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WHOLESALE PRICE INDEX APRIL 2020

WPI food inflation eased to 3.6% in April 2020 from 5.5% in March 2020, led by vegetables

May 2020

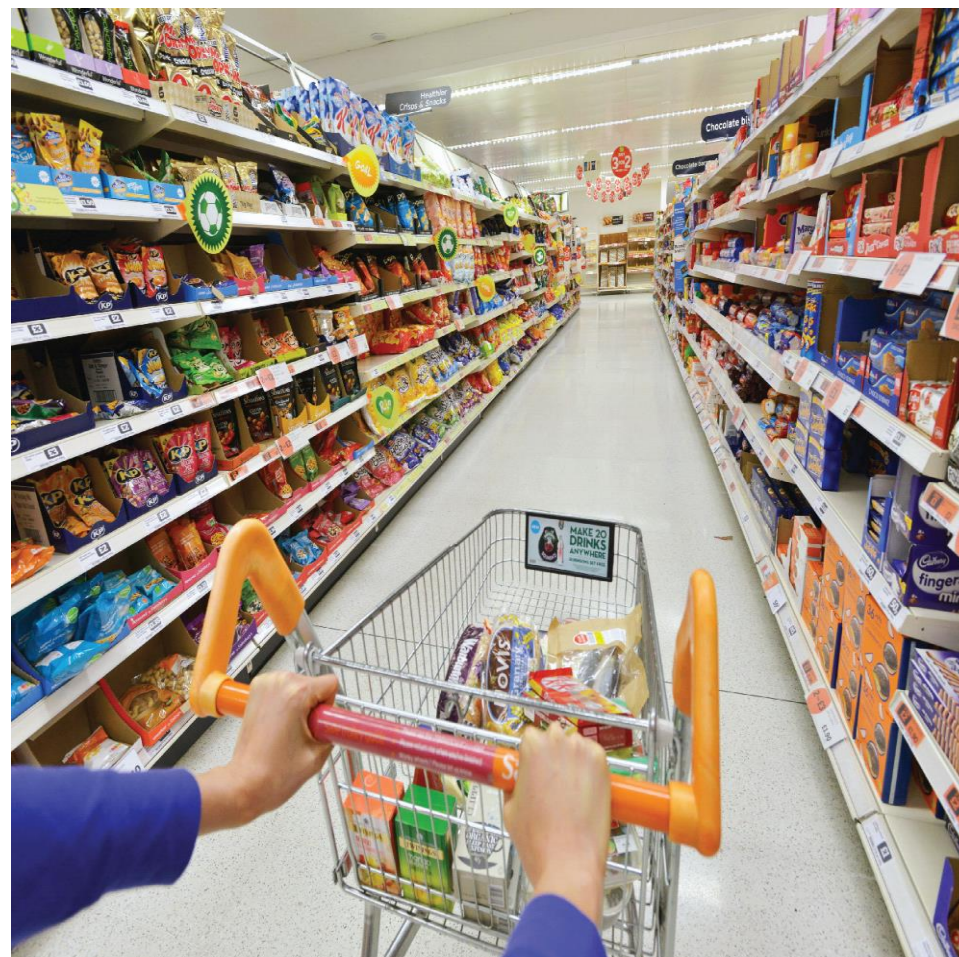


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HIGHLIGHTS

- Given the limited transactions of products in the wholesale market in April 2020, following the Covid-19 outbreak, the Office of Economic Adviser, Ministry of Commerce and Industry released price data on selected groups such as primary articles (which includes primary food and non-food articles, minerals, and crude petroleum and natural gas), fuel and power, and few sub-groups under manufactured products, following the principles of adequacy.
- The inflation pertaining to the WPI-Food Index eased appreciably to 3.6% in April 2020 from 5.5% in March 2020, led by primary food articles which suggests that the spike in retail food inflation was largely driven by disruption related to the lockdown.
- The softening in primary food inflation to 2.6% in April 2020 from +4.9% in March 2020 was led chiefly by vegetables (to +2.2% from +11.9%), suggesting that their perishable nature amidst uncertain demand during the lockdown, contained the normal seasonal uptick that accompanies the rise in temperatures.
- In the aftermath of the Covid-19 outbreak, the YoY disinflation related to crude petroleum and natural gas deepened considerably to 34.0% in April 2020 from 7.8% in March 2020, driven by crude petroleum (to -41.7% from -11.3%), and natural gas (to -14.5% from +0.9%).



OVERVIEW

- Given the limited transactions of products in the wholesale market in April 2020, following the Covid-19 outbreak, the Office of Economic Adviser, Ministry of Commerce and Industry released price data on selected groups such as primary articles (which includes primary food and non-food articles, minerals, and crude petroleum and natural gas), fuel and power, and few sub-groups under manufactured products, following the principles of adequacy.
- The inflation pertaining to the WPI-Food Index eased appreciably to 3.6% in April 2020 from 5.5% in March 2020, led by the softening in the YoY inflation for primary food articles (to +2.6% from +4.9%).
- The YoY WPI inflation for primary food articles softened to 2.6% in April 2020 (+6.4% in April 2019) from 4.9% in March 2020 (+5.2% in March 2019; refer Exhibit 1 and Annexure). This was led by the inflation for vegetables, which corrected considerably to a low 2.2% from 11.9%, respectively, reflecting the trend for onion (to +73.5% from +112.3%), tomato (-32.0%; -16.1%), etc. In addition, the YoY inflation eased in April 2020 relative to March 2020 for condiments and spices (to +15.2% from +18.9%), fruits (to -1.7% from -0.4%), other food articles (to -6.4% from -4.2%), and eggs, meat and fish (to -1.7% from +4.2%). In contrast, the YoY inflation rose in April 2020 relative to the previous month for milk (to +5.9% from +5.4%), and pulses (to +12.3% from +12.1%), whereas the inflation for cereals remained unchanged at 2.7% in these two months. In month-on-month (MoM) terms, the primary food articles sub-index rose by a mild 0.7% in April 2020, substantially lower than the 3.0% uptick in April 2019, driven by the trend in vegetables (+3.7% vs. +13.5%), eggs, meat and fish (-4.3% vs. +1.4%), etc., suggesting that demand was muted during the lockdown. Moreover, the rise in wholesale food prices was subdued relative to the ~3.9% increase in the retail prices of food and beverages (excluding meat, fish, prepared meals, snacks, etc.) in the same month, suggesting that the spike in retail food inflation was largely driven by disruption related to the lockdown.
- The primary non-food articles witnessed a YoY disinflation of 1.2% in April 2020, after a gap of 23 months. This stood in contrast to the mild 1.9% inflation recorded in March 2020. The sequential decline was broad-based, led chiefly by floriculture (to -12.0% from +5.7%), and fibres (-7.2% from -2.8%). In addition, the YoY inflation for items such as oilseeds (to +1.5% from +3.0%), and other non-food articles (to +2.4% from +2.7%) softened during these two months. On an MoM basis, the primary non-food articles sub-index rose mildly by 0.1% in April 2020, as compared to 3.2% recorded in April 2019.
- In the aftermath of the Covid-19 outbreak, the YoY disinflation related to crude petroleum and natural gas deepened considerably to 34.0% in April 2020 from 7.8% in March 2020, driven by the trend for crude petroleum (to -41.7% from -11.3%), and natural gas, which recorded a sharp 14.5% YoY disinflation in April 2020, compared to the mild 0.9% inflation in the previous month. The initial level for the crude petroleum index for April 2020 has been pegged at 47.9, reflecting a decline of 31.2% relative to the revised level for February 2020 (69.6). The decline in the crude petroleum index of the WPI is sharply lower than the substantial 60.2% plunge in the price of the Indian crude oil basket in INR terms recorded in those months. Accordingly, we expect the index level to subsequently undergo a downward revision. In MoM terms, the crude petroleum and natural gas sub-index declined by a considerable 24.7% in April 2020, in contrast to the MoM rise of 5.1% recorded in April 2019.

- The YoY disinflation for fuel and power (with a weight of 13.2% of the WPI) deepened sharply to 10.1% in April 2020 from 1.8% in March 2020, driven by the trend for mineral oils (to -21.5% from -8.2%) and electricity (to +6.2% from +9.9%). However, the inflation for coal remained unchanged at 2.3% in April 2020, in line with the print recorded for March 2020. In MoM terms, the fuel and power sub-index declined by a sharp 8.2% in April 2020, in contrast to the uptick recorded in April 2019 (+0.3%).
- The inflation for manufactured food products (excluding processing and preserving of meat, and manufacture of processed ready to eat food) eased to 5.5% in April 2020 from 6.6% in March 2020, reflecting the softening in the YoY inflation for vegetable and animal oils and fats (to +12.0% from +12.9%), sugar molasses, and honey (to +5.3% from +6.3%) etc. In MoM terms, the manufactured food items sub-index (excluding processing and preserving of meat, and manufacture of processed ready to eat food) fell by 0.3% in April 2020, as compared to 0.8% rise in April 2019.
- Partly reflecting the base effect, minerals slid into a YoY disinflation of 0.4% in April 2020 (+12.7% in April 2019), in contrast to the 11.4% inflation in March 2020 (-0.2% in March 2019). This was led by metallic minerals, which recorded a similar trend (to -3.7% from +15.6%, respectively, led by copper; to -5.3% from +29.8%). In contrast, the YoY inflation for other minerals rose appreciably to 9.9% from 1.6%, respectively. In MoM terms, the minerals sub-index rose by 2.3% in April 2020, lower than sharp 14.5% uptick in April 2019, reflecting the trend in copper (+2.6%; +40.7%).
- For April 2020, the Ministry compiled the data only for four sub-groups under the manufactured non-food products (or core-WPI) category, namely, manufacture of basic metals, chemicals and chemical products, pharmaceuticals, medicinal and botanical products, and beverages. The YoY inflation for beverages eased to 1.4% in April 2020 from 1.7% in March 2020, whereas the inflation for pharmaceuticals, medicinal and botanical products rose to 4.2% from 3.3%, respectively (refer Exhibit 2). While the YoY disinflation of chemicals and chemical products narrowed to 2.6% in April 2020 from 3.2% in the previous month, the same for basic metals deepened slightly to 4.3% from 4.1%, respectively. Notably, two sub-groups i.e. beverages (+0.2%) and chemicals and chemical products (+0.9%) registered an MoM rise, in April 2020, whereas the basic metals (-0.8%), and pharmaceuticals, medicinal and botanical products (-0.2%) recorded an MoM decline in the same month.
- The final WPI inflation for February 2020 remained unchanged at the initial level of 2.3%. Notably, some sub-groups have recorded an upward revision, such as minerals (to +9.3% from +2.5%), core-WPI (to -0.6% from -0.8%), and primary non-food products (to +6.9% from +6.8%), which offset the downward revision in crude petroleum and natural gas (to -7.8% from +1.4%), fuel and power (to +3.1% from +3.4%), and primary food articles (to +7.7% from +7.8%) in the same month.

OUTLOOK

Available data suggests that the wholesale prices of vegetables have declined in the initial part of the ongoing month, even as the prices of pulses and oilseeds have recorded an uptick. Based on the expectation of easing supply related disruptions, we expect the overall food inflation pressures to ease further in the ongoing month.

The impact of the spread of the Coronavirus on commodity prices, especially crude oil, may continue to dampen the wholesale inflation in the ongoing month. However, the hikes in excise duties on petrol and diesel by Rs. 13/litre and Rs.16/litre, respectively, since March 2020, as well as sales tax/VAT on petrol and diesel levied by various states, will prevent a sharper easing in inflationary pressures, while helping to shore up government revenues.

At present, we expect the WPI to record a disinflation of 1.5% in FY2021, in contrast to the mild inflation of 1.7% in FY2020.

Exhibit 1: Trend in Monthly WPI Inflation (YoY)

	Weight	YoY Inflation				MoM
		Feb-20	Feb-20	Mar-20	Apr-20	Apr-20
		Initial	Revised	Initial	Initial	Initial
WPI	100.00	2.3%	2.3%	1.0%		
Primary Articles	22.62	6.7%	6.5%	3.7%	-0.8%	-0.9%
- Food	15.26	7.8%	7.7%	4.9%	2.6%	0.7%
- Non-Food	4.12	6.8%	6.9%	1.9%	-1.2%	0.1%
- Minerals	0.83	2.5%	9.3%	11.4%	-0.4%	2.3%
- Crude Petroleum and Natural Gas	2.41	-1.4%	-7.8%	-7.8%	-34.0%	-24.7%
Fuel and Power	13.15	3.4%	3.1%	-1.8%	-10.1%	-8.2%
- Coal	2.14	2.3%	2.3%	2.3%	2.3%	0.0%
- Minerals Oils	7.95	1.1%	1.1%	-8.2%	-21.5%	-14.1%
- Electricity	3.06	9.0%	7.8%	9.9%	6.2%	-3.4%
Manufactured Products	64.23	0.4%	0.5%	0.3%		
- Food [^]	9.12	6.4%	6.4%	6.6%	5.5%	-0.3%
- Non-Food	55.11	-0.8%	-0.6%	-0.8%		

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

[^] Excluding sub-groups i.e. processing and preserving of meat and manufacture of processed ready to eat food

Exhibit 2: Trend in Monthly Inflation related to Non-Food Manufactured Products (YoY)

	Weight	YoY Inflation				MoM
		Feb-20	Feb-20	Mar-20	Apr-20	Apr-20
		Initial	Revised	Initial	Initial	Initial
Non-Food Manufactured Products	55.11	-0.8%	-0.6%	-0.8%		
Beverages	0.91	2.0%	1.8%	1.7%	1.4%	0.2%
Tobacco Products	0.51	1.1%	1.6%	0.7%		
Textiles	4.88	-2.1%	-1.9%	-1.7%		
Wearing Apparel	0.81	0.2%	0.4%	-0.2%		
Leather and Related Products	0.54	-1.4%	-1.2%	-2.2%		
Wood and Products of Wood and Cork	0.77	-2.6%	-2.6%	-1.6%		
Paper and Paper Products	1.11	-3.3%	-3.1%	-2.8%		
Printing and Reproduction of Recorded Media	0.68	3.8%	4.3%	4.9%		
Chemicals and Chemical Products	6.47	-3.1%	-3.3%	-3.2%	-2.6%	0.9%
Pharmaceuticals, Medicinal Chemical and Botanical Products	1.99	3.4%	4.5%	3.3%	4.2%	-0.2%
Rubber and Plastics Products	2.30	-1.7%	-1.6%	-2.2%		
Other Non-Metallic Mineral Products	3.20	-1.0%	-0.9%	-0.1%		
Basic Metals	9.65	-3.6%	-3.6%	-4.1%	-4.3%	-0.8%
Fabricated Metal Products, Except Machinery and Equipment	3.15	-1.3%	-1.3%	-1.8%		
Computer, Electronic and Optical Products	2.01	-1.6%	-1.7%	-1.9%		
Electrical Equipment	2.93	-1.2%	-1.2%	-0.5%		
Machinery and Equipment	4.79	1.3%	1.2%	0.5%		
Motor Vehicles, Trailers and Semi-Trailers	4.97	1.4%	2.1%	2.2%		
Other Transport Equipment	1.65	6.7%	6.7%	6.4%		
Furniture	0.73	-0.4%	2.0%	1.1%		
Other Manufacturing	1.06	10.0%	10.0%	9.6%		

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

ANNEXURE

Exhibit 3: Primary Food Inflation (YoY)

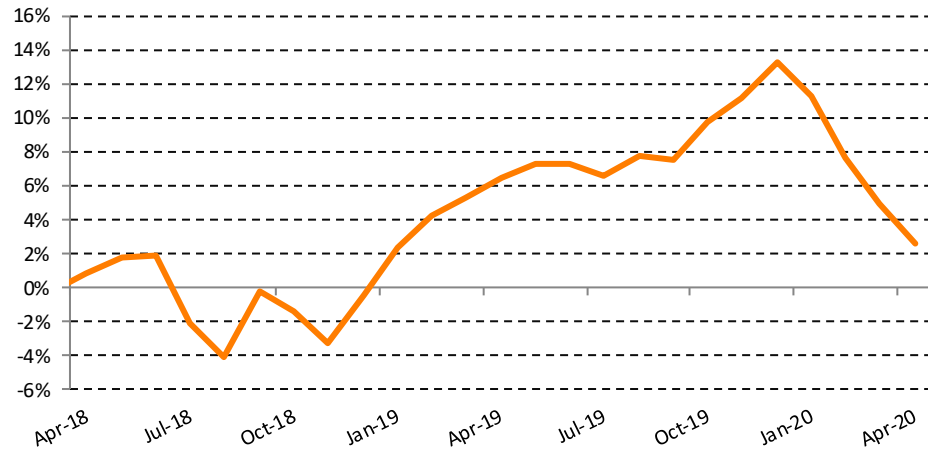
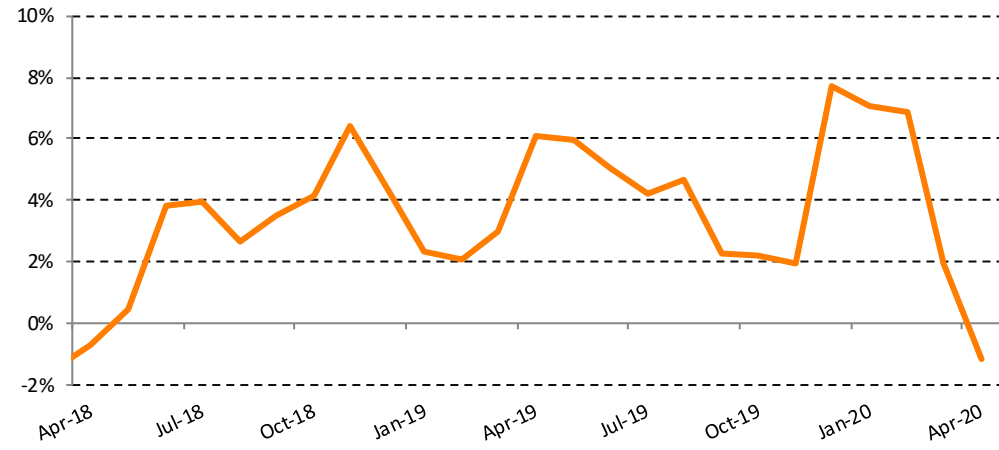


Exhibit 4: Primary Non-Food Inflation (YoY)



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

Exhibit 5: Primary Crude Petroleum Inflation (YoY)

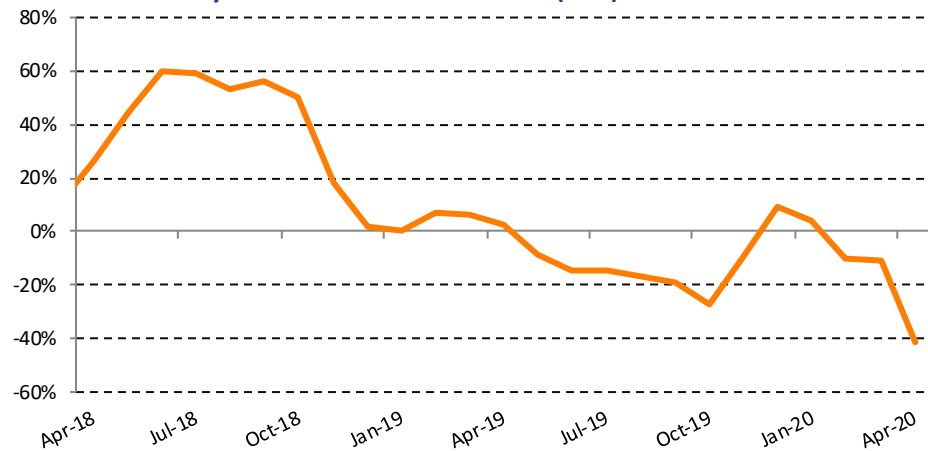
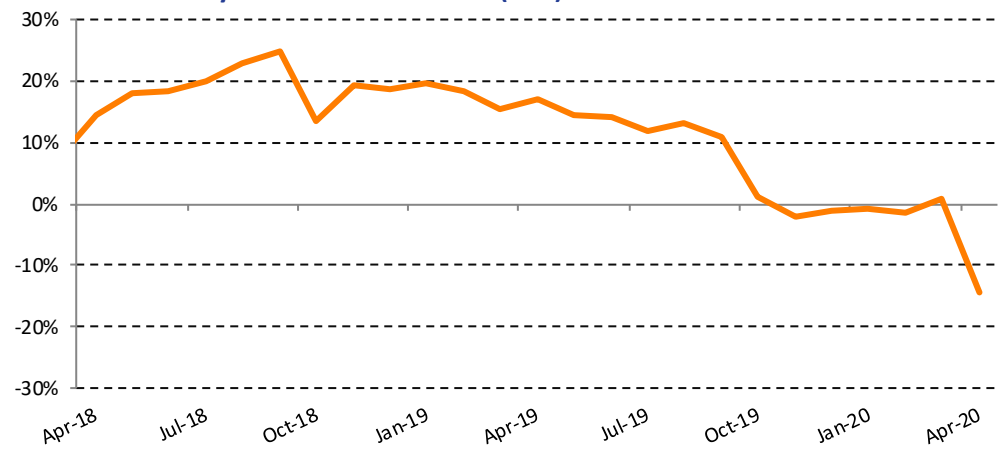


Exhibit 6: Primary Natural Gas Inflation (YoY)



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

Exhibit 7: Primary Mineral Inflation (YoY)

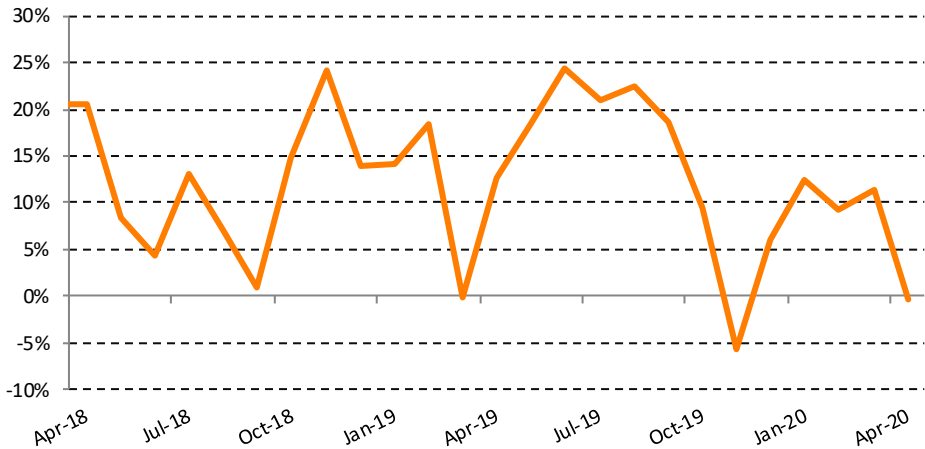
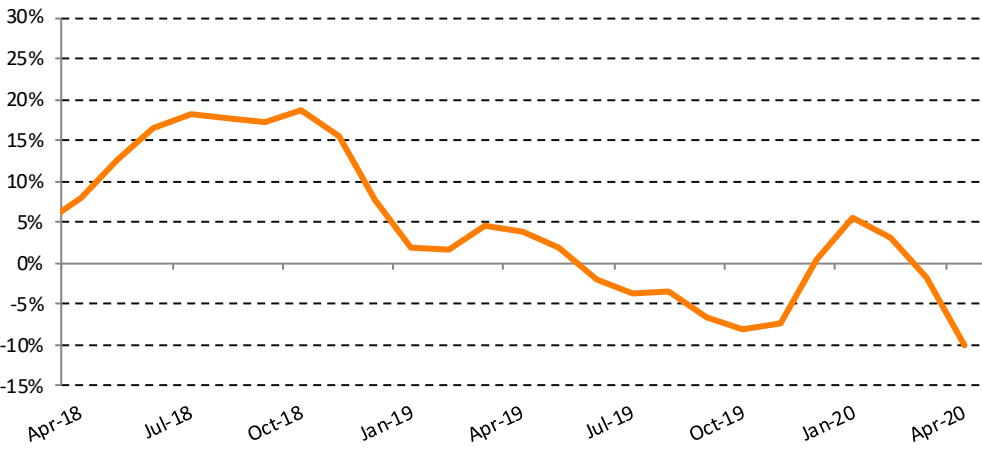


Exhibit 8: Fuel and Power Inflation (YoY)



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



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