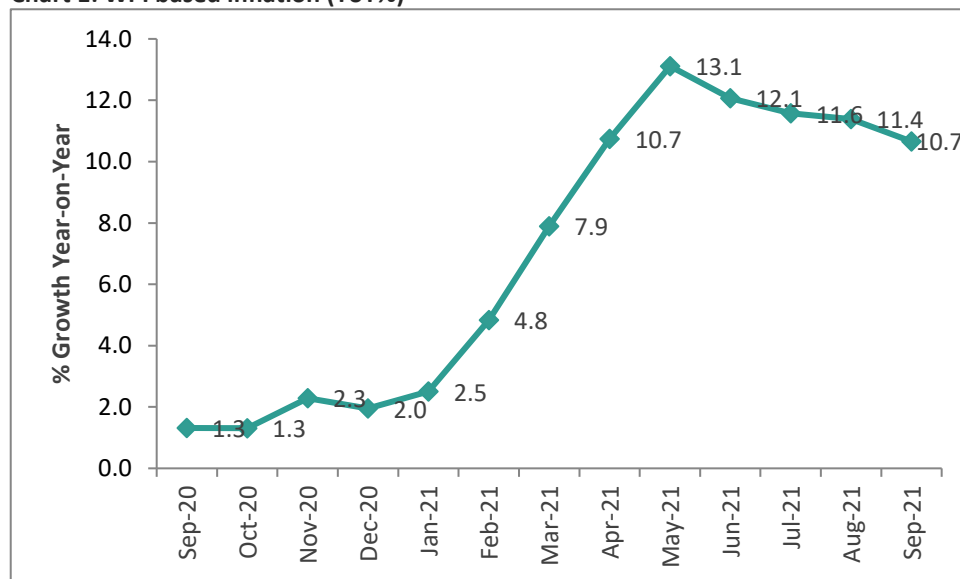


Wholesale inflation-September'21

October 14, 2021 | Economics

In September'21, wholesale inflation fell to 6-month low of 10.7% compared with 11.4% in the previous month and 1.3% in September last year. The WPI inflation during the month has been lower than CARE Ratings estimate of 11.9%. The cooling of both wholesale as well as retail inflation is indicative of easing price pressures in the economy though this is driven mainly by primary articles. Inflation in primary, fuel & power segments have shown signs of moderation, however sticky prices in the manufacturing segment have kept wholesale inflation at elevated level.

Chart 1: WPI based inflation (YoY%)



Source: Office of Economic Advisor

Highlights:

- The inflation in **primary articles**, having a weight of 22.62% in the WPI basket, decreased to 4.1% in September'21 compared with 6.2% in August'21 and 4.1% in September'20. Price pressures have been building up in the non-food segment whereas deflation in the food segment has restricted the upside to inflation in primary articles.
 - **Food** prices fell for the second successive month, the deflation widened to 4.7% compared with -1.3% in the previous month. This inflation figure comes over a fairly high base of 8.4% in September'20.
 - Inflation in **cereals** witnessed an uptick to 1.2% after witnessing persistent negative price growth over the last 13 months. Sustained deflationary trend has been observed in **paddy** (-1.8%). **Wheat** prices witnessed a sharp uptick to 4.5% as against deflation of 0.2% in the previous month.
 - Inflation in **Pulses** was unchanged at 9.4% during the month, but it was lower than 12.5% in the same month last year.
 - Deflation in **vegetable prices** widened to 32.5% in September'21 compared with -13.3% in the previous month. This deflation is primarily due to a high base of last year. Low supply due to uneven spells of monsoon and high transport cost amid rising fuel prices could pressure vegetable prices over the coming months.
 - **Potato** prices declined by 48.95% recording a fall in prices for the 9th successive month. Onion prices declined sharply by 1.91% compared with 62.8% inflation in the previous month.
- Inflation in **non-food articles** stood at 29.4% vis-à-vis deflation of 1.8% in September'20. This is the 7th successive month of double-digit price growth in non-food articles.

- **Fuel & power** inflation moderated to 24.8% in during the month compared with 26.1% inflation in the previous month. This segment witnessed a deflation of 8.7% in September last year. Inflation in this segment is likely to persist on account of escalating international crude oil prices driven by recovery in demand, restrained supplies and the ongoing energy crisis. The domestic fuel prices have been climbing up adding to the existing price pressures.
- Inflation in the **manufactured products** was stable at 11.4% in Sepetmber'21 compared with the previous month. Passthrough of rising input costs and firm pricing power of manufacturers amid revival in demand could have contributed to elevated and sticky factory gate prices of manufactured items.
 - Inflation in two major items of the manufacturing segment i.e. **basic metals** and **food products** stood at 26.7% and 12.7% respectively.
 - All 14 industries have recorded positive WPI growth with double-digit inflation witnessed in 7 out of 14 industries. Inflation in manufactured items has been driven by **basic metals** (26.7%), **textiles** (16.8%), **fabricated metal products, except machinery and equipment** (15.3%), **chemical and chemical products** (13.1%), **rubber and plastics products** (12.9%), **food products** (12.7%), **paper and paper products** (11.6%).

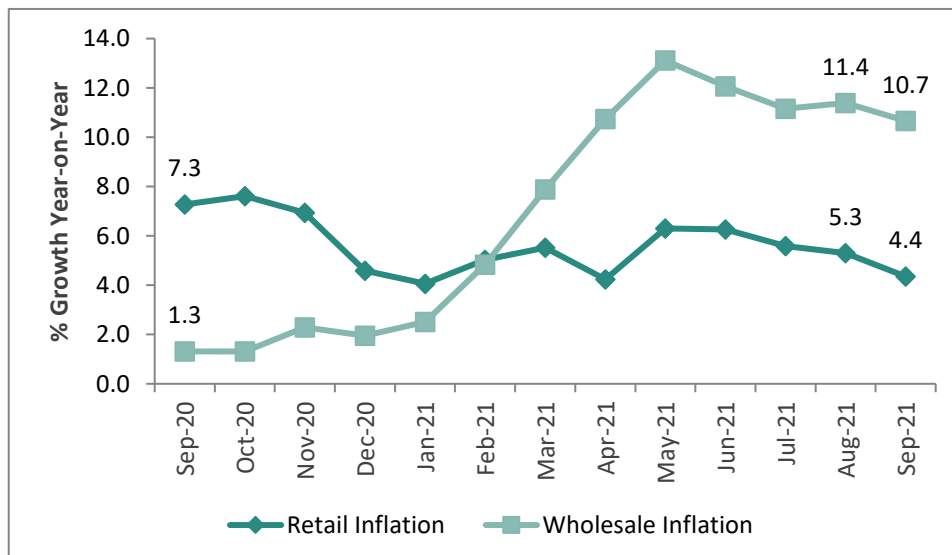
Table 1: Wholesale price Inflation (y-o-y%) for select commodities in September 2021

Month	All commodities	Primary	Fuel and Power	Manufactured goods
Weight	100	22.62	13.15	64.23
Sep-20	1.3	4.1	-8.7	1.9
Oct-20	1.3	4.3	-11.1	2.2
Nov-20	2.3	3.8	-7.0	3.2
Dec-20	2.0	-0.6	-6.1	4.5
Jan-21	2.5	-1.6	-3.8	5.5
Feb-21	4.8	3.0	2.0	6.1
Mar-21	7.9	7.3	9.8	7.8
Apr-21	10.7	9.9	21.3	9.4
May-21	13.1	9.4	36.7	11.3
Jun-21	12.1	8.6	29.3	11.0
Jul-21	11.6	6.3	26.0	11.5
Aug-21	11.4	6.2	26.1	11.4
Sep-21	10.7	4.1	24.8	11.4

Source: Office of Economic Advisor

Wholesale & Retail Inflation:

Wholesale and retail inflation have eased during the month. Retail inflation cooled to a 5-month low of 4.4% in September'21 after having spiked in the preceding two months. Inflation in the wholesale segment was at 10.7%, lowest since April'21. Though wholesale inflation moderated during the month, it continues to remain in double-digits. Elevated level of wholesale prices coupled with rigid core inflation could have a bearing on consumer demand ahead of the festive season.



CARE Ratings' View:

Easing of inflation in the food and fuel items has helped lower the wholesale inflation reading for September'21. However, hardening input costs and ripple effect of escalating global crude oil prices could pose an upside risk to the wholesale prices in the economy over the coming months. The current coal crisis has potential to again push up inflation for non-food items category in primary articles as well as power and fuel group. Good kharif output and adequate buffer stock of food grains are expected to keep food inflation low offering some relief to the overall wholesale inflation.

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