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## WHOLESALE PRICE INDEX SEPTEMBER 2020

*WPI inflation rose to a  
seven-month high 1.3% in  
September 2020 from a  
mild 0.2% in August 2020,  
driven by primary food  
inflation*

**OCTOBER 2020**



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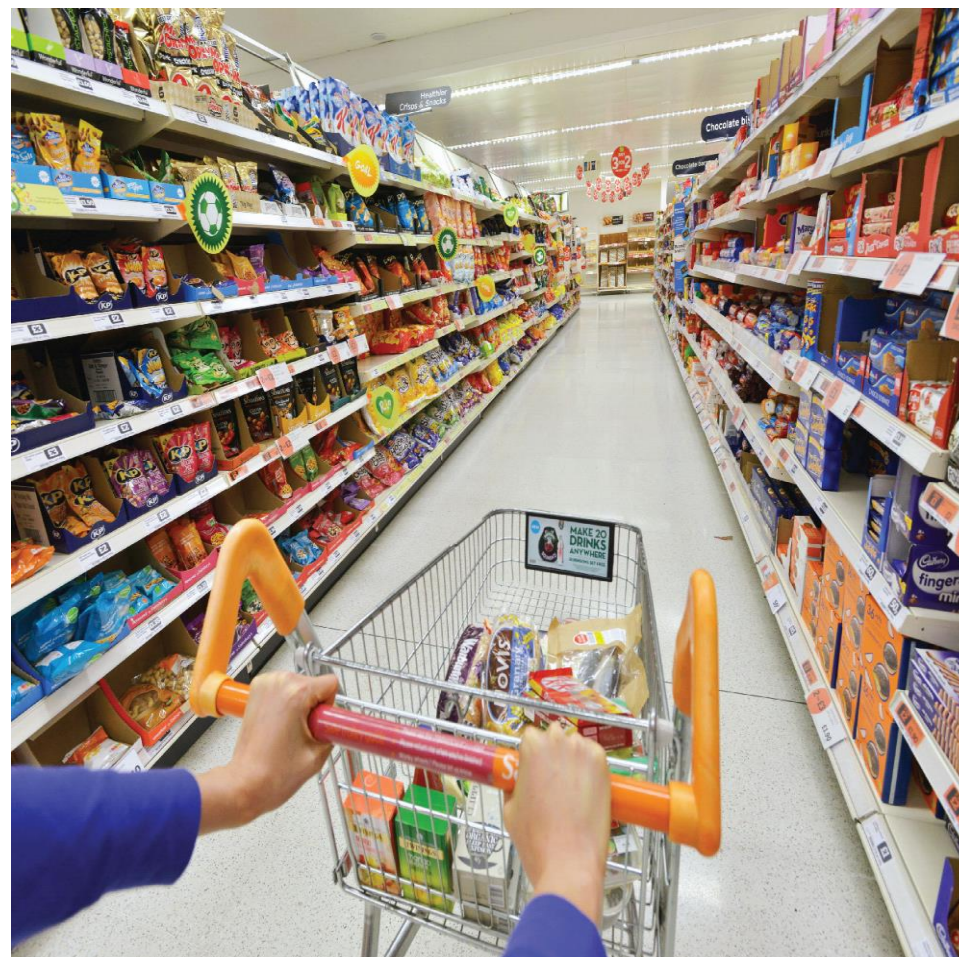
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## HIGHLIGHTS

- The year-on-year (YoY) WPI inflation rose to a seven-month high 1.3% in September 2020 (+0.3% in September 2019) from 0.2% in August 2020 (+1.2% in August 2019), surpassing our expectation of 1.0% for that month.
- The increase in the YoY WPI inflation in September 2020 relative to August 2020, was chiefly driven by a higher inflation for primary food articles, and to a smaller extent, upticks in manufactured non-food products (“core-WPI”) and minerals.
- The inflation pertaining to the WPI-Food Index hardened to 6.9% in September 2020 from 4.1% in August 2020, driven by primary food articles (to an eight-month high +8.2% from +3.8%), on the back of a fairly broad-based spike in vegetable prices amid bouts of heavy rainfall.
- Moreover, the YoY inflation for manufactured non-food products (or “core-WPI”) increased to a 16-month high 1.0% in September 2020 from 0.6% in August 2020, although it remained muted.
- Wholesale prices of various items have recorded a varied trend in the initial part of October 2020, with stabilisation displayed by cereals, even as some pulses and oilseeds have displayed a rise. In the case of vegetables, prices of onions have continued to surge in October 2020, whereas those of tomatoes have receded. The pace with which vegetable prices recede back to more normal levels will crucially guide the outlook for food and headline inflation in the near term.
- We expect the WPI inflation to stabilise around the current levels, and print at 1.3-1.4% in the next two months.



## OVERVIEW

- The YoY WPI inflation rose to a seven-month high 1.3% in September 2020 (+0.3% in September 2019; refer Exhibit 1 and 2, and Annexure) from 0.2% in August 2020 (+1.2% in August 2019). The initial data for September 2020 printed above our expectation of 1.0% for that month.
- The sequential hardening in the YoY WPI inflation in September 2020 relative to August 2020 was chiefly driven by a higher inflation for primary food articles, and to a smaller extent, upticks in manufactured non-food products (“core-WPI”) and minerals. Additionally, there was a smaller disinflation in September 2020 relative to the previous month, for fuel and power, and primary non-food products. On the other hand, the inflation pertaining to the manufactured food-products, and crude petroleum and natural gas softened in September 2020 relative to August 2020,
- The inflation pertaining to the WPI-Food Index hardened to 6.9% in September 2020 from 4.1% in August 2020, driven by primary food articles. The YoY inflation for primary food articles surged to an eight-month high 8.2% in September 2020 (+7.5% in September 2019) from 3.8% in August 2020 (+7.8% in August 2019). In particular, the YoY inflation increased sharply in September 2020 relative to August 2020 for vegetables (to +36.5% from +7.0%, led by tomato, potato, and a variety of other vegetables amid bouts of heavy rainfall) and other food articles (to +20.3% from +10.4%), while pulses (to +12.5% from +9.9%), milk (to +5.6% from +4.2%), and condiments and spices (to +2.8% from +1.6%) recorded relatively moderate upticks. In contrast, the YoY inflation eased, or disinflation widened in September 2020 relative to August 2020, for cereals (to -3.9% from -1.8%), fruits (to -3.9% from -0.3%), and eggs, meat and fish (to +4.1% from +6.2%). In month-on-month (MoM) terms, the primary food articles sub-index recorded an increase of 3.7% in September 2020, in contrast to the disinflation of 0.4% in September 2019, driven by the trend in vegetables (+23.2% vs. -3.4%), pulses (to +2.6% from +0.1%), other food articles (to +9.1% from +0.1%), etc.
- Despite an appreciation in the INR, the YoY inflation for manufactured non-food products (or “core-WPI”) increased to a 16-month high 1.0% in September 2020 from 0.6% in August 2020, while printing below the headline inflation after a gap of a-month. The uptick in the core-WPI inflation in September 2020 was broad-based, driven by an increase in commodity prices amid some pick-up in demand. For 15 of the 21 sub-sectors (with a considerable weight of 38.0% in the WPI) the YoY inflation rose, or the disinflation narrowed in September 2020 relative to August 2020; this sub-set includes tobacco products, rubber and plastics products, basic metals, furniture, etc. (refer Exhibit 3). On the other hand, six sub-groups (with a modest weight of 17.1% in the WPI) displayed either a softening in their inflation print or a deeper YoY disinflation in September 2020 relative to August 2020; this sub-set includes beverages, pharmaceuticals, medicinal chemical and botanical products, other non-metallic mineral products, etc. In MoM terms, the sub-index for the core-WPI increased by 0.4% in September 2020, in contrast to the 0.1% MoM correction in September 2019. Notably, 14 of the 21 sub-indices (accounting for 42.8% of the WPI), such as tobacco products (+1.7%), wearing apparel (+1.2%), printing and reproduction of recorded media (+1.2%), basic metals (+1.3%), etc. registered a rise in MoM terms in September 2020. In contrast, there was a decline in MoM terms in September 2020 in the case of six of the 21 sub-indices (with a weight of 10.3% in the WPI), such as pharmaceuticals, medicinal chemical and botanical products (-0.8%), electrical equipment (-0.7%), beverages (-0.4%), etc. The sub-index remained unchanged in MoM terms for computer electronic and optical products in September 2020.

- Moreover, the inflation for minerals rose to 7.6% in September 2020 from 5.0% in August 2020, led by the trend in metallic minerals (to +7.2% from +5.7%) and other minerals (to +8.5% from +2.7%). In MoM terms, the minerals sub-index rose by 0.1% in September 2020, in contrast to the 2.3% decline recorded in September 2019.
- In addition, the disinflation in primary non-food articles narrowed to 0.1% in September 2020 from 1.5% in August 2020, led by floriculture (to +11.9% from -1.8%), fibres (to -6.3% from -8.6%) and other non-food articles (to +0.4% from -0.9%). On the other hand, the YoY inflation in oil seeds eased to 0.6% in September 2020 from 2.6% in August 2020. In MoM terms, the primary non-food articles sub-index decreased by 0.9% in September 2020, as compared to the 2.3% fall recorded in September 2019, led by floriculture (-13.4% vs -24.0%).
- The YoY disinflation for fuel and power (with a weight of 13.2% of the WPI) narrowed slightly to 9.5% in September 2020 from 9.7% in August 2020, driven by the trend for electricity (to -8.2% from -8.8%) and mineral oils (to -14.1% from -14.4%). However, the YoY inflation for coal declined to 1.3% in September 2020 from 1.9% in August 2020. In MoM terms, the fuel and power sub-index fell by 0.4% in September 2020, lower than the 0.6% decrease recorded in September 2019. The former was driven by the 0.6% MoM decline in mineral oils, even as electricity and coal remained unchanged in MoM terms.
- In contrast, the inflation for manufactured food products softened to 4.4% in September 2020 (+3.6% in September 2019) from 4.7% in August 2020 (+2.2% in August 2019), led by manufacture of macaroni, noodles, couscous and similar farinaceous products, health supplements, starches and starch products, etc. In MoM terms, the manufactured food items sub-index increased by a considerable 0.9% in September 2020, albeit lower than the 1.2% increase recorded in September 2019.
- The YoY disinflation related to crude petroleum and natural gas widened to 18.2% in September 2020 from 17.8% in August 2020, driven by the trend for both crude petroleum (to -17.5% from -17.4%) and natural gas (to -19.7% from -18.5%). The initial level for the crude petroleum sub-index for September 2020 has been pegged at 62.1, 2.5% higher than the revised level for July 2020 (60.6). This contrasts with the estimated 6.8% decrease in the price of the Indian crude oil basket in INR terms recorded between those two months. We expect the crude petroleum sub-index for September 2020 to subsequently be revised downwards. In MoM terms, the crude petroleum sub-index increased by 2.5% in September 2020 (+2.6% in September 2019), whereas the natural gas sub-index decreased by 1.3% in September 2020 (+0.2% in September 2019).
- The build-up of the WPI inflation till September 2020 stood at 2.1%, substantially higher than the 1.2% displayed till September 2019, reflecting the trend for crude petroleum and natural gas (+11.3% till September 2020 vs. -0.2% till September 2019), primary food-articles (+11.2% vs +7.5%) and core-WPI (+0.7% vs. -1.1%).
- The final WPI YoY inflation for July 2020 was revised upwards to -0.2% from an earlier value of -0.6%. There were upwards revision in minerals (to +1.8% from -7.8%), crude petroleum and natural gas (to -18.6% from -22.2%), primary food articles (to +4.5% from +4.1%), manufactured food products (to +5.0% from +4.9%) and core-WPI (to -0.27% from -0.31%). This was somewhat offset by a downward revision in the inflation rate for non-food primary articles (to -3.8% from -3.6%). The final YoY disinflation for July 2020 for fuel and power was unchanged at 9.8%.

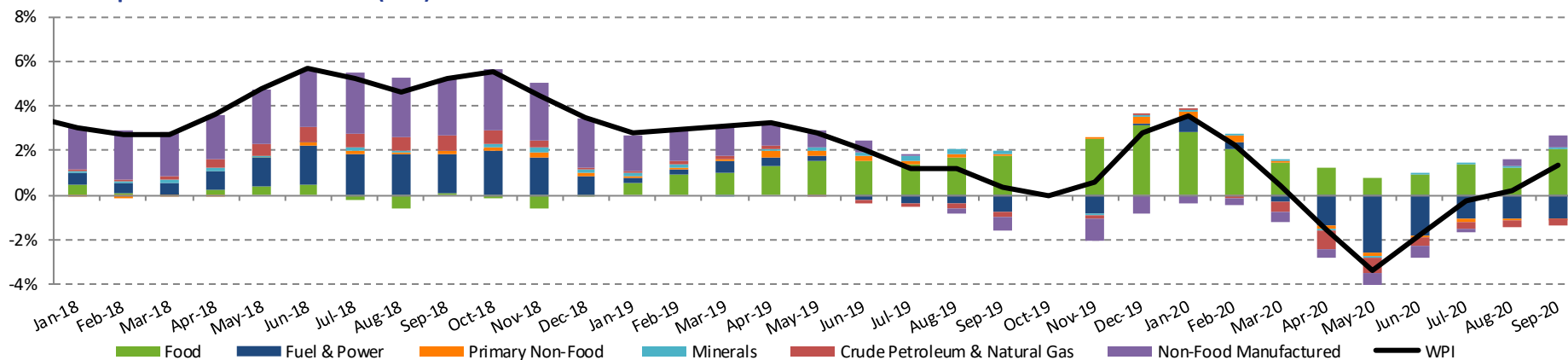
## OUTLOOK

Wholesale prices of various items have recorded a varied trend in the initial part of October 2020, with stabilisation displayed by cereals, even as some pulses and oilseeds have displayed a rise. In the case of vegetables, prices of onions have continued to surge in October 2020, whereas those of tomatoes have receded. Overall, the anticipated healthy kharif arrivals in the market coupled with a favourable base effect are expected to soften the wholesale food inflation in the ongoing month, in our assessment. The pace with which vegetable prices recede back to more normal levels will crucially guide the outlook for food and headline inflation in the near term.

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 October 2020.

The Rupee has been fairly range-bound over the current month, with the robust Balance of Payments data and signs of recovery in economic activity, offsetting concerns related to the high CPI inflation and fiscal stress. On the other hand, the Dollar index has been volatile amid developments around the fiscal stimulus and the upcoming US President elections.

We expect the WPI inflation to stabilise around the current levels, and print at 1.3-1.4% in the next two months. We now expect the headline and core WPI to record an average inflation of 0.3% and 0.8%, respectively, for FY2021. The disaggregated data did not provide much comfort regarding the inflation outlook, and today's data further cements the likelihood of an extended pause from the Monetary Policy Committee.

**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^	Contribution
		Jul-20	Jul-20	Aug-20	Sep-20	Sep-20	Sep-20	Sep-20
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
<b>WPI</b>	100.00	<b>-0.6%</b>	<b>-0.2%</b>	<b>0.2%</b>	<b>1.3%</b>	<b>1.0%</b>	<b>2.1%</b>	<b>100.0%</b>
<b>Primary Articles</b>	22.62	<b>0.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>5.1%</b>	<b>2.7%</b>	<b>9.4%</b>	<b>103.2%</b>
- Food	15.26	4.1%	4.5%	3.8%	8.2%	3.7%	11.2%	121.1%
- Non-Food	4.12	-3.6%	-3.8%	-1.5%	-0.1%	-0.9%	1.5%	-0.3%
- Minerals	0.83	-7.8%	1.8%	5.0%	7.6%	0.1%	6.2%	6.1%
- Crude Petroleum and Natural Gas	2.41	-22.2%	-18.6%	-17.8%	-18.2%	1.4%	11.3%	-24.1%
<b>Fuel and Power</b>	13.15	<b>-9.8%</b>	<b>-9.8%</b>	<b>-9.7%</b>	<b>-9.5%</b>	<b>-0.4%</b>	<b>-8.5%</b>	<b>-78.9%</b>
- Coal	2.14	1.9%	1.9%	1.9%	1.3%	0.0%	-0.1%	2.1%
- Minerals Oils	7.95	-15.5%	-15.6%	-14.4%	-14.1%	-0.6%	-10.4%	-63.6%
- Electricity	3.06	-6.7%	-6.7%	-8.8%	-8.2%	0.0%	-11.3%	-17.2%
<b>Manufactured Products</b>	64.23	<b>0.5%</b>	<b>0.6%</b>	<b>1.3%</b>	<b>1.6%</b>	<b>0.4%</b>	<b>1.0%</b>	<b>76.3%</b>
- Food	9.12	4.9%	5.0%	4.7%	4.4%	0.9%	2.6%	33.6%
- Non-Food	55.11	-0.3%	-0.3%	0.6%	1.0%	0.4%	0.7%	41.6%

^Buildup with reference to March 2020

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

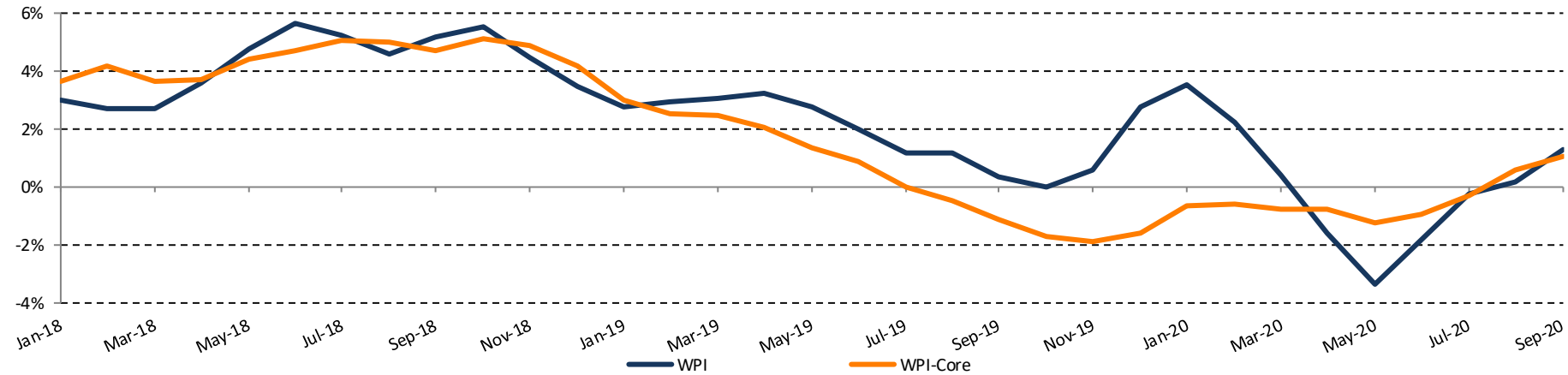
**Exhibit 3: Trend in Monthly Inflation related to Non-Food Manufactured Products (YoY)**

	Weight	YoY Inflation				MoM	Buildup <sup>^</sup>	Contribution
		Jul-20	Jul-20	Aug-20	Sep-20	Sep-20	Sep-20	Sep-20
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
<b>Non-Food Manufactured Products</b>	55.11	<b>-0.3%</b>	<b>-0.3%</b>	<b>0.6%</b>	<b>1.0%</b>	<b>0.4%</b>	<b>0.7%</b>	<b>100.0%</b>
Beverages	0.91	0.9%	1.1%	1.1%	0.6%	-0.4%	0.0%	1.0%
Tobacco Products	0.51	3.0%	3.3%	0.8%	2.1%	1.7%	2.2%	2.5%
Textiles	4.88	-4.8%	-5.0%	-4.2%	-3.6%	0.3%	-2.8%	-30.8%
Wearing Apparel	0.81	-0.5%	-0.9%	-0.9%	-0.5%	1.2%	-0.2%	-0.9%
Leather and Related Products	0.54	-0.3%	-0.5%	-0.8%	-0.4%	-0.2%	0.5%	-0.4%
Wood and Products of Wood and Cork	0.77	-0.5%	-0.5%	0.3%	0.4%	-0.1%	1.4%	0.6%
Paper and Paper Products	1.11	-1.6%	-1.8%	-1.5%	-0.7%	0.2%	-0.5%	-1.5%
Printing and Reproduction of Recorded Media	0.68	1.8%	2.8%	2.7%	3.5%	1.2%	1.0%	5.3%
Chemicals and Chemical Products	6.47	-2.1%	-2.1%	-2.0%	-1.4%	0.2%	0.4%	-16.5%
Pharmaceuticals, Medicinal Chemical and Botanical Products	1.99	3.0%	3.8%	3.0%	2.7%	-0.8%	-0.4%	10.2%
Rubber and Plastics Products	2.30	-1.4%	-1.6%	-0.7%	0.5%	1.1%	1.2%	1.7%
Other Non-Metallic Mineral Products	3.20	0.2%	-0.2%	0.4%	-0.1%	-0.3%	0.6%	-0.5%
Basic Metals	9.65	-2.6%	-2.9%	1.8%	3.4%	1.3%	1.8%	50.8%
Fabricated Metal Products, Except Machinery and Equipment	3.15	-1.0%	-1.4%	-1.3%	-1.7%	0.1%	-1.7%	-9.5%
Computer, Electronic and Optical Products	2.01	-1.5%	-1.4%	-1.0%	-0.7%	0.0%	-0.9%	-2.4%
Electrical Equipment	2.93	1.2%	1.3%	1.9%	1.4%	-0.7%	0.6%	7.0%
Machinery and Equipment	4.79	-0.3%	-0.3%	0.0%	0.1%	0.1%	0.4%	0.7%
Motor Vehicles, Trailers and Semi-Trailers	4.97	3.2%	3.5%	3.5%	3.3%	0.5%	1.6%	28.4%
Other Transport Equipment	1.65	6.4%	6.9%	6.8%	7.1%	0.5%	4.8%	20.8%
Furniture	0.73	-1.5%	-2.7%	-2.8%	-1.2%	1.0%	-1.9%	-1.7%
Other Manufacturing	1.06	17.7%	22.7%	18.6%	19.3%	0.4%	13.6%	35.2%

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

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

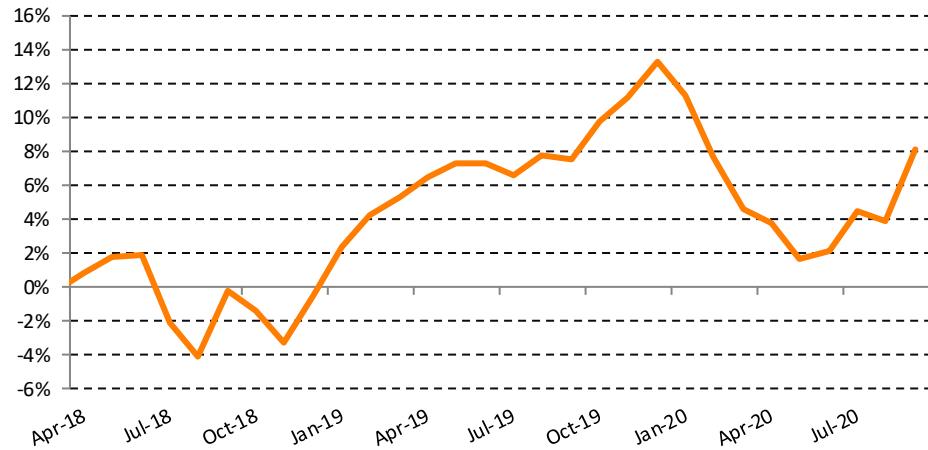
Exhibit 4: Headline and Core WPI Inflation (YoY)



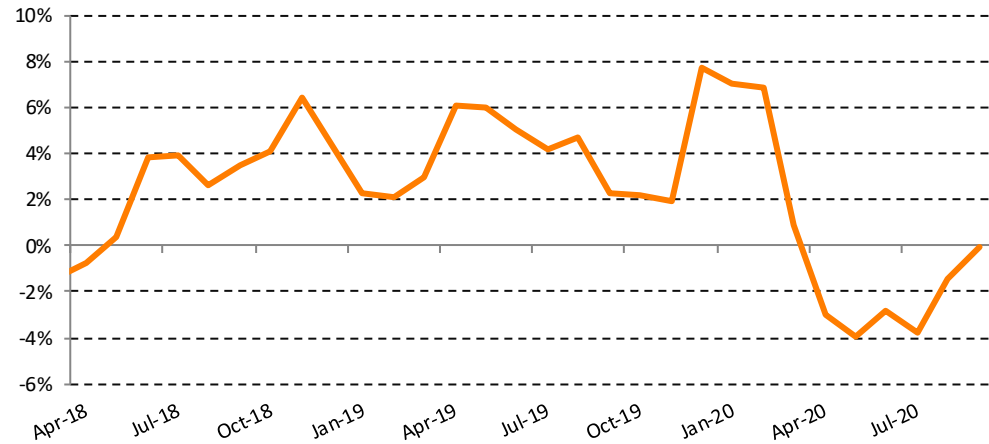
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; CEIC; ICRA research

## ANNEXURE

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

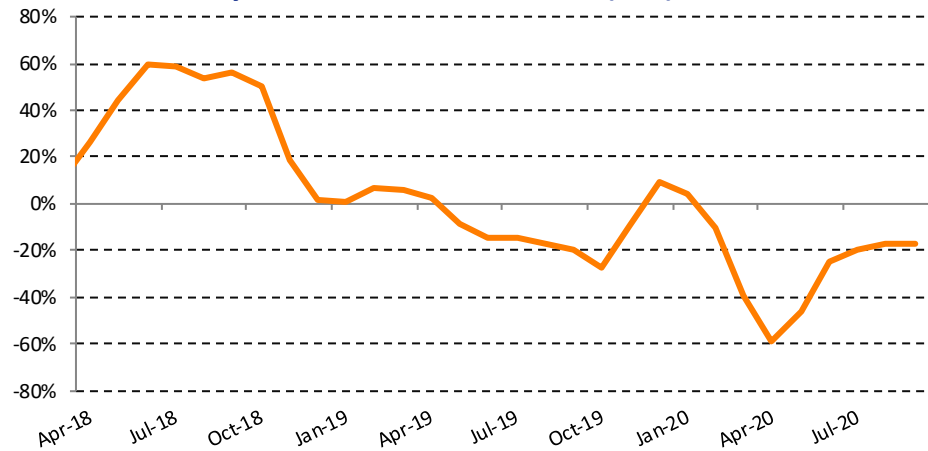


**Exhibit 6: Primary Non-Food Inflation (YoY)**

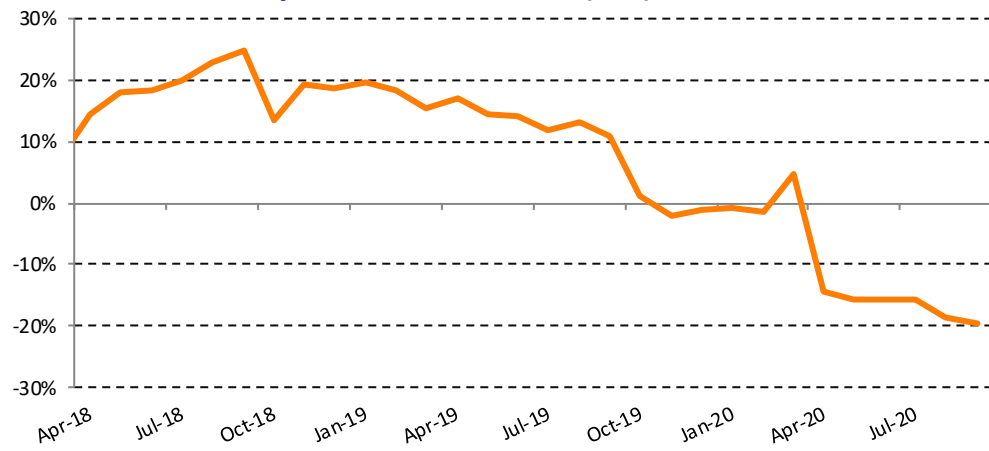


Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI CEIC; ICRA research

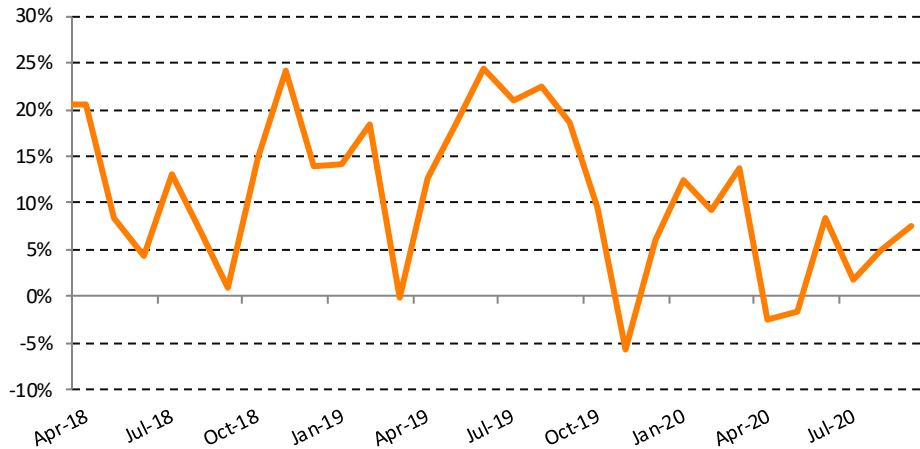
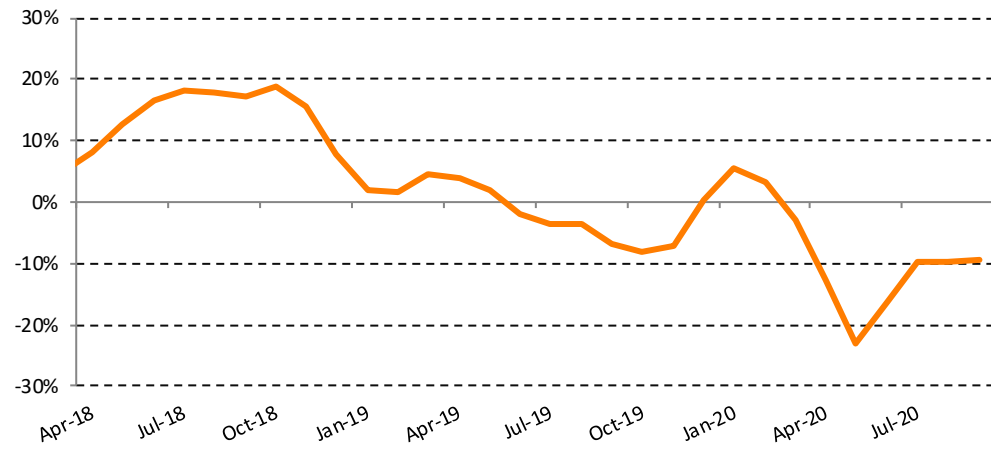
**Exhibit 7: Primary Crude Petroleum Inflation (YoY)**



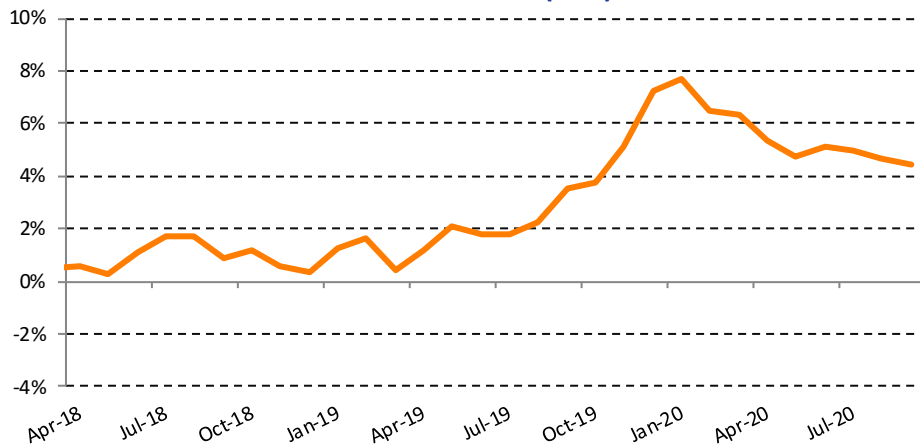
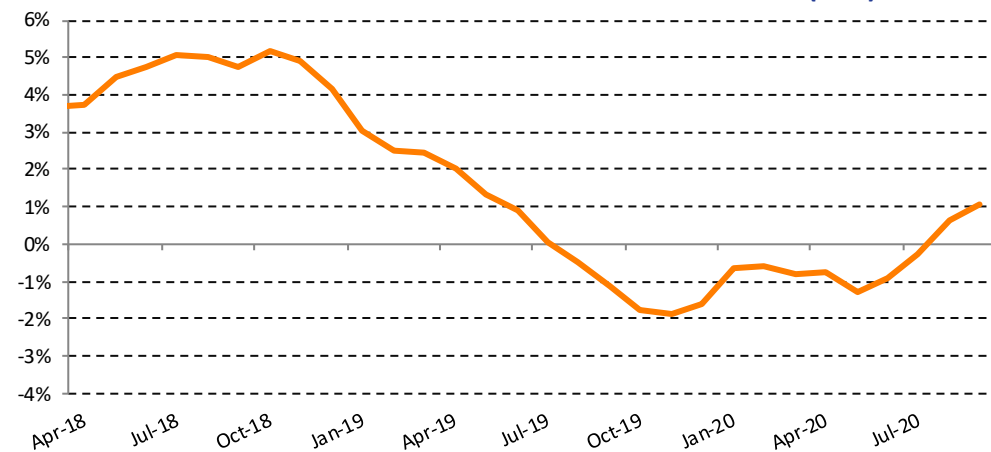
**Exhibit 8: Primary Natural Gas Inflation (YoY)**



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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