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WHOLESALE PRICE INDEX JANUARY 2020

WPI inflation rose to a nine-month high 3.1% in January 2020, driven by base-effect led rise in fuel and power, and narrower disinflation in core-WPI

February 2020

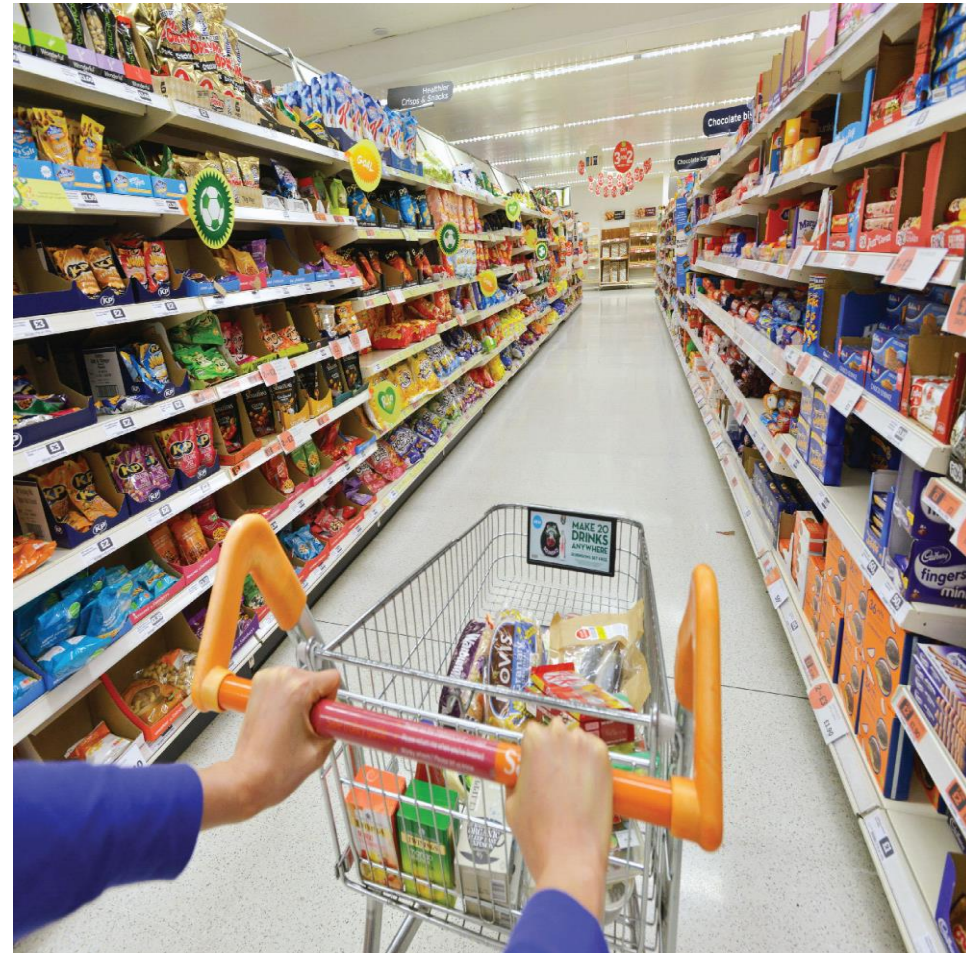
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HIGHLIGHTS

- The year-on-year (YoY) WPI inflation rose for the third month in a row, to a nine-month high 3.1% in January 2020 (+2.8% in January 2019) from 2.6% in December 2019 (+3.5% in December 2018), led by the base effect.
- The sequential uptick in the YoY WPI inflation in January 2020 was driven by the turnaround in fuel and power to a YoY inflation in that month from the disinflation in the previous month, a narrowing of the YoY disinflation in manufactured non-food products (core-WPI), and a rise in the pace of inflation for manufactured food products, as well as crude oil and natural gas. However, the YoY inflation softened in January 2020 for minerals, primary food articles, and primary non-food articles.
- The core-WPI displayed a YoY disinflation for the sixth consecutive month, although the pace of the same narrowed to 1.0% in January 2020 from 1.5% in December 2019.
- Wholesale primarily food inflation recorded a limited correction to 11.5% in January 2020 from 13.2% in December 2020, driven predominantly by vegetables and to a mild extent, pulses, even as milk and non-vegetarian protein items recorded a hardening of inflation. Moreover, the inflation for manufactured food items recorded a considerable uptick led by a fairly broad-based spike in various edible oils, as well as dairy products, which is expected to sustain in the coming months.



OVERVIEW

- Led by an unfavourable base effect, the YoY WPI inflation rose for the third month in a row, to a nine-month high 3.1% in January 2020 (+2.8% in January 2019) from 2.6% in December 2019 (+3.5% in December 2018; refer Exhibits 1, 2 and Annexure) and printed slightly higher than our forecast (+2.9%).
- The sequential uptick in the YoY WPI inflation in January 2020 was driven by the turnaround in fuel and power to a YoY inflation in that month from the disinflation in the previous month, a narrowing of the YoY disinflation in manufactured non-food products (core-WPI), and a rise in the pace of inflation for manufactured food products, as well as crude oil and natural gas. However, the YoY inflation softened in January 2020 relative to the level recorded in the previous month for minerals, primary food articles, and primary non-food articles.
- Partly reflecting the base effect, fuel and power recorded a YoY inflation of 3.4% in January 2020 (+1.8% in January 2019), in contrast to the disinflation of 1.5% in December 2019 (+7.6% in December 2018), led by the trend for mineral oils (to +5.8% from -3.2%). However, the YoY disinflation in electricity remained unchanged at 0.6% in January 2020, in line with the print for December 2019, while the inflation for coal eased mildly to 2.3% from 2.5%, respectively. In month-on-month (MoM) terms, the fuel and power sub-index rose by a considerable 1.4% in January 2020, as opposed to the sharp decline of 3.4% recorded in January 2019.
- The core-WPI displayed a YoY disinflation for the sixth consecutive month, although the pace of the same narrowed to 1.0% in January 2020 from 1.5% in December 2019 (refer Exhibits 3 and 4). Eight of the 21 sub-sectors (with a weight of 16.6% in the WPI) recorded a rise in their YoY inflation in January 2020 relative to December 2019, such as other manufacturing (to +5.8% from -0.3%; led by the trend in gold and gold ornaments to +6.2% from -1.0%). Nevertheless, 13 of the categories (with a weight of 38.5% in the WPI) displayed a YoY disinflation in January 2020, including basic metals (-3.9%; weight of 9.6% in the WPI), chemicals and chemical products (-2.8%; with a weight of 6.5% in the WPI), and textiles (-2.2%; weight of 4.9% in the WPI). Moreover, the core-WPI inflation remained below the headline WPI inflation for the twelfth consecutive month. On an MoM basis, the sub-index for the core-WPI rose by 0.3% in January 2020, in contrast to the MoM decline in January 2019 (-0.3%). Notably, seven of the 21 sub-indices (accounting for 27.4% of the WPI), such as basic metals (+2.2%) and chemicals and chemical products (+0.1%) etc. registered an MoM rise in January 2020. In contrast, there was an MoM decline in January 2020 in the case of 12 of the 21 sub-indices (with a smaller weight of 22.3% in the WPI), such as computer electronic and optical products (-0.3%), wearing apparels (-0.8%), tobacco products (-1.2%) etc.
- Moreover, the inflation for manufactured food products rose for the sixth consecutive month, to a 34-month high 7.6% in January 2020 from 6.9% in December 2019, reflecting a sequential uptick in the inflation for vegetable and animal oils and fats (to +14.2% from +9.7%), dairy products (to +12.3% from +11.9%) etc. In MoM terms, the manufactured food items sub-index increased by 1.2% in January 2020, higher than the 0.5% rise recorded in January 2019.
- The inflation for crude petroleum and natural gas rose to 4.3% in January 2020 (+5.6% in January 2019) from 3.2% in December 2019 (+6.1% in December 2018), partly driven by the base effect. This trend was led by crude petroleum (to +6.4% in January 2020 from +5.0% in December 2019), and natural gas (to -0.8% from -1.0%, respectively). The initial level for the crude petroleum index for January 2020 has been pegged at 78.3, 3.7% higher than the revised level for November 2019 (75.5).

This is somewhat higher than the 2.5% rise in the price of the Indian crude oil basket in INR terms in those months. In MoM terms, this sub-index increased by a considerable 2.7% in January 2020, lower than the 1.7% rise in January 2019.

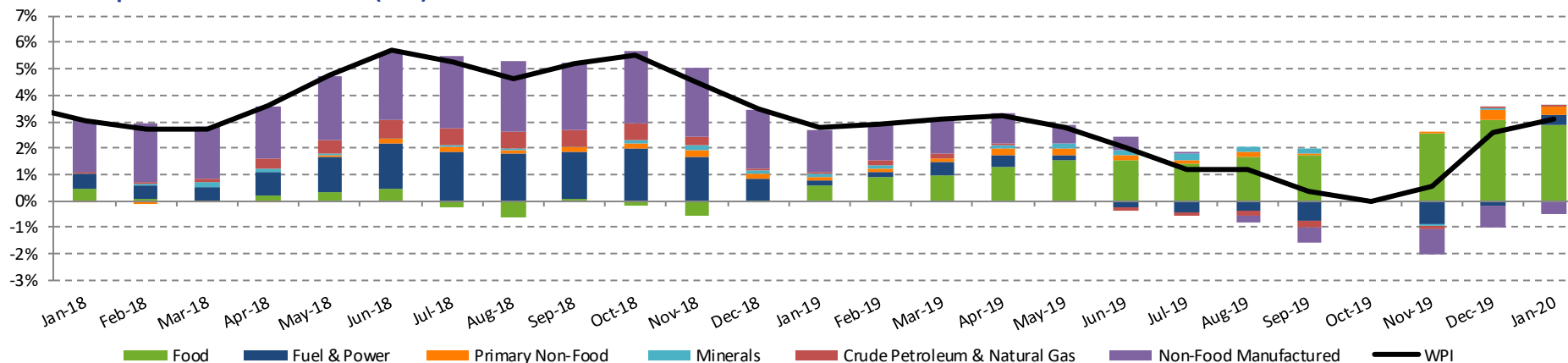
- In contrast, the inflation for minerals moderated to 4.3% in January 2020 (+14.2% in January 2019) from 10.3% in December 2019 (+14.0% in December 2018), driven by the trend in metallic minerals, which eased considerably to 7.8% from 16.7%, respectively (largely led by copper concentrate, to +17.2% from +33.7%). In MoM terms, the minerals sub-index corrected by a sharp 7.2% in January 2020, as compared to the 1.9% decline in January 2019, reflecting the trend in copper (-11.9%; -0.5%) and manganese ore (-20.0%; -7.9%).
- After hardening for five months in a row, the inflation pertaining to the WPI-Food Index eased to 10.1% in January 2020 from 11.0% in December 2019, reflecting the mild softening in the YoY inflation for primary food articles (to +11.5% from +13.2%), while the inflation for manufactured food products rose during these two months (to +7.6% from +6.9%).
- The YoY inflation for primary food articles corrected somewhat to 11.5% in January 2020 (+2.4% in January 2019) from a 72-month high 13.2% in December 2019 (-0.4% in December 2018). This was partly driven by the base effect as well as some moderation in the YoY inflation for vegetables and to a mild extent, pulses. The YoY inflation for vegetables softened to 52.7% in January 2020 from a 73-month high 69.7% in December 2019, reflecting the trend for onion (to +293.4% from +455.8%), brinjal (+1.9%; +37.3%) etc. Moreover, the inflation for pulses eased mildly to 12.8% in January 2020 from the 13.1% recorded in the previous month. In addition, the disinflation for other food articles deepened to 1.8% in January 2020 from 1.6% in December 2019, while the inflation for cereals remained unchanged at 7.7%, during these two months. However, the YoY inflation hardened in January 2020 relative to the previous month for condiments and spices (to +21.5% from +19.4%), milk (to +3.7% from +2.6%), eggs, meat and fish (to +6.7% from +6.2%), and fruits (to +3.7% from +3.5%). On an MoM basis, the primary food articles sub-index declined by 1.0% in January 2020 (largely in line with ~0.9% correction in the retail prices of food and beverages), although this stood in contrast to the MoM rise of 0.5% in January 2019, driven by the trend in vegetables (-10.1% vs. -0.1%).
- Inflation for primary non-food articles softened to 7.1% in January 2020 from a 41-month high 7.7% in December 2019, driven by floriculture (to +46.7% from +97.4%). However, the inflation for oilseeds (to +9.0% from +8.5%), fibres (to -2.3% from -3.8%), and other non-food articles (to +2.8% from -2.2%) increased in January 2020 relative to the previous month. On an MoM basis, the primary non-food articles sub-index fell by 1.4% in January 2020, sharper than 0.8% decline in January 2019.
- The build-up of the WPI inflation till January 2020 was in line with the same till January 2019 (+2.5%).
- The final WPI inflation for November 2019 was retained at the initial level of 0.6%. While the inflation rate was revised downwards for minerals (to -5.8% from +2.2%), it was offset by the upward revision in crude petroleum and natural gas (to -7.4% from -10.5%), manufactured food items (to +5.1% from +5.0%) and primary food articles (to +11.2% from +11.1%).
- The CPI inflation exceeded the WPI inflation for the ninth consecutive month in January 2020. The wedge between the two narrowed during the month, with a sharper uptick in the wholesale inflation (to +3.1% in January 2020 from +2.6% in December 2019) as compared to the retail inflation (to +7.6% from +7.4%).

OUTLOOK

Available data suggests a correction in the wholesale prices of vegetables such as onions, potatoes and tomatoes in the ongoing month. Nevertheless, the primary food inflation may persist in double-digits in that month, given the expected relative stickiness in inflation related to other categories, such as various protein items.

Higher customs duties would push up the inflation related to imports to some extent going forward. However, the impact of the spread of the coronavirus on risk sentiment is expected to result in subdued commodity prices in the immediate term. For instance, the average price of the Indian crude oil basket has declined by a sharp 16% in the ongoing month relative to January 2020. Notably, the average retail prices of ATF, petrol and diesel so far in February 2020 have eased by a relatively limited 2-4%. However, the prices of non-subsidised LPG have been increased by a sharp 14% in the current month, which would add to inflationary pressures.

The disinflation in the core-WPI is expected to continue over the next few months, with the core-WPI likely to emerge out of disinflation only in H2 CY2020. Overall, we expect a substantial moderation in the WPI inflation in February 2020, led by commodities and vegetables.

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
		Nov-19	Nov-19	Dec-19	Jan-20	Jan-20	Jan-20	Jan-20
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
WPI	100.00	0.6%	0.6%	2.6%	3.1%	0.1%	2.5%	100.0%
Primary Articles	22.62	7.7%	7.6%	11.5%	10.0%	-1.1%	9.4%	81.9%
- Food	15.26	11.1%	11.2%	13.2%	11.5%	-1.0%	11.3%	68.4%
- Non-Food	4.12	1.9%	1.9%	7.7%	7.1%	-1.4%	6.8%	9.7%
- Minerals	0.83	2.2%	-5.8%	10.3%	4.3%	-7.2%	3.3%	1.3%
- Crude Petroleum and Natural	2.41	-10.5%	-7.4%	3.2%	4.3%	2.7%	0.1%	2.3%
Fuel and Power	13.15	-7.3%	-7.3%	-1.5%	3.4%	1.4%	0.2%	12.1%
- Coal	2.14	1.1%	2.5%	2.5%	2.3%	0.0%	2.3%	1.7%
- Minerals Oils	7.95	-13.2%	-13.6%	-3.2%	5.8%	2.5%	-1.6%	11.0%
- Electricity	3.06	0.6%	0.6%	-0.6%	-0.6%	0.0%	2.5%	-0.6%
Manufactured Products	64.23	-0.8%	-0.8%	-0.3%	0.3%	0.4%	0.2%	6.9%
- Food	9.12	5.0%	5.1%	6.9%	7.6%	1.2%	7.6%	24.2%
- Non-Food	55.11	-1.9%	-1.9%	-1.5%	-1.0%	0.3%	-1.2%	0.0%

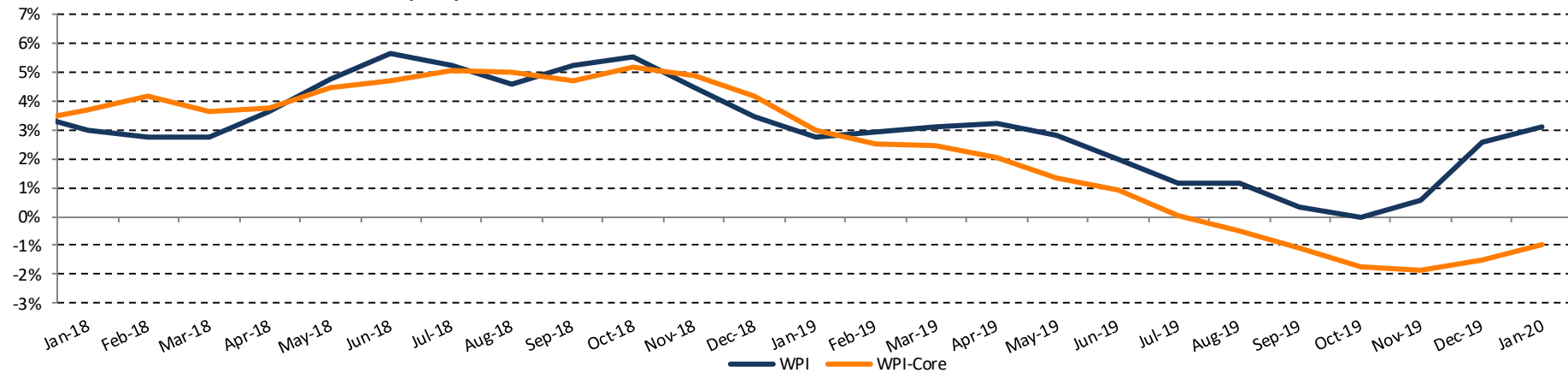
*Buildup with reference to March 2019

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

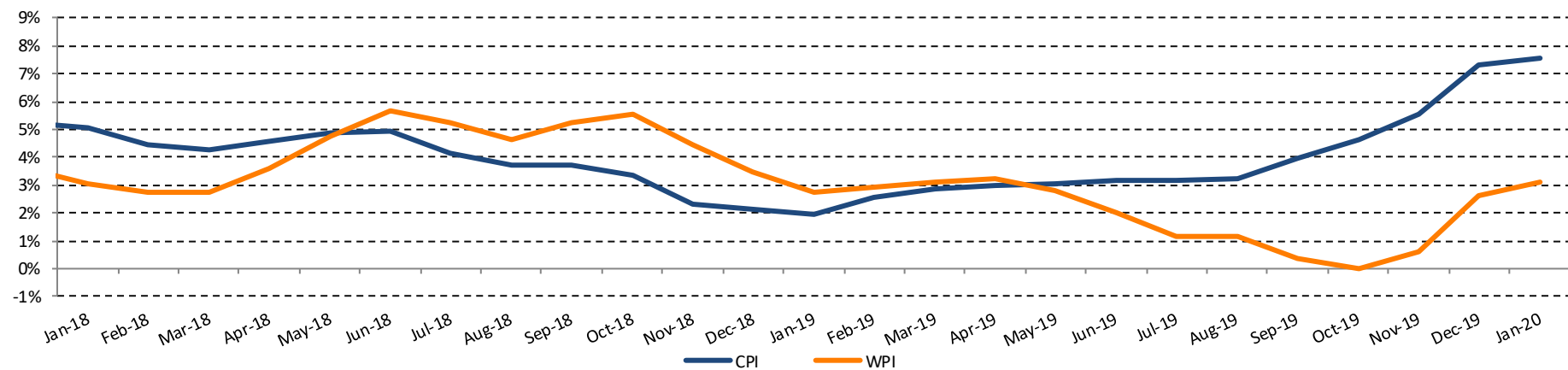
Exhibit 3: Trend in Monthly Inflation related to Non-Food Manufactured Products (YoY)

	Weight	YoY Inflation				MoM	Build-up	Contribution
		Nov-19	Nov-19	Dec-19	Jan-20	Jan-20	Jan-20	Jan-20
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
Non-Food Manufactured Products	55.11	-1.9%	-1.9%	-1.5%	-1.0%	0.3%	-1.2%	100.0%
Beverages	0.91	1.4%	1.3%	1.3%	1.7%	0.5%	1.6%	-3.0%
Tobacco Products	0.51	2.4%	2.3%	2.5%	0.2%	-1.2%	-1.8%	-0.2%
Textiles	4.88	-1.6%	-2.1%	-1.7%	-2.2%	-0.4%	-1.9%	20.0%
Wearing Apparel	0.81	0.4%	0.1%	0.3%	-0.2%	-0.8%	-0.2%	0.4%
Leather and Related Products	0.54	-2.4%	-2.0%	-1.6%	-2.5%	-0.5%	-1.9%	2.5%
Wood and Products of Wood and Cork	0.77	-0.1%	-0.6%	-1.0%	-0.8%	0.0%	-1.5%	1.3%
Paper and Paper Products	1.11	-4.5%	-4.5%	-4.6%	-4.6%	-0.3%	-3.8%	10.2%
Printing and Reproduction of Recorded Media	0.68	4.0%	3.5%	2.5%	4.2%	0.8%	3.7%	-6.5%
Chemicals and Chemical Products	6.47	-3.6%	-3.9%	-3.2%	-2.8%	0.1%	-2.8%	33.7%
Pharmaceuticals, Medicinal Chemical and Botanical Products	1.99	1.9%	2.6%	3.6%	1.3%	-0.1%	1.1%	-5.4%
Rubber and Plastics Products	2.30	-2.1%	-2.1%	-1.7%	-2.0%	-0.4%	-2.0%	8.0%
Other Non-Metallic Mineral Products	3.20	-0.1%	0.2%	0.4%	-0.7%	-0.3%	-0.9%	4.0%
Basic Metals	9.65	-9.4%	-9.3%	-7.8%	-3.9%	2.2%	-4.8%	65.5%
Fabricated Metal Products, Except Machinery and Equipment	3.15	-0.3%	-0.1%	-0.1%	-0.9%	-0.2%	-1.2%	5.0%
Computer, Electronic and Optical Products	2.01	-3.0%	-2.8%	-1.4%	-1.6%	-0.3%	-1.5%	5.7%
Electrical Equipment	2.93	-1.1%	0.0%	-1.4%	-1.2%	0.2%	-1.3%	6.0%
Machinery and Equipment	4.79	0.6%	0.8%	1.1%	1.1%	0.0%	0.6%	-9.1%
Motor Vehicles, Trailers and Semi-Trailers	4.97	1.8%	1.2%	1.8%	1.6%	0.2%	1.9%	-14.1%
Other Transport Equipment	1.65	5.6%	5.7%	5.2%	5.1%	0.3%	4.8%	-15.1%
Furniture	0.73	3.0%	1.4%	0.2%	-0.9%	-0.2%	0.2%	1.4%
Other Manufacturing	1.06	6.1%	6.0%	-0.3%	5.8%	-0.9%	5.4%	-10.4%

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)

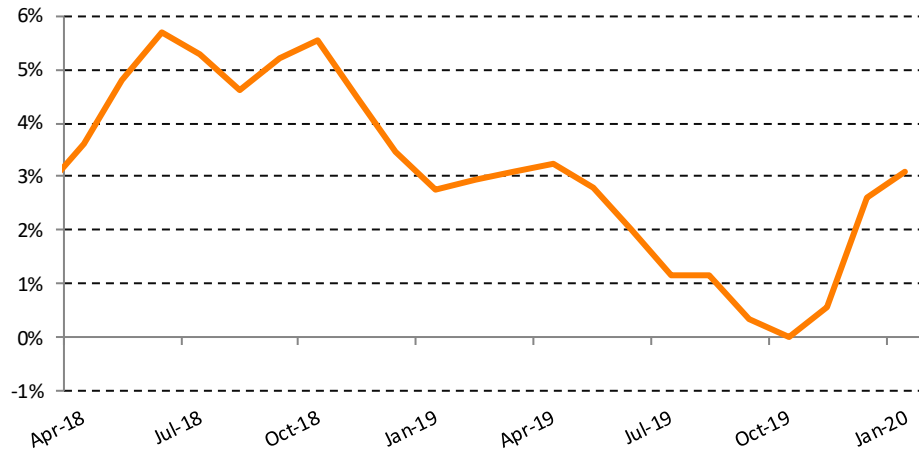
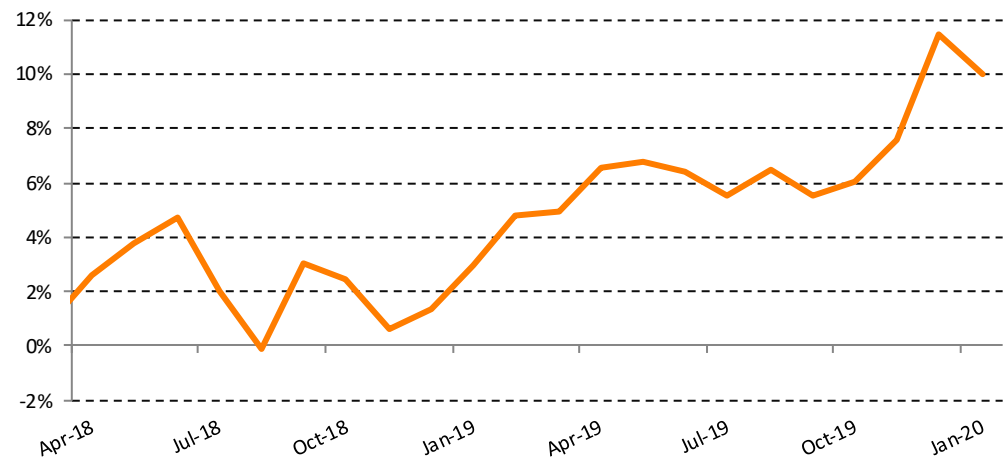


Exhibit 7: Primary Inflation (YoY)



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

Exhibit 8: Primary Food Inflation (YoY)

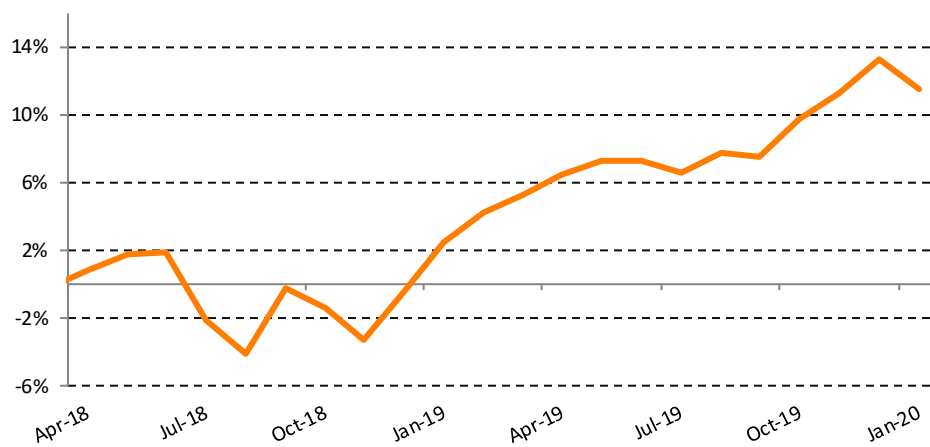
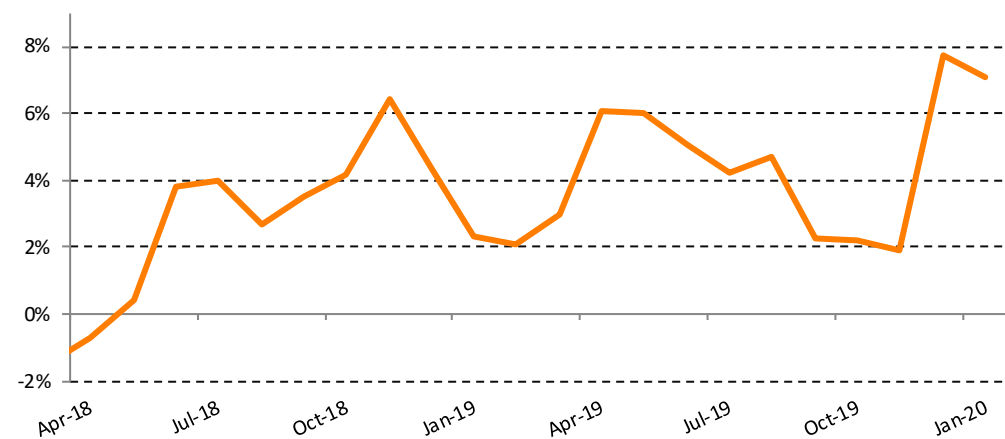
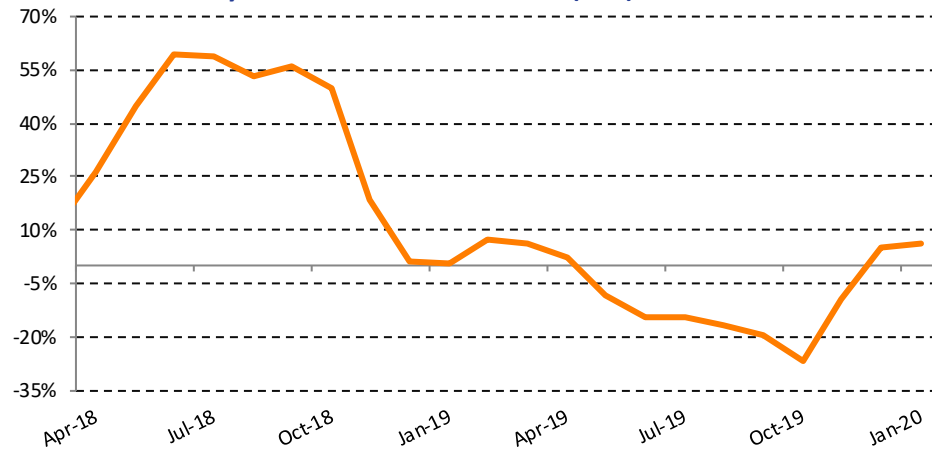
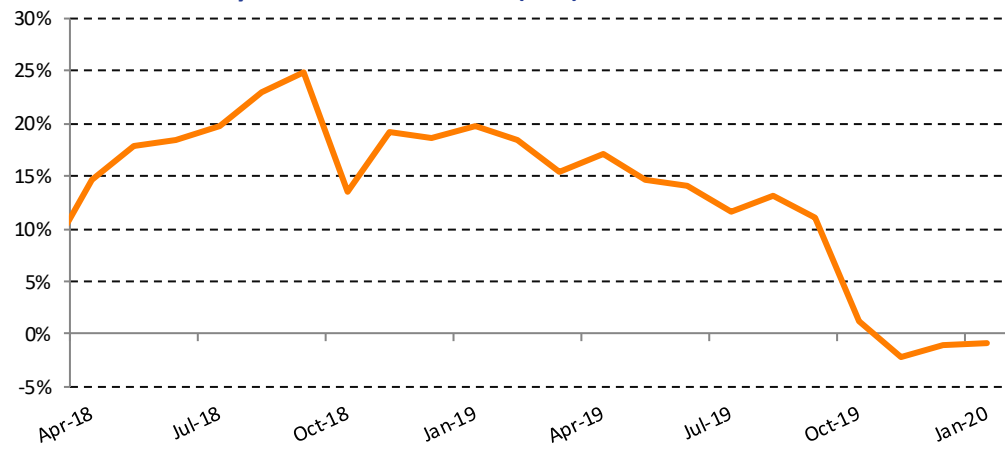


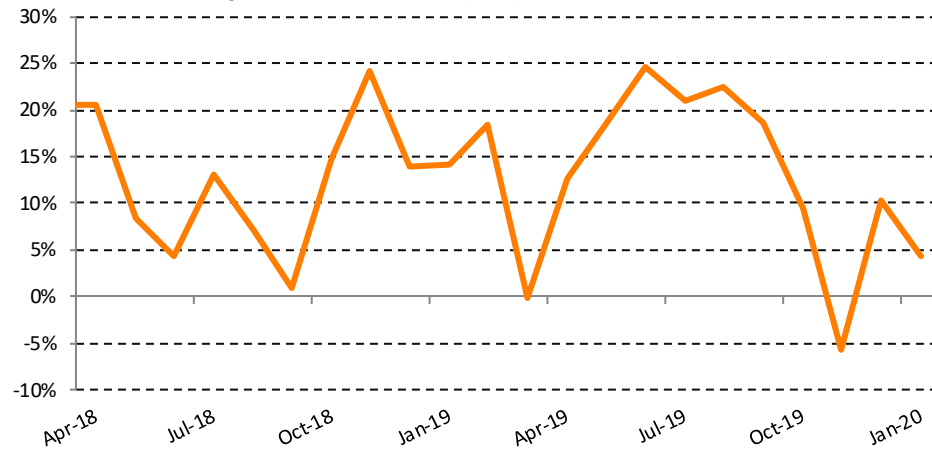
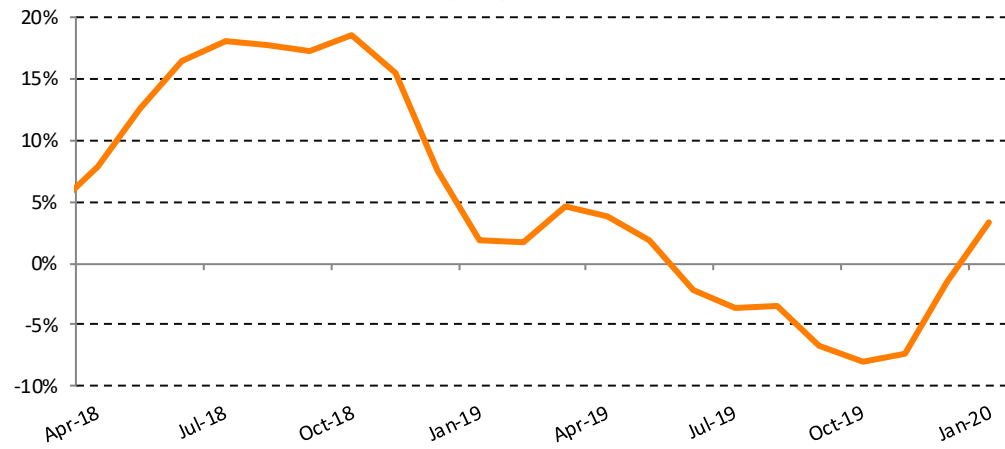
Exhibit 9: Primary Non-Food Inflation (YoY)



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)

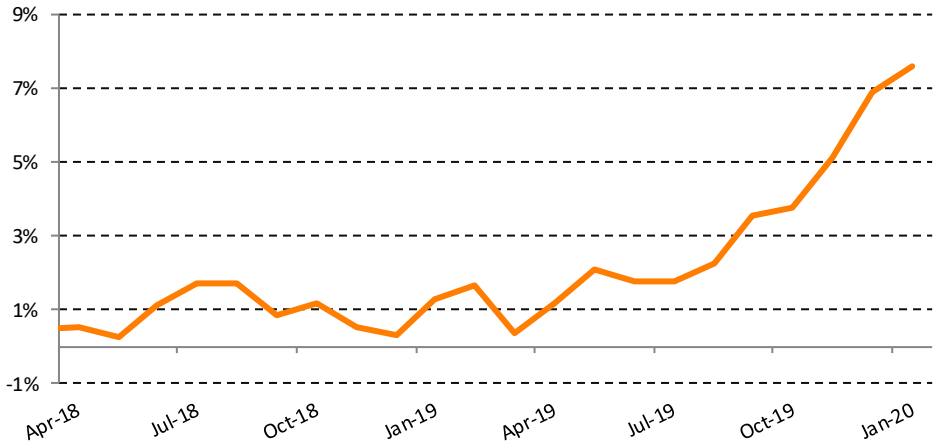
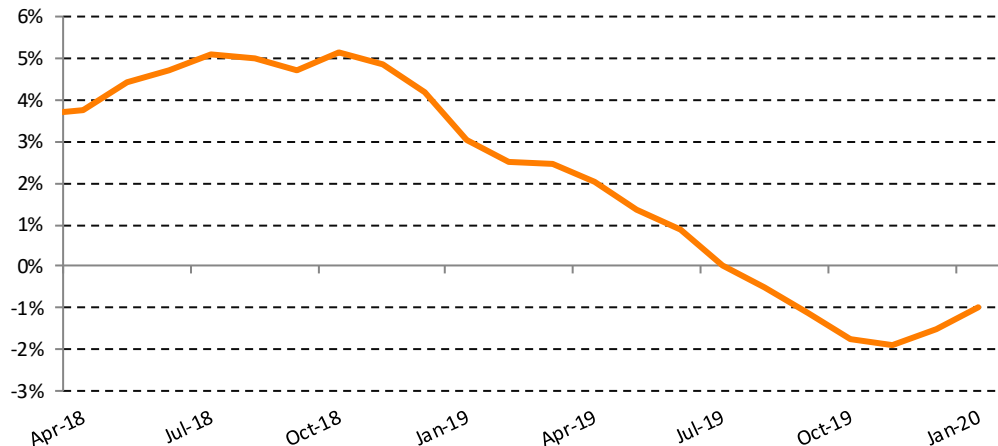


Exhibit 15: Manufactured Non-Food/Core Inflation (YoY)



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



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