

India's Wholesale Price Index declines in December 2012

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January 14, 2013

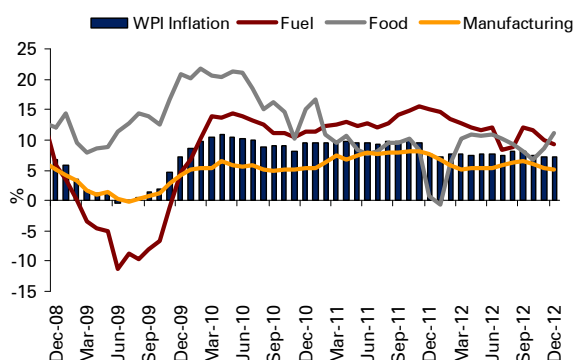
Inflation eased to 7.18% YoY in December 2012 versus 7.24% in November 2012

- The official Wholesale Price Index (WPI) for "All Commodities" for the month of December 2012 grew at an annual rate of 7.18% YoY, 36-month low. In comparison, the annual rate of inflation in November 2012 and December 2011 were 7.24% YoY and 7.74% YoY respectively. The October 2012 inflation number has been revised downward to 7.32% YoY from 7.45% YoY previously. This is the first downward revision in recent prints.
- "Manufactured Products" form 64.97% of the WPI. The subgroup grew by 5.04% YoY in December 2012, lower than the 5.41% YoY rise in November 2012. Within "Manufactured Products", Food Products that has nearly 10% weight rose 9.00% YoY in December 2012. Sugar and edible oils category also rose 12.22% YoY and 9.49% YoY respectively.
- "Primary Articles" constitute 20.12% of the WPI and the index for this group increased by 10.61% YoY in December 2012. In this sub-group, Cereals, Wheat, Pulses, Oil seeds, Potato, "Egg, Meat, and Fish", all recorded very high double-digit rates of inflation. Potato prices, which

has a very low weight of 0.20% in the sub-group, has seen an increase of 89.08% YoY in December 2012. Food Articles, which constitute 14.34% of the sub-group, has recorded an inflation rate of 11.16% YoY, higher than November's 8.50% YoY increase.

- "Fuel and Power" that contributes 14.91% to the index increased by 9.38% YoY in December 2012. High-speed diesel price inflation remained unchanged at 14.60% YoY, the same as November 2012. Petrol price inflation rose 3.43% YoY in December 2012 from 1.53% YoY in the previous month. The moderation in "Fuel and Power" and "Manufactured Products" prices led to the easing in inflation in December 2012.
- India's real GDP in the Q2 FY 2012-13 decelerated to a growth rate of 5.3% YoY from 5.5% in the Q1 FY 2012-13. The Industrial Production figure for November 2012 contracted 0.1%YoY. Fiscal stimulus to boost the slowing economy is not a viable option as the government struggles to meet the upwardly revised fiscal deficit target of 5.3% of GDP in the FY 2012-13 amidst lower revenues. Previously, the central bank had expected inflation to rise to 8% in December 2012 before declining steadily to 7.5% in March 2013. The case for a rate cut by the RBI has strengthened in the light of lower than expected inflation data. Markets expect the central bank to reduce the repo rate by at least 25bps in the upcoming monetary policy due later this month.

Decline in Fuel and Manufacturing prices bring down WPI



Source: Bloomberg, ICICI Bank

ANALYST CERTIFICATION

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