WHOLESALE PRICE INDEX NOVEMBER 2016

WPI inflation records a muted dip with lower primary inflation offset by rise in core inflation in November 2016

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ICRA

Contact:
Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

HIGHLIGHTS

- ***The headline WPI inflation eased mildly to 3.2% in November 2016 from 3.4% in October 2016 in year-on-year (YoY) terms.***
- ***The inflation for primary food articles declined to a 14-month low 1.5% in November 2016 from 4.3% in October 2016, led by a favourable base effect as well as a decline in the prices of perishables in month-on-month (MoM) terms, after the note ban.***
- ***The inflation related to manufactured non-food products ("core inflation") firmed up to a 24-month high 1.6% in November 2016 from 1.0% in October 2016, led by an MoM rise in prices of various commodities and depreciation of the INR relative to the USD.***

OVERVIEW

- WPI inflation softened mildly to 3.2% in November 2016 from 3.4% in October 2016 (refer *Table 1* and *Chart 1*), and printed higher than consensus forecasts (+3.0%). Our forecast (+1.7%) had built in a sharp decline in wholesale food prices after the note ban, given the predominance of cash for completing transactions at the *mandis;* however such a trend was limited to perishable food items (vegetables and fruits).
- The sequential dip in YoY WPI inflation in November 2016 was led by a moderation in the inflation for primary food & non food articles, which was partly offset by the uptick in the inflation for fuel & power, manufactured food products, manufactured non-food products and minerals.
- Inflation for primary food articles eased to a 14-month low 1.5% in November 2016 (+5.6% in November 2015) from 4.3% in October 2016 (+3.3% in October 2015), led by a favourable base effect as well as a sequential decline in the prices of perishables. The disinflation for vegetables deepened considerably to 24.1% in November 2016 from 10.0% in October 2016, partially reflecting trend for potato and tomato in the just concluded month. In addition, the wholesale inflation declined in November 2016 compared to the previous month for condiments & spices (to -3.9% from +1.7%), fruits (to +2.5% from +6.4%), eggs, meat & fish (to +5.8% from +6.2%) and pulses (a 19-month low 21.7% from 21.8%). In contrast, the YoY inflation registered an uptick in November 2016 from October 2016 for cereals (to +7.3% from +6.1%, on account of hardening in wheat prices) and other food articles (to +6.5% from +1.0%, on account of coffee). In MoM terms, wholesale primary food prices declined by 1.0% in November 2016, in sharp contrast to the MoM rise of 1.8% in November 2015. This MoM decline in November 2016 was led by perishables, such as vegetables (-8.8%) and fruits (-5.9%), and to a smaller extent, condiments & spices (-1.0%). As expected, the rise in prices of gram and wheat led to an MoM rise in prices of pulses (+4.2%) and cereals (+1.6%) in November 2016.
- In contrast, manufactured food inflation rose to 10.7% in November 2016 from 10.5% in October 2016, led by grain mill products (to +13.5% from +10.6%), sugar (to +31.8% from +29.6%) and canning, preserving & processing (to +4.0% from +3.6%). However, inflation for dairy products (to +2.5% from +2.6%), bakery products (to +0.9% from +1.5%), edible oils (to +4.0% from +4.6%), tea & coffee processing (to +6.4% from +7.2%) and oil cakes (to -0.5% from +2.3%) eased sequentially during the same months. In MoM terms, the manufactured food items sub-index recorded a rise of 0.5% in November 2016, higher than the uptick of 0.3% in November 2015, led by grain mill products (+3.6%), sugar (+1.9%) and canning, preserving & processing (+0.4%).
- Primary non-food articles recorded a marginal disinflation of 0.1% in November 2016 (+6.3% in November 2015), compared to the positive inflation of 1.1% (+5.1% in October 2015) in October 2016, reflecting the base effect, as well as, a sequential moderation in index

levels. The decline in YoY inflation in November 2016 relative to the previous month was led by flowers (to -34.3% from -25.1%), fibres (to +14.1% from +17.6%) and oilseeds (to -5.0% from -3.3%). However, the inflation for other non-food articles increased to 3.5% in November 2016 from 1.5% in October 2016. On an MoM basis, the primary non-food articles sub-index declined by a sharper 0.8% in November 2016 (flowers -3.5%; oilseeds -2.5%; and fibres -1.9%), relative to the change in November 2014 (-0.7%) and November 2015 (+0.5%).

- After a gap of 27 months, the inflation for minerals was positive at 1.1% in November 2016, compared to the print of -2.0% in October 2016. However, the minerals sub-index declined by 1.7% in MoM terms in November 2016, primarily on account of magnesite (-20.3%), copper (-17.0%) and chromite (-5.3%). The initial index level for crude petroleum has been pegged at 182.4 for November 2016, similar to the revised print for September 2016 (182.3), although the average price of the Indian basket of crude oil rose by ~2% to ~Rs. 3,012/barrel in November 2016 from ~Rs. 2,961/barrel in September 2016.
- Core inflation firmed up considerably to a 24-month high 1.6% in November 2016 (-1.9% in November 2015) from 1.0% in October 2016 (-2.1% in October 2015), led by an MoM rise in the prices of various commodities and depreciation in the INR relative to the USD (refer *Table 2*). As a result, the gap between headline and core WPI inflation narrowed in November 2016 (refer *Chart 2*). The index level for non-food manufactured products increased by 0.2% in November 2016 in MoM terms, with six of the 11 sub-indices (accounting for a combined weight of 41.9%) recording an MoM increase, namely leather & leather products (+1.1%), basic metals, alloys & metal products (+0.7%), paper & paper products (+0.3%), textiles (+0.1%), machinery & machine tools (+0.1%) and chemicals & chemical products (+0.1%). In addition, the index levels for beverages, tobacco & tobacco products and transport, equipment & parts rubber remained unchanged in the just concluded month. However, index levels declined on an MoM basis for rubber & plastic products (-0.1%), non-metallic mineral products (-0.2%) and wood & wood products (-1.6%), which together account for a modest 6.1% of the WPI index.
- Inflation for fuel & power rose to a 28-month high 7.1% in November 2016 from 6.2% in October 2016. In MoM terms, this sub-index registered an increase of 1.8% in November 2016, led by a broad-based uptick for mineral oils (+2.8%), including items such as ATF, bitumen, light diesel oil and naphtha (8.6%, 6.0%, 5.9% and 3.1%, respectively). The sub-indices for coal and electricity remained steady in November 2016 at 191.2 (for the sixth month in a row) and 172.3 (for the eleventh month in a row), respectively.
- Reflecting the mild fall in the WPI inflation and the larger decline in the CPI inflation (to 3.6% in November 2016 from 4.2% in October 2016), the gap between the two narrowed in the just-concluded month (refer *Chart 3*).
- In line with the trend for the previous seven months, the WPI inflation for September 2016 was revised upwards to +3.8% from +3.6% (refer *Chart 4*) led by a narrower disinflation in minerals (to -3.8% from -5.0%), as well as, an uptick in the inflation for primary food articles (to +6.4% from +5.7%), primary non-food articles (to +4.7% from +4.5%), fuel & power (to +5.64% from +5.58%) and manufactured non-food articles (to +0.7% from +0.6%).

OUTLOOK

Average food prices have displayed a broad-based correction in early-December 2016, barring cereals and some oils. Going forward, we expect most food items to track the seasonal trend of lower prices during the winter months.

Rising global commodity prices and a waning of the base effect would push up WPI inflation in December 2016. Crude oil and mineral oils have a substantial weight of 10% in the WPI basket. Moreover, a considerable portion of this sub-set has market-linked pricing, which results in quick transmission of crude oil price changes to WPI inflation. A rise in the average crude oil price to ~US$55/barrel in the remainder of the year from the average of ~US$ 45/barrel in April-November 2016, would have a first round impact of raising average WPI inflation by around 50 bps in December 2016-March 2017.

Core-WPI inflation is expected to trend upward between 2-2.5% in the remainder of FY2017. Although subdued demand would curtail pricing power, higher metal and fuel prices and a weaker INR would modestly transmit into prices of various manufactured goods.

Table 1: Trend in WPI Inflation (YoY)

	Weight	YoY Inflation				MoM	Contribution	Buildup*
		Sept 2016	Sept 2016	Oct 2016	Nov 2016	Nov 2016	Nov 2016	Nov 2016
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
WPI	**100.0**	**3.6%**	**3.8%**	**3.4%**	**3.2%**	**0.1%**	**4.4%**	**100.0%**
Primary Articles	***20.1***	***4.8%***	***5.4%***	***3.3%***	***1.2%***	***-0.9%***	***5.4%***	***11.5%***
- Food	14.3	5.7%	6.4%	4.3%	1.5%	-1.0%	6.4%	10.8%
- Non-Food	4.3	4.5%	4.7%	1.1%	-0.1%	-0.8%	0.7%	-0.2%
- Minerals	1.5	-5.0%	-3.8%	-2.0%	1.1%	-1.7%	7.5%	0.6%
Fuel & Power	***14.9***	***5.6%***	***5.6%***	***6.2%***	***7.1%***	***1.8%***	***10.6%***	***33.5%***
Manufactured Products	***65.0***	***2.5%***	***2.5%***	***2.7%***	***3.2%***	***0.3%***	***2.5%***	***56.9%***
- Food	10.0	11.2%	11.4%	10.5%	10.7%	0.5%	8.0%	33.5%
- Non-Food	55.0	0.6%	0.7%	1.0%	1.6%	0.3%	1.3%	23.4%

** Buildup with reference to March 2016*

Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Government of India (GoI); ICRA research

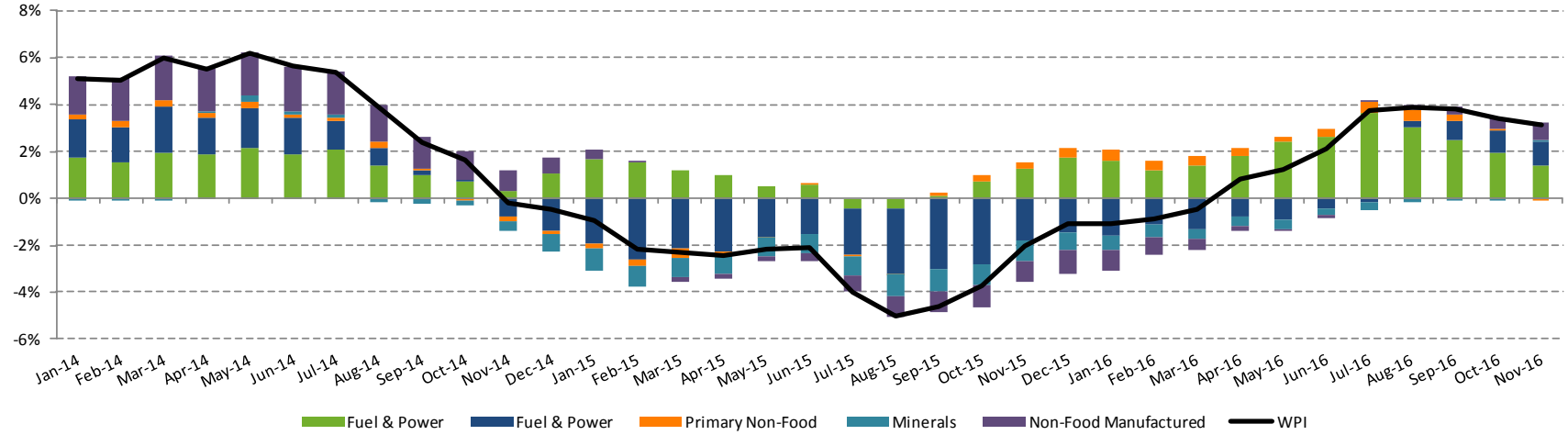
Table 2: Trend in Inflation related to Non-Food Manufactured Products

	Weight	YoY Inflation				MoM	Contribution	Buildup*
		Sept 2016	Sept 2016	Oct 2016	Nov 2016	Nov 2016	Nov 2016	Nov 2016
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
Non-Food Manufactured Products	**55.0**	**0.6%**	**0.7%**	**1.0%**	**1.6%**	**0.3%**	**1.3%**	**100.0%**
Beverages, Tobacco, Tobacco Prod.	1.8	7.8%	7.7%	7.7%	7.4%	0.0%	4.6%	21.1%
Textiles	7.3	1.6%	1.6%	1.4%	1.6%	0.1%	1.4%	12.7%
Wood & Wood Products	0.6	3.4%	3.3%	2.4%	0.6%	-1.6%	0.3%	0.5%
Paper & Paper Products	2.0	1.2%	1.1%	0.8%	1.1%	0.3%	0.4%	2.7%
Leather & Leather Products	0.8	-0.3%	0.1%	0.9%	1.9%	1.1%	0.9%	1.8%
Rubber & Plastic Products	3.0	0.3%	0.6%	1.2%	1.4%	-0.1%	2.1%	4.9%
Chemicals & Chemical Products	12.0	-0.1%	-0.1%	0.1%	0.5%	0.1%	0.8%	6.6%
Non-Metallic Mineral Products	2.6	1.2%	1.6%	1.8%	0.4%	-0.2%	0.8%	1.4%
Basic Metals, Alloys & Metal Prod.	10.7	-1.2%	-0.9%	0.7%	2.9%	0.7%	1.9%	37.3%
Machinery & Machine Tools	8.9	0.2%	0.2%	0.2%	0.4%	0.1%	0.2%	3.5%
Transport, Equipment & Parts	5.2	1.6%	1.6%	1.5%	1.3%	0.0%	0.6%	7.4%

** Buildup with reference to March 2016*

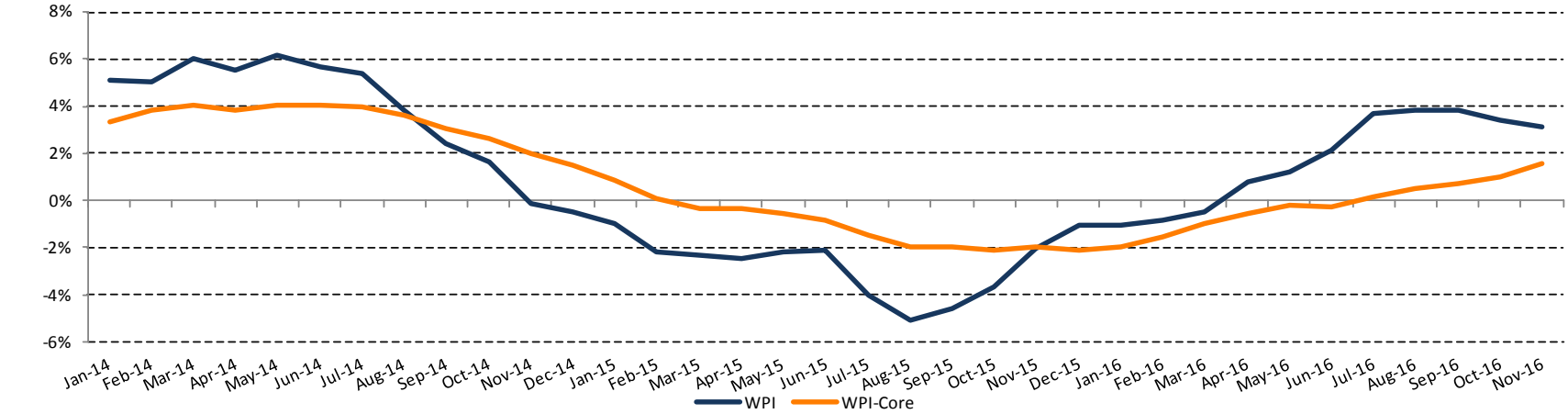
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA research

Chart 1: Composition of WPI Inflation (YoY)



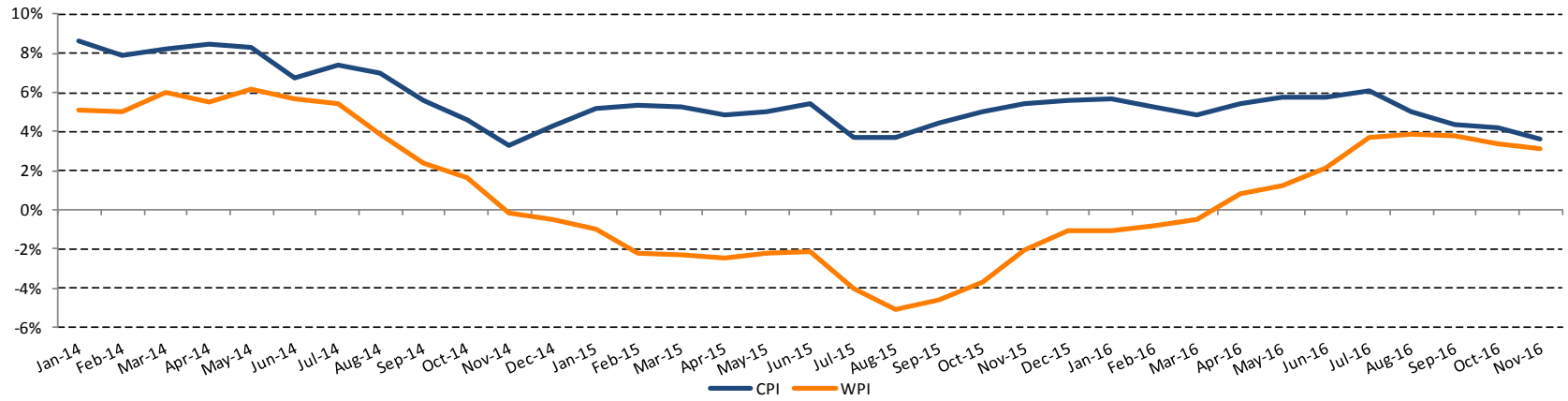
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA research

Chart 2: Headline and Core WPI Inflation (YoY)



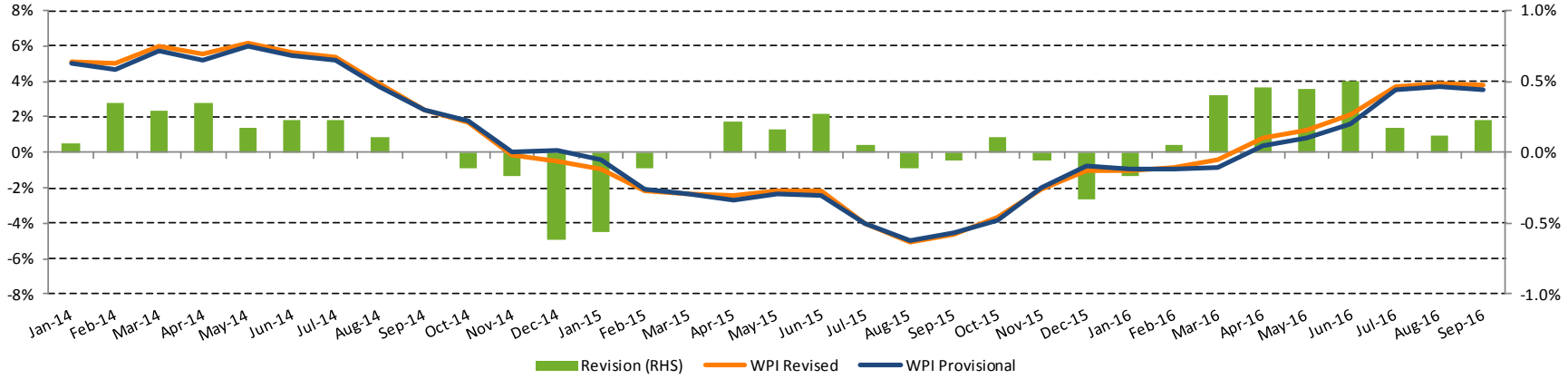
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA research

Chart 3: WPI and CPI Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; Central Statistics Office (CSO); ICRA research

Chart 4: Provisional and Revised WPI Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA research

ANNEXURE

Chart 5: WPI Inflation (YoY)

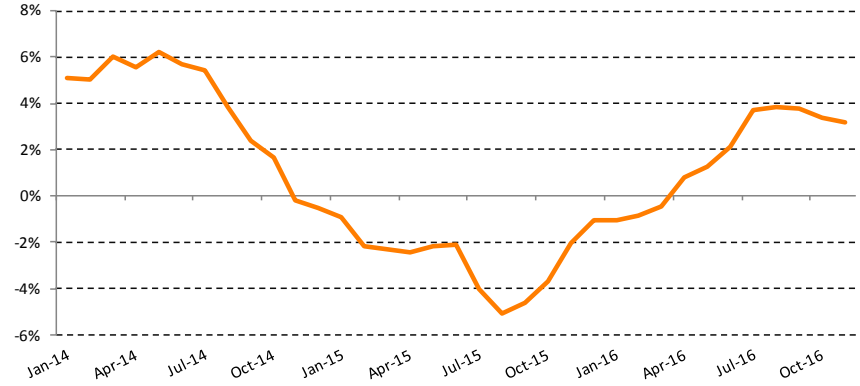
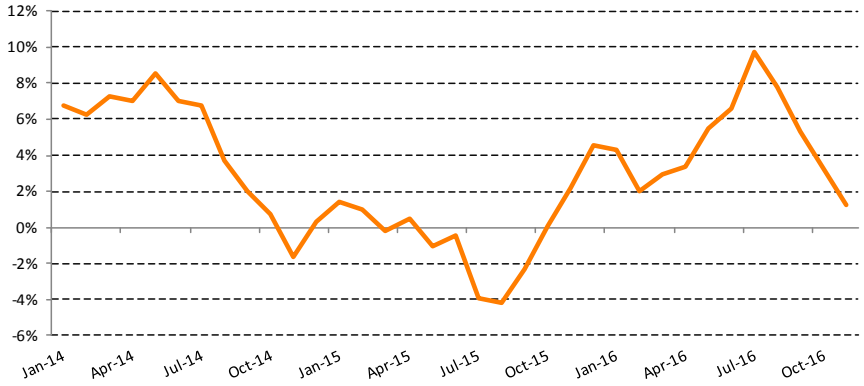


Chart 6: Primary Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA research

Chart 7: Primary Food Inflation (YoY)

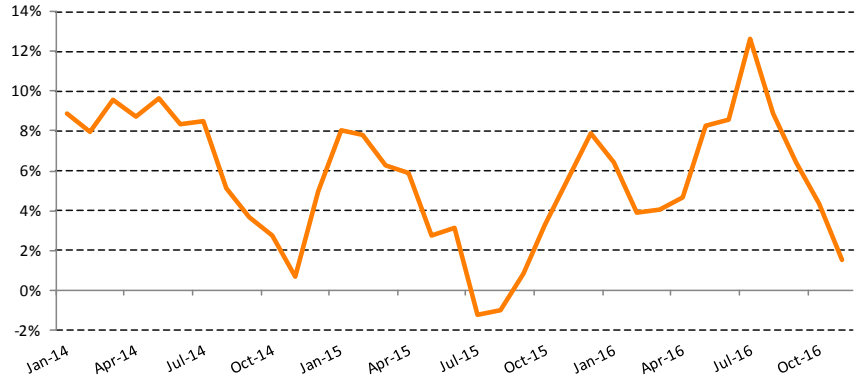
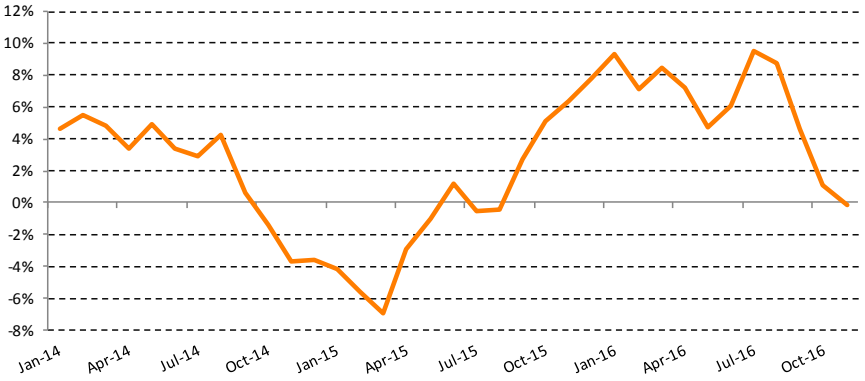


Chart 8: Primary Non-Food Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA research

Chart 9: Primary Mineral Inflation (YoY)

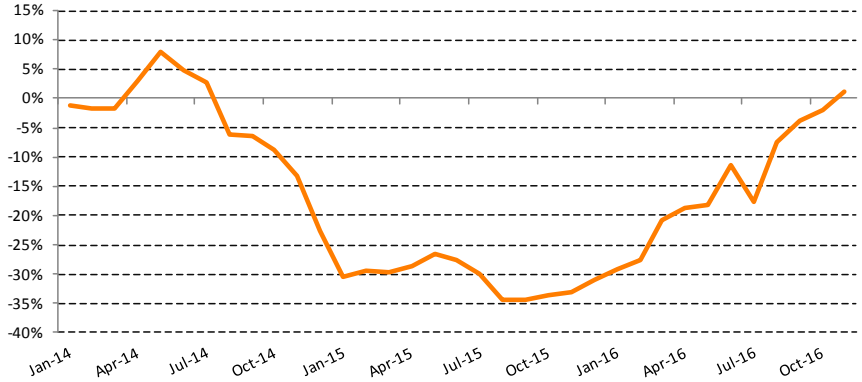
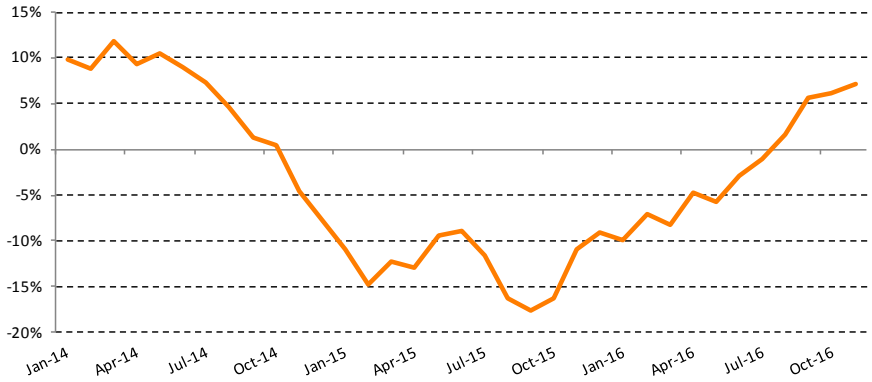


Chart 10: Fuel & Power Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA research

Chart 11: Manufactured Food Inflation (YoY)

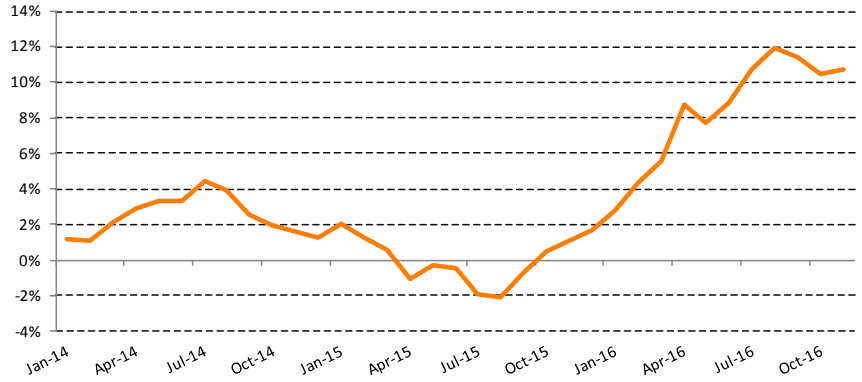
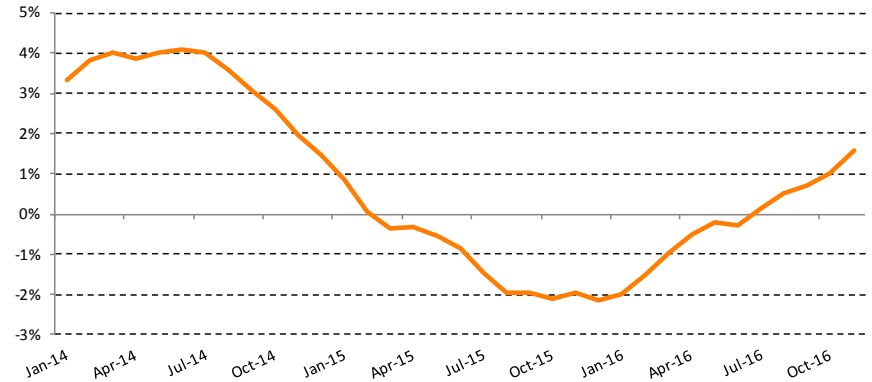


Chart 12: Manufactured Non-Food/Core Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA research

CORPORATE OFFICE
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300; Fax: +91 124 4545350
Email: info@icraindia.com, Website: www.icra.in

REGISTERED OFFICE
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50; Fax: +91 11 23357014

Branches: **Mumbai**: Tel.: + (91 22) 24331046/53/62/74/86/87, Fax: + (91 22) 2433 1390 **Chennai**: Tel + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294, Fax + (91 44) 2434 3663 **Kolkata**: Tel + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008, Fax + (91 33) 2287 0728 **Bangalore**: Tel + (91 80) 2559 7401/4049 Fax + (91 80) 559 4065 **Ahmedabad**: Tel + (91 79) 2658 4924/5049/2008, Fax + (91 79) 2658 4924 **Hyderabad**: Tel +(91 40) 2373 5061/7251, Fax + (91 40) 2373 5152 **Pune**: Tel + (91 20) 2552 0194/95/96, Fax + (91 20) 553 9231

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