

Wholesale Price Inflation October 2017

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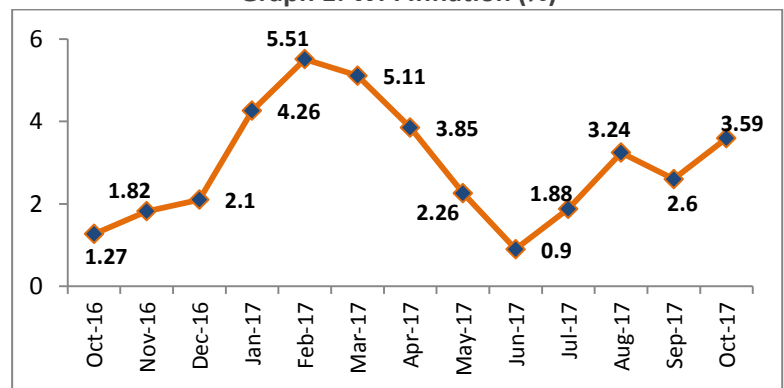
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The Wholesale Price Index (WPI) based inflation rose to a 6 month high in October'17 at 3.59% (compared to 1.27% in October '16), converging with the CPI inflation which rose by 3.58% during the month.

CARE Ratings' had estimated WPI inflation at 3.1% for October'17. Wholesale inflation has seen risen by 2.7% since June'17.

The increase in WPI during October'17 was mainly on account of the increase in food articles and fuel. Price increases of manufactured items as a whole saw a slight moderation in October'17 from month ago levels.

Graph 1: WPI Inflation (%)



Source: MOSPI

- Food inflation strengthened to 4.30% compared with 2.98% in October'16 and 2% in September'17. Inflationary pressures here were driven largely by a rise of prices (y-o-y) of vegetables (36.6%), onion (127%) and eggs, fish and meat (6%).
- Non-Food Articles saw a drop in price growth during the month owing to the lower price increases in fibres and oilseeds. Non-food articles inflation was (-) 0.67% in October'17 as against (-) 0.17% in the comparable month last year.
- The minerals group recorded price growth of 14.83% in October'17 from year ago levels, but rose 1.1% since Sept'17.
- The year-on-year increase in Crude Petroleum and Natural Gas was (-)2.1% in October'17. It however rose sharply by 8.6% over the previous month on account of rising global oil.
- The Fuel and Power segment recorded a sharp rise in price levels. The price growth in the same rose (-)1.17% in Oct'16 to 10.52% in Oct'17.

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- The rise in crude oil prices over the past year led to a sharp rise in inflation among the three constituent components of Fuel and Power: LPG (26.53%), Petrol (12.87%) and High Speed Diesel (15.43%).
- Manufactured products inflation was 2.62% for the month against 1.28% in October'16.
- The main drivers of price rise within the Manufactured Products category were - Basic Metals (10.66%), Fabricated Metal Products, Except Machinery and Equipment (3.52%), Non-Metallic Mineral Products (1.36%) and Chemicals and Chemical Products (1.27%), over year ago levels.
- Manufacture of Leather and Related Products experienced deflation for the 10th month in a row and was recorded at (-) 3.25% against 1.90% in October '16.

Table 1: Growth of WPI in Various Segments (%)

Group	Weight(%)	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Oct -16
All Commodities	100	3.85	2.26	0.9	1.88	3.24	2.60	3.59	1.27
Primary Articles	22.62	1.03	-1.71	-4.17	0.46	2.66	0.15	3.33	2.14
Food Articles	15.26	0.58	-2.13	-3.33	2.15	5.75	4.19	4.30	2.98
Non- Food Articles	4.12	-0.08	-0.91	-4.99	-6.32	-3.6	(-)2.20	(-)0.67	(-)0.17
Minerals	0.83	11.51	8.04	(-)0.42	24.74	(-)5.70	(-)7.08	14.83	10.74
Crude Petrol. and Nat. Gas	2.41	4.41	(-)3.74	(-)13.4	(-)10.79	(-)9.22	(-)11.6	(-)2.1	(-)5.31
Fuel and Power	13.15	17.11	11.81	5.16	4.37	9.99	9.01	10.52	(-)1.17
Manufactured Products	64.23	3.11	2.55	2.36	2.18	2.45	2.72	2.62	1.28

Source: MOSPI

Table 2: WPI Inflation Build Up (April 2017 to October 2017)

Group	Weight(%)	Inflation (Apr '17 - Oct '17)	Inflation (Apr '16 - Oct '16)
All Commodities	100	2.03	3.53
Primary Articles	22.62	4.96	4.96
Food Articles	15.26	7.56	6.37
Non- Food Articles	4.12	(-)2.21	2.21
Fuel and Power	13.15	(-)0.11	10.59
Manufactured Products	64.23	1.25	1.84

Source: MOSPI

CARE Ratings' View:

- Rising global crude oil prices would pressurize domestic price levels in coming months.
- The rise in food inflation is likely to be carried forward to November '17 food inflation given the sustained rise in prices of vegetable and fruits.
- Going forward, CARE Ratings expects wholesale inflation to be around 3.5-4% by the end of the fiscal year.
- We do not expect the RBI to cut interest rates in its December'17 monetary policy meet.

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