

**ICRA**A MOODY'S INVESTORS
SERVICE COMPANY

WHOLESALE PRICE INDEX SEPTEMBER 2019

WPI inflation dipped to a 39-month low 0.3% in September 2019, driven by deeper disinflation in fuel and power, and core WPI

October 2019



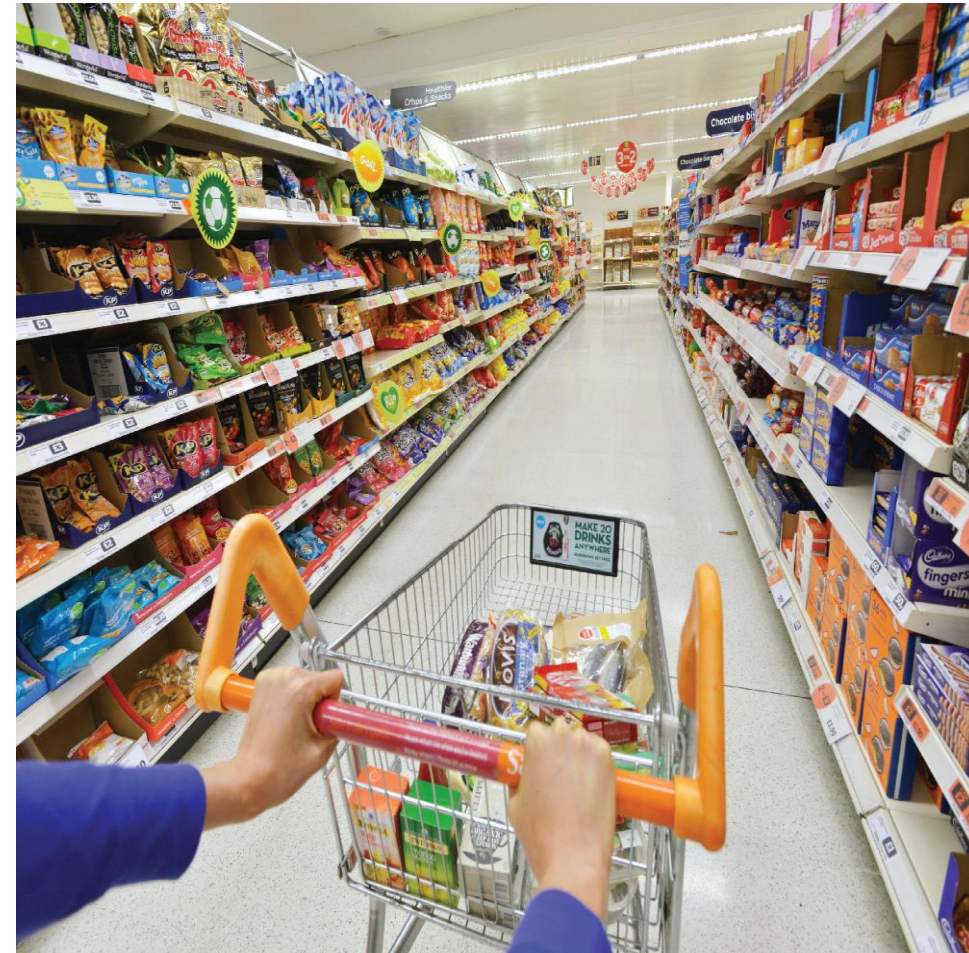
Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

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 declined to a 39-month low 0.3% in September 2019 (ICRA exp: +0.6%) from 1.1% in August 2019.
- While the sequential slide in the WPI inflation was relatively broad-based, it was driven primarily by deeper disinflation in fuel and power, and non-food manufactured products (“core WPI”). Only two of the major categories, namely minerals and manufactured food products recorded an uptick in inflation in September 2019, underscoring the relatively benign inflationary conditions at the wholesale level for non-food items.
- The YoY disinflation for fuel and power widened to a 37-month low 7.1% in September 2019 from 4.0% in August 2019, driven by mineral oils and electricity.
- Moreover, the YoY disinflation for core-WPI deepened to 1.1% in September 2019 from 0.5% in August 2019, highlighting the weak pricing power of the producers.
- The inflation for primary food articles eased only mildly to 7.5% in September 2019 from 7.7% in August 2019, with a sharp downtick in the inflation for fruit offset by a pickup for vegetables.



OVERVIEW

- The YoY WPI inflation declined to a 39-month low 0.3% in September 2019 (+5.2% in September 2018), from 1.1% in August 2019 (+4.6% in August 2018; refer Exhibits 1, 2 and Annexure), partly reflecting the base effect. While the sequential slide in the WPI inflation was relatively broad-based, it was driven primarily by deeper disinflation in fuel and power, and core WPI. Only two of the major categories, namely minerals and manufactured food products recorded an uptick in inflation in September 2019, underscoring the relatively benign inflationary conditions at the wholesale level for non-food items. The headline WPI inflation in September 2019 printed lower than our expectation (+0.6%).
- The YoY disinflation for fuel and power widened to 7.1% in September 2019 (the weakest print in 37 months; +17.3% in September 2018) from 4.0% in August 2019 (+17.7% in August 2018), led by the trend for mineral oils (to -11.2% from -6.9%) and electricity (to -3.6% from -1.0%). However, the YoY inflation for coal increased to 1.3% in September 2019 from 0.8% in August 2019. In month-on-month (MoM) terms, the fuel and power sub-index declined by 0.5% in September 2019, in contrast to the sharp 2.8% MoM increase in September 2018. The former was led by a 1.1% MoM dip in the sub-index for mineral oils in September 2019, whereas the sub-index level remained unchanged for electricity and rose for coal (+0.6%) in that month.
- The YoY disinflation for core-WPI deepened to 1.1% in September 2019 from 0.5% in August 2019; the former was the lowest print in 38 months, highlighting the weak pricing power of producers, as well as subdued global commodity prices. The weakness in the core WPI in September 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 eighth consecutive month (refer Exhibits 3 and 4). On an MoM basis, the sub-index for core WPI declined for the fourth month in a row, albeit by a mild 0.02% in September 2019. There was an MoM decline in September 2019 in the case of 11 of the 21 sub-indices (with a weight of 29.8% in the WPI), such as printing and reproduction of recorded media (-1.1%), computer, electronic and optical products (-1.0%), other non-metallic mineral products (-0.6%), paper and paper products (-0.5%), electrical equipment (-0.5%), motor vehicles, trailers and semi-trailers (-0.5%), leather and related products (-0.4%), chemicals and chemical products (-0.3%), textiles (-0.3%), wood and products of wood and cork (-0.1%), and rubber and plastic products (-0.1%). In contrast, nine of the 21 sub-indices (accounting for 15.6% of the WPI), such as other manufacturing (+3.2%; led by gold and silver), wearing apparel (+1.9%), fabricated metal products, except machinery and equipment (+0.9%), machinery and equipment (+0.7%), furniture (+0.6%), other transport equipment (+0.3%), pharmaceuticals, medicinal chemical and botanical products (+0.2%), tobacco products (+0.1%), and beverages (+0.1%) registered an MoM rise in September 2019. In the case of basic metals, the sub-index level remained unchanged in MoM terms in that month.
- Inflation pertaining to primary food articles softened mildly to 7.5% in September 2019 (-0.2% in September 2018) from 7.7% in August 2019 (-4.0% in August 2018). The YoY WPI inflation dipped in September 2019 compared to August 2019 for fruits (to +6.7% from +19.7%) and other food articles (to -0.5% from +1.1%). In contrast, the YoY inflation hardened in September 2019 relative to the previous month for vegetables (to +19.4% from +13.1%; driven by onions to +122.4% from +33.0%), pulses (to +17.9% from +16.4%), condiments and spices (to +10.2% from +7.8%), cereals (to +8.7% from +8.5%), eggs, meat and fish (to +7.4% from +6.6%), and milk (to +1.3% from +1.2%). On an MoM basis, the primary food articles sub-index declined by 0.4% in September 2019, sharper than the MoM disinflation in September 2018 (-0.2%).

- The YoY disinflation in crude petroleum and natural gas deepened to 13.4% in September 2019 (+47.2% in September 2018) from 7.7% in August 2019 (+44.5% in August 2018). This was driven by the trend for crude petroleum (to -21.4% in September 2019 from -14.6% in August 2019), as well as natural gas (to +11.0% from +13.2%). The initial level for the crude petroleum index for September 2019 has been pegged at 73.4, 2.8% lower than the revised level for July 2019 (75.5), in contrast to the 0.5% increase in the price of the Indian crude oil basket in INR terms in those months. Therefore, the index level for September 2019 for crude petroleum appears likely to undergo a mild upward revision in the subsequent readings.
- Inflation for primary non-food articles halved to a seven-month low 2.2% in September 2019 from 4.8% in August 2019, reflecting the trend for floriculture (to +8.9% from +55.2%), other non-food articles (to -4.1% from -2.7%) and fibres (to -0.8% from -0.5%), even as there was a significant uptick in the inflation for oilseeds (to +11.6% from +8.3%). On an MoM basis, the primary non-food articles sub-index declined by a considerable 2.5% in September 2019, whereas the same had remained unchanged in September 2018.
- In contrast, partly led by the base effect, the YoY inflation for minerals hardened substantially to a series-high 25.5% in September 2019 (+0.9% in September 2018) from 18.5% in August 2019 (+7.1% in August 2018), driven primarily by a pickup in the inflation for copper concentrate (to +71.7% from +51.1%). Moreover, in MoM terms, the minerals sub-index increased by a significant 6.6% in September 2019, sharply higher than the MoM uptick in September 2018 (+0.8%).
- Moreover, the inflation for manufactured food products rose to a 27-month high 3.2% in September 2019 from 2.2% in August 2019, reflecting the considerable uptick in sugar (to +4.7% from +1.4%), dairy products (to +5.9% from +5.0%), vegetable and animal oils and fats (to -4.3% from -6.6%), sugar, molasses and honey (to +7.6% from +4.5%), tea and coffee products (to +3.7% from +0.9%), etc. In MoM terms, the manufactured food items sub-index rose by a sharp 0.9% in September 2019, in contrast to the downtick in September 2018 (-0.1%).
- The build-up of the WPI inflation till September 2019 was substantially lower than the same till September 2018 (+1.2% vs. +4.0%), led by fuel and power (-2.2% vs. +10.0%), crude, petroleum and natural gas (-2.0% vs. +22.9%), manufactured non-food products (-1.1% vs. +2.5%), and primary non-food articles (+2.4% vs. +3.2%).
- The final WPI inflation for July 2019 was revised to 1.2%, mildly higher than the initial print (+1.1%). The YoY inflation print for July 2019 was revised upwards relative to the initial print in the case of primary food articles (to +6.6% from +6.1%), minerals (to +21.0% from +13.5%), manufactured food products (to +1.8% from +1.5%), and crude, petroleum and natural gas (to -8.1% from -8.4%), whereas the same was revised downwards for primary non-food articles (to +4.2% from +4.3%) and manufactured non-food articles (to +0.03% from +0.20%). In addition, the YoY inflation print for July 2019 remained unchanged in the case of fuel and power (-3.6%).

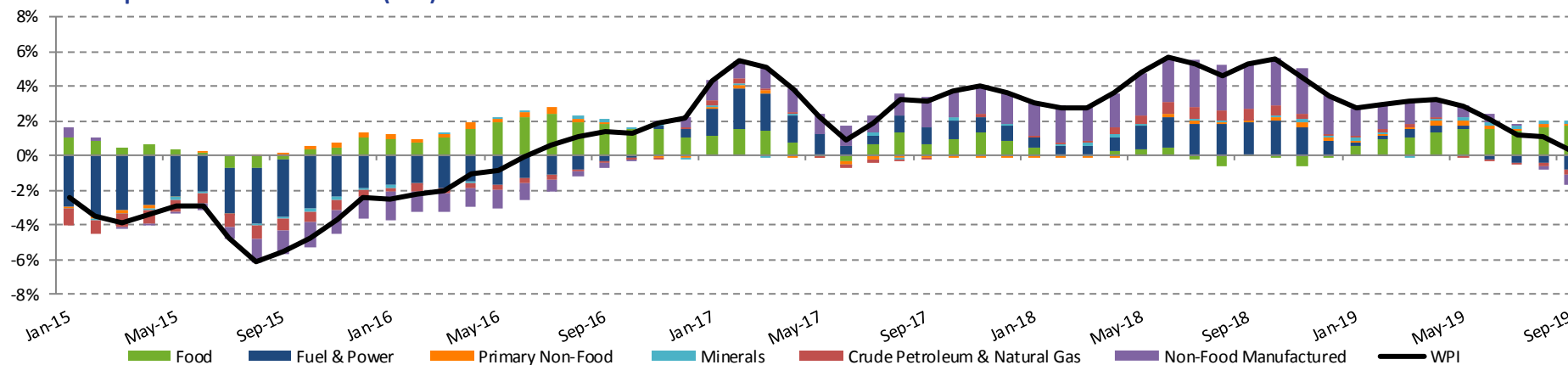
OUTLOOK

While the replenishment of groundwater and reservoir levels bodes well for the rabi season, the late withdrawal of the monsoon and flooding related damage to standing kharif crops in various states need to be viewed with caution. Additionally, the available data points to a considerable uptick in the prices of vegetables such as onions, tomatoes, and, to a smaller extent, potatoes, in the current month. Overall, the wholesale inflation for primary food articles is expected to remain elevated in October 2019.

Crude oil prices have displayed some volatility reflecting geo-political tensions in the Middle East as well as the outlook for trade relations between the US and China. Going ahead, we expect crude oil prices to remain relatively range bound in the ongoing month, which should keep inflationary pressures in check.

With the pricing power of producers unlikely to strengthen and the prices of commodities likely to remain muted in the immediate term, we now expect the core WPI inflation to remain sub-zero in the rest of this fiscal year.

Even though we expect wholesale food inflation to remain elevated in the immediate term, unless pricing pressures re-emerge in core WPI items, the likelihood of which appears bleak at present, the headline WPI may slip into disinflation in the ongoing month.

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
		July-19	July-19	Aug-19	Sep-19	Sep-19	Sep-19	Sep-19
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
WPI	100.00	1.1%	1.2%	1.1%	0.3%	-0.1%	1.2%	100.0%
Primary Articles	22.62	5.0%	5.5%	6.4%	5.5%	-0.6%	6.3%	424.1%
- Food	15.26	6.1%	6.6%	7.7%	7.5%	-0.4%	7.5%	411.9%
- Non-Food	4.12	4.3%	4.2%	4.8%	2.2%	-2.5%	2.4%	27.8%
- Minerals	0.83	13.5%	21.0%	18.5%	25.5%	6.6%	18.6%	69.2%
- Crude Petroleum and Natural	2.41	-8.4%	-8.1%	-7.7%	-13.4%	-1.9%	-2.0%	-80.7%
Fuel and Power	13.15	-3.6%	-3.6%	-4.0%	-7.1%	-0.5%	-2.2%	-249.9%
- Coal	2.14	0.8%	0.8%	0.8%	1.3%	0.6%	1.0%	8.6%
- Minerals Oils	7.95	-6.3%	-6.3%	-6.9%	-11.2%	-1.1%	-4.7%	-226.6%
- Electricity	3.06	-1.2%	-1.2%	-1.0%	-3.6%	0.0%	0.9%	-31.4%
Manufactured Products	64.23	0.3%	0.3%	0.0%	-0.4%	0.1%	-0.3%	-80.3%
- Food	9.12	1.5%	1.8%	2.2%	3.2%	0.9%	4.0%	93.5%
- Non-Food	55.11	0.2%	0.0%	-0.5%	-1.1%	0.0%	-1.1%	-172.3%

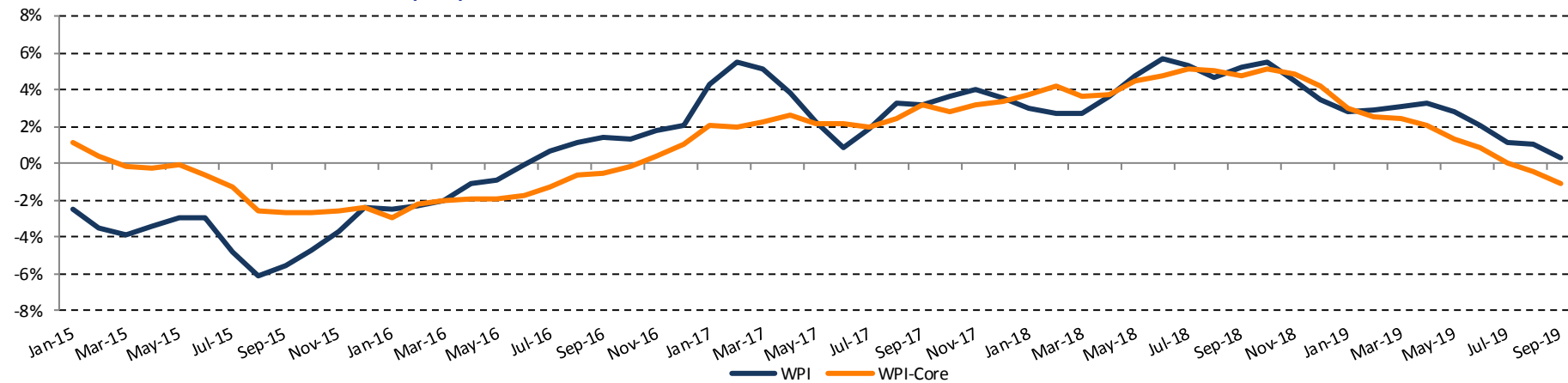
*Buildup with reference to March 2019

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
		July-19	July-19	Aug-19	Sep-19	Sep-19	Sep-19	Sep-19
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
Non-Food Manufactured Products	55.11	0.2%	0.0%	-0.5%	-1.1%	0.0%	-1.1%	100.0%
Beverages	0.91	2.9%	3.3%	3.3%	3.2%	0.1%	1.7%	-5.0%
Tobacco Products	0.51	2.8%	2.1%	2.5%	2.7%	0.1%	0.1%	-3.0%
Textiles	4.88	1.4%	1.0%	0.0%	-0.6%	-0.3%	-0.6%	5.0%
Wearing Apparel	0.81	-1.1%	-0.6%	-1.8%	0.6%	1.9%	0.4%	-0.9%
Leather and Related Products	0.54	-4.4%	-4.4%	-1.8%	-2.9%	-0.4%	-1.5%	2.7%
Wood and Products of Wood and Cork	0.77	1.4%	2.0%	0.6%	1.2%	-0.1%	-0.8%	-1.8%
Paper and Paper Products	1.11	0.0%	-0.2%	-0.7%	-1.7%	-0.5%	-2.3%	3.4%
Printing and Reproduction of Recorded Media	0.68	1.8%	0.7%	1.5%	0.8%	-1.1%	2.3%	-1.2%
Chemicals and Chemical Products	6.47	0.4%	0.1%	-0.4%	-1.4%	-0.3%	-1.4%	15.9%
Pharmaceuticals, Medicinal Chemical and Botanical Products	1.99	2.5%	1.8%	2.0%	3.4%	0.2%	-0.6%	-11.9%
Rubber and Plastics Products	2.30	-0.3%	-0.4%	-1.2%	-1.6%	-0.1%	-1.8%	6.0%
Other Non-Metallic Mineral Products	3.20	1.4%	1.4%	1.5%	1.0%	-0.6%	0.2%	-5.1%
Basic Metals	9.65	-4.3%	-4.6%	-6.1%	-8.2%	0.0%	-5.7%	131.5%
Fabricated Metal Products, Except Machinery and Equipment	3.15	-0.1%	0.0%	-1.1%	-0.2%	0.9%	-1.5%	0.9%
Computer, Electronic and Optical Products	2.01	0.5%	0.4%	-1.4%	-1.9%	-1.0%	-1.2%	6.1%
Electrical Equipment	2.93	-0.2%	-0.3%	-0.6%	-0.9%	-0.5%	-1.6%	4.3%
Machinery and Equipment	4.79	2.3%	2.1%	1.7%	2.1%	0.7%	1.4%	-16.0%
Motor Vehicles, Trailers and Semi-Trailers	4.97	1.4%	0.8%	0.2%	0.0%	-0.5%	0.0%	0.0%
Other Transport Equipment	1.65	4.7%	5.7%	6.0%	5.8%	0.3%	4.1%	-15.5%
Furniture	0.73	2.7%	4.8%	4.9%	3.7%	0.6%	2.1%	-5.0%
Other Manufacturing	1.06	1.3%	2.2%	9.6%	6.4%	3.2%	6.1%	-10.5%

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

ANNEXURE

Exhibit 5: WPI Inflation (YoY)

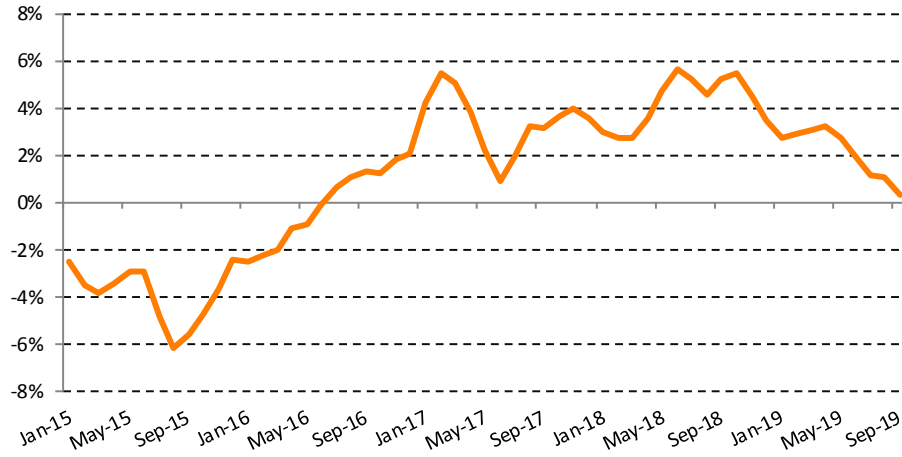
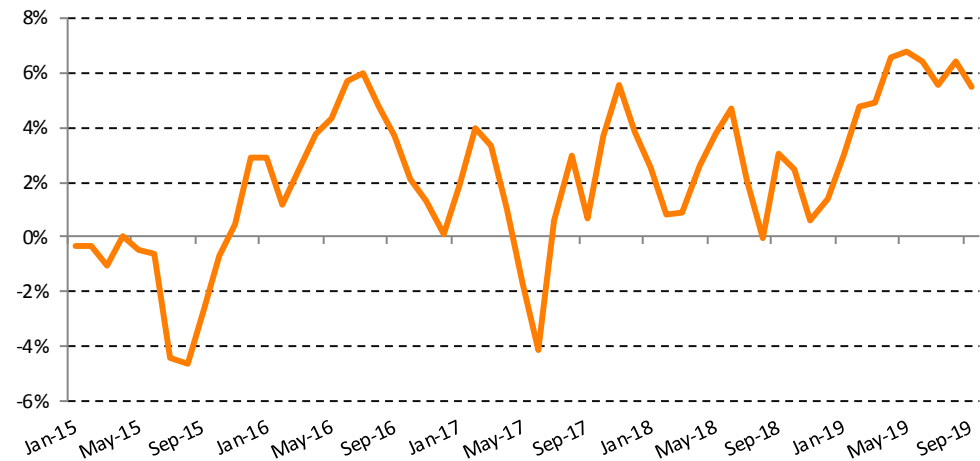


Exhibit 6: Primary Inflation (YoY)



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

Exhibit 7: Primary Food Inflation (YoY)

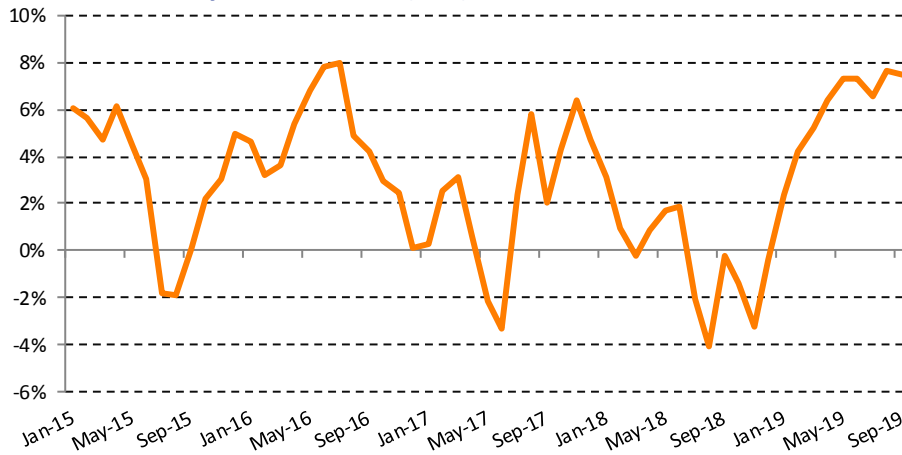
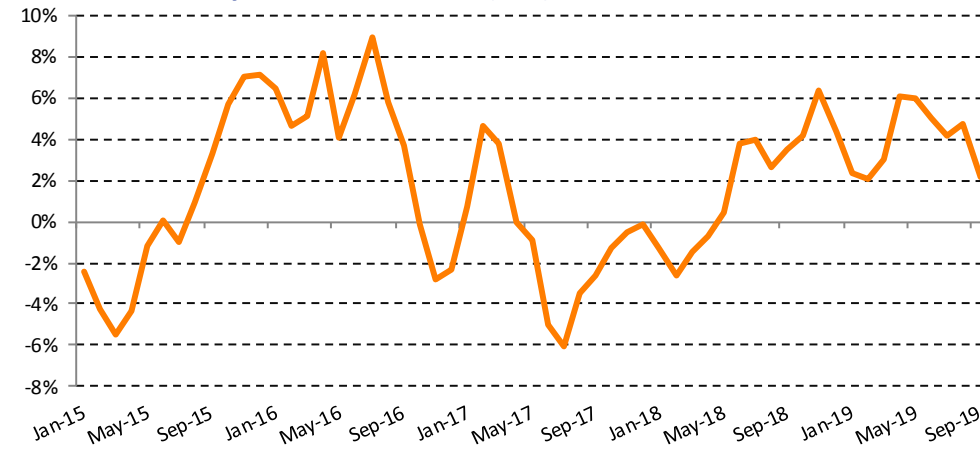
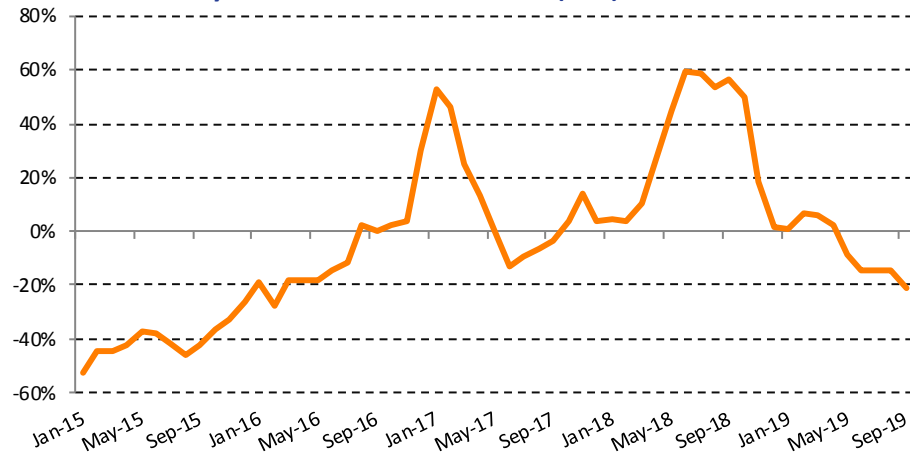
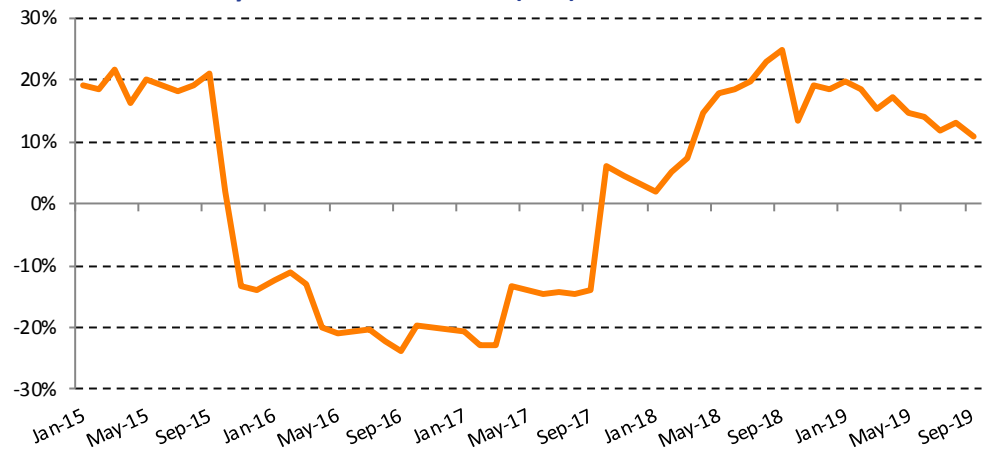


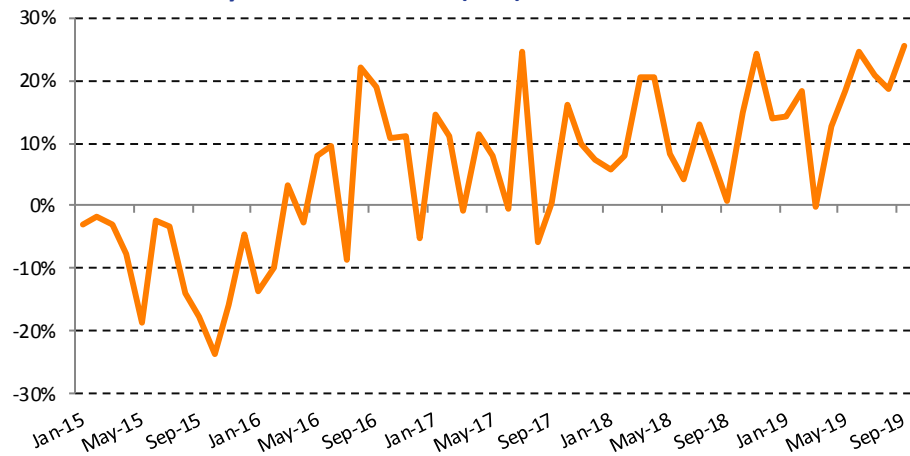
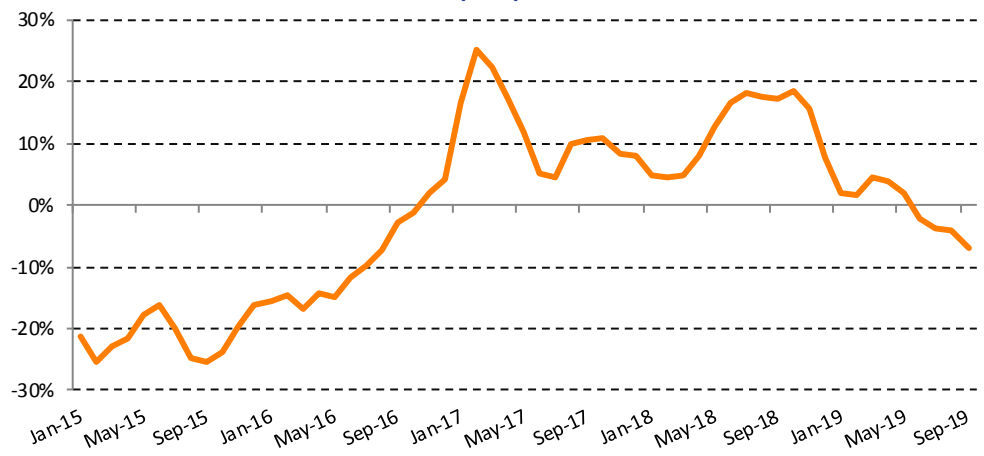
Exhibit 8: Primary Non-Food Inflation (YoY)



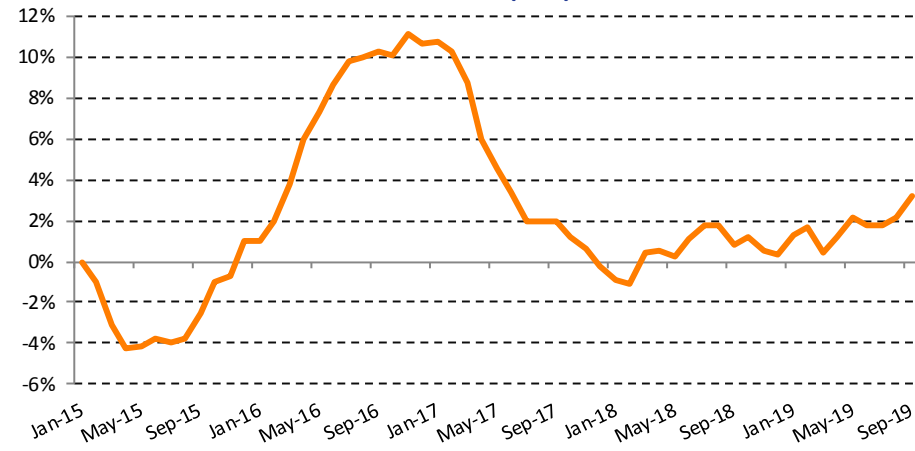
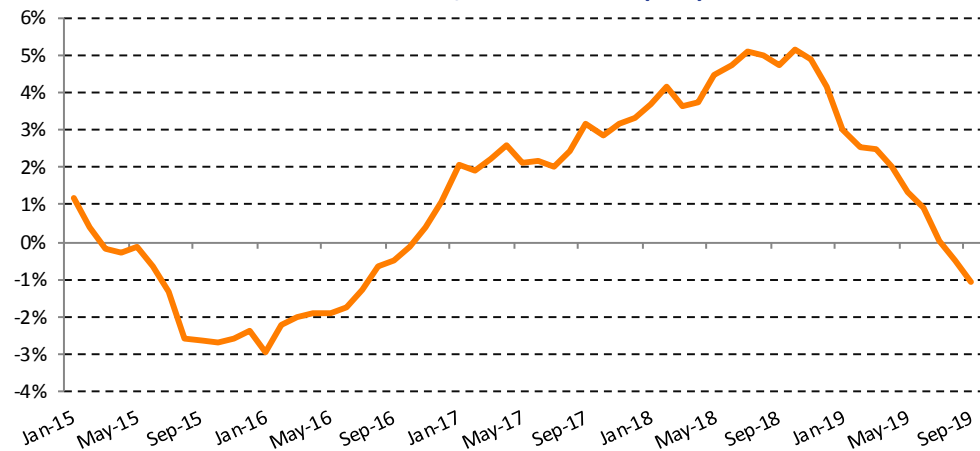
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI CEIC; ICRA research

Exhibit 9: Primary Crude Petroleum Inflation (YoY)**Exhibit 10: Primary Natural Gas Inflation (YoY)**

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

Exhibit 11: Primary Mineral Inflation (YoY)**Exhibit 12: Fuel and Power Inflation (YoY)**

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

Exhibit 13: Manufactured Food Inflation (YoY)**Exhibit 14: Manufactured Non-Food/Core Inflation (YoY)**

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

1809-1811, Shapath V,
Opposite Karnavati Club
S.G. Highway, Ahmedabad - 380015
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 0194, 020 6606 9999

Email: info@icraindia.com

Helpdesk: 9354738909

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