

# Wholesale Inflation – December 2020

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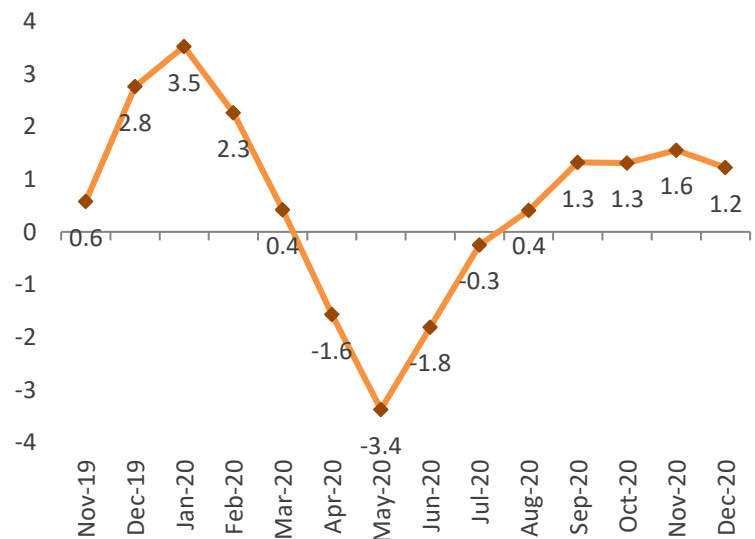
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**Wholesale inflation** has narrowed to 4-months low of 1.2% in December 2020 compared with 1.6% in the previous month and 2.76% in the corresponding month last year. CARE Ratings’ had estimated wholesale inflation at 1.6% for the month. The moderation in wholesale inflation can be primarily ascribed to perceptible deflation in the primary articles segment and sustained deflation in the fuel segment. However, sharp pickup in the inflation in the manufacturing segment to little more than 2-year high owing to pick-up in global metal prices, limited the easing in the overall wholesale inflation. The decline in wholesale inflation has been lower than the sharp fall in retail inflation, which was released recently.

Chart 1: WPI based inflation (YoY%)



Source: Office of Economic Advisor

Highlights

- The inflation in **primary articles**, having a weightage of 22.62% in the WPI basket, has contracted for the first time in the previous 5 months to (-)1.6% in December 2020 owing to notable fall in wholesale food inflation amidst high base effect.
- Wholesale inflation in the food basket has contracted by 1.1% in December 2020 compared with 13.3% inflation recorded in December 2019. The deflation in December 2020 has been the lowest in the last 2 years.
- There has been persistent deflationary pressures recorded in case of cereals (-6.5%) and wheat (-11.1%) during the previous 5 months and onions (-55%) for the previous 7 months. This can be primarily ascribed to a high base effect coupled with supply inflows into the markets.

- Inflation in potatoes (38% in December 2020) continues to remain at elevated levels after 3 consecutive months of triple digit inflation. Potato prices have recently been affected due to crop loss owing to reduced sowing area, supply of inferior quality seeds and inadequate stocks.
- Inflation in the **non-food articles** has moderated sharply to 3.1% in December 2020 compared with 8.4% in November 2020 and 7.7% in December 2019 primarily on account of a high base effect.
- Inflation in **fuel and power** registered deflation for 10<sup>th</sup> consecutive month at -8.7%, marginally higher than a month ago owing to benign global crude oil prices.
- The inflation in the **manufactured products** scaled 26-months high of 4.2% in December 2020 compared with 3% in the previous month and (-)0.3% in the corresponding period a year ago. Opening up of the global economy and higher demand for metals has led to firming up of global metal prices.
  - Out of 14 industries, 12 industries witnessed positive WPI which includes basic metals (11.5%) and food products (4.9%). The pick-up in food products has been on account of rise in vegetable and animal oil fats (21.8%). The firming in global metal prices is also reflected in the inflation of basic metals to 25-months high.
  - 2 industries have recorded negative growth: beverages and wearing apparels and the deflation is less than 1% in both these components.
  - WPI of chemicals (2.7%) and rubber (4.6%) have seen a perceptible pick-up in December 2020 from the previous month.

**Table 1: Wholesale price Inflation (yoy%) for select commodities in December 2020**

Month	All commodities	Primary	Fuel and Power	Manufactured goods
Weight	100	22.62	13.15	64.23
Dec-19	2.8	11.5	0.4	-0.3
Jan-20	3.5	10.0	5.4	0.6
Feb-20	2.3	6.5	3.4	0.4
Mar-20	0.4	3.7	2.9	0.3
Apr-20	-1.6	-1.1	-12.7	0.2
May-20	-3.4	-2.1	-23.1	-0.3
Jun-20	-1.8	-0.1	-16.2	0.1
Jul-20	-0.3	1.6	-9.8	0.6
Aug-20	0.2	1.6	-9.7	1.3
Sep-20	1.3	4.1	-8.7	1.9
Oct-20	1.5	4.7	-11	2.1
Nov-20	1.6	2.7	-9.9	3.0
Dec-20	1.2	-1.6	-8.7	4.2

Source: Office of Economic Advisor

**CARE Ratings’ View:**

Wholesale prices will continue to see a moderate pick-up in the coming months, especially in the manufacturing segment owing to firming up of global metal prices following the opening up of the economy. However, the recent announcements of lockdown in a few countries could weaken the pick-up in the commodity demand seen recently and limit the inflation in the manufacturing segment. The recent surge in global crude oil prices is also likely to narrow the deflation in the fuel and petroleum segment. Food prices is likely to remain benign going ahead as supply of kharif crop, vegetables and fruits increase in the market.

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