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SERVICE COMPANY

# WHOLESALE PRICE INDEX AUGUST 2019

Headline WPI inflation remained unchanged at 1.1% in August 2019; core WPI recorded a disinflation after 33 months

September 2019



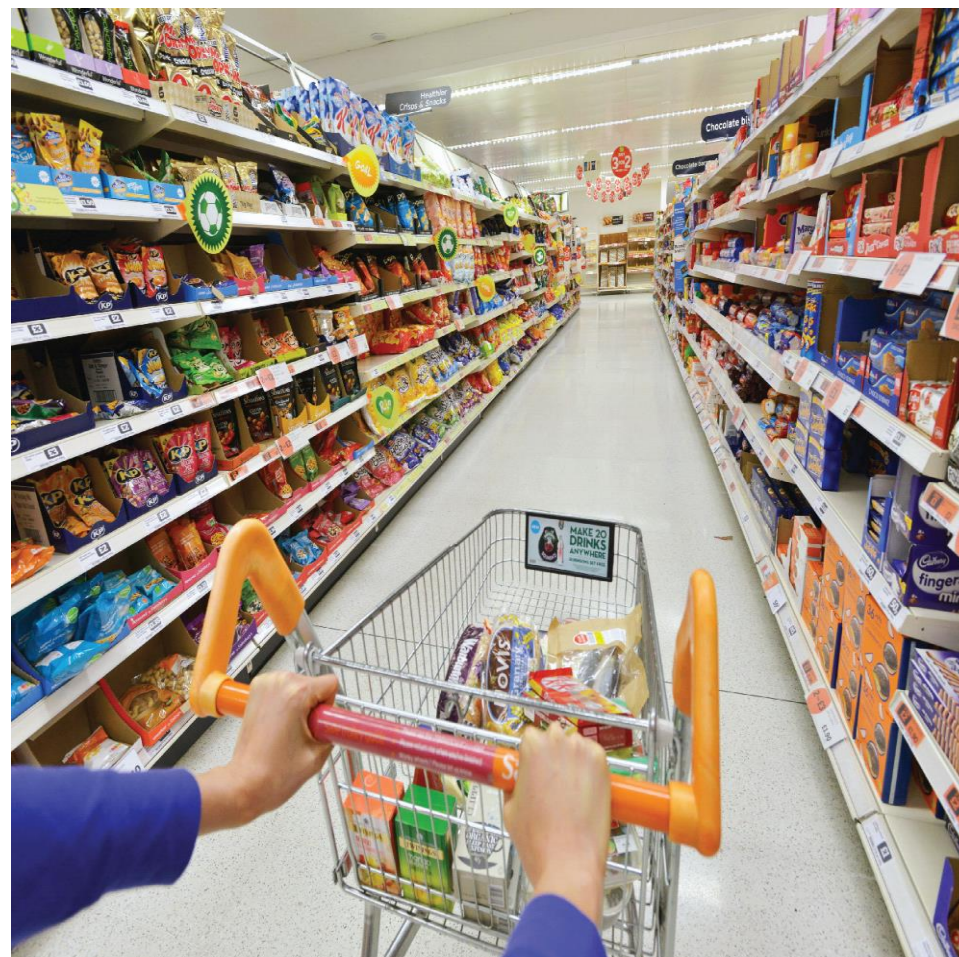
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## HIGHLIGHTS

- The year-on-year (YoY) WPI inflation remained unchanged at 1.1% in August, in line with the print in July 2019. The sequential uptick in the YoY inflation in August 2019 for primary articles and manufactured food products, masked the worrying trend for manufactured non-food products, which recorded a disinflation in August 2019, in contrast to the marginal inflation in the previous month, and the deeper disinflation for fuel and power.
- The headline WPI inflation printed mildly higher than our expectation (+0.9%), following a sharper-than-anticipated pickup in primary food articles and manufactured food products.
- Manufactured non-food products (“core-WPI”) posted a YoY disinflation of 0.5% in August 2019, after a gap of 33 months, in contrast to the marginal inflation of 0.2% in July 2019. With pricing power of producers unlikely to strengthen and commodities ex-crude oil likely to remain sluggish in the immediate term, the core-WPI inflation may remain sub-zero in the rest of this calendar year.
- In contrast, the inflation for primary food articles rose to a 37-month high 7.7% in August 2019 from 6.1% in July 2019, led by the base effect as well as flooding in various states.
- In August 2019, food inflation was lower at the retail level than the wholesale level (+3.0% vs. +7.7%), with a contrasting trend for core inflation (+4.4% vs. -0.5%). 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 remained unchanged at 1.1% in August 2019 (+4.6% in August 2018), in line with the print in July 2019 (+5.3% in July 2018; refer Exhibits 1, 2 and Annexure). The sequential uptick in the YoY inflation in August 2019 for primary food and non-food articles, minerals, crude petroleum and natural gas, and manufactured food products, masked the worrying trend for core-WPI, which recorded a disinflation in August 2019, in contrast to the marginal inflation in the previous month, and the deeper disinflation for fuel and power.
- The headline WPI inflation printed mildly higher than our expectation (+0.9%), following a sharper-than-anticipated pickup in primary food articles and manufactured food products.
- The core-WPI posted a YoY disinflation of 0.5% in August 2019, after a gap of 33 months, in contrast to the mild inflation of 0.2% in July 2019. The weakness in the core WPI in August 2019 was broad-based, with 15 of the 21 sub-sectors recording a sequential decline in YoY inflation and as many as nine of the categories recording a YoY disinflation. Moreover, the core-WPI inflation remained below the headline WPI inflation for the seventh consecutive month (refer Exhibits 3 and 4). On a month-on-month (MoM) basis, the sub-index for non-food manufactured products declined for the third month in a row, by a considerable 0.6% in August 2019, highlighting the weak pricing power of producers, as well as the subdued global commodity prices. There was an MoM decline in August 2019 in the case of 13 of the 21 sub-indices (with a weight of 45.8% in the WPI), such as basic metals (-2.3%), textiles (-0.8%), rubber and plastics (-0.9%), machinery and equipment (-0.4%) etc. In contrast, seven of the 21 sub-indices (accounting for 6.1% of the WPI), such as furniture (+2.1%), other transport equipment (+1.0%), other manufacturing (+1.8%; led by gold and silver), printing and reproduction of recorded media (+0.6%), leather and related products (+0.8%), tobacco products (+0.2%), and beverages (+0.6%) registered an MoM rise in August 2019. In the case of other non-metallic mineral products, the sub-index level remained unchanged in MoM terms in August 2019.
- Moreover, the YoY disinflation for fuel and power deepened to 4.0% in August 2019 (the weakest print in 36 months; +17.7% in August 2018) from 3.6% in July 2019 (+18.1% in July 2018). While the YoY disinflation widened for mineral oils to 6.9% in August 2019 from 6.3% in July 2019, that for electricity narrowed to 1.0% from 1.2%, respectively. The YoY inflation for coal remained unchanged at 0.8% in these two months. In MoM terms, the fuel and power sub-index rose by 0.1% in August 2019, sharply lower than the 0.5% MoM increase in August 2018. The former was led by a 0.1% MoM rise in the sub-index for mineral oils in August 2019, whereas the sub-index level remained unchanged for coal and electricity in that month.
- In contrast, inflation pertaining to primary food articles rose to a 37-month high 7.7% in August 2019 (-4.0% in August 2018) from 6.1% in July 2019 (-2.1% in July 2018), partly led by an unfavourable base effect as well as the flooding in various states during that month. The YoY WPI inflation hardened in August 2019 compared to July 2019 for vegetables (to +13.1% from +10.7%), fruits (to +19.7% from +15.4%), eggs, meat and fish (to +6.6% from +3.2%), condiments and spices (to +7.8% from +4.2%), and milk (to +1.2% from +0.3%). In contrast, the YoY inflation softened in August 2019 relative to the previous month for pulses (to +16.4% from +20.1%), cereals (to +8.5% from +8.6%), and other food articles (to +1.1% from +1.2%). On an MoM basis, the primary food articles sub-index rose by a considerable 1.4% in August 2019, whereas it had remained unchanged in August 2018.



- Led by the base effect, the YoY inflation for minerals hardened substantially to 18.5% in August 2019 from 13.5% in July 2019, driven primarily by a pickup in the inflation rate for copper concentrate (to +51.1% from +43.1%) and iron ore (to +7.0% from -3.0%). However, in MoM terms, the minerals sub-index remained stagnant in August 2019, in contrast to the 4.3% decline in August 2018.
- The YoY disinflation in crude petroleum and natural gas narrowed to 7.7% in August 2019 (+44.5% in August 2018) from 8.4% in July 2019 (+47.1% in July 2018). This was driven by the trend for crude petroleum (to -14.6% in August 2019 from -15.0% in July 2019), as well as natural gas (to +13.2% from +11.7%). The initial level for the crude petroleum index for August 2019 has been pegged at 75.5, 0.5% higher than the revised level for June 2019 (75.1), in contrast to the 2.3% 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 hardened to 4.8% in August 2019 from the four-month low 4.3% in July 2019, reflecting the trend for floriculture (to +55.2% from +39.9%), and other non-food articles (to -2.67% from -2.74%), even as there was a dip in the inflation for fibres (to -0.5% from +1.8%), and oilseeds (to +8.3% from +8.7%). On an MoM basis, the primary non-food articles sub-index rose by 0.9% in August 2019, higher than the uptick in August 2018 (+0.4%).
- The inflation for manufactured food products rose to a 26-month high 2.2% in August 2019 from 1.5% in July 2019, reflecting the considerable uptick in sugar (to +1.4% from -0.9%), dairy products (to +5.0% from +2.3%), vegetable and animal oils and fats (to -4.3% from -6.6%) etc. In MoM terms, the manufactured food items sub-index rose by 1.1% in August 2019, sharply higher than the increase in August 2018 (+0.5%).
- The build-up of the WPI inflation till August 2019 was substantially lower than the same till August 2018 (+1.3% vs. +3.3%), led by crude, petroleum and natural gas (-0.1% vs. +17.5%), fuel and power (-1.8% vs. +7.0%), and manufactured non-food products (-1.1% vs. +1.9%).
- The final WPI inflation for June 2019 was retained at 2.0%, in line with the initial print.
- The CPI inflation exceeded the WPI inflation for the fourth month in a row in August 2019. The wedge between the two widened slightly in the month, with the WPI inflation remaining unchanged in August 2019 relative to July 2019, whereas the retail inflation recorded a mild pickup (to +3.2% from +3.1%; refer Exhibit 5).

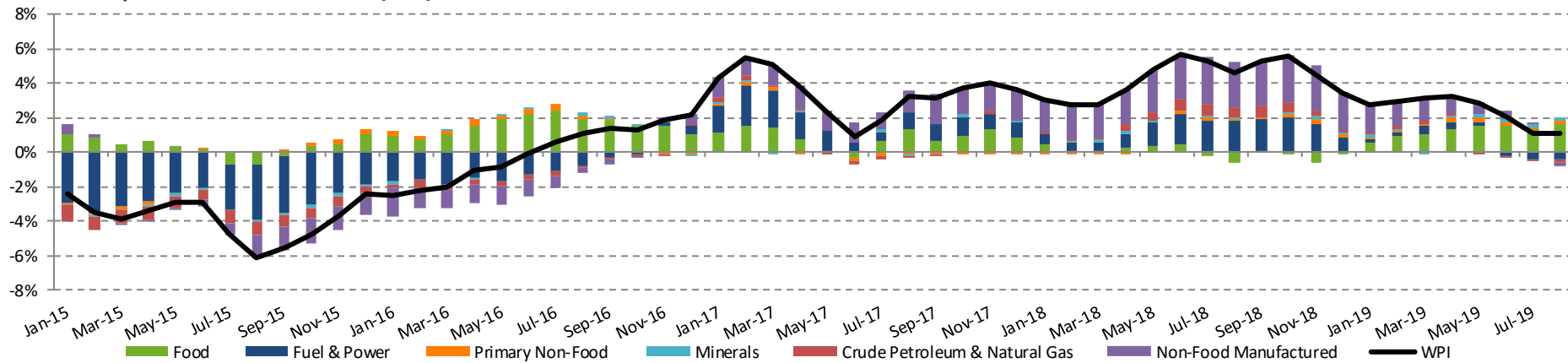
## OUTLOOK

While the gap in kharif sowing relative to last year has narrowed in the recent weeks, the continuing rise in prices of vegetables such as onions, may result in the primary food inflation remaining elevated in the ongoing month.

Crude oil prices have risen considerably in the recent sessions following increased geo-political tensions in the Middle East. The extent to which the recent uptick in crude oil prices is sustained, and its knock on impact on the INR-USD cross rate, as well as domestic retail fuel prices, would impact the trajectory of the WPI inflation in the near term.

With the pricing power of producers unlikely to strengthen and the prices of commodities other than crude oil likely to remain sluggish in the immediate term, the core-WPI inflation may remain sub-zero in the rest of this calendar year.

The disinflation in core-WPI in August 2019 has further reinforced our expectation of a rate cut in the October 2019 policy review. In our view, the assessed space for further accommodation should be front loaded. Nevertheless, the efficacy of incremental rate cuts in rapidly instigating a turnaround in economic growth remains uncertain.

**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
		June-19	June-19	July-19	August-19	August-19	August-19	August-19
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
<b>WPI</b>	<b>100.00</b>	<b>2.0%</b>	<b>2.0%</b>	<b>1.1%</b>	<b>1.1%</b>	<b>0.2%</b>	<b>1.3%</b>	<b>100.0%</b>
<b>Primary Articles</b>	<b>22.62</b>	<b>6.7%</b>	<b>6.4%</b>	<b>5.0%</b>	<b>6.4%</b>	<b>1.3%</b>	<b>7.0%</b>	<b>151.4%</b>
- Food	15.26	7.0%	7.3%	6.1%	7.7%	1.4%	7.9%	130.3%
- Non-Food	4.12	5.1%	5.1%	4.3%	4.8%	0.9%	5.0%	18.7%
- Minerals	0.83	28.2%	24.5%	13.5%	18.5%	0.0%	11.2%	15.4%
- Crude Petroleum and Natural	2.41	-1.7%	-7.3%	-8.4%	-7.7%	1.4%	-0.1%	-13.5%
<b>Fuel and Power</b>	<b>13.15</b>	<b>-2.2%</b>	<b>-2.1%</b>	<b>-3.6%</b>	<b>-4.0%</b>	<b>0.1%</b>	<b>-1.8%</b>	<b>-42.5%</b>
- Coal	2.14	0.8%	0.8%	0.8%	0.8%	0.0%	0.3%	1.6%
- Minerals Oils	7.95	-3.1%	-3.4%	-6.3%	-6.9%	0.1%	-3.7%	-41.6%
- Electricity	3.06	-2.1%	-1.2%	-1.2%	-1.0%	0.0%	0.9%	-2.6%
<b>Manufactured Products</b>	<b>64.23</b>	<b>0.9%</b>	<b>1.0%</b>	<b>0.3%</b>	<b>0.0%</b>	<b>-0.3%</b>	<b>-0.4%</b>	<b>0.0%</b>
- Food	9.12	1.5%	1.8%	1.5%	2.2%	1.1%	3.1%	19.6%
- Non-Food	55.11	0.8%	0.9%	0.2%	-0.5%	-0.6%	-1.1%	0.0%

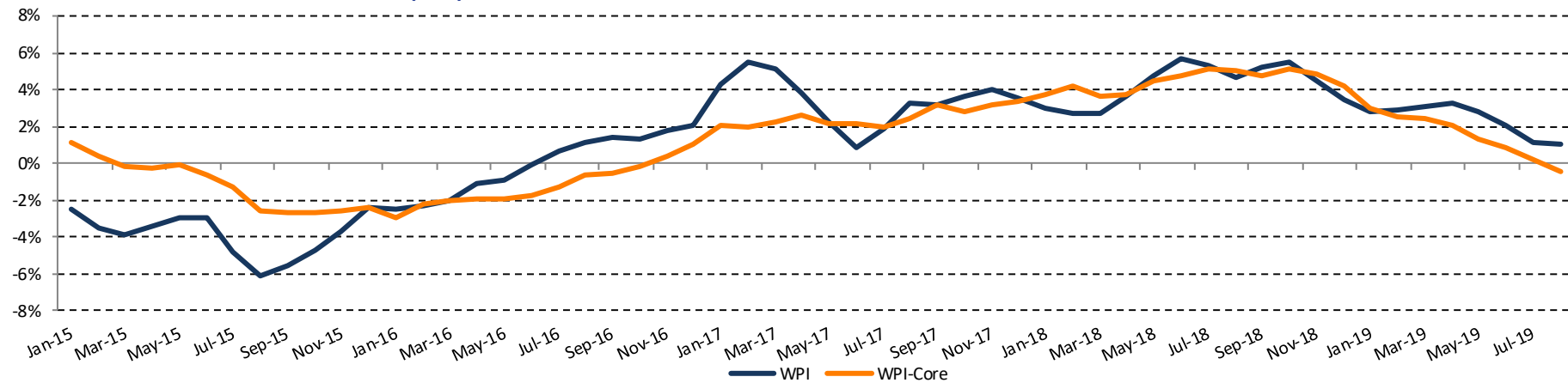
\*Buildup with reference to March 2019

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

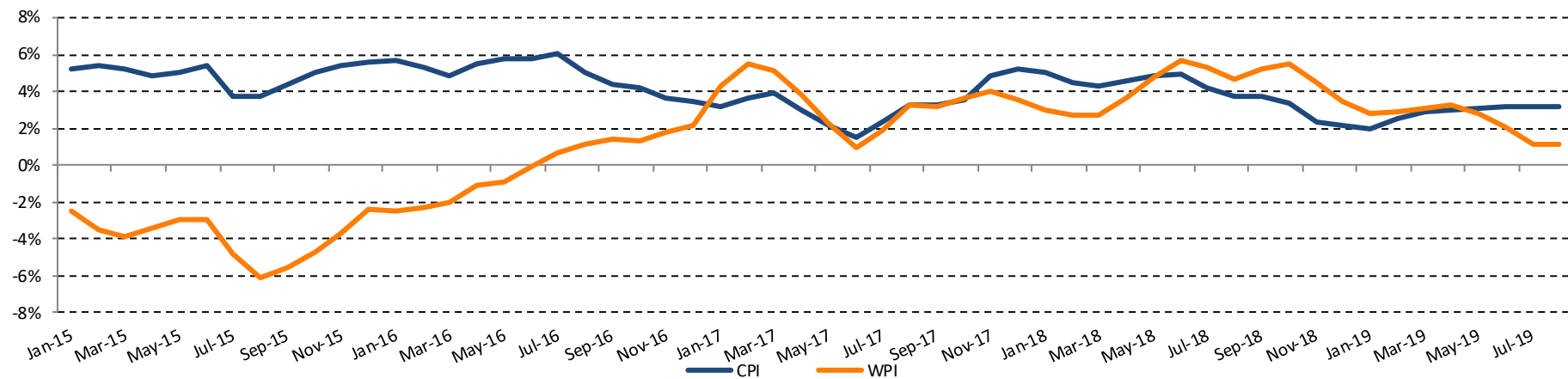
**Exhibit 3: Trend in Monthly Inflation related to Non-Food Manufactured Products (YoY)**

	Weight	YoY Inflation				MoM	Build-up	Contribution
		June-19	June-19	July-19	August-19	August-19	August-19	August-19
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
<b>Non-Food Manufactured Products</b>	<b>55.11</b>	<b>0.8%</b>	<b>0.9%</b>	<b>0.2%</b>	<b>-0.5%</b>	<b>-0.6%</b>	<b>-1.1%</b>	<b>100.0%</b>
Beverages	0.91	3.4%	3.4%	2.9%	3.3%	0.6%	1.6%	-11.6%
Tobacco Products	0.51	2.9%	2.1%	2.8%	2.5%	0.2%	0.1%	-6.0%
Textiles	4.88	2.7%	2.8%	1.4%	0.0%	-0.8%	-0.3%	0.0%
Wearing Apparel	0.81	-0.7%	-1.2%	-1.1%	-1.8%	-0.6%	-1.4%	6.5%
Leather and Related Products	0.54	-3.2%	-3.7%	-4.4%	-1.8%	0.8%	-1.1%	3.7%
Wood and Products of Wood and Cork	0.77	1.4%	1.4%	1.4%	0.6%	-0.1%	-0.7%	-2.0%
Paper and Paper Products	1.11	1.2%	1.0%	0.0%	-0.7%	-0.7%	-1.9%	2.8%
Printing and Reproduction of Recorded Media	0.68	1.1%	0.7%	1.8%	1.5%	0.6%	3.4%	-4.9%
Chemicals and Chemical Products	6.47	1.4%	1.2%	0.4%	-0.4%	-0.4%	-1.1%	10.3%
Pharmaceuticals, Medicinal Chemical and Botanical Products	1.99	2.7%	2.9%	2.5%	2.0%	-0.6%	-0.8%	-15.2%
Rubber and Plastics Products	2.30	0.2%	0.4%	-0.3%	-1.2%	-0.9%	-1.7%	9.5%
Other Non-Metallic Mineral Products	3.20	2.6%	2.7%	1.4%	1.5%	0.0%	0.8%	-17.3%
Basic Metals	9.65	-3.7%	-3.7%	-4.3%	-6.1%	-2.3%	-5.7%	208.5%
Fabricated Metal Products, Except Machinery and Equipment	3.15	2.0%	1.8%	-0.1%	-1.1%	-0.6%	-2.3%	13.0%
Computer, Electronic and Optical Products	2.01	0.2%	0.2%	0.5%	-1.4%	-0.2%	-0.2%	10.2%
Electrical Equipment	2.93	0.1%	-0.8%	-0.2%	-0.6%	-0.2%	-1.1%	6.5%
Machinery and Equipment	4.79	2.4%	2.4%	2.3%	1.7%	-0.4%	0.7%	-28.9%
Motor Vehicles, Trailers and Semi-Trailers	4.97	2.1%	2.7%	1.4%	0.2%	-0.4%	0.5%	-3.2%
Other Transport Equipment	1.65	5.7%	5.8%	4.7%	6.0%	1.0%	3.8%	-35.1%
Furniture	0.73	3.0%	6.0%	2.7%	4.9%	2.1%	1.5%	-14.1%
Other Manufacturing	1.06	-0.7%	1.7%	1.3%	9.6%	1.8%	2.8%	-32.8%

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

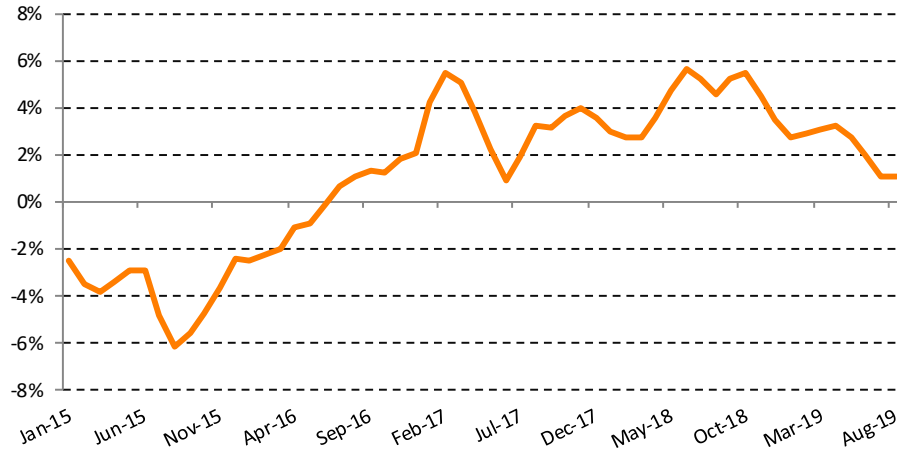
**Exhibit 5: CPI and WPI Inflation (YoY)**

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

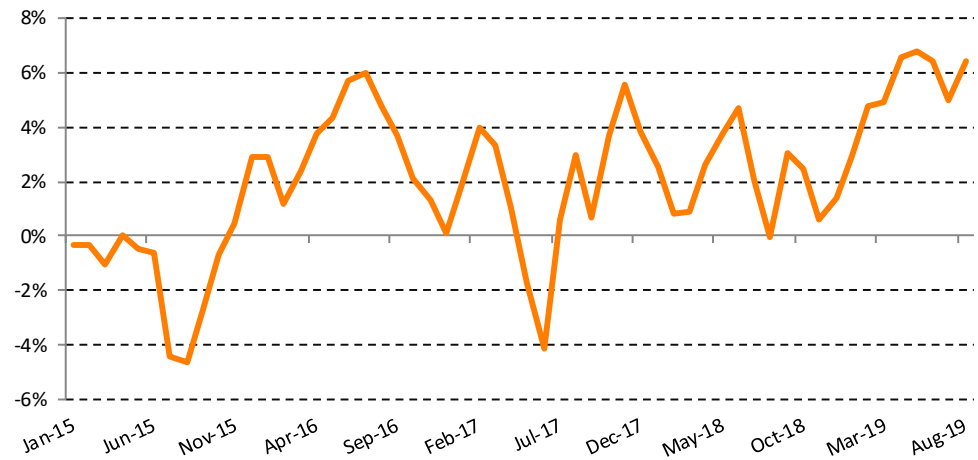


## ANNEXURE

**Exhibit 6: WPI Inflation (YoY)**

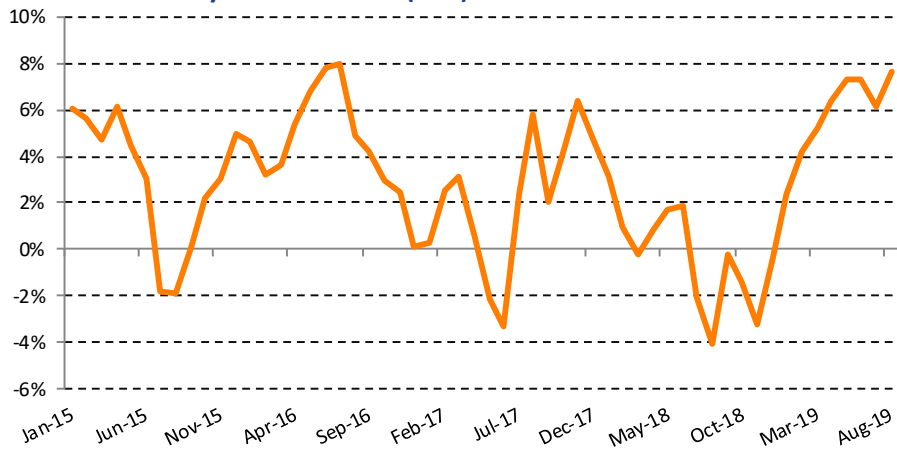


**Exhibit 7: Primary Inflation (YoY)**

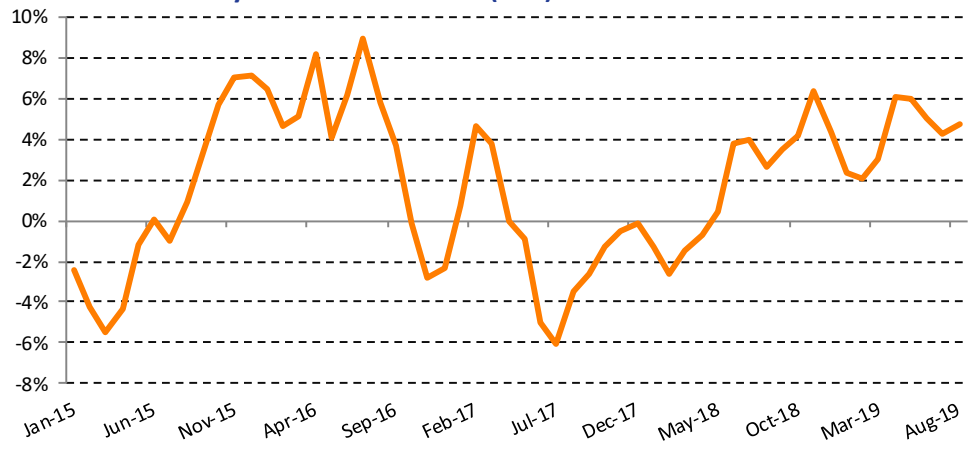


Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; CEIC; ICRA research

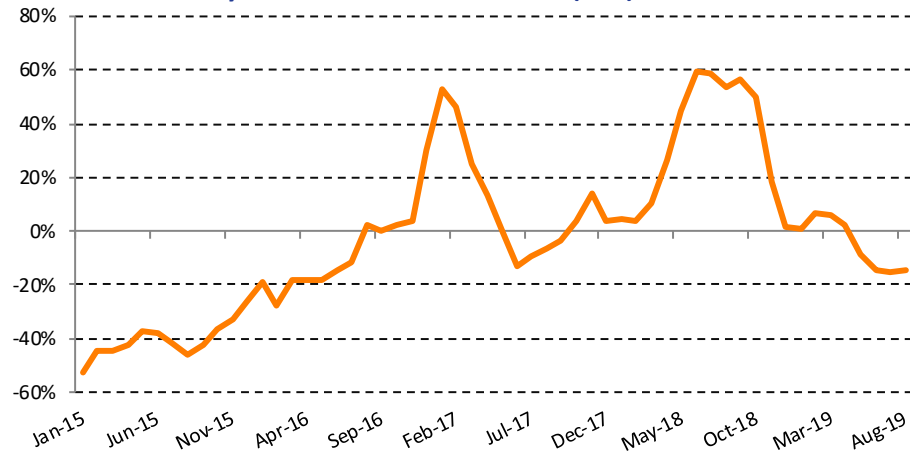
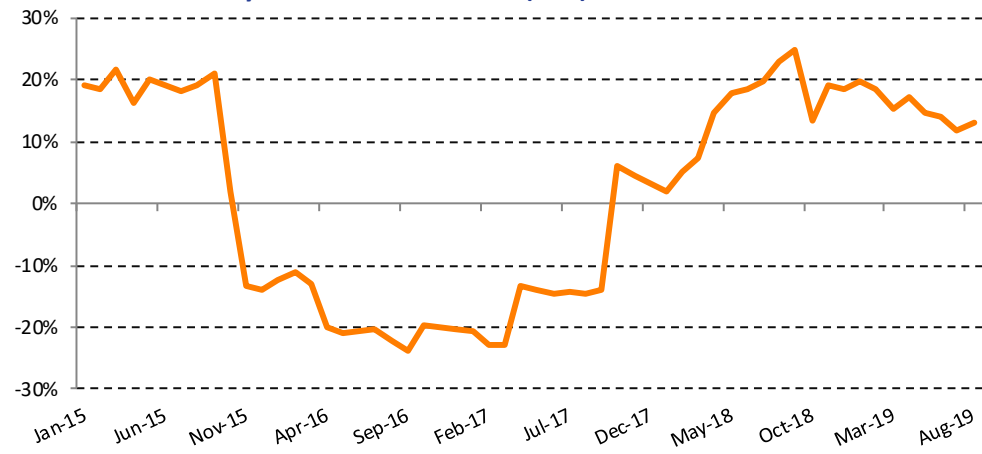
**Exhibit 8: Primary Food Inflation (YoY)**



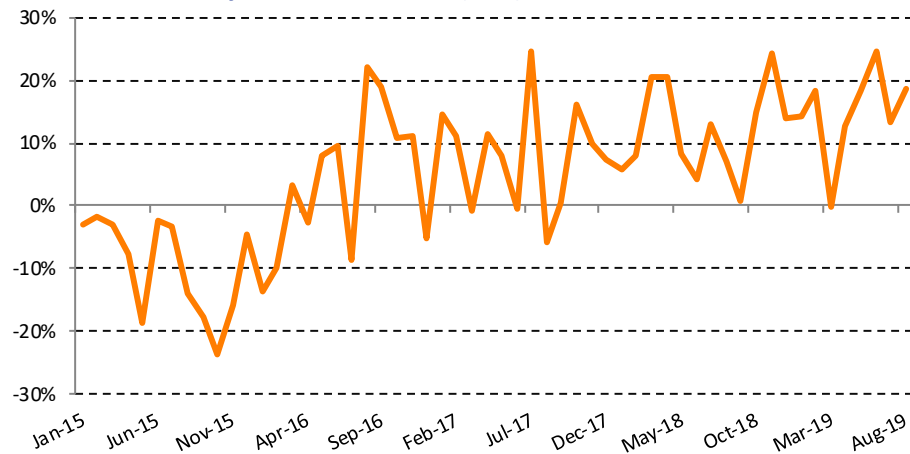
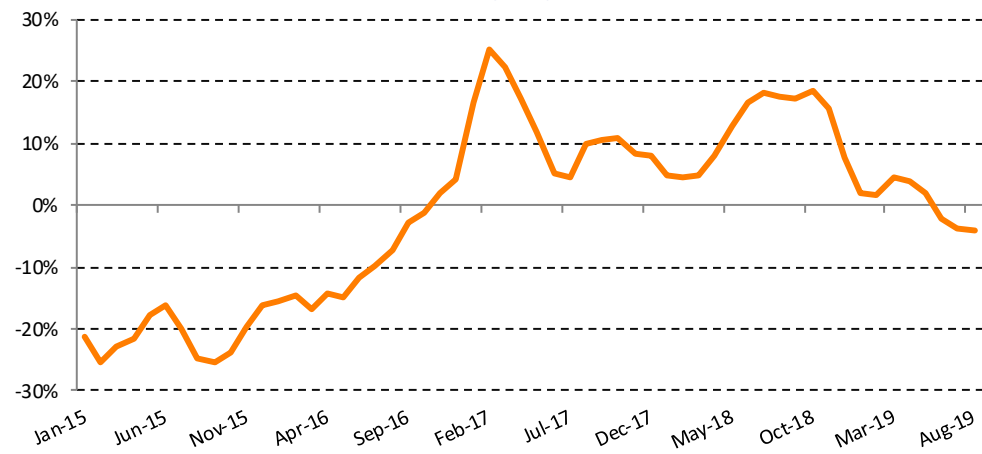
**Exhibit 9: Primary Non-Food Inflation (YoY)**



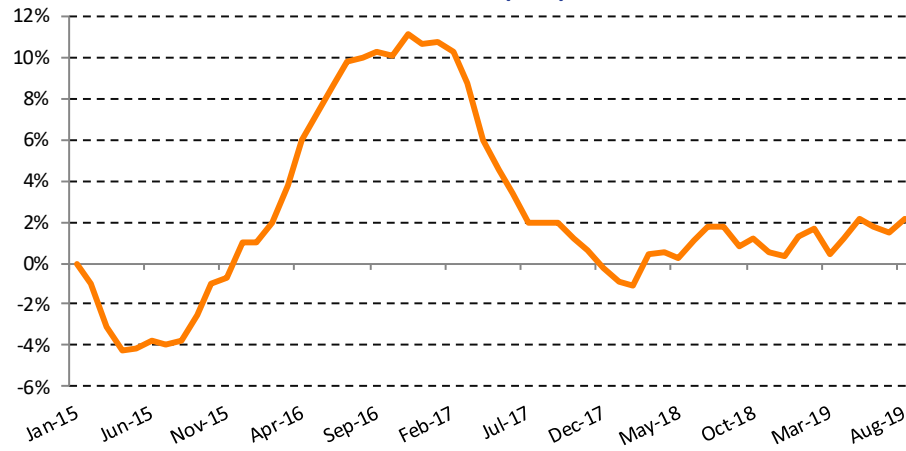
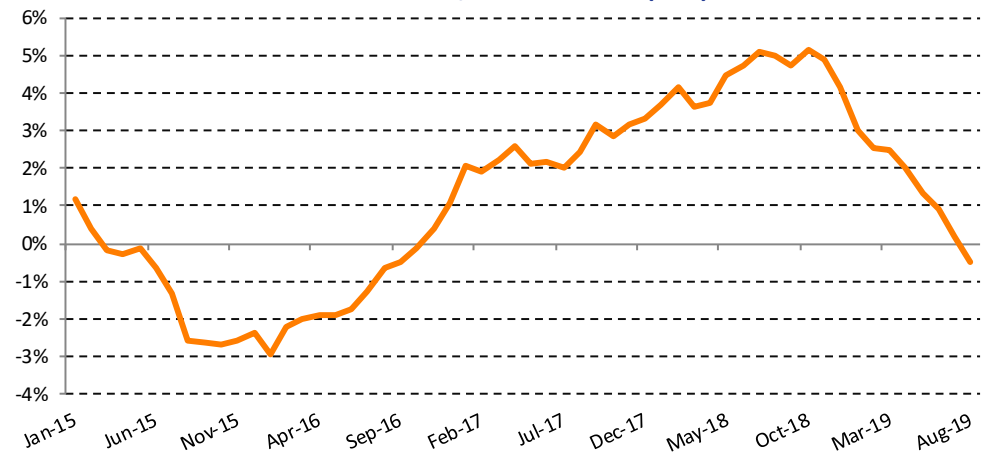
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI CEIC; ICRA research

**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



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