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SERVICE COMPANY

# WHOLESALE PRICE INDEX AUGUST 2020

**WPI posted surprise turnaround to YoY inflation of 0.2% in August 2020 from disinflation of 0.6% in July 2020**

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Aditi Nayar  
+91 124 4545 385  
[aditin@icraindia.com](mailto:aditin@icraindia.com)

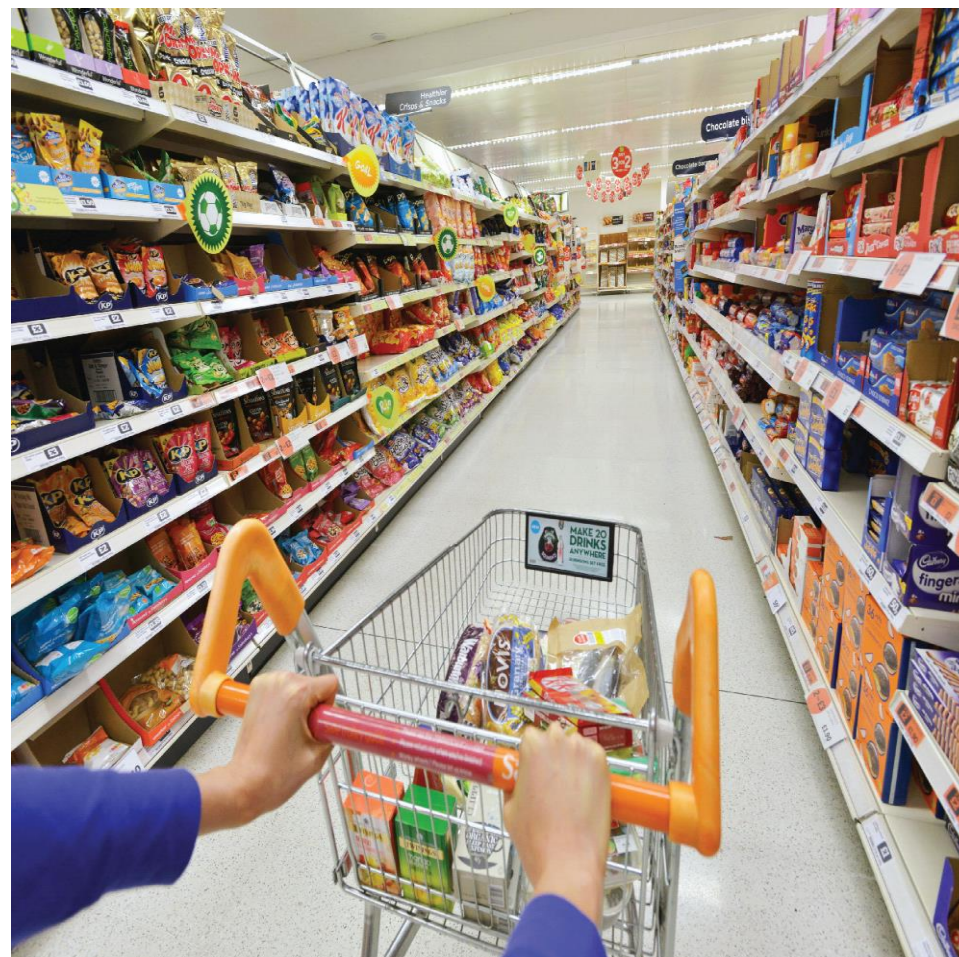
Yash Panj Rath  
+91 124 4545 399  
[yash.panj Rath@icraindia.com](mailto:yash.panj Rath@icraindia.com)

Aarzoo Pahwa  
+91 124 4545 873  
[aarzoo.pahwa@icraindia.com](mailto:aarzoo.pahwa@icraindia.com)

Tiasha Chakraborty  
+91 124 4545 300  
[tiasha.chakraborty@icraindia.com](mailto:tiasha.chakraborty@icraindia.com)

## HIGHLIGHTS

- The WPI posted a surprise turnaround to a year-on-year (YoY) inflation of 0.2% in August 2020 (+1.2% in August 2019), after a gap of four months (ICRA exp: -0.4%). This stood in contrast to the 0.6% disinflation recorded in July 2020 (+1.2% in July 2019).
- The increase in the YoY WPI inflation in August 2020 relative to July 2020 was driven by manufactured non-food products ("core-WPI"), minerals, fuel and power, primary non-food products and crude petroleum and natural gas.
- After a gap of 12 months, the core-WPI witnessed a YoY inflation of 0.6% in August 2020, in contrast to the disinflation of 0.3% in July 2020.
- On the other hand, the inflation pertaining to the WPI-Food Index softened to 4.1% in August 2020 from 4.3% in July 2020, driven by primary food articles (to +3.8% from +4.1%) and manufactured food products (to 4.7% from 4.9%).
- With the sharp rise in vegetable prices in early September 2020, the easing of food inflation witnessed in August 2020 may reverse in the ongoing month.
- The WPI may move in and out of disinflation in the next few months, partly driven by base effects as well as volatility in commodity and food prices.



## OVERVIEW

- The WPI posted a surprise turnaround to a YoY inflation of 0.2% in August 2020 (+1.2% in August 2019; refer Exhibit 1 and 2, and Annexure), after a gap of four months (ICRA exp: -0.4%). This stood in contrast to the 0.6% disinflation recorded in July 2020 (+1.2% in July 2019).
- The sequential hardening in the YoY WPI inflation in August 2020 relative to July 2020 was driven by a higher inflation for core-WPI and minerals. Additionally, there was a smaller disinflation in August 2020 relative to the previous month, for fuel and power, primary non-food products, and crude petroleum and natural gas. On the other hand, the inflation pertaining to the WPI-Food Index softened in August 2020 relative to July 2020, driven by both primary food articles and manufactured food products.
- The core-WPI witnessed a YoY inflation of 0.6% in August 2020 (-0.5% in August 2019), after a gap of 12 months. This stood in contrast to disinflation of 0.3% in July 2020(+0.03% in July 2019), reflecting the base effect as well as the increase in commodity prices amid some pick-up in demand. For 15 of the 21 sub-sectors (with a considerable weight of 47.4% in the WPI) the YoY inflation rose, or the disinflation narrowed in August 2020 relative to July 2020; this sub-set includes basic metals, printing and reproduction of recorded media, electrical equipment, other manufacturing (led by gold), motor vehicles, trailers and semi-trailers, etc. (refer Exhibit 3). On the other hand, six sub-groups (with a modest weight of 7.7% in the WPI) displayed either a softening in their inflation print or a deeper YoY disinflation in August 2020 relative to July 2020; this sub-set includes wearing apparel, textiles, pharmaceuticals, furniture, leather and related products, etc. In month-on-month (MoM) terms, the sub-index for the core-WPI increased by 0.5% in August 2020, in contrast to the 0.4% MoM correction in August 2019. Notably, 11 of the 21 sub-indices (accounting for 29.9% of the WPI), such as basic metals (+2.3%), printing and reproduction of recorded media (+1.5%), other manufacturing (+5.4%), etc. registered a rise in MoM terms in August 2020. In contrast, there was a decline in MoM terms in August 2020 in the case of 10 of the 21 sub-indices (with a weight of 25.2% in the WPI), such as Tobacco products (-1.1%), furniture (-0.9%), wearing apparel (-0.4%), etc.
- Moreover, minerals recorded a YoY inflation of 5.0% in August 2020, in contrast to the substantial disinflation of 7.8% in July 2020, led by the trend in metallic minerals (to +5.7% from -9.5%) and other minerals (to +2.7% from -2.1%). In MoM terms, the minerals sub-index increased by a sharp 10.2% in August 2020, in contrast to the 3.2% decline recorded in August 2019.
- The YoY disinflation for fuel and power (with a weight of 13.2% of the WPI) narrowed slightly to 9.7% in August 2020 from 9.8% in July 2020, driven by the trend for mineral oils (to -14.4% from -15.5%). However, the YoY disinflation for electricity widened to 8.8% in August 2020 from 6.7% in July 2020, and the YoY inflation for coal remained unchanged at 1.9% in August 2020. In MoM terms, the fuel and power sub-index increased by 0.8% in August 2020, higher than the 0.6% rise recorded in August 2019. The former was driven by the 1.3% MoM increase in mineral oils, with an uptick recorded by all its constituents except petrol and bitumen, even as electricity and coal recorded no MoM change.
- With some recovery in demand and global supply cuts, the YoY disinflation related to crude petroleum and natural gas component narrowed to 17.8% in August 2020 from 22.2% in July 2020, driven primarily by the trend for crude petroleum (to -17.4% from -25.6%), even as YoY disinflation for natural gas widened to 18.5% in August 2020 from 14.8% in July 2020. The initial level for the crude petroleum sub-index for August 2020 has been pegged at 60.6, 7.8% higher than the revised level for June



2020 (56.2). This is similar to the estimated 7.2% uptick in the price of the Indian crude oil basket in INR terms recorded between those two months. In MoM terms, the crude petroleum sub-index increased by a considerable 7.8% in August 2020 (-2.8% in August 2019)., whereas the natural gas sub-index decreased by 1.2% (+3.2% in July 2019).

- The disinflation in primary non-food articles narrowed to 1.5% in August 2020 from 3.6% in July 2020, led by floriculture (to -1.8% from -18.2%), fibres (to -8.6% from -10.8%), oil seeds (to +2.64% from +2.60%) and other non-food articles (to -0.9% from -1.7%). In MoM terms, the primary non-food articles sub-index increased by 3.1% in August 2020, significantly higher than the 0.9% rise in August 2019, led by floriculture (+35.6% vs +12.9%).
- The inflation pertaining to the WPI-Food Index softened to 4.1% in August 2020 from 4.3% in July 2020, driven by primary food articles (to +3.8% from +4.1%) and manufactured food products (to 4.7% from 4.9%).
- The YoY inflation for primary food articles eased to 3.8% in August 2020 (+7.8% in August 2019) from 4.1% in July 2020 (+6.6% in July 2019). In particular, the YoY inflation eased, or disinflation widened in August 2020 relative to July 2020, for condiments and spices (to +1.6% from +5.1%), cereals (to -1.8% from +0.7%), vegetables (to +7.0% from +8.2%), pulses (to +9.9% from +10.2%) and milk (to +4.2% from +4.6%). In contrast, the YoY inflation increased, or disinflation narrowed in August 2020 relative to July 2020 for other food articles (to +10.4% from +6.9%), fruits (to -0.3% from -3.0%) and eggs, meat and fish (to +6.2% from +5.3%). In MoM terms, the primary food articles sub-index recorded an increase of 0.9% in August 2020, lower than the 1.2% uptick in August 2019, driven by the trend in cereals (to -1.3% from +1.2%), vegetables (+1.5% vs. +2.6%), condiments and spices (to +0.6% from +4.1%), etc.
- The inflation for manufactured food products softened to 4.7% in August 2020 (+2.2% in August 2019) from 4.9% in July 2020 (+1.8% in July 2019), led by manufacture of processed condiments and salt, macaroni, noodles, couscous and similar farinaceous products, sugar, etc. In MoM terms, the manufactured food items sub-index rose by 0.7% in August 2020, lower than the 0.9% increase recorded in August 2019.
- The build-up of the WPI inflation till August 2020 stood at 1.1%, lower than the 1.3% displayed till August 2019, reflecting the trend for fuel and power (-8.1% till August 2020 vs. -1.3% till August 2019), minerals (+6.1% vs. +14.8%), primary non-food products (+2.5% vs. +4.9%) and manufactured food products (+1.6% vs. +3.2%).
- The final WPI YoY inflation for June 2020 was unchanged at -1.8%. However, there was an upward revision in crude petroleum and natural gas (to -22.4% from -33.7%), minerals (to +8.4% from +0.5%), primary food articles (to +2.1% from +2.0%) and manufactured food products (to +5.1% from +5.0%). This was offset by downward revisions in fuel and power (to -16.2% from -13.6%) and core- WPI (to -0.92% from -0.86%). The final WPI YoY inflation for non-food primary articles was unchanged at -2.8%.

## OUTLOOK

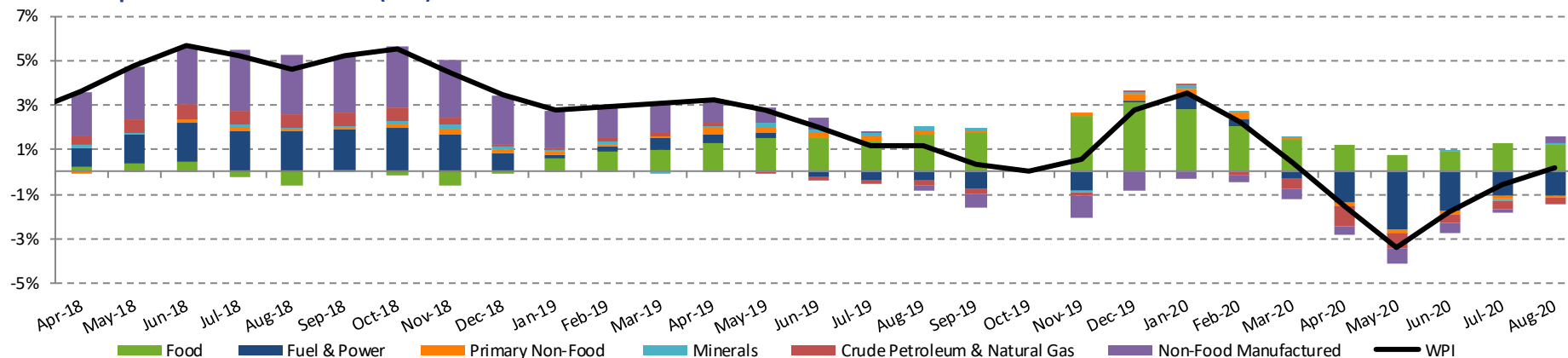
Available data suggests that the wholesale prices of vegetables have witnessed a sharp uptick in early September 2020. Additionally, the prices of oil seeds, rice, and many pulses have witnessed a rise. However, some moderation has been observed in the prices of wheat. Therefore, the easing of food inflation witnessed in August 2020 may reverse in the ongoing month. Subsequently, the favourable base effect is expected to suppress food inflation in Q3 FY2021.

With some consolidation in crude oil and retail fuel prices in the recent weeks, these items are unlikely to exert substantial upward pressure on the WPI inflation for September 2020.

The Rupee has seen a sudden appreciation over the past few weeks, with the average moving from 74.67 in August 2020 to 73.30 in September 2020, amidst robust FDI announcements and FPI inflows in the equity market (in August 2020) and a weaker Dollar. An appreciation in the INR would help to contain imported inflationary pressures.

Looking ahead, the WPI may move in and out of disinflation in the next few months, partly driven by base effects as well as volatility in commodity and food prices. We expect the WPI to record an average disinflation of 0.5% for FY2021. Going forward, we expect core inflation to harden somewhat to an average 1.5% in H2 FY2021.

The turnaround of the WPI into a YoY inflation in August 2020, however marginal, would only strengthen the case for a pause from the Monetary Policy Committee in its upcoming policy review.

**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	Buildup <sup>^</sup>	Contribution
		Jun-20	Jun-20	Jul-20	Aug-20	Aug-20	Aug-20	Aug-20
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
<b>WPI</b>	100.00	<b>-1.8%</b>	<b>-1.8%</b>	<b>-0.6%</b>	<b>0.2%</b>	<b>0.9%</b>	<b>1.1%</b>	<b>100.0%</b>
<b>Primary Articles</b>	22.62	<b>-1.2%</b>	<b>-0.1%</b>	<b>0.6%</b>	<b>1.6%</b>	<b>1.8%</b>	<b>6.5%</b>	<b>260.1%</b>
- Food	15.26	2.0%	2.1%	4.1%	3.8%	0.9%	7.2%	457.7%
- Non-Food	4.12	-2.8%	-2.8%	-3.6%	-1.5%	3.1%	2.5%	-39.1%
- Minerals	0.83	0.5%	8.4%	-7.8%	5.0%	10.2%	6.1%	32.9%
- Crude Petroleum and Natural Gas	2.41	-33.7%	-22.4%	-22.2%	-17.8%	4.7%	9.7%	-185.5%
<b>Fuel and Power</b>	13.15	<b>-13.6%</b>	<b>-16.2%</b>	<b>-9.8%</b>	<b>-9.7%</b>	<b>0.8%</b>	<b>-8.1%</b>	<b>-644.4%</b>
- Coal	2.14	2.0%	1.9%	1.9%	1.9%	0.0%	-0.1%	25.7%
- Minerals Oils	7.95	-27.4%	-27.0%	-15.5%	-14.4%	1.3%	-9.8%	-524.7%
- Electricity	3.06	5.2%	-6.7%	-6.7%	-8.8%	0.0%	-11.3%	-148.6%
<b>Manufactured Products</b>	64.23	<b>0.1%</b>	<b>0.1%</b>	<b>0.5%</b>	<b>1.3%</b>	<b>0.6%</b>	<b>0.6%</b>	<b>481.7%</b>
- Food	9.12	5.0%	5.1%	4.9%	4.7%	0.7%	1.6%	282.8%
- Non-Food	55.11	-0.9%	-0.9%	-0.3%	0.6%	0.5%	0.3%	195.3%

<sup>^</sup>Buildup with reference to March 2020

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

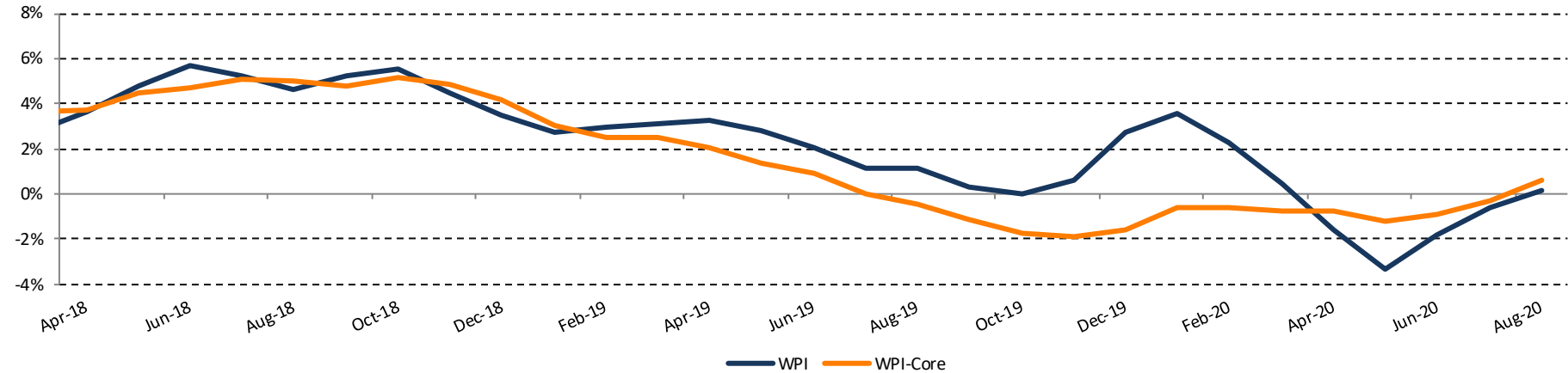
**Exhibit 3: Trend in Monthly Inflation related to Non-Food Manufactured Products (YoY)**

	Weight	YoY Inflation				MoM	Buildup <sup>^</sup>	Contribution
		Jun-20	Jun-20	Jul-20	Aug-20	Aug-20	Aug-20	Aug-20
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
<b>Non-Food Manufactured Products</b>	55.11	<b>-0.9%</b>	<b>-0.9%</b>	<b>-0.3%</b>	<b>0.6%</b>	<b>0.5%</b>	<b>0.3%</b>	<b>100.0%</b>
Beverages	0.91	1.1%	1.8%	0.9%	1.1%	0.2%	0.4%	3.3%
Tobacco Products	0.51	2.6%	3.0%	3.0%	0.8%	-1.1%	0.5%	1.7%
Textiles	4.88	-3.8%	-4.9%	-4.8%	-4.2%	-0.1%	-3.1%	-62.5%
Wearing Apparel	0.81	0.8%	-0.5%	-0.5%	-0.9%	-0.4%	-1.4%	-2.5%
Leather and Related Products	0.54	-1.6%	-0.8%	-0.3%	-0.8%	0.3%	0.7%	-1.2%
Wood and Products of Wood and Cork	0.77	-1.2%	-0.3%	-0.5%	0.3%	0.3%	1.4%	0.8%
Paper and Paper Products	1.11	-1.6%	-1.7%	-1.6%	-1.5%	-0.4%	-0.7%	-5.1%
Printing and Reproduction of Recorded Media	0.68	2.5%	1.9%	1.8%	2.7%	1.5%	-0.1%	7.1%
Chemicals and Chemical Products	6.47	-2.7%	-2.8%	-2.1%	-2.0%	-0.1%	0.3%	-39.7%
Pharmaceuticals, Medicinal Chemical and Botanical Products	1.99	4.1%	2.9%	3.0%	3.0%	0.9%	0.4%	19.4%
Rubber and Plastics Products	2.30	-1.3%	-1.5%	-1.4%	-0.7%	-0.1%	0.1%	-4.7%
Other Non-Metallic Mineral Products	3.20	-0.3%	0.0%	0.2%	0.4%	-0.4%	0.9%	4.1%
Basic Metals	9.65	-4.4%	-4.5%	-2.6%	1.8%	2.3%	0.5%	46.9%
Fabricated Metal Products, Except Machinery and Equipment	3.15	-1.2%	-2.1%	-1.0%	-1.3%	-0.5%	-1.8%	-12.1%
Computer, Electronic and Optical Products	2.01	-1.3%	-1.3%	-1.5%	-1.0%	-0.4%	-0.9%	-5.7%
Electrical Equipment	2.93	0.2%	1.0%	1.2%	1.9%	0.4%	1.3%	15.8%
Machinery and Equipment	4.79	-0.4%	-0.4%	-0.3%	0.0%	0.6%	0.3%	0.0%
Motor Vehicles, Trailers and Semi-Trailers	4.97	1.4%	2.0%	3.2%	3.5%	0.0%	1.1%	49.6%
Other Transport Equipment	1.65	6.4%	6.4%	6.4%	6.8%	0.6%	4.3%	33.8%
Furniture	0.73	-0.8%	-2.9%	-1.5%	-2.8%	-0.9%	-2.9%	-6.9%
Other Manufacturing	1.06	13.4%	17.6%	17.7%	18.6%	5.4%	13.2%	58.0%

<sup>^</sup> Buildup with reference to March 2020

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

Exhibit 4: Headline and Core WPI Inflation (YoY)

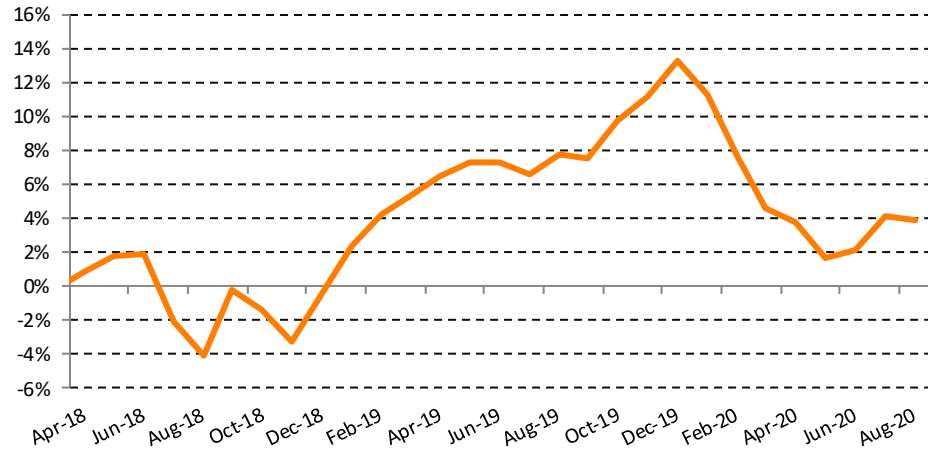


Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; CEIC; ICRA research

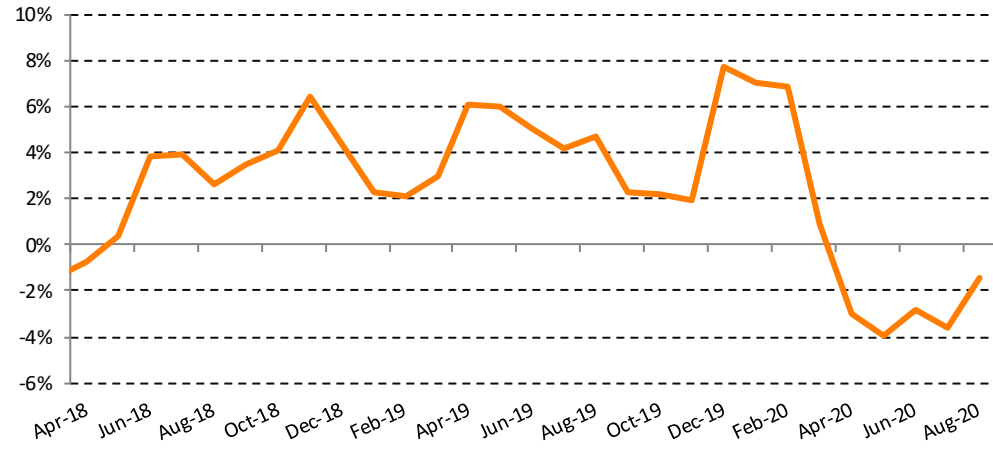


## ANNEXURE

**Exhibit 5: Primary Food Inflation (YoY)**

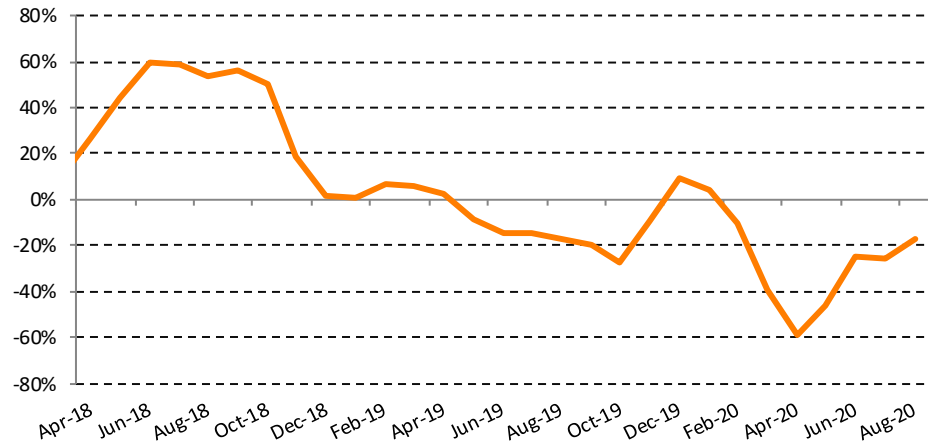


**Exhibit 6: Primary Non-Food Inflation (YoY)**

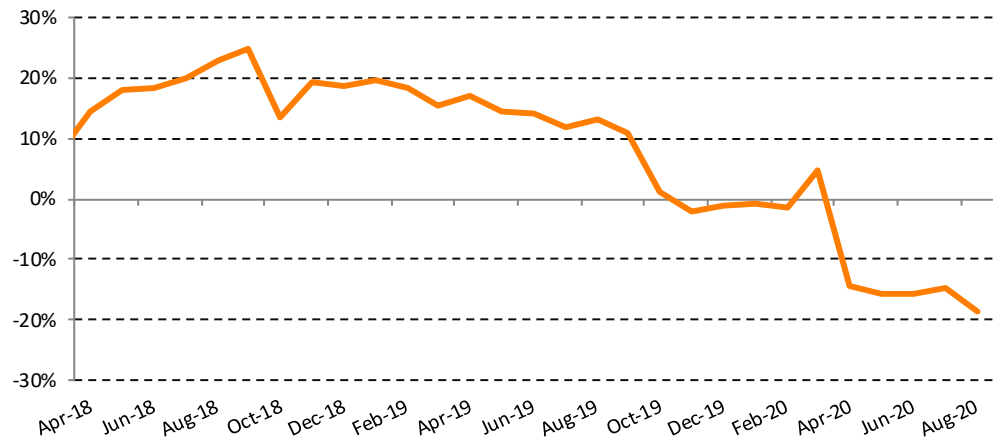


Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI CEIC; ICRA research

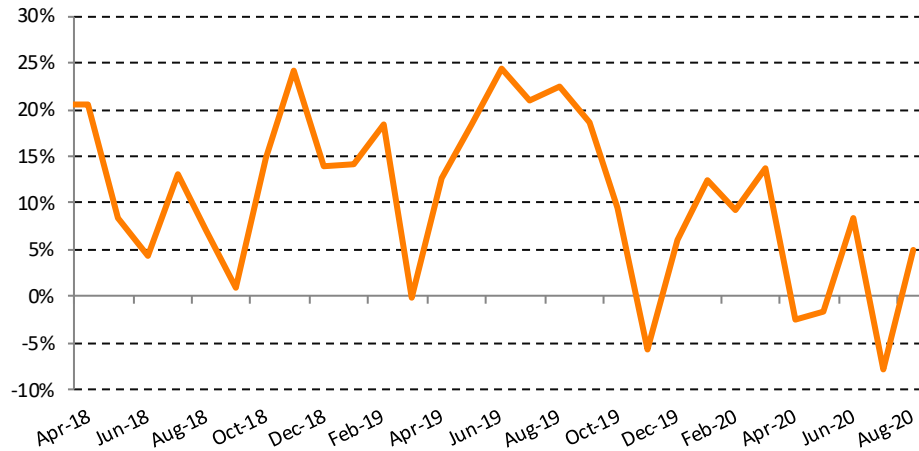
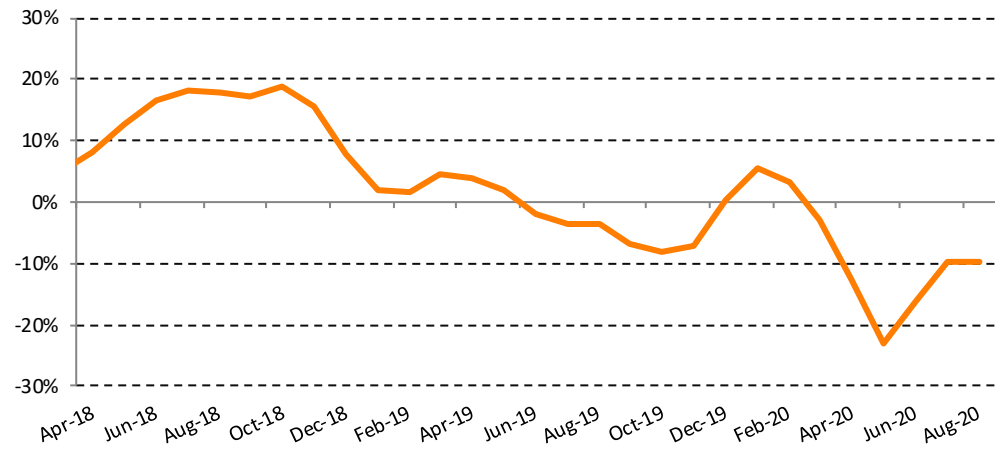
**Exhibit 7: Primary Crude Petroleum Inflation (YoY)**



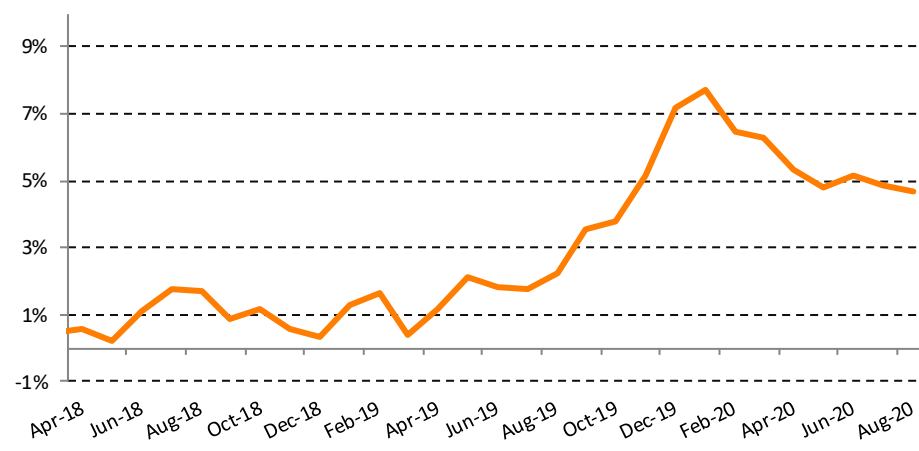
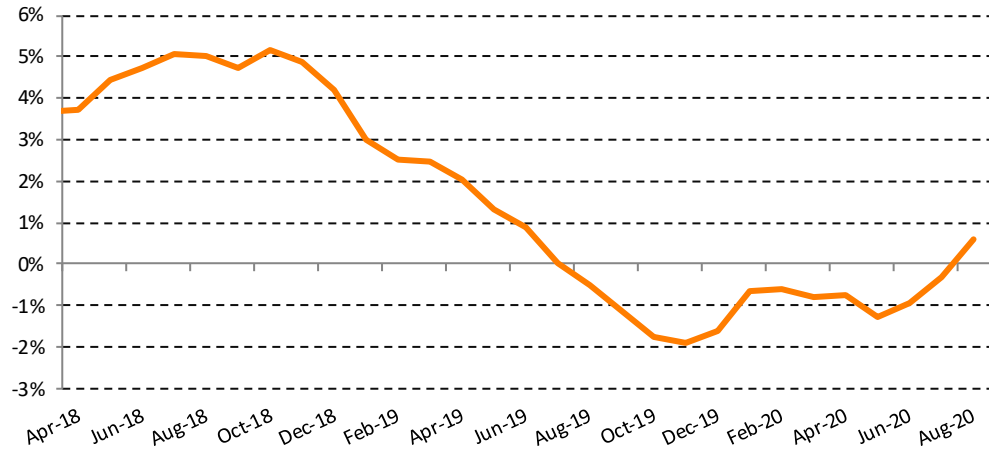
**Exhibit 8: Primary Natural Gas Inflation (YoY)**



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

**Exhibit 9: Primary Mineral Inflation (YoY)****Exhibit 10: Fuel and Power Inflation (YoY)**

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

**Exhibit 11: Manufactured Food Inflation (YoY)****Exhibit 12: Manufactured Non-Food or Core-WPI 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

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