



ICRA

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SERVICE COMPANY

WHOLESALE PRICE INDEX DECEMBER 2019

Broad-based uptick in WPI inflation to a seven-month high 2.6% in December 2019

January 2020



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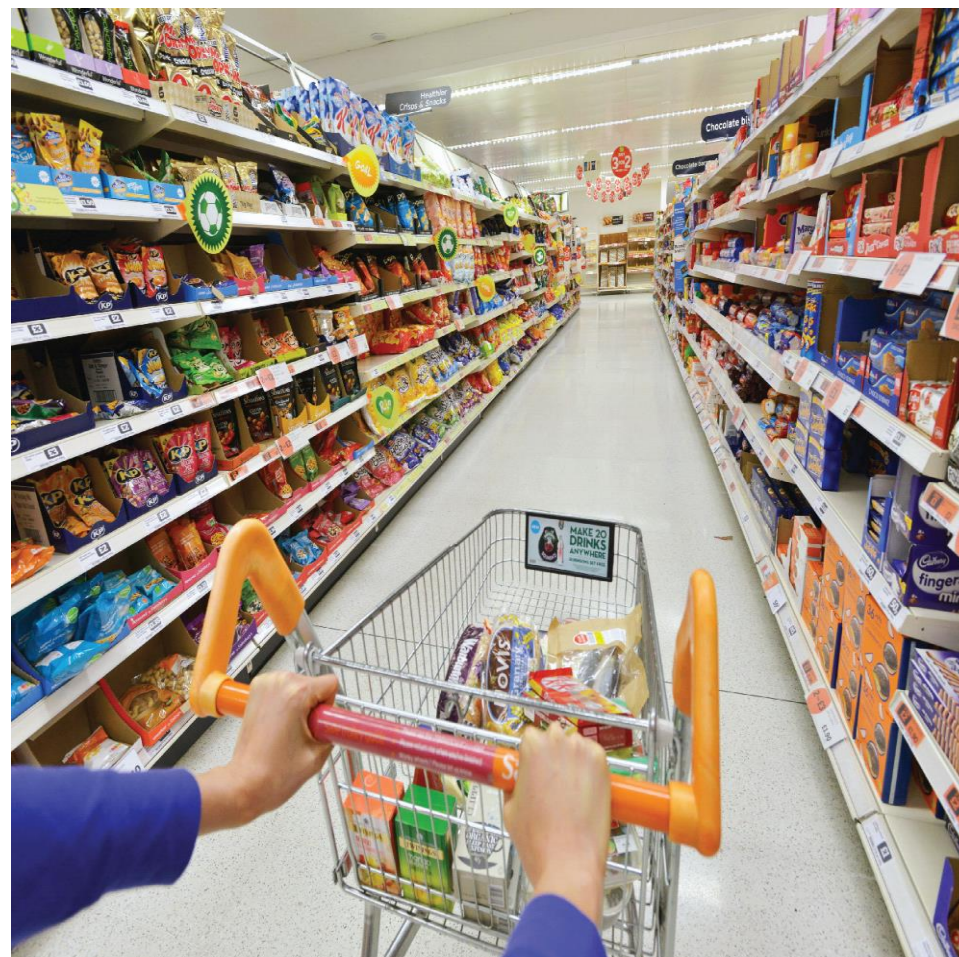
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HIGHLIGHTS

- The year-on-year (YoY) WPI inflation rose for the second month in a row, to a seven-month high 2.6% in December 2019 from 0.6% in November 2019. The sequential uptick was broad-based, partly reflecting an unfavorable base effect related to fuel and power, minerals, and crude petroleum and natural gas.
- Crude petroleum and natural gas recorded a YoY inflation of 3.2% in December 2019, in sharp contrast to the 10.5% disinflation in November 2019, while the pace of disinflation narrowed for fuel and power, and manufactured non-food products (“core-WPI”). In addition, the YoY inflation increased in December 2019 relative to the level recorded in the previous month for minerals, the WPI-Food Index (consisting of primary food articles, and manufactured food products) and primary non-food items.
- Inflation pertaining to the WPI-Food Index hardened for the fifth consecutive month, to 11.0% in December 2019 from 9.0% in November 2019, reflecting the uptick in both primary food articles (to +13.2% from +11.1%) as well as manufactured food products (to +6.9% from +5.0%).
- The core-WPI displayed a YoY disinflation for the fifth consecutive month, although the pace of the same narrowed to 1.5% in December 2019 from the 42-month low 1.9% in November 2019.



OVERVIEW

- The YoY WPI inflation rose for the second month in a row, to a seven-month high 2.6% in December 2019 (+3.5% in December 2018) from 0.6% in November 2019 (+4.5% in November 2018; refer Exhibits 1, 2 and Annexure) and printed somewhat higher than our forecast (+2.0%).
- The sequential uptick in the YoY WPI inflation in December 2019 was broad-based, and was driven by an unfavourable base effect related to categories such as fuel and power, minerals, and crude petroleum and natural gas. Crude petroleum and natural gas recorded a YoY inflation of 3.2% in December 2019, in sharp contrast to the 10.5% disinflation in November 2019, while the pace of disinflation narrowed for fuel and power, and the core-WPI. In addition, the YoY inflation increased in December 2019 relative to the level recorded in the previous month for minerals, the WPI-Food Index (consisting of primary food articles, and manufactured food products) and primary non-food items.
- Reflecting the base effect, the YoY disinflation for fuel and power narrowed considerably to 1.5% in December 2019 (+7.6% in December 2018) from 7.3% in November 2019 (+15.5% in November 2018), led by the trend for mineral oils (to -3.2% from -13.2%) and coal (to +2.5% from +1.1%). However, electricity recorded a mild YoY disinflation of 0.6% in December 2019, in contrast to the 0.6% inflation in November 2019. In month-on-month (MoM) terms, the fuel and power sub-index remained unchanged in December 2019, as opposed to the sharp decline of 5.9% recorded in December 2018.
- After recording a YoY disinflation for seven months, crude petroleum and natural gas displayed a YoY inflation of 3.2% in December 2019 (+6.1% in December 2018). The base-effect led turnaround from the disinflation of 10.5% in November 2019 (+18.6% in November 2018), was driven by both crude petroleum (to +5.0% in December 2019 from -13.7% in November 2019), and natural gas (to -1.0% from -2.1%, respectively). The initial level for the crude petroleum index for December 2019 has been pegged at 75.5, 5.0% higher than the revised level for October 2019 (71.9). This is largely in line with the 4.4% rise in the price of the Indian crude oil basket in INR terms in those months. In MoM terms, crude petroleum and natural gas sub-index recorded a rise of 3.5% in in December 2019, as opposed to a considerable decline of 10.3% recorded in December 2018.
- Led by the base effect, the inflation for minerals increased considerably to 10.3% in December 2019 (+14.0% in December 2018) from 2.2% in November 2019 (+24.2% in November 2018). In MoM terms, the minerals sub-index declined by 0.8% in December 2019, sharply lower than the 8.0% correction in December 2018, reflecting the trend in iron ore (+2.9%; -3.8%) and copper (-3.6%; -17.0%).
- The inflation pertaining to the WPI-Food Index hardened for the fifth consecutive month, to 11.0% in December 2019 from 9.0% in November 2019, reflecting the uptick in both primary food articles (to +13.2% from +11.1%) as well as manufactured food products (to +6.9% from +5.0%).
- The YoY inflation for primary food articles increased to a 72-month high 13.2% in December 2019 (-0.4% in December 2018) from 11.1% in November 2019 (-3.2% in November 2018). This was partly driven by the base effect as well as a surge in the YoY inflation for vegetables to 69.7% in December 2019, a 73-month high, from 45.3% in November 2019, reflecting the trend for onion (to +455.8% from +172.3%), potato (to +45.0% from -8.5%), drumstick (to +174.2% from +61.4%) etc. Moreover, there

was a rise in the inflation in December 2019 relative to the previous month for condiments and spices (to +19.4% from +16.3%), and milk (to +2.6% from +1.6%). Notably, the disinflation for other food articles deepened to 1.6% in December 2019 from 1.1% in the previous month. Moreover, the YoY inflation softened in December 2019 relative to the previous month for eggs, meat and fish (to +6.2% from +8.2%), fruits (to +3.5% from +4.3%), cereals (to +7.7% from +7.9%), and pulses (to +13.1% from +16.6%). On an MoM basis, the primary food articles sub-index rose by a mild 0.1% in December 2019 (as opposed to the sharp 2.0% increase in the retail prices of food and beverages), although this stood in contrast to the significant MoM decline of 1.8% in December 2018, driven by the trend in vegetables (-0.2% vs. -14.5%), condiments and spices (+0.7% vs. -1.9%), and milk (+0.8% vs. -0.3%).

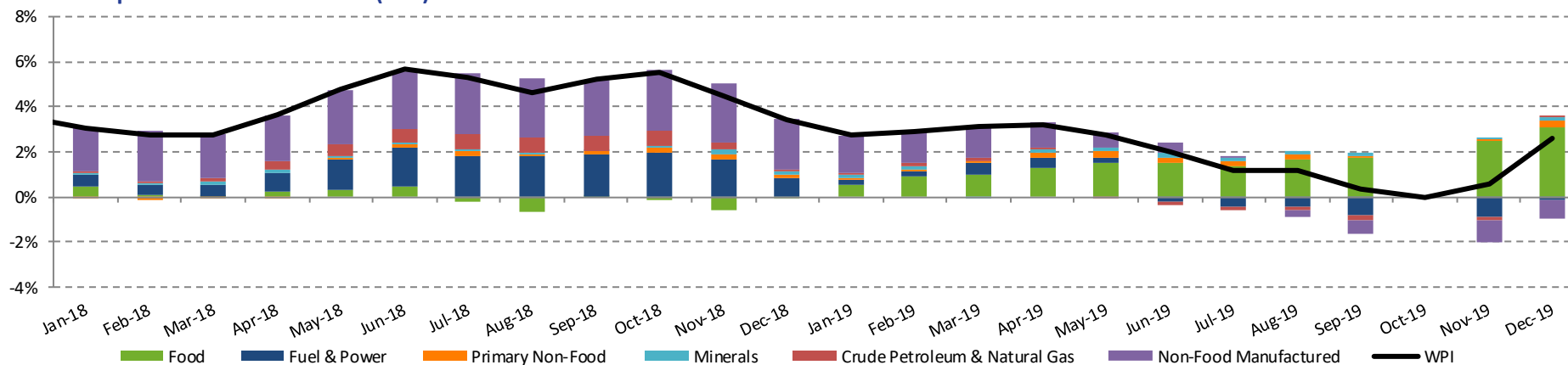
- Moreover, the inflation for manufactured food products rose for the fifth consecutive month to a 33-month high 6.9% in December 2019 from 5.0% in November 2019, reflecting a sequential uptick in the inflation for vegetable and animal oils and fats (to +9.7% from +2.2%), dairy products (to +11.9% from +9.0%) etc. In MoM terms, the manufactured food items sub-index increased by 1.0% in December 2019, in contrast to the MoM decline of 0.8% in December 2018.
- Inflation for primary non-food articles recorded a broad-based hardening to 41-month high 7.7% in December 2019 from 1.9% in November 2019, driven by floriculture (to +97.4% from +40.9%), oilseeds (to +8.5% from +6.3%), fibres (to -3.8% from -5.7%), and other non-food articles (to -2.2% from -3.7%). On an MoM basis, the primary non-food articles sub-index rose by a sharp 5.5% in December 2019, in contrast to the 0.2% MoM decline in December 2018.
- The core-WPI displayed a YoY disinflation for the fifth consecutive month, although the pace of the same narrowed to 1.5% in December 2019 from the 42-month low 1.9% in November 2019. Ten of the 21 sub-sectors (with a weight of 34.6% in the WPI) recorded a rise in their YoY inflation print in December 2019, even as 11 of the categories (with a weight of 34.9% in the WPI) displayed a YoY disinflation, including basic metals (-7.8% in December 2019; weight of 9.6% in the WPI) and chemicals and chemical products (-3.2% in December 2019; weight of 6.5% in the WPI). Moreover, the core-WPI inflation remained below the headline WPI inflation for the eleventh consecutive month (refer Exhibits 3 and 4). On an MoM basis, the sub-index for the core-WPI was unchanged in December 2019, in contrast to the MoM decline in December 2018 (-0.4%). Notably, 11 of the 21 sub-indices (accounting for 31.1% of the WPI), such as basic metals (+0.2%) and computer electronic and optical products (+0.5%) etc., registered an MoM rise in December 2019. In contrast, there was an MoM decline in December 2019 in the case of 10 of the 21 sub-indices (with a weight of 24.0% in the WPI), such as chemicals and chemical products (-0.5%), textiles (-0.2%), motor vehicles, trailers and semi-trailers (-0.7%) etc.
- The build-up of the WPI inflation till December 2019 was lower than the same till December 2018 (+2.4% vs. +2.9%), led by fuel and power (-1.2% vs. +4.9%), and core-WPI (-1.4% vs. +2.6%), even as the build-up of primary food articles till December 2019 is much higher than the same till December 2018 (+12.5% vs. +4.5%).
- The final WPI inflation for October 2019 was revised lower to 0.0%, from the initial print of 0.2%. While the inflation rate was revised downwards for minerals (to +9.4% from +12.8%), crude petroleum and natural gas (to -20.5% from -17.6%), core-WPI (to -1.7% from -1.6%), it was revised upwards for manufactured food items (to +3.8% from +3.7%) and fuel and power (to -8.1% from -8.3%).
- The CPI inflation exceeded the WPI inflation for the eighth consecutive month in December 2019. The wedge between the two narrowed slightly during the month, with a slightly sharper uptick in the wholesale inflation (to +2.6% in December 2019 from +0.6% in November 2019) as compared to the retail inflation (to +7.4% from +5.5%).

OUTLOOK

Available data suggests a correction in the wholesale prices of vegetables such as onions and tomatoes in the ongoing month. If this trend continues, wholesale primary food inflation is expected to moderate in January 2020, while continuing to print in double-digits.

Following the geopolitical developments in the Middle East, crude oil prices rose sharply in the ongoing month, before retreating to a large extent. However, the average retail prices of petrol and diesel so far in January 2020 remain higher than the level in December 2019, which may modestly add to inflationary pressures.

The disinflation in the core-WPI is expected to continue to narrow over the next two quarters, with the core-WPI likely to emerge out of disinflation only in H2 CY2020. Even if food prices record some correction, an unfavourable base effect will push up the headline WPI inflation further in January 2020, in our view.

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
		Oct -19	Oct -19	Nov-19	Dec-19	Dec-19	Dec-19	Dec-19
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
WPI	100.00	0.2%	0.0%	0.6%	2.6%	0.4%	2.4%	100.0%
Primary Articles	22.62	6.4%	6.0%	7.7%	11.5%	1.0%	10.6%	111.6%
- Food	15.26	9.8%	9.8%	11.1%	13.2%	0.1%	12.5%	93.5%
- Non-Food	4.12	2.4%	2.2%	1.9%	7.7%	5.5%	8.3%	12.8%
- Minerals	0.83	12.8%	9.4%	2.2%	10.3%	-0.8%	11.3%	3.8%
- Crude Petroleum and Natural	2.41	-17.6%	-20.5%	-10.5%	3.2%	3.5%	-2.5%	2.1%
Fuel and Power	13.15	-8.3%	-8.1%	-7.3%	-1.5%	0.0%	-1.2%	-6.4%
- Coal	2.14	1.1%	2.5%	1.1%	2.5%	1.4%	2.3%	2.1%
- Minerals Oils	7.95	-13.6%	-13.8%	-13.2%	-3.2%	-0.4%	-4.0%	-7.7%
- Electricity	3.06	-2.1%	-2.1%	0.6%	-0.6%	0.0%	2.5%	-0.7%
Manufactured Products	64.23	-0.8%	-0.9%	-0.8%	-0.3%	0.2%	-0.3%	-6.2%
- Food	9.12	3.7%	3.8%	5.0%	6.9%	1.0%	6.4%	25.9%
- Non-Food	55.11	-1.6%	-1.7%	-1.9%	-1.5%	0.0%	-1.4%	0.0%

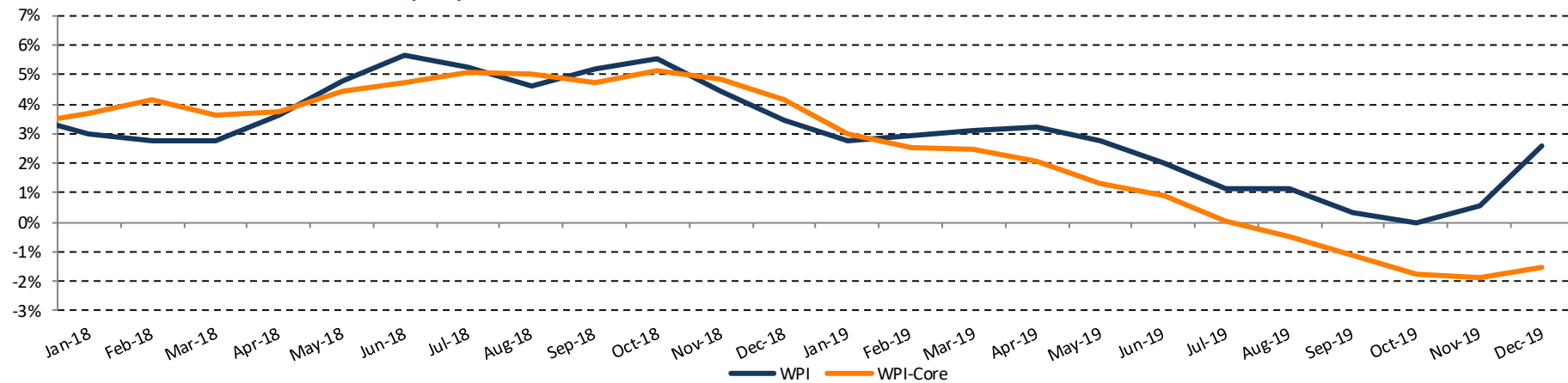
*Buildup with reference to March 2019

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

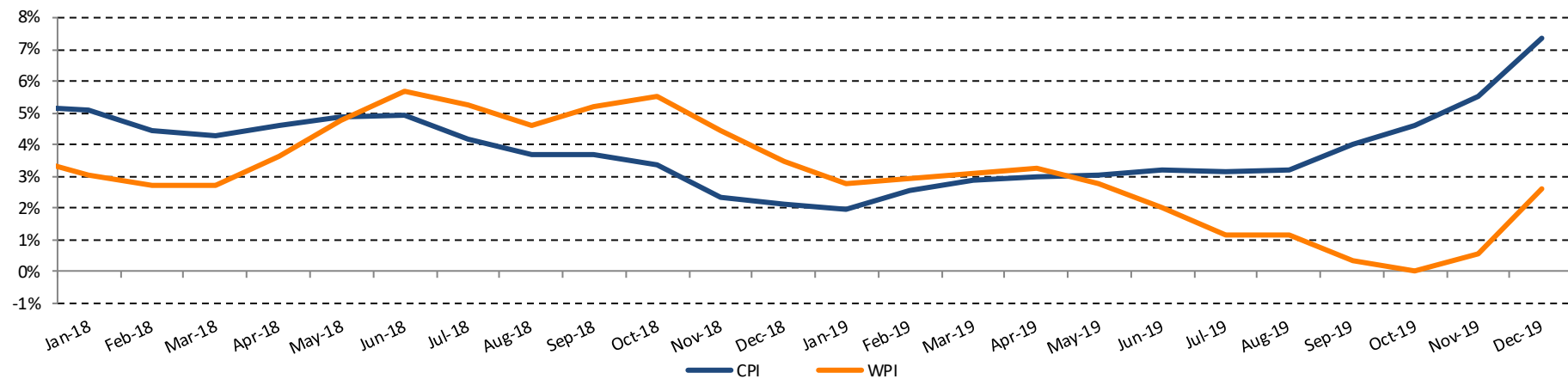
Exhibit 3: Trend in Monthly Inflation related to Non-Food Manufactured Products (YoY)

	Weight	YoY Inflation				MoM	Build-up	Contribution
		Oct -19	Oct -19	Nov-19	Dec-19	Dec-19	Dec-19	Dec-19
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
Non-Food Manufactured Products	55.11	-1.6%	-1.7%	-1.9%	-1.5%	0.0%	-1.4%	100.0%
Beverages	0.91	1.6%	1.5%	1.4%	1.3%	-0.3%	1.1%	-1.5%
Tobacco Products	0.51	3.5%	3.0%	2.4%	2.5%	-0.2%	-0.6%	-1.9%
Textiles	4.88	-1.3%	-1.6%	-1.6%	-1.7%	-0.2%	-1.4%	9.9%
Wearing Apparel	0.81	0.0%	0.0%	0.4%	0.3%	0.1%	0.6%	-0.3%
Leather and Related Products	0.54	-2.7%	-2.8%	-2.4%	-1.6%	0.2%	-1.4%	1.0%
Wood and Products of Wood and Cork	0.77	1.4%	0.9%	-0.1%	-1.0%	-0.4%	-1.5%	1.0%
Paper and Paper Products	1.11	-3.5%	-3.7%	-4.5%	-4.6%	-0.2%	-3.5%	6.6%
Printing and Reproduction of Recorded Media	0.68	4.4%	3.7%	4.0%	2.5%	-1.3%	2.9%	-2.5%
Chemicals and Chemical Products	6.47	-2.6%	-2.8%	-3.6%	-3.2%	-0.5%	-2.8%	25.0%
Pharmaceuticals, Medicinal Chemical and Botanical Products	1.99	2.2%	2.9%	1.9%	3.6%	1.0%	1.2%	-9.1%
Rubber and Plastics Products	2.30	-1.5%	-1.4%	-2.1%	-1.7%	0.6%	-1.6%	4.4%
Other Non-Metallic Mineral Products	3.20	0.3%	-0.1%	-0.1%	0.4%	0.3%	-0.7%	-1.6%
Basic Metals	9.65	-9.8%	-9.9%	-9.4%	-7.8%	0.2%	-6.8%	86.3%
Fabricated Metal Products, Except Machinery and Equipment	3.15	-0.9%	-0.8%	-0.3%	-0.1%	0.1%	-1.0%	0.3%
Computer, Electronic and Optical Products	2.01	-2.9%	-2.9%	-3.0%	-1.4%	0.5%	-1.3%	3.3%
Electrical Equipment	2.93	-0.4%	-0.4%	-1.1%	-1.4%	-0.3%	-1.5%	4.8%
Machinery and Equipment	4.79	1.2%	1.1%	0.6%	1.1%	0.4%	0.6%	-5.8%
Motor Vehicles, Trailers and Semi-Trailers	4.97	1.1%	1.1%	1.8%	1.8%	-0.7%	1.8%	-10.1%
Other Transport Equipment	1.65	5.5%	5.5%	5.6%	5.2%	0.1%	4.5%	-9.9%
Furniture	0.73	2.4%	3.1%	3.0%	0.2%	-1.0%	0.3%	-0.1%
Other Manufacturing	1.06	8.5%	8.5%	6.1%	-0.3%	0.4%	6.3%	0.4%

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: WPI Inflation and CPI Inflation (YoY)

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

ANNEXURE

Exhibit 6: WPI Inflation (YoY)

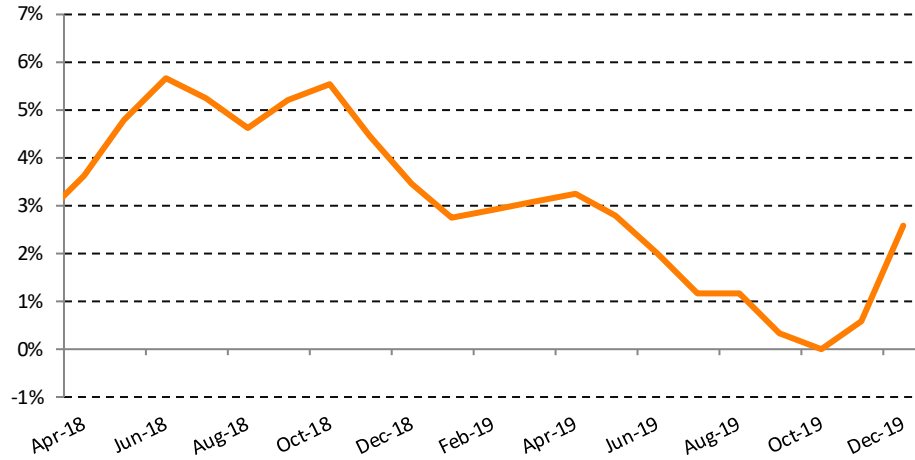
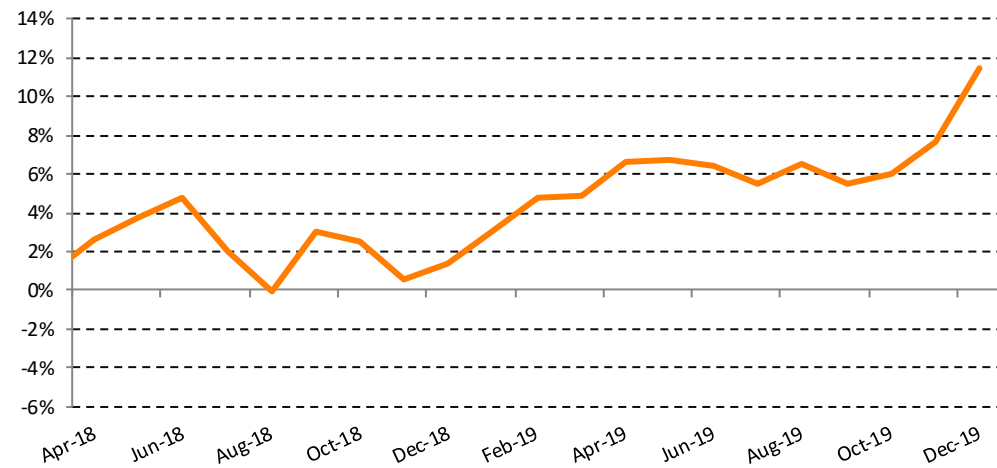


Exhibit 7: Primary Inflation (YoY)



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

Exhibit 8: Primary Food Inflation (YoY)

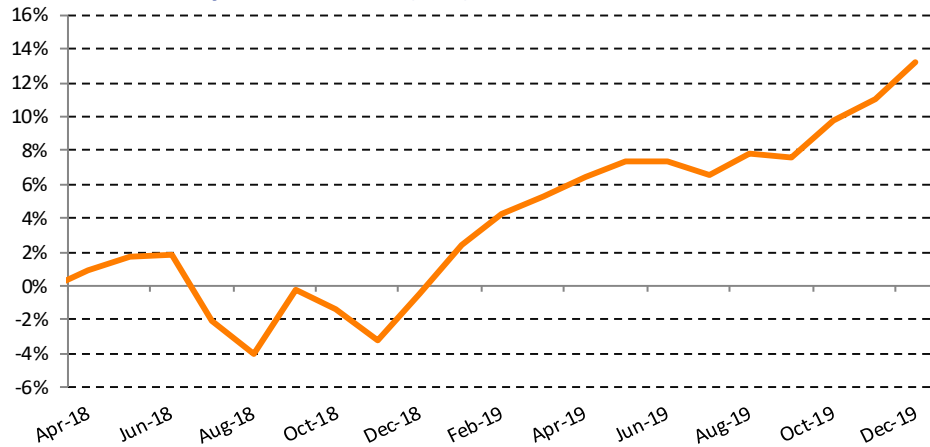
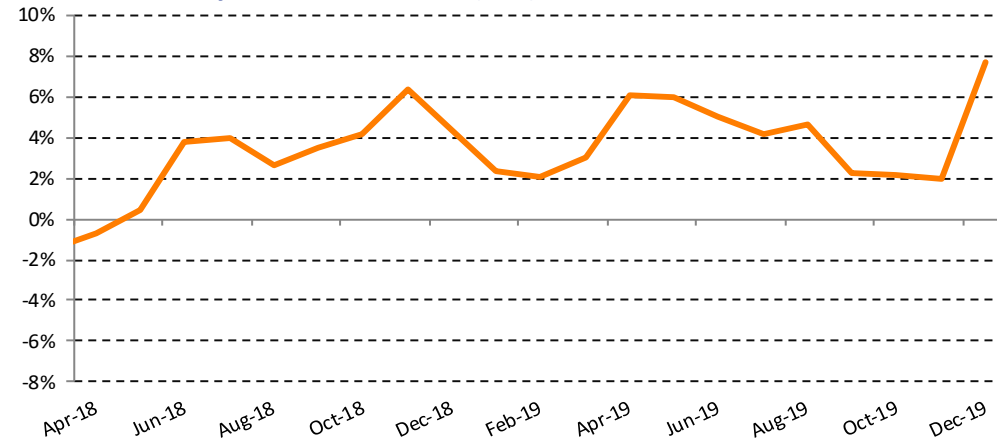
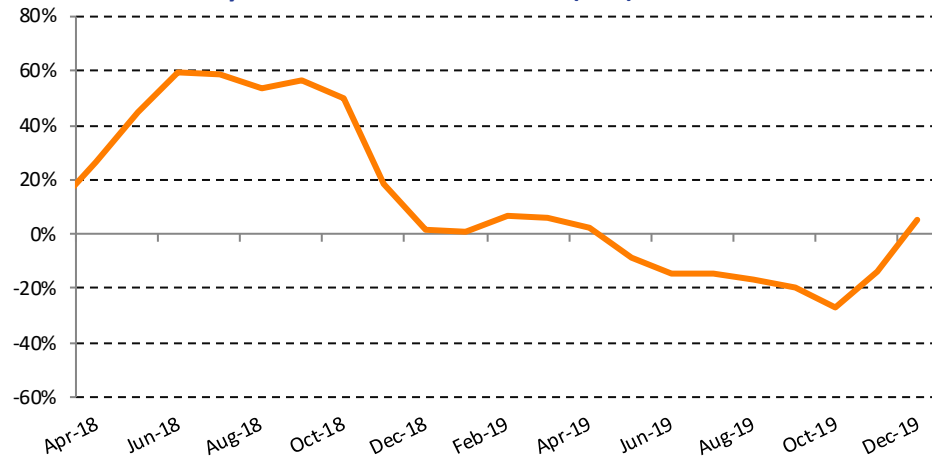
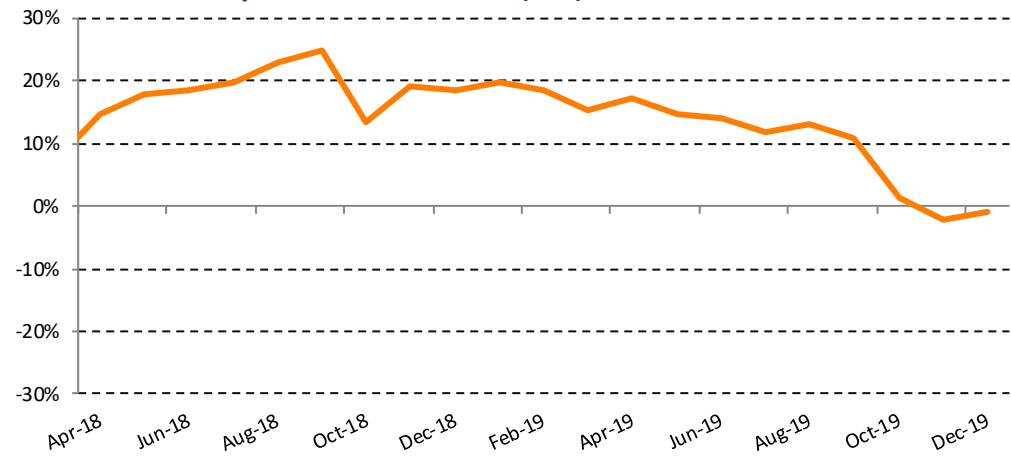


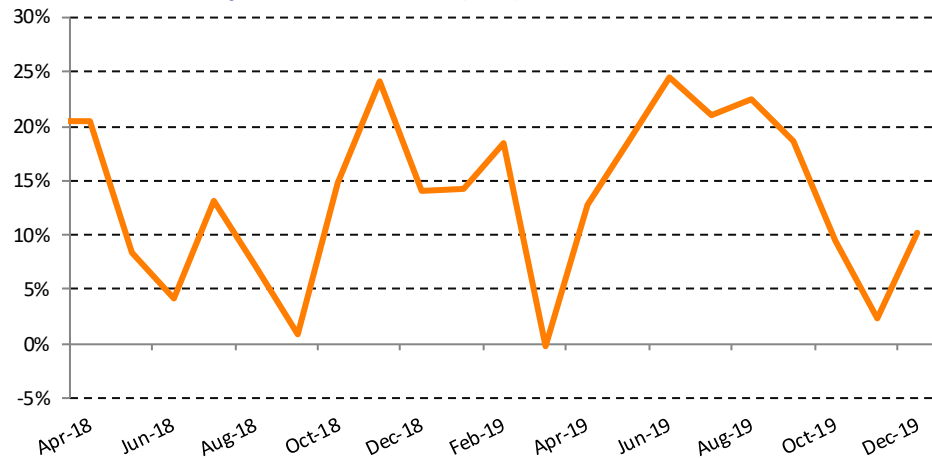
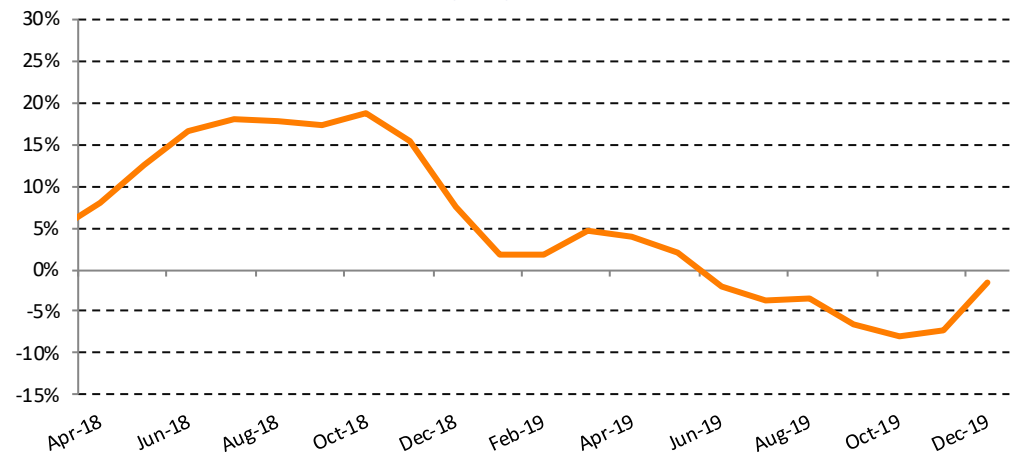
Exhibit 9: Primary Non-Food Inflation (YoY)



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)

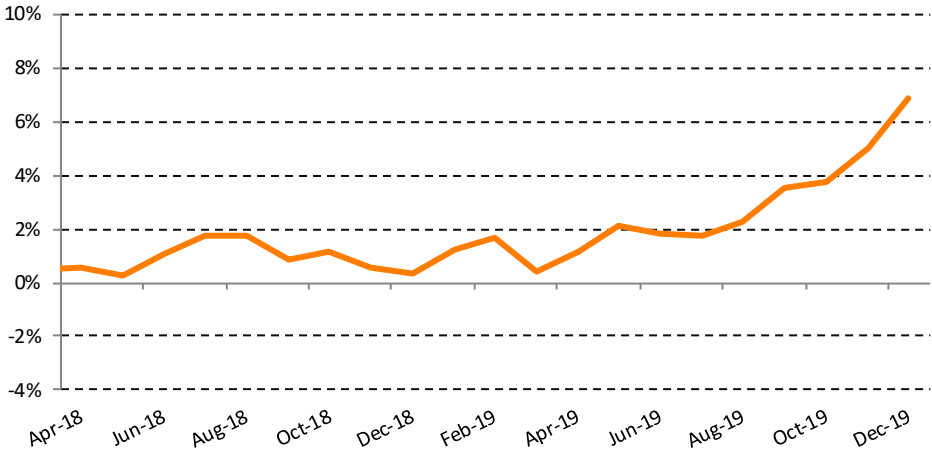
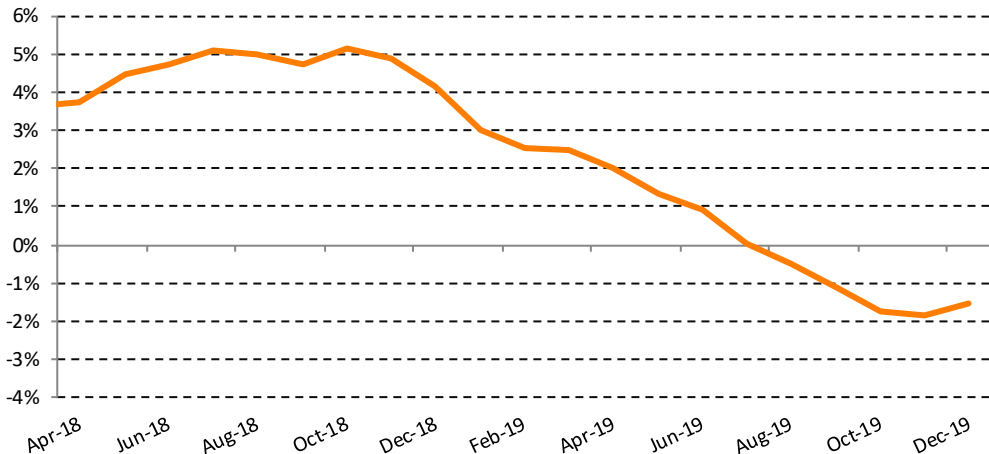


Exhibit 15: Manufactured Non-Food/Core Inflation (YoY)



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



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