



Wholesale Price Index December 2011: Headline inflation eases to a 24-month low of 7.5%

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- Headline inflation eased to 7.5% in December 2011 from 9.1% in November 2011, chiefly led by a decline in primary food inflation (to 0.7% from 8.5% in Nov 2011), aided by a favourable base effect.
- Notably, y-o-y inflation related to non-food manufactured products declined to 7.7% in Dec 2011 from 8.1% in Oct 2011 and 8.0% in Nov 2011. However, index levels increased or remained flat for nine of the 11 sub-groups of non-food manufactured products on a month-on-month (m-o-m) basis in Dec 2011, highlighting the persistence of inflationary pressures, partly related to the depreciation of the Indian rupee.
- Inflation related to primary non-food products also eased (to 1.5% in Dec 2011 from 3.2% in Nov 2011), led by fibres (-7.4% in Dec 2011 from 1.6% in Nov 2011).
- Fuel inflation eased to 14.9% in Dec 2011 from 15.5% in Nov 2011, led by adjustment of various non-administered items including petrol, naphtha, ATF etc. Nevertheless, the index level rose on an m-o-m basis (to 172.6 in Dec 2011 from 171.6 in Nov 2011).
- However, year-on-year (y-o-y) inflation related to minerals accelerated (to 21.9% in Dec 2011 from 18.0% in Nov 2011), highlighting the impact of the rupee depreciation. Moreover, the index level rose substantially on a sequential basis (to 318.5 in Dec 2011 from 310.5 in Nov 2011).
- Inflation rate for Oct 2011 was revised upwards from 9.7% to 9.9%, nearly as high as the revised 10.0% for Sept 2011. The upward revision was led by minerals (to 22.7% from 20.4%) and non-food manufactured products (to 8.1% from 7.6%).

Outlook

- WPI inflation for November 2011 is likely to be revised upwards as well, led by an anticipated revision in the minerals index.
- Given the persisting inflationary pressures as highlighted by the 0.5% m-o-m rise in the price level of non-food manufactured products in Dec 2011, the RBI is expected to leave the Repo Rate and the Cash Reserve Ratio unchanged in the upcoming policy review, in spite of the marginal 1% growth of the Index of Industrial Production in Sept-Nov 2011.
- ICRA continues to expect headline inflation to ease to 7% by March 2012, following an anticipated moderation in demand-side pressures. However, a reversal in the recent appreciation of the rupee may exacerbate prices of imported commodities and inputs, fuelling inflationary pressures.

Website

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Table 1: Trends in WPI Inflation (Y-o-Y)

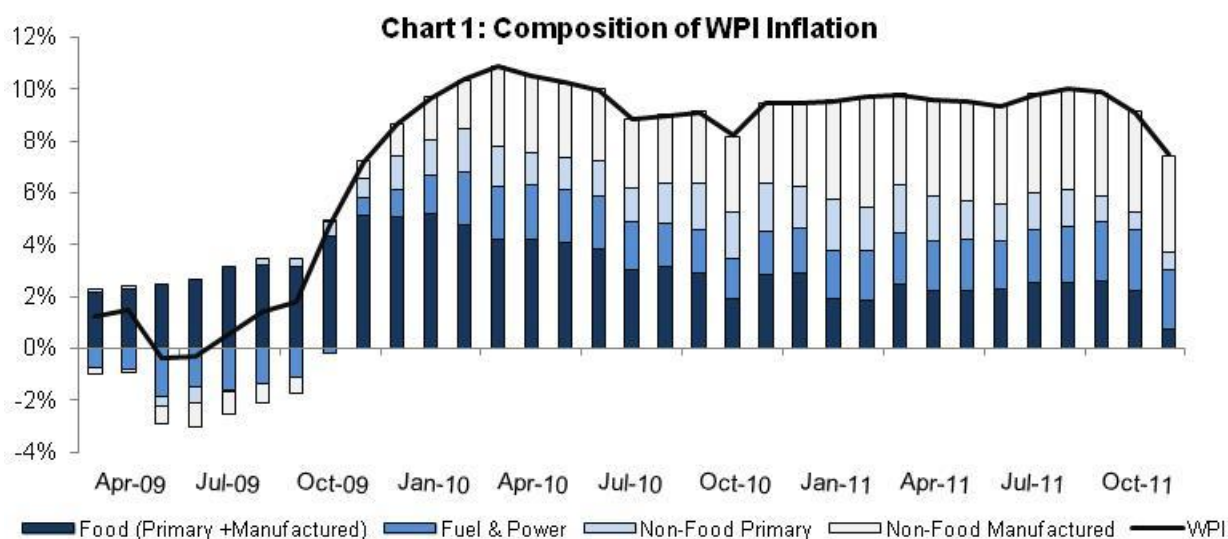
	Weight	Y-o-Y Inflation				M-o-M	Buildup*
		Oct 2011		Nov 2011	Dec 2011	Dec 2011	Dec 2011
		Initial	Revised	Initial	Initial	Initial	Initial
WPI	100.00	9.7%	9.9%	9.1%	7.5%	0.0%	3.2%
Primary Products	20.12	11.4%	11.0%	8.5%	3.1%	-1.6%	0.6%
- Food	14.34	11.1%	10.2%	8.5%	0.7%	-3.1%	2.1%
- Non Food	4.26	7.7%	7.4%	3.2%	1.5%	1.3%	-7.1%
- Minerals	1.52	20.4%	22.7%	18.0%	21.9%	2.6%	4.9%
Fuel & Power	14.91	14.8%	14.8%	15.5%	14.9%	0.6%	8.2%
Manufactured Products	64.97	7.7%	8.0%	7.7%	7.4%	0.6%	2.9%
- Food	9.97	7.8%	7.7%	6.8%	6.0%	0.7%	4.6%
- Non Food	55.00	7.6%	8.1%	8.0%	7.7%	0.5%	2.6%

Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Government of India (GoI), ICRA Estimates, * Buildup with reference to April 2011

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

	Weight	Y-o-Y Inflation				M-o-M	Buildup*
		Oct 2011		Nov 2011	Dec 2011	Dec 2011	Dec 2011
		Initial	Revised	Initial	Initial	Initial	Initial
Non Food Manufactured	55.00	7.6%	8.1%	8.0%	7.7%	0.5%	2.6%
Beverages, Tobacco, Tobacco Prod.	1.8	12.5%	12.7%	13.2%	13.2%	0.2%	5.7%
Textiles	7.3	7.6%	7.7%	6.6%	4.1%	-0.3%	-5.8%
Wood & Wood Products	0.6	8.5%	8.8%	8.3%	9.3%	1.1%	6.4%
Paper & Paper Products	2.0	5.4%	5.4%	5.4%	5.2%	-0.3%	1.1%
Leather & Leather Products	0.8	1.2%	2.0%	1.6%	2.9%	1.2%	3.8%
Rubber & Plastic Products	3.0	6.8%	6.8%	5.1%	4.4%	0.0%	-0.2%
Chemicals & Chemical Products	12.0	9.3%	9.9%	9.5%	9.8%	1.0%	4.1%
Non-Metallic Mineral Products	2.6	4.3%	6.1%	6.1%	8.4%	2.0%	4.6%
Basic Metals, Alloys & Metal Prod.	10.7	11.4%	12.1%	13.0%	13.0%	0.9%	6.8%
Machinery & Machine Tools	8.9	3.5%	3.6%	3.5%	2.9%	0.0%	1.2%
Transport, Equipment & Parts	5.2	4.3%	4.4%	4.6%	4.5%	0.1%	2.2%

Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI, ICRA Estimates, * Buildup with reference to April 2011



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

Chart 2: Y-o-Y WPI Inflation

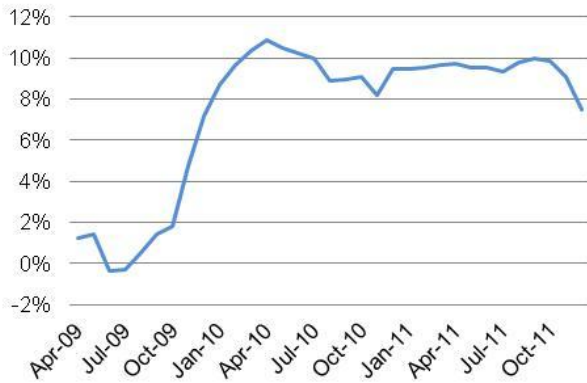


Chart 3: Y-o-Y Primary Inflation

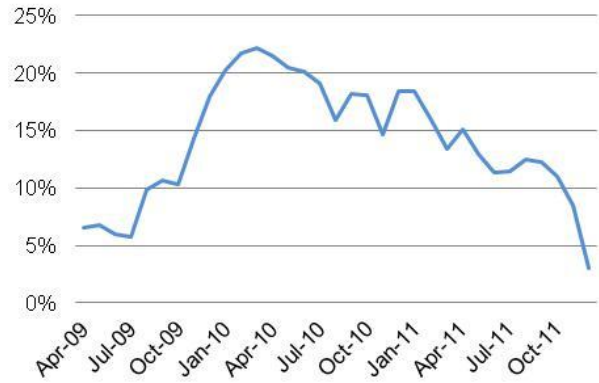


Chart 4: Y-o-Y Primary Food Inflation

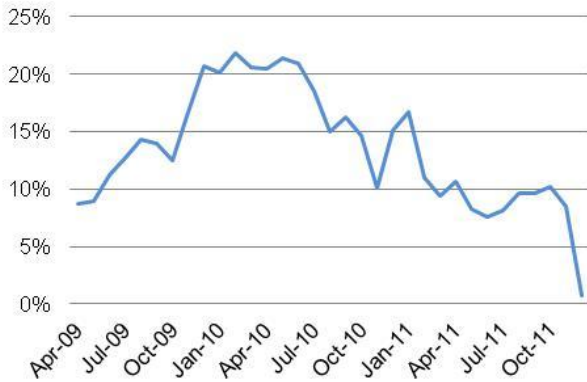


Chart 5: Y-o-Y Primary Non-Food Inflation



Chart 6: Y-o-Y Primary Minerals Inflation

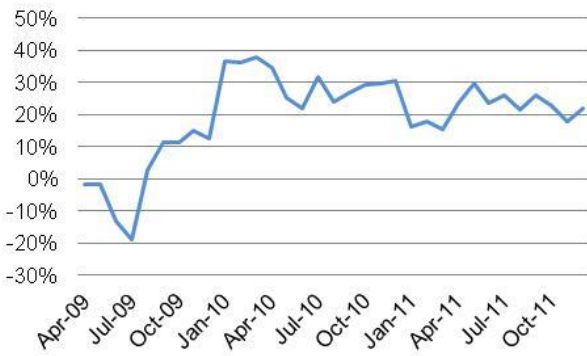


Chart 7: Y-o-Y Fuel & Power Inflation



Chart 8: Y-o-Y Manufactured Food Inflation

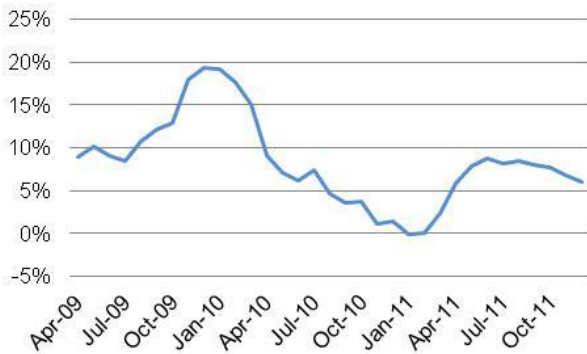
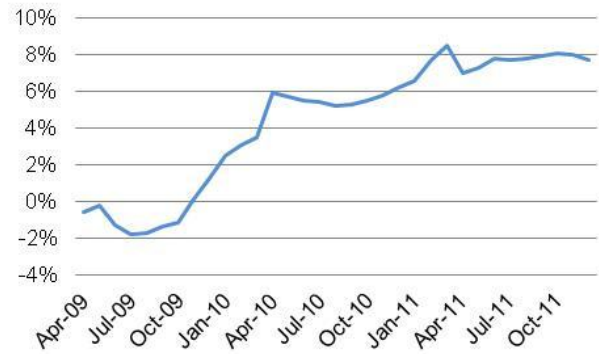


Chart 9: Y-o-Y Manufactured Non-Food Inflation



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Government of India, ICRA Estimates



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