

## Wholesale Price Inflation: January 2017

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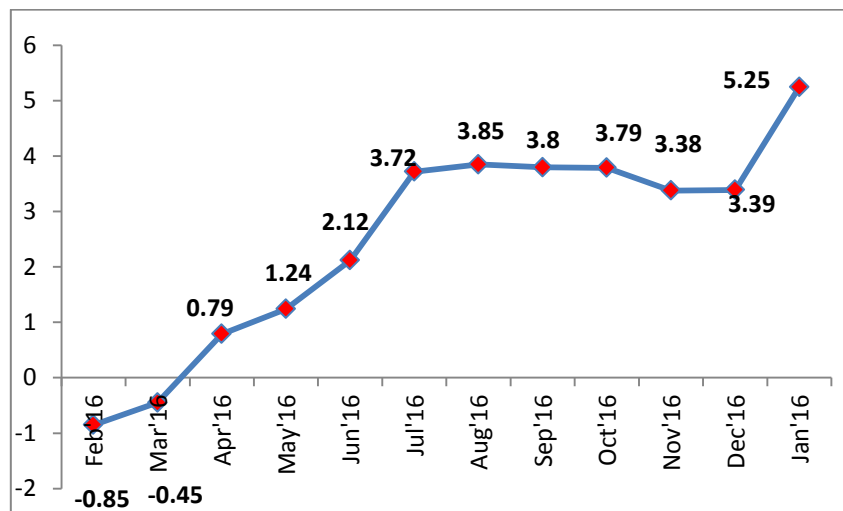
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The wholesale price index (WPI) based inflation rate for the month of January 2017 came at 11 month high of 5.25% compared to 3.39% in the previous month. CARE had projected the WPI inflation at 3.7%.

The WPI for January'17 is significantly higher than the WPI of (-) 1.07% for the corresponding month last year. This significant increase in inflation has come from a substantial increase in the prices of fuel and power and marginal increase in prices of manufactured goods(over previous month). The inflation rates in fuel and power increased from 8.65% in December'16 to 18.14% in January '17 owing to an increase in prices of petrol and High speed diesel.

The chart below does show the WPI inflation number has been rising almost continuously since March 2016 up to August 2016 and this has been the highest increase in WPI inflation since February'2016.

**Chart 1: WPI Inflation (%)**



Source: PIB

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- Primary articles have weightage of 20.12 in WPI. Inflation for primary articles increased to 1.27% in January'17 as against 0.27% in December'16. This rise could be attributed to an increase in Non-food articles from 0.62% in December'16 to 1.98% in January'17.

- However, Inflation in food articles continued to remain in the negative territory at (-) 0.56% in January'17 compared with (-) 0.70%

in December'16. This is attributed to a decline in prices of pulses, potato, rice and wheat.

- The inflation rates of pulses declined significantly from 18.12% in December'16 to 6.21% in January'17.
- The inflation rate of vegetables continued to remain in the negative territory and stood at (-)32.32% in January'17 as compared to (-) 33.11% in December'16
- Inflation rates for potato witnessed a decline of (-) 0.2% in January'17 from a positive growth of 26.42% in December'16.
- Manufactured goods witnessed a marginal increase from 3.67% in December'16 to 3.99% in January'17. Under manufactured goods, edible oils (6.25%), Cotton textiles (4.51%), Iron and semis (8.38%), Rubber and plastic products (2.27%), Basic metals and metal alloys (7.97%) witnessed an increase in inflation rates. However, a decline in sugar prices from 28.04% in December'16 to 22.83% in January'17 curtailed the increase in the prices of manufactured goods.

**Table 1: Growth in WPI (%)**

Group	Weight	Oct'16	Nov'16	Dec'16	Jan'16
<b>All commodities</b>	<b>100</b>	<b>3.79</b>	<b>3.38</b>	<b>3.39</b>	<b>5.25</b>
<b>Primary articles</b>	<b>20.12</b>	<b>4.18</b>	<b>1.95</b>	<b>0.27</b>	<b>1.27</b>
<i>Food Articles</i>	14.34	4.79	1.54	-0.7	-0.56
Pulses	0.72	22.02	21.73	18.12	6.21
Vegetables	1.74	-10.01	-24.1	-33.11	-32.32
Potato	0.2	60.58	36.97	26.42	-0.2
<i>Non-Food Articles</i>	4.26	2.49	-0.14	0.62	1.98
<b>Fuel and Power</b>	<b>14.91</b>	<b>6.24</b>	<b>7.07</b>	<b>8.65</b>	<b>18.14</b>
<i>Petrol</i>	1.25	3.57	5.54	8.52	15.66
<i>High speed diesel</i>	19.08	19.32	19.26	20.25	31.1
<b>Manufactured Products</b>	<b>64.97</b>	<b>2.94</b>	<b>3.2</b>	<b>3.67</b>	<b>3.99</b>
<i>Sugar</i>	1.74	30.94	31.76	28.04	22.83
<i>Beverages, tobacco and tobacco products</i>	1.76	7.67	7.36	7.67	7.67
<i>Edible oils</i>	3.04	6.25	4.87	3.85	4.46
<i>Cotton textiles</i>	2.61	4.51	3.68	3.48	3.59
<i>Basic metal alloys and metal product</i>	10.75	1.23	3.03	5.42	7.97
<i>Iron and semis</i>	1.6	8.38	4.71	1.63	-0.36

Source: PIB

#### CARE's view:

As expected, the WPI inflation witnessed an increase owing to an increase in fuel and power prices. Therefore, given a continued increase in crude oil prices, the fuel and power prices could rise further with government deciding to keep the subsidy levels unchanged in the 2017-18 budgets.

We expect the WPI to remain in the region of 4.5-5% in February as the base effect would continue to exert pressure and then come downwards to wards 4-4.5% in March. The important factors to watch out for are:

- Movement in global crude prices and government action on final prices i.e. subsidy and duty rates will be important here.
- Metal price changes which will affect manufactured prices.
- Arrival of rabi output