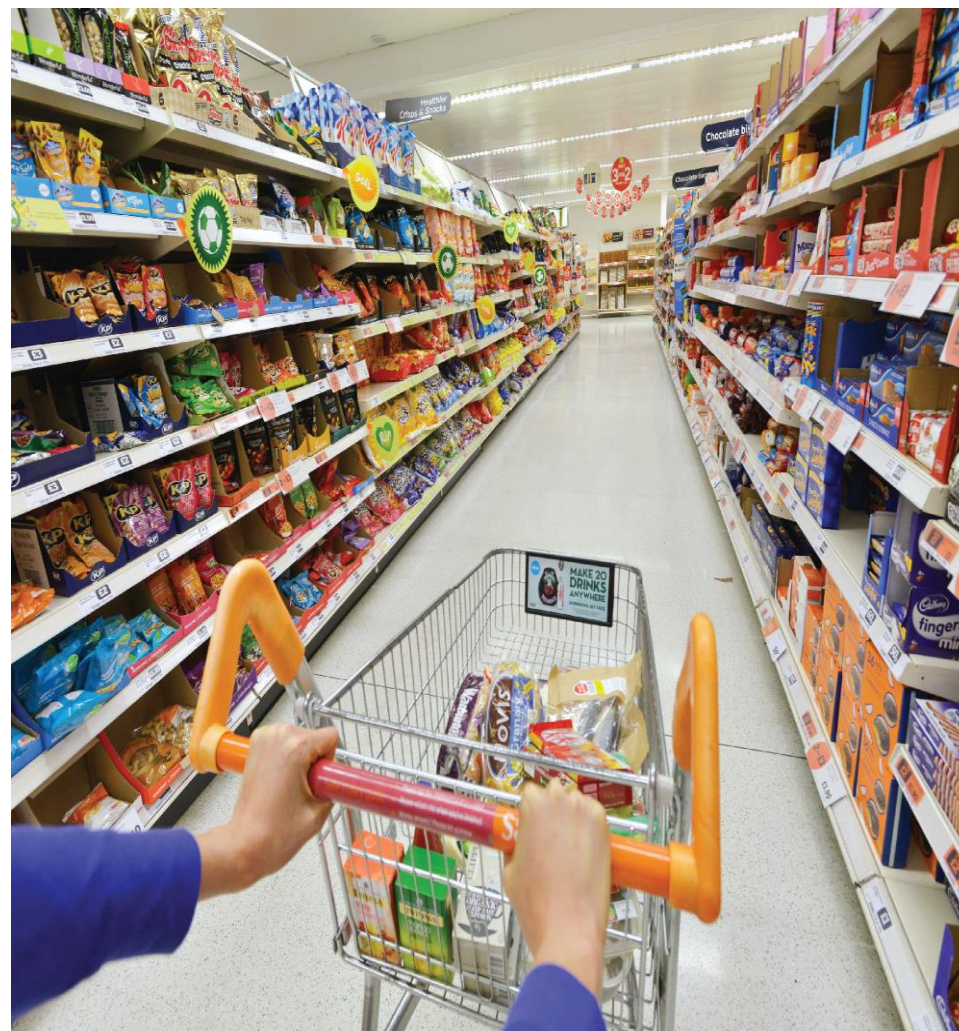
WPI inflation dips to 23-month low 2.0% in June 2019





HIGHLIGHTS

- The year-on-year (YoY) WPI inflation declined to a 23-month low 2.0% in June 2019 from 2.5% in May 2019, led by a favourable base effect, lower crude oil prices, as well as the decline in core inflation (inflation for non-food manufactured products) to below 1%, highlighting the lack of pricing power, and offsetting the concern generated by firm food inflation.
- The dip in the WPI inflation in June 2019 relative to the previous month was driven by fuel and power, manufactured non-food products, primary non-food articles and manufactured food products.
- The initial wholesale inflation for June 2019 printed somewhat lower than our expectation (2.1-2.2%), following a sharper than anticipated dip in core inflation. The core-WPI inflation slipped to a 31-month low 0.8% in June 2019, remaining below the headline WPI inflation for the fifth month in a row.
- Inflation for primary food articles remained steady at a high 7.0% in June 2019, with a decline in vegetable inflation getting offset by a rise in the same for pulses. Nevertheless, the pickup in the monsoon rainfall and kharif sowing in the last week, has eased concerns related to the outlook for food prices in the immediate term.
- While food inflation in June 2019 was lower than core inflation at the retail level (2.4% vs. 4.2%), the trend is markedly reversed at the wholesale level (7.0% vs. 0.8%).



OVERVIEW

The YoY WPI inflation slipped to a 23-month low of 2.0% in June 2019 (+5.7% in June 2018) from 2.5% in May 2019 (+4.8% in May 2018; refer Exhibits 1, 2 and Annexure), and printed somewhat lower than our expectation, led by a sharper than anticipated dip in the core inflation.

This sequential dip in the YoY WPI inflation in June 2019 was driven by a decline in the inflation for fuel and power, manufactured non-food products primary non-food articles, and manufactured food products. In contrast, the YoY inflation hardened in June 2019 relative to the previous month for crude petroleum and natural gas, and minerals, and remained steady in case of primary food articles.

The inflation for fuel and power declined to a 33-month low (-2.2%) in June 2019 (+16.5% in June 2018) from 1.0% in May 2019 (+12.7% in May 2018), led by the base effect. Mineral oils recorded a YoY disinflation of 3.1% in June 2019, in contrast to the inflation of 3.0% in May 2019. However, the YoY inflation witnessed an uptick in the case of coal (to +0.8% from +0.5%) and electricity (to -2.1% from -3.1%) between these two months. In month-on-month (MoM) terms, the fuel and power sub-index decreased by 1.3% in June 2019, in contrast with the 2.0% rise in June 2018; the sub-index for coal rose by 0.3%, remained unchanged in the case of electricity and de-grew for mineral oil (-2.2%) in June 2019, in MoM terms.

The core inflation fell to a 31-month low 0.8% in June 2019 from 1.2% in May 2019, and remained below the headline WPI inflation for the fifth consecutive month (refer Exhibits 3 and 4). The sub-index for non-food manufactured products declined for the second month in a row, by 0.1% in MoM terms in June 2019, highlighting the weak pricing power of producers. There was an MoM decline in June 2019 in the case of 12 of the 21 sub-indices (with a weight of 36.8% in the WPI), such as basic metals (-0.9%), furniture (-0.8%), paper and paper products (-0.6%), leather and related products (-0.4%), wearing apparel (-0.4%), etc. Seven of the 21 sub-indices (accounting for 14.3% of the WPI), such as beverages (+0.7%), tobacco products (+2.0%), wood and products (+0.2%), printing and reproduction of recorded media (+0.2%), machinery and equipment (+0.4%), motor vehicles, trailers and semi-trailers (+0.7%), and other transport equipment (1.8%) registered an MoM rise in June 2019. In the case of computer, electronic and optical products, and pharmaceuticals, medicinal chemical and botanical plants, the index level remained unchanged between these two months.

The YoY inflation for minerals hardened considerably to 28.2% in June 2018 from 6.5% in May 2019, driven by a sharp rise in the prices of metallic minerals (to +45.5% from +8.7%), led primarily by copper concentrate (to +91.6% from +15.6%) and manganese ore (to +7.6% from -7.4%), even as the YoY inflation softened in the case of bauxite (to -0.9% from -0.8%), chromite (to -2.9% from -1.7%), zinc concentrate (to -8.3% from +0.8%), iron ore (to +2.6% from +4.1%), and lead concentrate (to -7.9% from +2.1%).

In contrast, the YoY inflation for the sub-index pertaining to other minerals recorded a substantial decline (-6.3%) in June 2019 in comparison to May 2019 (+1.4%). In MoM terms, the minerals sub-index rose by a considerable 14.5% in MoM terms in June 2019, in contrast to the 4.9% de-growth in June 2018.

The inflation for manufactured food products declined slightly to 1.5% in June 2019 from 1.6% in May 2019, driven by vegetable and animal oils and fats (to -6.7% from -5.7%), processed ready to eat food (to -1.7% from +2.1%), sugar (to +4.0% from +11.6%), macaroni, noodles, couscous and similar farinaceous products (to +1.7% from +7.4%) and sugar, molasses and honey (to +3.6% from +10.6%), although the YoY print rose substantially in the case of prepared animal feed (to +12.3% from +7.5%) and meat (to +2.1% from -1.0%). In MoM terms, the manufactured food items sub-index rose by 0.9% in June 2019, somewhat lower than the increase of 1.0% in June 2018.

Inflation for primary non-food articles slipped to 5.1% in June 2019 from the six-month high 6.2% in May 2019, reflecting the trend for fibres (to +5.2% from +13.2%), and floriculture (to +53.0% from +63.6%), although the inflation for oilseeds (to +9.2% from +7.3%) and other non-food articles (to -4.1% from -5.3%) recorded a mild pickup. On an MoM basis, the primary non-food articles sub-index rose by 0.7% in June 2019, substantially lower than the rise in June 2018 (1.8%).

Inflation pertaining to primary food articles remained steady at 7.0% in June 2019, in line with the print for May 2019. The rise in the YoY inflation for pulses (to +23.1% in June 2019 from +18.4% in May 2019) and condiments and spices (to +3.3% from +3.0%) was offset by the decline in the YoY inflation of fruits and vegetables (to +14.3% from +14.5%), milk (to +0.9% from 1.1%) and other food articles (to +1.4% from +3.0%). On an MoM basis, the primary food articles sub-index rose a substantial 1.1% in June 2019, in line with the seasonal trends and the rise in June 2018.

Crude petroleum and natural gas continued to record a YoY disinflation for the second month in a row, albeit narrowing to 1.7% in June 2019 (+47.0% in June 2018) from the 20-month low disinflation of 2.4% in May 2019 (+37.0% in May 2018), led by the base effect. This was driven by the trend for crude petroleum (to -6.9% in June 2019 from -7.8% in May 2019), whereas the inflation for natural gas recorded a mild dip (to +14.2% from +14.6%). The initial level for the crude petroleum index for June 2019 had been pegged at 81.7, marginally lower than the revised level for May 2019 (82.2), despite the ~12% fall in the price of the Indian crude oil basket in INR terms in those months. Therefore, the index level for June 2019 for crude petroleum appears likely to undergo a downward revision in the subsequent readings. In MoM terms, the sub-index declined by 0.3%, narrower than the 1.1% correction in the same month of the previous year.

The build-up of the WPI inflation till June 2019 was substantially lower than the same till June 2018 (+1.3% vs. +2.4%), led by crude, petroleum and natural gas (+4.9% vs. +15.9%), fuel and power (-0.4% vs. +6.5%), and manufactured non-food products (-0.1% vs. +1.5%).

The final WPI inflation was revised in the case of April 2019 (to +3.2% from the initial +3.1%), with a downward revision in primary food articles (to +5.2% from +5.7%) and primary food articles (to +6.4% from +7.4%), and upward revision in primary non-food articles (to +6.1% from +5.2%), minerals (to +12.7% from +2.7%), crude petroleum and natural gas (to +5.9% from +2.5%), manufactured food products (to +1.2% from +0.6%), and manufactured non-food articles (to +2.0% from +1.9%).

The CPI inflation exceeded the WPI inflation for the second month in a row in June 2019. The wedge between the two widened during the month, with a fall in the WPI inflation in June 2019 relative to May 2019, and a mild rise in the retail inflation (to +3.2% from +3.0%; refer Exhibit 5).

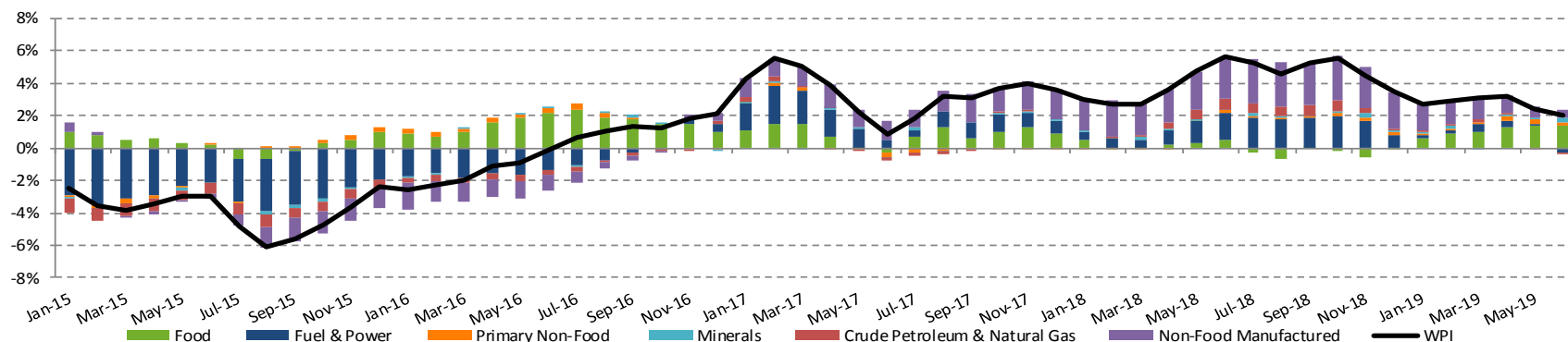
OUTLOOK

The price of the Indian crude oil basket has risen somewhat in the ongoing month, the impact of which has largely been absorbed by the INR appreciation. However, the increase in duties and cesses on fuels introduced in the Union Budget would have a modest first and second round impact on the WPI inflation.

Available data provides a mixed trend in the case of various food prices in the ongoing month, with an uptick in prices of potatoes, onions, various cereals and some edible oils, offset by a correction in the case of tomatoes and some pulses. Nevertheless, the pickup in the monsoon and sowing in the last week has eased concerns related to the outlook for food prices in the immediate term.

Looking ahead, we expect the headline and core WPI inflation to remain sub 2.5% and sub 1.5%, respectively, in the ongoing quarter, with the latter continuing to be capped by weak purchasing power. The WPI data has reinforced our expectation of an imminent rate cut, especially given the dip in core inflation at both the retail and wholesale level.

Exhibit 1: Composition of WPI Inflation (YoY)



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

Exhibit 2: Trend in Monthly WPI Inflation (YoY)

	Weight	YoY Inflation				MoM	Build-up*	Contribution
		Apr-19	Apr-19	May-19	June-19	June-19	June-19	June-19
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
WPI	100.00	3.1%	3.2%	2.5%	2.0%	0.2%	1.3%	100.0%
Primary Articles	22.62	6.5%	6.6%	6.2%	6.7%	1.4%	5.1%	83.9%
- Food	15.26	7.4%	6.4%	7.0%	7.0%	1.1%	5.0%	62.9%
- Non-Food	4.12	5.2%	6.1%	6.2%	5.1%	0.7%	4.0%	10.6%
- Minerals	0.83	2.7%	12.7%	6.5%	28.2%	14.5%	14.5%	12.1%
- Crude Petroleum and Natural Gas	2.41	2.5%	5.9%	-2.4%	-1.7%	-0.3%	4.9%	-1.6%
Fuel and Power	13.15	3.8%	3.8%	1.0%	-2.2%	-1.3%	-0.4%	-12.6%
- Coal	2.14	0.4%	0.4%	0.5%	0.8%	0.3%	0.3%	0.9%
- Minerals Oils	7.95	5.8%	5.8%	3.0%	-3.1%	-2.2%	-0.7%	-9.9%
- Electricity	3.06	2.3%	2.3%	-3.1%	-2.1%	0.0%	0.0%	-2.9%
Manufactured Products	64.23	1.7%	1.9%	1.3%	0.9%	0.0%	0.1%	29.4%
- Food	9.12	0.6%	1.2%	1.6%	1.5%	0.9%	1.6%	7.2%
- Non-Food	55.11	1.9%	2.0%	1.2%	0.8%	-0.1%	-0.1%	22.5%

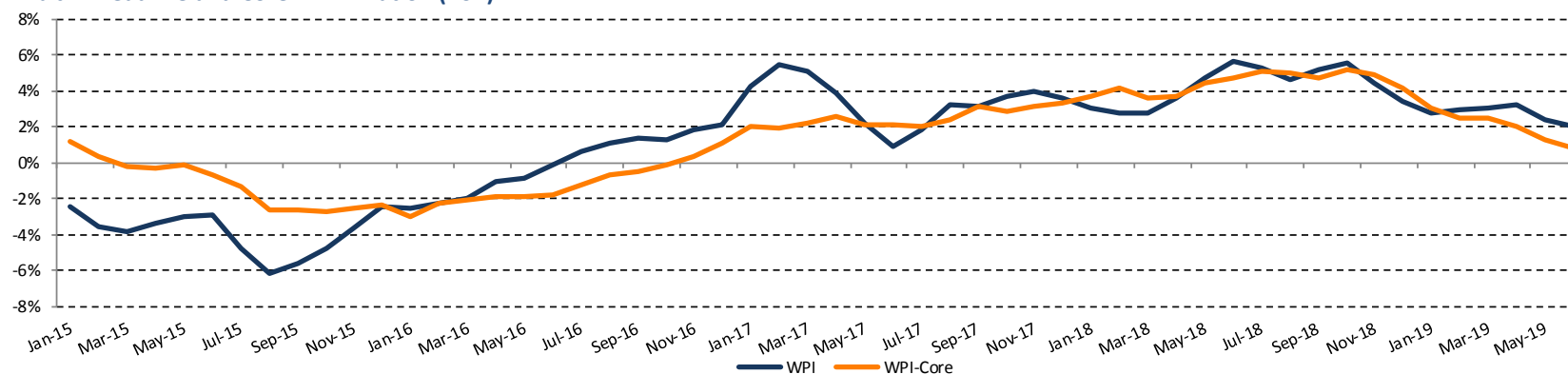
* Buildup with reference to March 2019

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

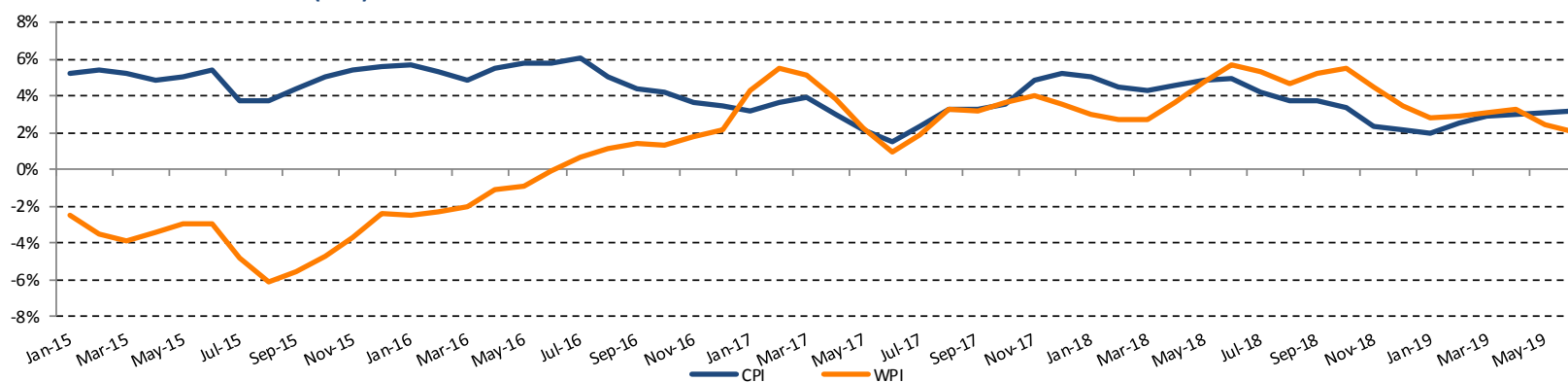
Exhibit 3: Trend in Monthly Inflation related to Non-Food Manufactured Products (YoY)

	Weight	YoY Inflation				MoM	Build-up	Contribution
		Apr-19	Apr-19	May-19	Jun-19	Jun-19	Jun-19	Jun-19
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
Non-Food Manufactured Products	55.11	1.9%	2.0%	1.2%	0.8%	-0.1%	-0.1%	100.0%
Beverages	0.91	2.9%	2.9%	2.8%	3.4%	0.7%	1.1%	6.7%
Tobacco Products	0.51	4.2%	3.2%	1.5%	2.9%	2.0%	0.8%	4.1%
Textiles	4.88	3.9%	3.9%	3.5%	2.7%	-0.3%	0.6%	28.0%
Wearing Apparel	0.81	-1.4%	-1.1%	-0.4%	-0.7%	-0.4%	0.3%	-1.5%
Leather and Related Products	0.54	-1.5%	-1.6%	-2.1%	-3.2%	-0.4%	-1.2%	-3.9%
Wood and Products of Wood and Cork	0.77	1.2%	1.2%	0.7%	1.4%	0.2%	-0.4%	2.7%
Paper and Paper Products	1.11	2.4%	2.6%	1.6%	1.2%	-0.6%	-0.9%	2.9%
Printing and Reproduction of Recorded Media	0.68	2.6%	4.4%	1.4%	1.1%	0.2%	1.7%	2.0%
Chemicals and Chemical Products	6.47	2.9%	3.1%	2.0%	1.4%	-0.3%	-0.3%	20.3%
Pharmaceuticals, Medicinal Chemical and	1.99	3.5%	4.1%	2.6%	2.7%	0.0%	-0.7%	12.2%
Rubber and Plastics Products	2.30	1.7%	1.1%	0.6%	0.2%	-0.1%	-0.9%	0.9%
Other Non-Metallic Mineral Products	3.20	1.2%	1.7%	2.4%	2.6%	-0.2%	1.4%	17.8%
Basic Metals	9.65	0.2%	0.1%	-2.2%	-3.7%	-0.9%	-2.2%	-75.0%
Fabricated Metal Products, Except Machinery	3.15	5.1%	4.8%	3.8%	2.0%	-0.4%	-0.3%	13.4%
Computer, Electronic and Optical Products	2.01	-0.4%	0.0%	0.1%	0.2%	0.0%	0.0%	0.7%
Electrical Equipment	2.93	1.0%	1.6%	1.1%	0.1%	-0.1%	-0.4%	0.5%
Machinery and Equipment	4.79	1.8%	2.2%	2.5%	2.4%	0.4%	0.7%	23.0%
Motor Vehicles, Trailers and Semi-Trailers	4.97	1.3%	1.4%	1.1%	2.1%	0.7%	1.1%	22.1%
Other Transport Equipment	1.65	2.7%	3.4%	4.0%	5.7%	1.8%	3.2%	19.2%
Furniture	0.73	3.2%	2.5%	2.5%	3.0%	-0.8%	-0.8%	5.1%
Other Manufacturing	1.06	0.9%	1.0%	-0.6%	-0.7%	-0.1%	-1.0%	-1.4%

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

Exhibit 4: Headline and Core WPI Inflation (YoY)

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

Exhibit 5: CPI and WPI Inflation (YoY)

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

ANNEXURE

Exhibit 6: WPI Inflation (YoY)

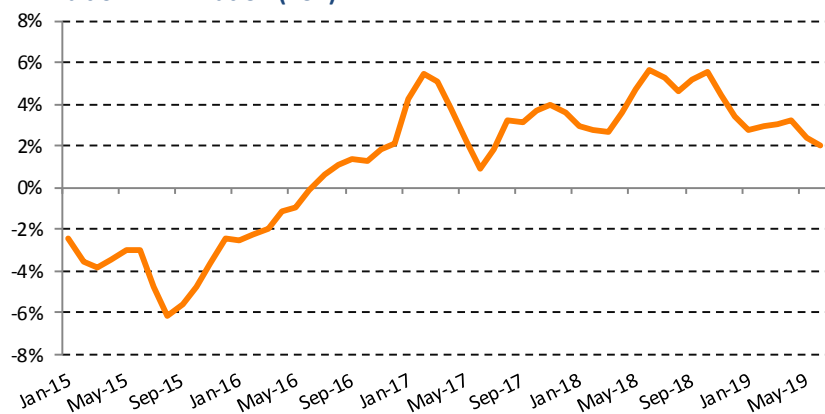
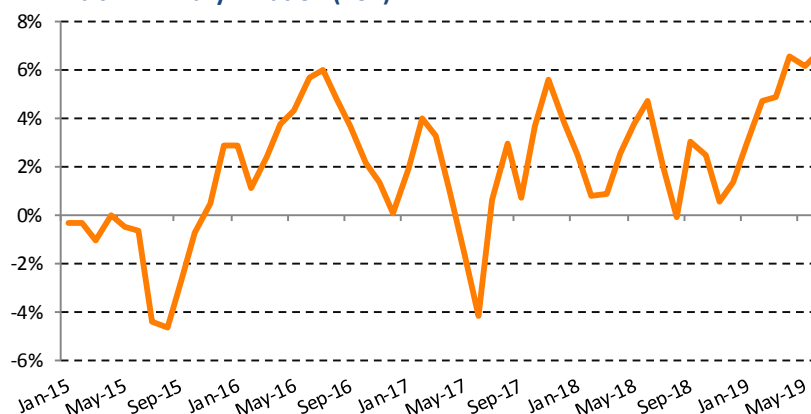


Exhibit 7: Primary Inflation (YoY)



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

Exhibit 8: Primary Food Inflation (YoY)

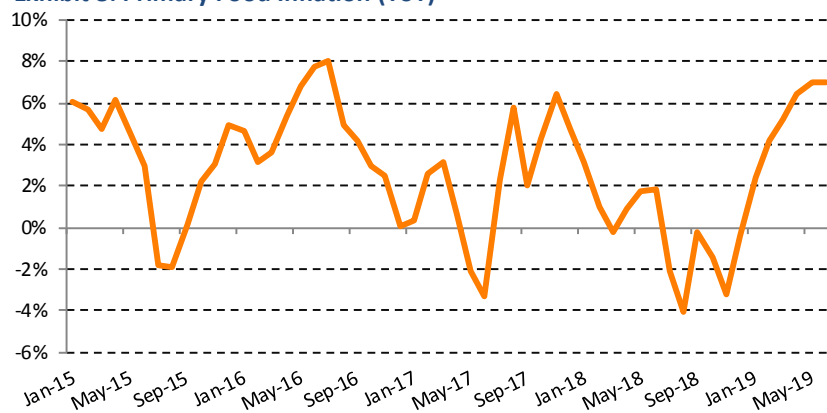
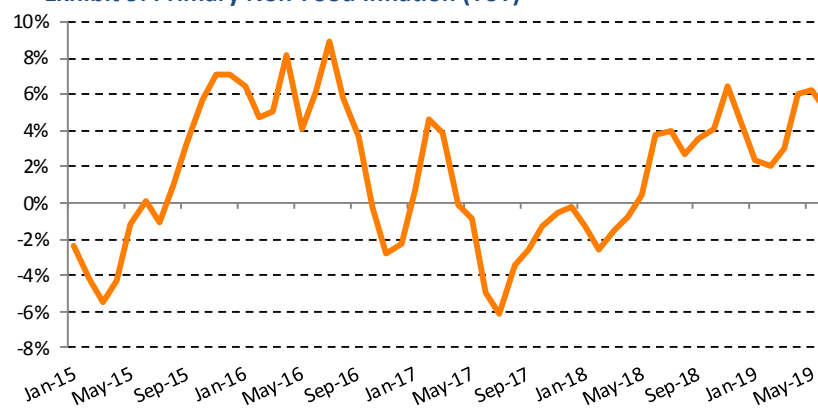
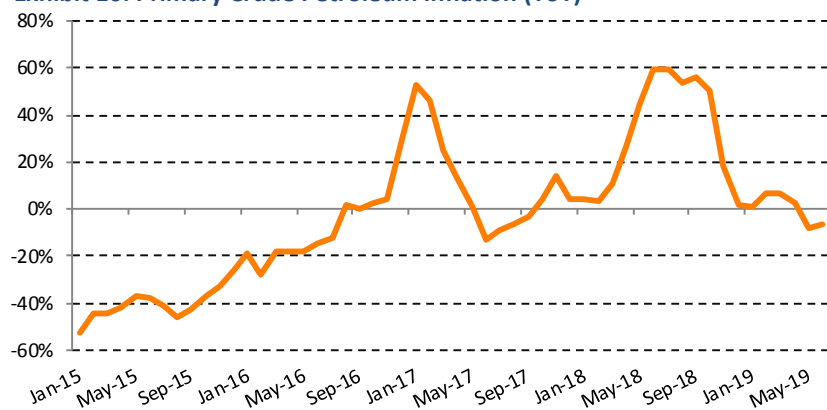
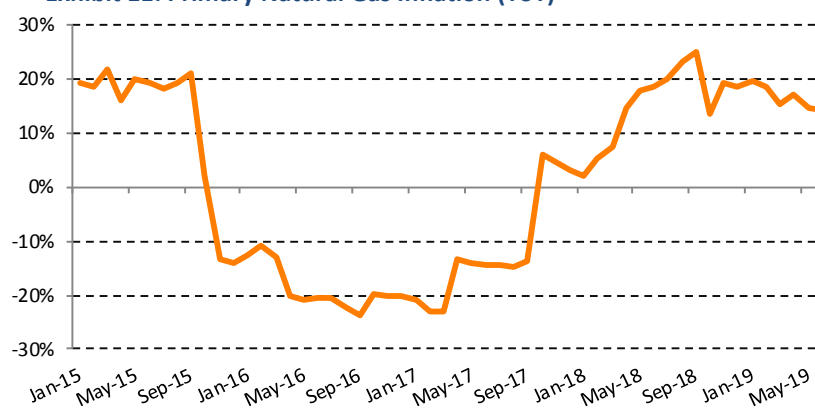


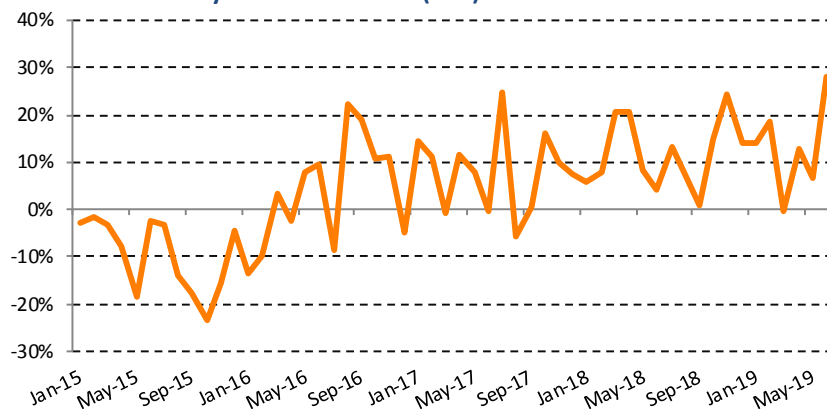
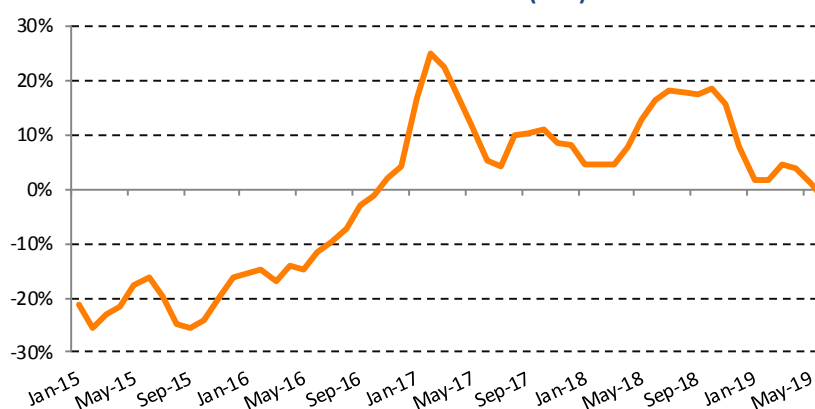
Exhibit 9: Primary Non-Food Inflation (YoY)



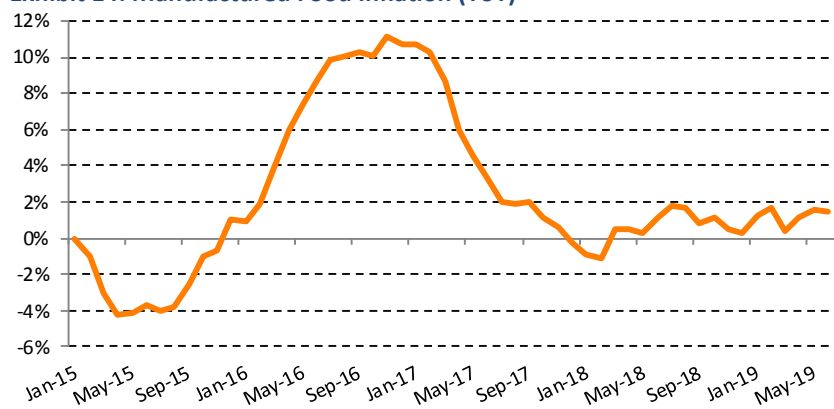
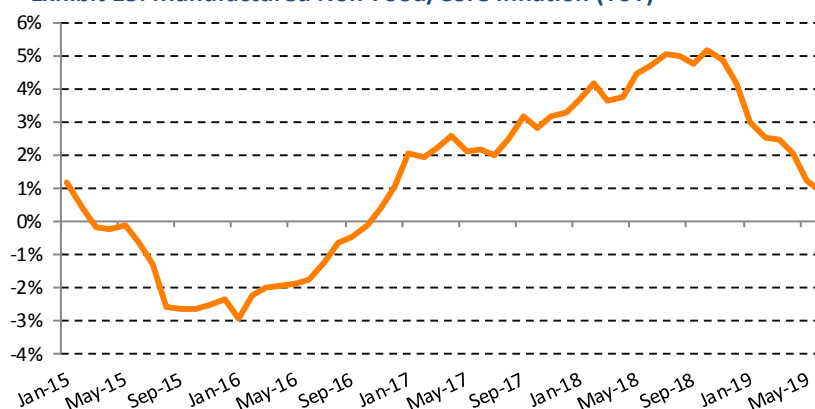
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI CEIC; ICRA research

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, GoI; CEIC; 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, GoI; CEIC; 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, GoI; CEIC; ICRA research



ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
Tel: +91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: communications@icraindia.com
Tel: +91 124 4545 860

Registered Office:

1105, Kailash Building, 11th Floor,
26, Kasturba Gandhi Marg,
New Delhi - 110 001
Tel: + 91 11 2335 7940-45

Corporate Office:

Building No.8, 2nd Floor,
Tower A, DLF Cyber City Phase II,
Gurgaon- 122 002
Tel: +91 124 4545300

Ahmedabad

907 & 908, Sakar – II,
Ellisbridge, Opp. Town Hall,
Ahmedabad - 380 006
Tel: +91 79 4027 1500/01

Bengaluru 1

'The Millenia', Tower- B, Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber,
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre,
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

No. 7-1-58, 301, 3rd Floor, 'CONCOURSE',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Hyderabad 2

4A, 4th Floor, SHOBHAN,
6-3-927, A&B Somajiguda,
Raj Bhavan Road,
Hyderabad – 500082
Tel: +91 40 40676500

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony,
S. No. 210 CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 1194

Email: info@icraindia.com

Helpdesk: 124 3341580

Website: www.icra.in/ www.icraresearch.in