

## Wholesale Price Inflation: August 2018

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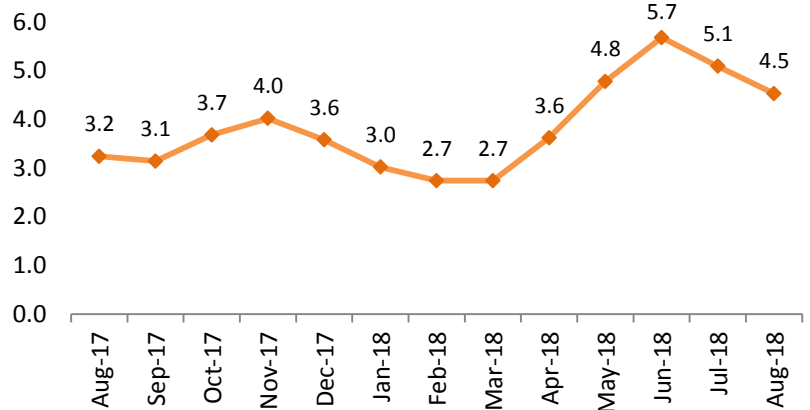
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*The Wholesale Price Index (WPI) based inflation for the month of August'18 declined to 4.5% as against 5.1% in July'18 and 5.7% in June'18. However inflation for Aug'18 is 1.3% higher than 3.2% witnessed in August'17. The moderation in the month of Aug'18 can largely be attributed to the contraction in WPI for primary articles (food articles), meagre decline in fuel & power products and high base effect.*

The WPI Inflation for July'18 at 4.5% came against the estimates given by CARE Ratings at 5.3%.

WPI has witnessed moderation for the second consecutive month after witnessing a sustained increase from February'18.

**Chart 1: Y-o-Y Wholesale price Index (%)**



Source: Office of Economic Advisor

**Key Highlights:**

- The WPI Inflation of primary articles, which has the second largest weightage in the WPI Index, contracted by -0.2% as against a growth of 3.0% in August'17 and 1.7% in July'18.
- The WPI contracted for food articles to -4.0% as against a growth of 5.8% in June'17. The contraction in food articles was the highest since July'13.
- Within food articles, the inflation was pushed lower on account of contraction witnessed in pulses (-14.2%), vegetables (-20.20%), fruits (-16.4%) and onions (-26.8%). In addition, there is a decline in growth rate observed in eggs, meat and fish from 4.0% to

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0.6% and milk products having fallen from 3.9% in August'17 to 2.8% in August'18. Despite, the contraction witnessed in case of food articles, cereals continue to witness inflationary pressures since Mar'18 having increased to 5.1% in Aug'18 compared to a contraction of -0.4% in Mar'18.

- Rice and wheat has seen increase in prices of 4.8% and 8.4% respectively, higher than the inflation in July'18.
- Non-food articles inflation has witnessed a growth of 3.5% in August'18 after contracting by -3.5% in August'17.
- The inflation in fuel and power, which witnessed a sustained increase since Jan'18, moderated marginally and stands at 17.7% in Aug'18 as against 18.1% in July'18. The moderation in this component is despite the elevated prices of crude oil in the international market.
- The inflation in manufactured products has witnessed a sustained increase since Mar'18 from 3.1% in Oct'17 to 4.4% in Aug'18.
  - Within the manufactured segment, 10 industries out of 17 industries witnessed higher growth in prices in the month of Aug'18 compared with that in July'18, while 7 industries witnessed a lower growth.
  - Manufacture of chemicals products has seen inflationary pressures having increased from 6.3% in July'18 to 6.8% in Aug'18. Similarly, fabricated metals have also witnessed inflation of 8.6% in Aug'18 compared with 6.4% in July'18
  - Inflation in Basic metals, that has the highest weight within the manufactured products (9.65%) has moderated from 15.6% in July'18 to 13.3% in Aug'18
  - Inflation in manufactured food products has witnessed a marginal decline from 1.7% in July'18 to 1.3% in Aug'18. There has been a contraction in inflation to the tune of -(11.1%) in sugar.

**Table 1: WPI based inflation (Base year 2011-12=100)**

Month	All commodities	Primary articles	Non-food articles	Fuel & power	Manufactured products
<b>Weight (%)</b>	<b>100</b>	<b>22.62</b>	<b>4.12</b>	<b>13.15</b>	<b>64.23</b>
Aug-17	3.2	3.0	-3.4	9.9	2.4
Sep-17	3.1	0.7	-2.6	10.5	3.0
Oct-17	3.7	3.7	-1.3	10.9	2.6
Nov-17	4.0	5.6	-0.5	8.4	2.7
Dec-17	3.6	3.9	-0.2	8.0	2.8
Jan-18	3.0	2.5	-1.3	4.7	3.0
Feb-18	2.7	0.8	-2.6	4.6	3.3
Mar-18	2.7	0.9	-1.5	4.7	3.1
Apr-18	3.6	2.6	-0.7	8.0	3.3
May-18	4.8	3.8	0.4	12.6	3.8
Jun-18	5.8	5.3	3.8	16.2	4.2
Jul-18	5.1	1.7	3.9	18.1	4.3
Aug-18	4.5	-0.2	3.5	17.7	4.4

Source: Office of Economic Advisor

### CARE Ratings' View:

The pressure on inflation has moderated for the second month in a row and domestic and international data-points will have to be monitored closely to observe the future trajectory of inflation. The favorable base effect for the next 2-3 months will also put downward pressure on WPI. However, the pressure on WPI could be from the elevated prices of the crude oil and the progression of the monsoon, which will start retreating from the end of September. **We expect the WPI inflation to be around 4.5- 5% in the coming months on account of a favorable base effect.**

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