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SERVICE COMPANY

WHOLESALE PRICE INDEX JULY 2019

WPI inflation dips to 25-month low 1.1% in July 2019



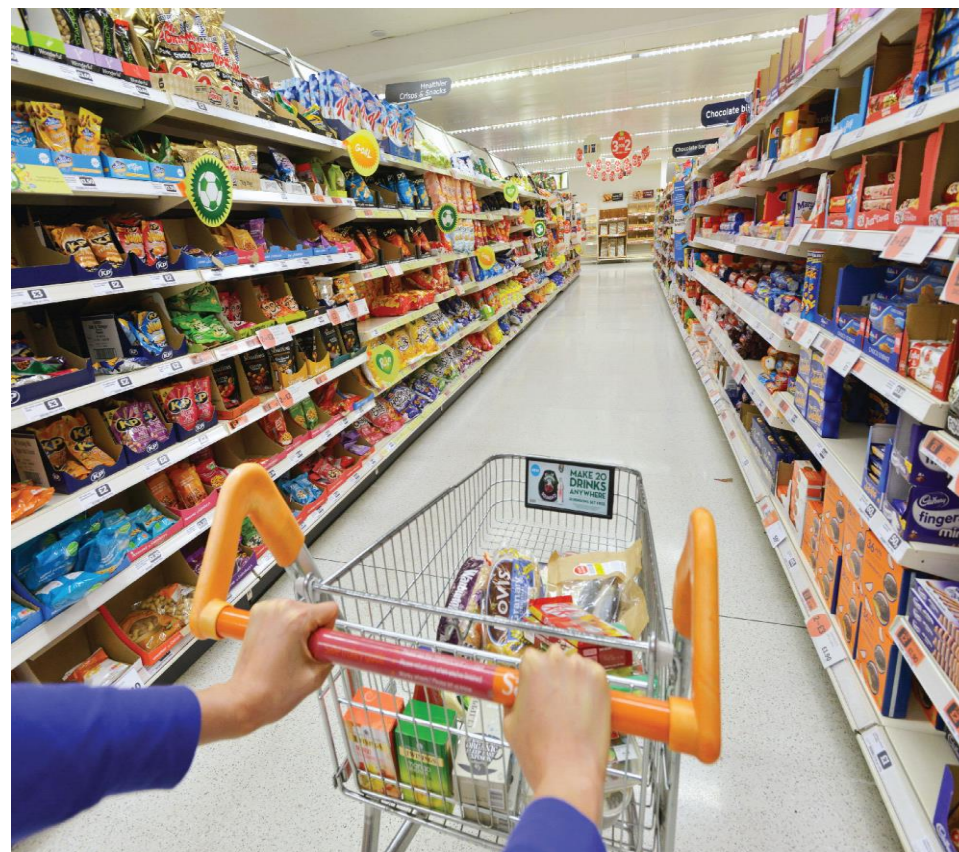
Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

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

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

HIGHLIGHTS

- The year-on-year (YoY) WPI inflation softened considerably to a 25-month low 1.1% in July 2019 from 2.0% in June 2019. This dip was fairly broad-based, with a decline in inflation for manufactured non-food products, fuel and power, primary food articles, minerals, crude petroleum and natural gas, and primary non-food articles, while the YoY print for manufactured food products remained steady between the two months.
- A sharper-than-anticipated dip in the inflation for manufactured non-food products (“core-WPI inflation”) to a marginal 0.2% in July 2019 from 0.8% in June 2019, resulted in the headline WPI inflation for July 2019 printing considerably lower than our forecast of 1.9%. Weak commodity prices, a mild appreciation of the INR as well as a lack of pricing power contributed to the broad-based fall in the core inflation to a 33-month low 0.2% in July 2019.
- Inflation for primary food articles eased to 6.1% in July 2019 from 7.0% in June 2019, with a decline in the inflation for vegetables, pulses and milk offsetting the rise in the same for fruits and cereals.
- In July 2019, food inflation was lower at the retail level than the wholesale level (+2.3% vs. +6.1%), with a contrasting trend for core inflation (+4.4% vs. +0.2%). The wedge between the core-WPI inflation and the core-CPI inflation is led by the different composition of these two indices. Around half of the core-CPI is made up of services, the demand for which is likely to be sticky in a downturn and prices relatively inelastic to changes in commodity prices. Therefore, the divergence between the core-WPI and core-CPI inflation may persist in the coming months.



OVERVIEW

- The YoY WPI inflation slipped to a 25-month low of 1.1% in July 2019 (+5.3% in July 2018) from 2.0% in June 2019 (+5.7% in June 2018; refer Exhibits 1, 2 and Annexure), and printed significantly lower than our expectation (+1.9%) following a sharper-than-anticipated dip in the core inflation.
- The sequential dip in the YoY WPI inflation in July 2019 was fairly broad-based, with a decline in inflation for manufactured non-food products, fuel and power, primary food articles, minerals, crude petroleum and natural gas, and primary non-food articles, while the YoY print for manufactured food products remained steady between the two months.
- The core-WPI inflation fell to a 33-month low 0.2% in July 2019 from 0.8% in June 2019, and remained below the headline WPI inflation for the sixth consecutive month (refer Exhibits 3 and 4). The sub-index for non-food manufactured products declined for the second month in a row, by 0.4% in month-on-month (MoM) terms in July 2019, highlighting the weak pricing power of producers, as well as weak global commodity prices and an appreciation of the INR in that month, which would have dampened the landed price of imports. There was an MoM decline in July 2019 in the case of 13 of the 21 sub-indices (with a weight of 36.7% in the WPI), such as fabricated metal products (-1.4%), basic metals (-1.3%), wearing apparel (-1.2%), tobacco products (-1.0%), etc. In contrast, six of the 21 sub-indices (accounting for 11.5% of the WPI), such as other manufacturing (+2.0%; led by gold and gold ornaments), printing and reproduction of recorded media (+1.0%), pharmaceuticals, medicinal chemical and botanical plants (+0.6%), machinery and equipment (+0.4%), furniture (+0.2%) and rubbers and plastic products (+0.1%) registered an MoM rise in June 2019. In the case of computer, electronic and optical products, and textiles, the sub-index level remained unchanged on an MoM basis.
- Moreover, the YoY disinflation for fuel and power deepened to 3.6% in July 2019 (the weakest print in 35 months; +18.1% in July 2018) from 2.2% in June 2019 (+16.5% in June 2018), on account of the base effect. While the YoY disinflation widened for mineral oils to 6.3% in July 2019 from 3.1% in June 2019, that for electricity narrowed to 1.2% from 2.1%, respectively. The YoY inflation for coal remained unchanged at 0.8% in these two months. In MoM terms, the fuel and power sub-index decreased by 1.5% in July 2019, while it had remained unchanged in July 2018. The former was led by a 3.1% MoM decline in the sub-index for mineral oils in July 2019, whereas the sub-index for coal remained unchanged and that for electricity rose by 0.9% in that month.
- After rising to a series-high 28.2% in June 2019, the YoY inflation for minerals softened substantially to 13.5% in July 2019, driven primarily by a sharp moderation in the inflation for metallic minerals (to +22.2% from +45.5%), led by copper concentrate (to +43.1% from +91.6%) and iron ore (to -3.0% from +2.6%). Additionally, the YoY disinflation for other minerals widened to 6.5% in July 2019 from 6.3% in June 2019. In MoM terms, the minerals sub-index declined by 2.9% in MoM terms in July 2019, in contrast to the 3.0% rise in July 2018.

- Inflation pertaining to primary food articles eased to a four-month low 6.1% in July 2019 from 7.0% in June 2019. This was driven by a sharp decline in the YoY inflation for vegetables (to +10.7% in July 2019 from +24.8% in June 2019) and mild moderation in the case of pulses (to +20.1% from +23.1%), milk (to +0.3% from +0.9%), eggs, meat and fish (to +3.2% from +5.6%) and other food articles (to +1.2% from +1.4%). In contrast, the YoY inflation rose sharply in the case of fruits (to +15.4% from +1.9%), and moderately for cereals (to +8.6% from +7.9%) and condiments and spices (to +4.2% from +3.3%). On an MoM basis, the primary food articles sub-index rose by 1.3% in July 2019, in line with the seasonal trends, albeit lower than the considerable 2.1% increase in July 2018.
- The YoY disinflation in crude petroleum and natural gas widened to 8.4% in July 2019 (the weakest print in 23-months; +47.1% in July 2018) from 1.7% in June 2019 (+47.0% in June 2018). This was primarily driven by the deepening disinflation for crude petroleum to 15.0% in July 2019 from 6.9% in June 2019. Additionally, the inflation for natural gas recorded a mild dip to 11.7% from 14.2% in the same months. The initial level for the crude petroleum index for July 2019 had been pegged at 75.1, 8.1% lower than the revised level for May 2019 (81.7), as compared to the 10.5% decline in the price of the Indian crude oil basket in INR terms in those months. Therefore, the index level for August 2019 for crude petroleum appears likely to undergo a downward revision in the subsequent readings.
- Inflation for primary non-food articles slipped to a four-month low 4.3% in July 2019 from 5.1% in June 2019, reflecting the trend for fibres (to +1.8% from +5.2%), oilseeds (to +8.7% from +9.2%) and floriculture (to +39.9% from +53.0%), although the inflation for other non-food articles (to -2.7% from -4.1%) recorded a mild pickup. On an MoM basis, the primary non-food articles sub-index rose by 0.1% in July 2019, substantially lower than the rise in July 2018 (+0.8%).
- The inflation for manufactured food products remained steady at 1.5% in July 2019, in line with the print for June 2019. While the YoY inflation print eased in the case of items such as meat (to +1.9% from +2.1%), sugar, molasses and honey (to +2.2% from +3.6%), and macaroni, noodles, couscous and similar farinaceous products (to -0.4% from +1.7%), etc., the same hardened for vegetable and animal oils and fats (to -6.6% from -6.7%), processed ready to eat food (to +4.9% from -1.7%), prepared animal feed (to +12.8% from +12.3%), and tea and coffee products (to +1.8% from +0.5%), etc. In MoM terms, the manufactured food items sub-index rose by 0.4% in July 2019, in line with the increase in July 2018.
- The build-up of the WPI inflation till July 2019 was substantially lower than the same till July 2018 (+1.1% vs. +3.1%), led by crude, petroleum and natural gas (-1.5% vs. +16.9%), fuel and power (-1.9% vs. +6.5%), and manufactured non-food products (-0.5% vs. +1.8%).
- The final WPI inflation for May 2019 was revised upwards to 2.8% from the initial 2.5%, led by minerals (to +18.4% from +6.5%), primary food articles (to +7.3% from +7.0%), fuel and power (to +2.0% from +1.0%), manufactured food products (to +2.1% from +1.6%), and manufactured non-food articles (to +1.3% from +1.2%). In contrast, the inflation rate was revised downward in the case of primary non-food articles (to +6.0% from +6.2%) and crude petroleum and natural gas (to -2.8% from -2.4%).

- The CPI inflation exceeded the WPI inflation for the third month in a row in July 2019. The wedge between the two widened during the month, with the substantial fall in the WPI inflation in July 2019 relative to June 2019, outpacing the mild moderation in the retail inflation (to +3.1% from +3.2%; refer Exhibit 5).

OUTLOOK

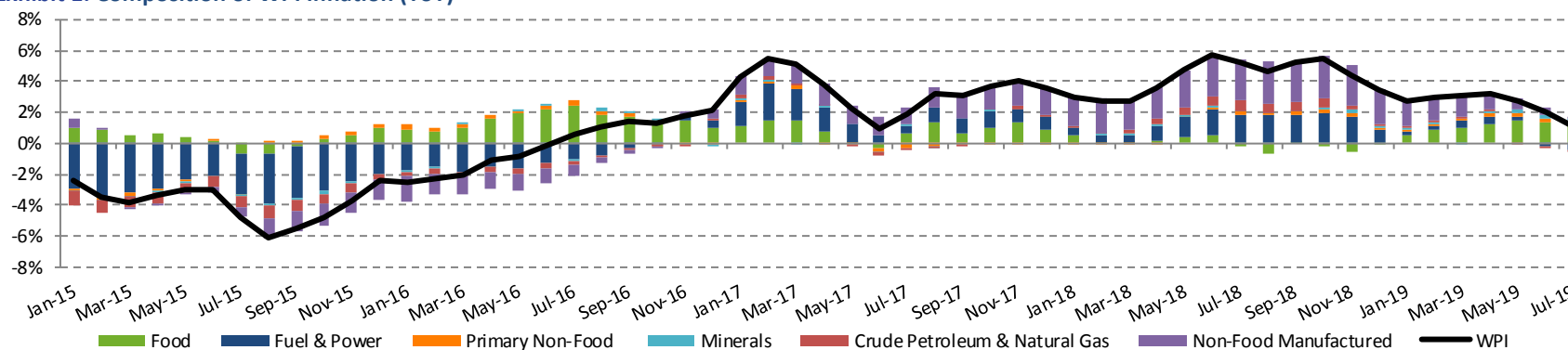
The continued lag in kharif sowing of most crops, flooding in some states, and rising vegetable prices are likely to push up food inflation in the ongoing month.

Crude oil prices had eased considerably in the ongoing month, which had translated into a dip in retail fuel prices, despite the depreciation of the INR. A thaw in trade tensions has led to volatility in crude oil prices in the recent sessions. Looking ahead, the subdued global growth outlook and the risks related to the resurgence of trade wars are likely to outweigh geopolitical concerns, preventing a sharp resurgence in prices.

The fall in the core-WPI inflation contrasts with the uptick in the core CPI inflation in July 2019, led by the different composition of these two indices. Around half of the core-CPI is made up of services, the demand for which is likely to be sticky in a downturn and prices relatively inelastic to changes in commodity prices. Therefore, we expect the divergence between the core-WPI and core-CPI inflation to persist in the coming months.

The WPI inflation is expected to remain muted in the near term, reflecting the continued softness in commodity prices, although a weaker currency may arrest the correction in the landed price of imports. Moreover, available trends suggest that the fall in wholesale food inflation in July 2019 may prove to be temporary. Additionally, the rise in gold prices would push up inflation related to other manufacturing.

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
		May-19	May-19	June-19	July-19	July-19	July-19	July-19
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
WPI	100.00	2.5%	2.8%	2.0%	1.1%	-0.2%	1.1%	100.0%
Primary Articles	22.62	6.2%	6.8%	6.7%	5.0%	0.5%	5.7%	118.3%
- Food	15.26	7.0%	7.3%	7.0%	6.1%	1.3%	6.4%	104.4%
- Non-Food	4.12	6.2%	6.0%	5.1%	4.3%	0.1%	4.1%	16.8%
- Minerals	0.83	6.5%	18.4%	28.2%	13.5%	-2.9%	11.2%	11.7%
- Crude Petroleum and Natural Gas	2.41	-2.4%	-2.8%	-1.7%	-8.4%	-6.1%	-1.5%	-14.8%
Fuel and Power	13.15	1.0%	2.0%	-2.2%	-3.6%	-1.5%	-1.9%	-38.4%
- Coal	2.14	0.5%	0.5%	0.8%	0.8%	0.0%	0.3%	1.6%
- Minerals Oils	7.95	3.0%	3.4%	-3.1%	-6.3%	-3.1%	-3.8%	-37.3%
- Electricity	3.06	-3.1%	0.0%	-2.1%	-1.2%	0.9%	0.9%	-3.1%
Manufactured Products	64.23	1.3%	1.5%	0.9%	0.3%	-0.3%	-0.2%	19.8%
- Food	9.12	1.6%	2.1%	1.5%	1.5%	0.4%	1.9%	13.3%
- Non-Food	55.11	1.2%	1.3%	0.8%	0.2%	-0.4%	-0.5%	10.0%

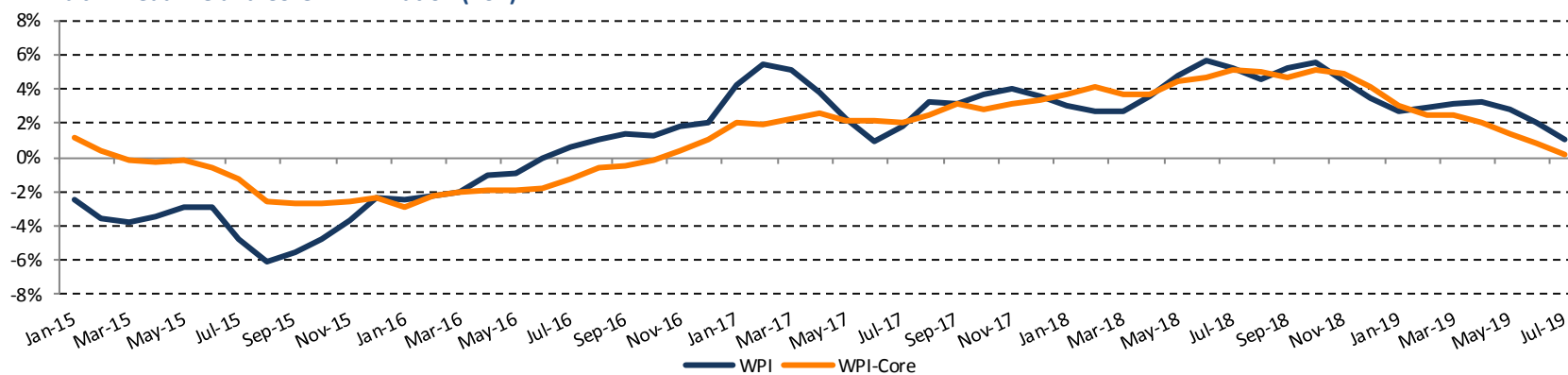
* Buildup with reference to March 2019

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

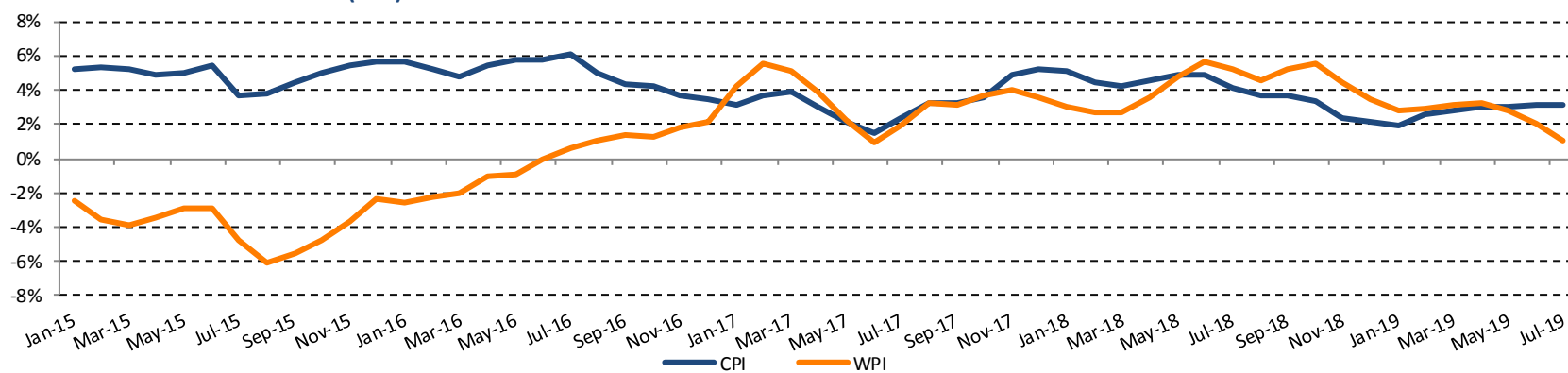
Exhibit 3: Trend in Monthly Inflation related to Non-Food Manufactured Products (YoY)

	Weight	YoY Inflation				MoM	Build-up	Contribution
		May-19	May-19	June-19	July-19	July-19	July-19	July-19
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
Non-Food Manufactured Products	55.11	1.2%	1.3%	0.8%	0.2%	-0.4%	-0.5%	100.0%
Beverages	0.91	2.8%	2.9%	3.4%	2.9%	-0.1%	1.0%	24.6%
Tobacco Products	0.51	1.5%	2.3%	2.9%	2.8%	-1.0%	-0.1%	16.6%
Textiles	4.88	3.5%	3.4%	2.7%	1.4%	0.0%	0.6%	60.3%
Wearing Apparel	0.81	-0.4%	-1.1%	-0.7%	-1.1%	-1.2%	-0.9%	-9.4%
Leather and Related Products	0.54	-2.1%	-2.5%	-3.2%	-4.4%	-0.8%	-1.9%	-22.3%
Wood and Products of Wood and Cork	0.77	0.7%	1.0%	1.4%	1.4%	-0.3%	-0.7%	10.7%
Paper and Paper Products	1.11	1.6%	1.2%	1.2%	0.0%	-0.3%	-1.2%	0.0%
Printing and Reproduction of Recorded Media	0.68	1.4%	1.5%	1.1%	1.8%	1.0%	2.7%	13.6%
Chemicals and Chemical Products	6.47	2.0%	2.0%	1.4%	0.4%	-0.4%	-0.7%	24.9%
Pharmaceuticals, Medicinal Chemical and	1.99	2.6%	2.7%	2.7%	2.5%	0.6%	-0.2%	47.7%
Rubber and Plastics Products	2.30	0.6%	0.8%	0.2%	-0.3%	0.1%	-0.8%	-5.3%
Other Non-Metallic Mineral Products	3.20	2.4%	2.5%	2.6%	1.4%	-0.6%	0.8%	39.5%
Basic Metals	9.65	-2.2%	-2.3%	-3.7%	-4.3%	-1.3%	-3.4%	-357.3%
Fabricated Metal Products, Except Machinery	3.15	3.8%	3.9%	2.0%	-0.1%	-1.4%	-1.7%	-2.4%
Computer, Electronic and Optical Products	2.01	0.1%	0.3%	0.2%	0.5%	0.0%	0.0%	9.3%
Electrical Equipment	2.93	1.1%	1.3%	0.1%	-0.2%	-0.5%	-0.9%	-4.5%
Machinery and Equipment	4.79	2.5%	2.7%	2.4%	2.3%	0.4%	1.1%	96.1%
Motor Vehicles, Trailers and Semi-Trailers	4.97	1.1%	1.5%	2.1%	1.4%	-0.1%	1.0%	61.3%
Other Transport Equipment	1.65	4.0%	5.9%	5.7%	4.7%	-0.4%	2.7%	66.1%
Furniture	0.73	2.5%	2.0%	3.0%	2.7%	0.2%	-0.6%	19.1%
Other Manufacturing	1.06	-0.6%	-2.1%	-0.7%	1.3%	2.0%	0.9%	11.5%

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)

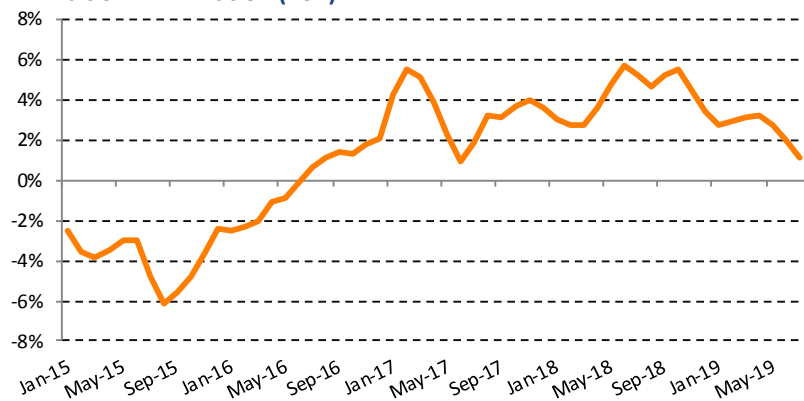
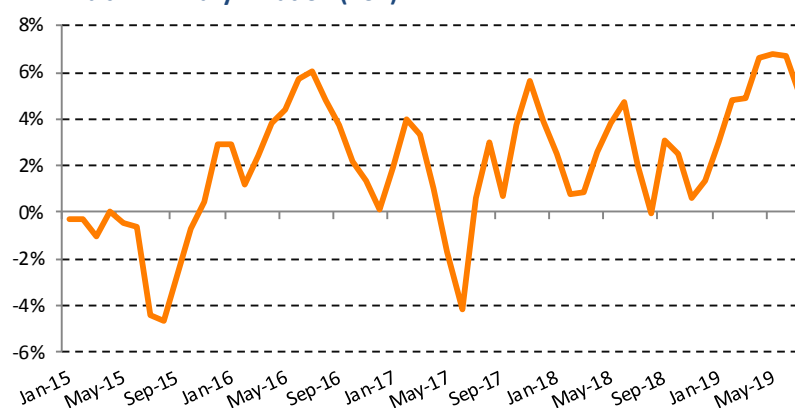


Exhibit 7: Primary Inflation (YoY)



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

Exhibit 8: Primary Food Inflation (YoY)

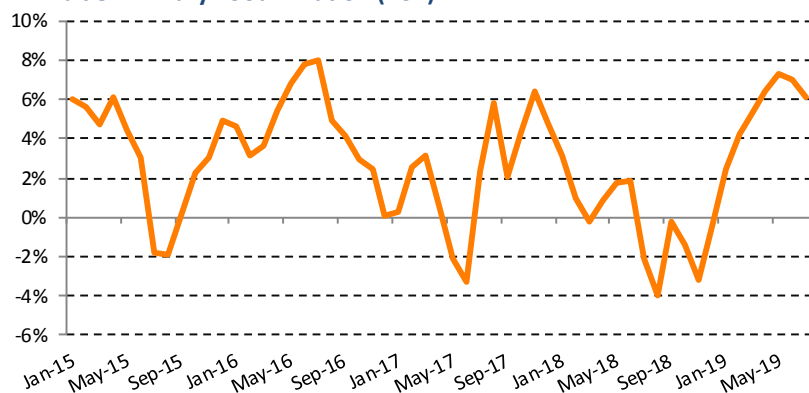
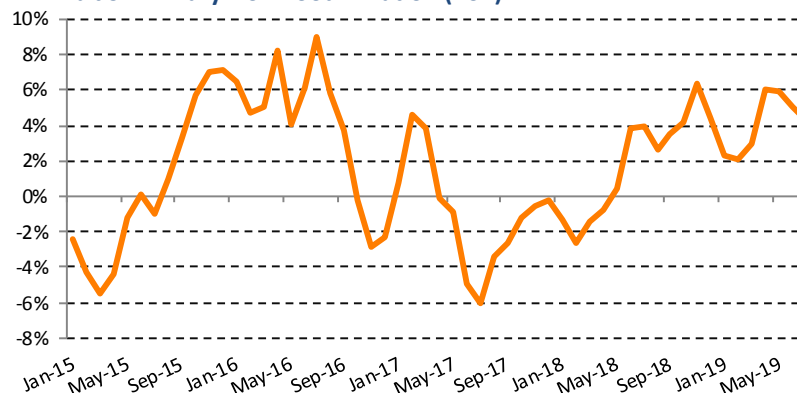
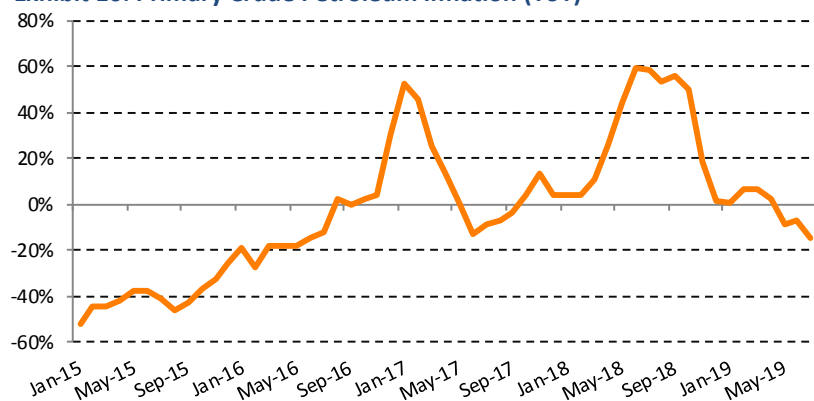
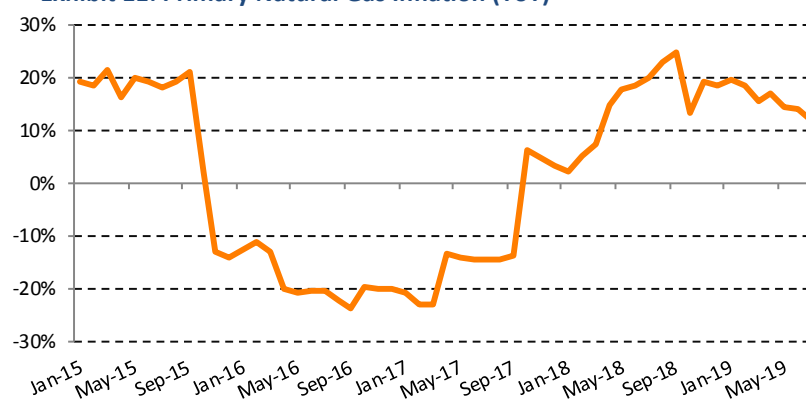


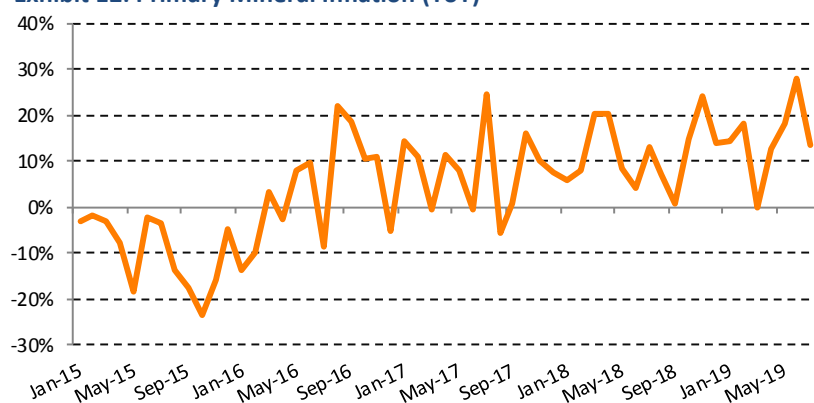
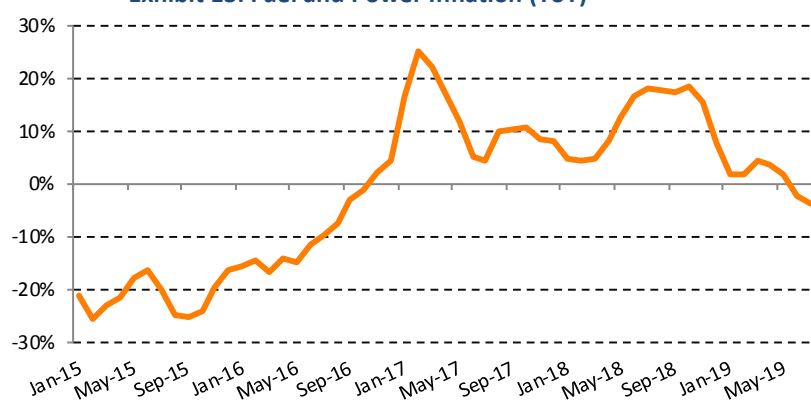
Exhibit 9: Primary Non-Food Inflation (YoY)



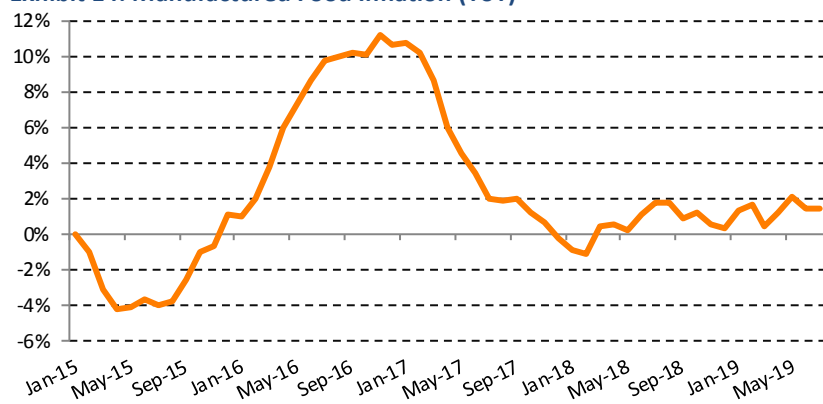
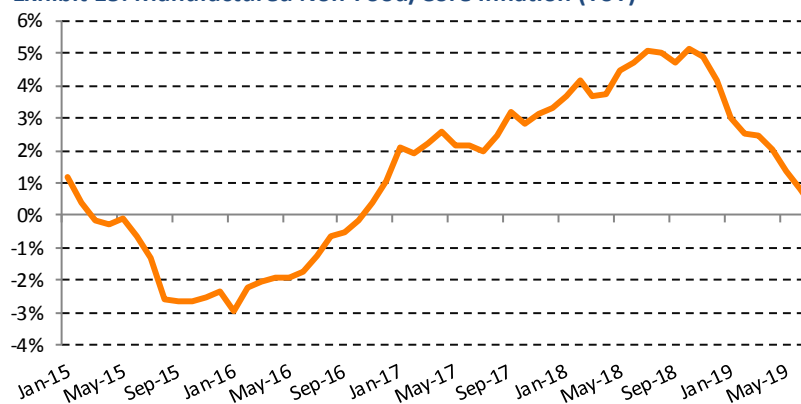
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI CEIC; ICRA research

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, Gol; 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, Gol; 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



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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