



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

WHOLESALE PRICE INDEX DECEMBER 2020

WPI inflation eased to 1.2% in Dec 2020 from 1.6% in Nov 2020, driven by softening food inflation, even as core inflation surged to 4.2%

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HIGHLIGHTS

The YoY WPI inflation eased to 1.2% in December 2020 from 1.6% in November 2020, driven by softening food inflation

The core inflation rose to a 24-month high 4.2% in December 2020 from 2.6% in November 2020, reflecting higher commodity prices, as well as a rise in pricing power

However, food inflation eased in December 2020, benefitting from the favourable base effect, as well as a downtrend in the prices of many vegetables and cereals

Higher inflation for core items has doused any hope for rate easing to recommence in the upcoming policy review.

- The year-on-year (YoY) WPI inflation eased to 1.2% in December 2020 (+2.8% in December 2019) from 1.6% in November 2020 (0.6% in November 2019), lower than our expectation of 1.5% for that month.
- The sequential softening in the YoY WPI inflation in December 2020 relative to November 2020, was driven by the turnaround in primary food items to a disinflation, and lower inflation for primary non-food articles. However, the inflation for non-food manufactured products ("core inflation") spiked to a 24-month high 4.2% in December 2020. Moreover, the inflation for minerals rose, and the disinflation for fuel and power, and crude petroleum and natural gas narrowed in December 2020 relative to November 2020.
- In contrast, the YoY core inflation hardened to a 24-month high 4.2% in December 2020 from 2.6% in November 2020. This reflected the uptrend in global commodity prices brought on by the visibility on the early availability of Covid-19 vaccines, and some increase in pricing power of producers given a gradual firming up of demand, as well as a low base effect.
- The inflation pertaining to the WPI-Food Index softened sharply to 0.9% in December 2020 from 4.3% in November 2020, driven by primary food articles (to -1.1% from +3.9%), and to a mild extent, by manufactured food products (to +4.89% from +4.95%).
- In our view, the surge in the core-WPI inflation has doused any lingering hope that the dip in the December 2020 CPI inflation would be adequate for rate easing to recommence in the upcoming policy review.

OVERVIEW

- The YoY WPI inflation eased to a four-month low 1.2% in December 2020 (+2.8% in December 2019; refer Exhibit 1 and 2, and Annexure) from 1.6% in November 2020 (+0.6% in November 2019), and printed slightly lower than our expectations (+1.5%).
- The sequential softening in the YoY WPI inflation in December 2020 relative to November 2020, was driven by the turnaround in primary food items to a disinflation, and lower inflation for primary non-food articles. However, the core inflation spiked to a 24-month high 4.2% in December 2020. Moreover, the inflation for minerals rose, and the disinflation for fuel and power, and crude petroleum and natural gas narrowed in December 2020 relative to November 2020.
- The inflation pertaining to the WPI-Food Index softened sharply to 0.9% in December 2020 from 4.3% in November 2020, driven by primary food articles (to -1.1% from +3.9%), and to a mild extent, by manufactured food products (to +4.89% from +4.95%).
- The primary food items recorded a 25-month low disinflation of 1.1% in December 2020 (+13.3% in December 2019), in contrast to the inflation of 3.9% in November 2020 (+11.2% in November 2019), benefitting from the favourable base effect, as well as a downtrend in the prices of many vegetables and cereals. Vegetables (led by potatoes, cabbage, onions, and a variety of other items), and condiments and spices recorded a disinflation of 13.2% and 0.5%, respectively, in December 2020, in contrast to the inflation of 12.2% and 2.3%, respectively, in November 2020. Moreover, the YoY inflation eased, or disinflation widened in December 2020 relative to November 2020, for pulses (to +9.7% from +13.0%), cereals (to -6.5% from -5.5%), milk (to +3.9% from +5.5%) and other food articles (to +14.6% from +17.4%). In contrast, the YoY inflation increased, or disinflation narrowed in December 2020 relative to November 2020 for fruits (to +1.4% from -3.8%), and eggs, meat and fish (to +1.4% from +0.6%). In MoM terms, the primary food articles sub-index recorded a sharp fall of 4.9% in December 2020 (0.0% in December 2019), driven primarily by the trend in vegetables (-23.0% vs. -0.5%), and to a smaller extent, cereals (-0.4% vs. +0.5%), milk (-0.3% vs. +1.3%), etc.
- In addition, the YoY inflation for manufactured food products eased slightly to 4.89% in December 2020 (+7.2% in December 2019) from 4.95% in November 2020 (+5.1% in November 2019), led by manufacture of tea and coffee products, vegetable and animal oils and fats, cocoa, chocolate and sugar confectionery, etc. In MoM terms, the manufactured food items sub-index rose by 1.1% in December 2020, slightly lower than the 1.2% increase recorded in December 2019.
- Moreover, the YoY inflation in primary non-food articles eased sharply to 3.1% in December 2020 (+7.7% in December 2019) from 8.4% in November 2020 (+1.9% in November 2019), driven by a YoY disinflation in floriculture (to -18.2% from +29.3%), and a narrower YoY inflation in oil seeds (to +7.5% from +8.3%) and other non-food articles (to +8.4% from +9.4%), while the disinflation narrowed for fibres (to -0.2% from -3.0%). In MoM terms, the primary non-food articles sub-index rose by a muted 0.4% in December 2020, sharply lower than the 5.5% spike recorded in December 2019, led by floriculture (to -7.6% from +46.0%), oil seeds (to +1.5% from +2.2%), etc.
- In contrast, the YoY core inflation hardened to a 24-month high 4.2% in December 2020 from 2.6% in November 2020. This reflected the uptrend in global commodity prices brought on by the visibility on the early availability of Covid-19 vaccines, and some increase in pricing power of producers given a gradual firming up of demand, as well as a low base effect. For 15 of the 21 sub-sectors (with a considerable weight of 48.8% in the WPI) the YoY inflation rose, or the disinflation narrowed in December 2020 relative to November 2020; this sub-set

includes tobacco products, textiles, leather and related products, paper and paper products, printing and reproduction of recorded media, chemicals and chemical products, rubber and plastics products, etc. (refer Exhibit 3). On the other hand, six sub-groups (with a modest weight of 6.3% in the WPI) displayed either a softening in their inflation print or a deeper YoY disinflation in December 2020 relative to November 2020; this sub-set includes beverages, wearing apparel, wood and of products of wood and cork, pharmaceuticals, medicinal chemical and botanical products, furniture and other manufacturing. In MoM terms, the sub-index for the core-WPI increased by a sharp 1.5% in December 2020, in contrast to the 0.1% MoM correction recorded in December 2019. Notably, 15 of the 21 sub-indices (accounting for 49.0% of the WPI), such as textiles (+1.6%), tobacco products (+0.5%), paper and paper products (+0.9%), printing and reproduction of recorded media (+3.2%), chemicals and chemical products (+1.4%), etc. registered a rise in MoM terms in December 2020. In contrast, there was a decline in MoM terms in December 2020 in the case of six of the 21 sub-indices (with a weight of 6.1% in the WPI), such as beverages (-0.8%), wearing apparel (-0.4%), leather and related products (-0.3%), wood and products of wood and cork (-0.1%), pharmaceuticals, medicinal chemical and botanical products (-0.1%) and other manufacturing (-0.1%). Notably, the core inflation exceeded the headline WPI inflation for the third consecutive month, and the wedge between the two widened considerably in December 2020.

- In addition, the YoY disinflation for fuel and power (with a weight of 13.2% of the WPI) narrowed to 8.7% in December 2020 from 9.9% in November 2020, driven by the trend for mineral oils (to -11.2% from -16.0%) and coal (to 0.4% from 0.0%). However, the YoY disinflation for electricity widened considerably to 10.7% in December 2020 from 4.3% in November 2020. In MoM terms, the fuel and power sub-index increased by 3.2% in December 2020, higher than the 1.9% rise in December 2019. The MoM uptrend in December 2020 was driven by mineral oils (+6.0% vs. +0.2%) and coal (+0.4% vs. 0.0%), even as the sub-index for electricity remained unchanged in MoM terms (+7.2% in December 2019).
- Moreover, the YoY disinflation related to crude petroleum and natural gas narrowed to 23.5% in December 2020 from 25.6% in November 2020, driven by the trend for both crude petroleum (to -22.7% from -25.7%) and natural gas (to -25.4% from -25.6%). The initial level for the crude petroleum sub-index for December 2020 has been pegged at 60.5, 7.8% higher than the revised level for October 2020 (56.1). This is lower than the estimated 22.5% increase in the price of the Indian crude oil basket in INR terms recorded between those two months. Hence, we expect the crude petroleum sub-index for December 2020 to subsequently be revised upwards. In MoM terms, the crude petroleum sub-index recorded a rise of 7.8% in December 2020 (+3.7% in December 2019), while the natural gas sub-index recorded no change in December 2020 (-0.3% in December 2019).
- Partly reflecting the base effect, the YoY inflation for minerals increased to a four-month high 3.9% in December 2020 (+6.0% in December 2019) from 2.0% in November 2020 (-5.8% in November 2019), led by the trend in metallic minerals (to +6.8% from +2.9%). In contrast, the YoY disinflation in other minerals widened to 3.6% in December 2020 from 0.2% in November 2020. In MoM terms, the minerals sub-index recorded a hardening of 5.4% in December 2020 (+3.5% in December 2019).
- The build-up of the WPI inflation till December 2020 stood at 3.4%, higher than the 2.6% displayed till December 2019, reflecting the trend for primary non-food articles (+10.7% in December 2020 vs. +8.3% in December 2019), core-WPI (+3.4% vs. -1.5%), crude petroleum and natural gas (+4.3% vs 0.0%) etc.
- The final WPI YoY inflation for October 2020 was revised downwards to 1.3% from the initial 1.5%. This was led by downward revisions in crude petroleum and natural gas (to -22.9% from -13.0%), minerals (to -0.2% from +9.1%), fuel and power (to -11.1% from -10.9%) and manufactured food products (to +4.4% from +4.5%). The impact of the same was partly offset by an upward revision in the inflation for primary food articles (to +7.1% from +6.4%) and non-food primary articles (to +2.93% from +2.85%) and core-WPI (to +1.8% from +1.7%).

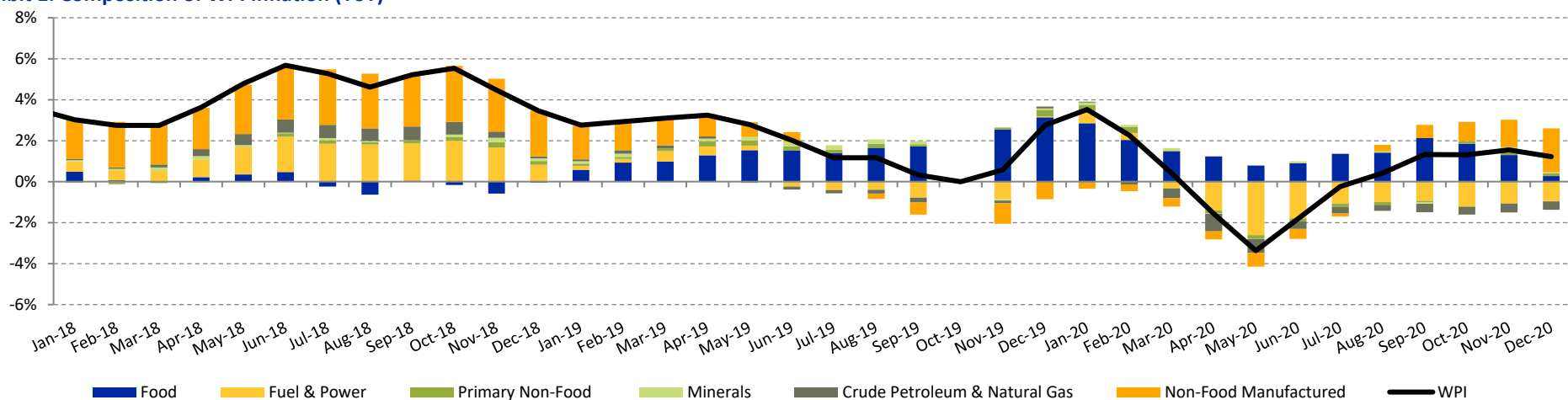
OUTLOOK

Available data for January 2021 suggests that the wholesale prices of vegetables have receded further on a MoM basis. Moreover, there is softening in the average wholesale prices of cereals and pulses. However, pulses have witnessed a broad-based rise in prices in January 2021 compared to December 2020. Balancing these trends, and factoring in a favourable base effect, we expect the food disinflation to deepen in the ongoing month relative to December 2020.

However, the hardening prices of various commodities, including crude oil, and its partial transmission into domestic retail prices, remain a concern. With global and domestic demand expected to strengthen with the rollout of Covid-19 vaccines, the uptrend in commodity prices is expected to continue in the near term. This remains a risk factor for the near-term outlook for non-food inflation.

The Rupee has strengthened in the past few weeks from 74.38 on December 22, 2020 to 73.17 on January 14, 2020 amidst positive developments around the Covid-19 vaccines, favourable risk environment towards the emerging markets, robust FPI inflows into the domestic equities and a weak US Dollar index. This should help to partly offset the impact of rising global commodity prices on the landed cost of imports.

In our view, the surge in the core-WPI inflation has doused any lingering hope that the dip in the December 2020 CPI inflation would be adequate for rate easing to recommence in the upcoming policy review.

Exhibit 1: Composition of WPI Inflation (YoY)


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

Exhibit 2: Trend in Monthly WPI Inflation (YoY)

	Weight	YoY Inflation				MoM	Buildup [^]	Contribution
		Oct-20	Oct-20	Nov-20	Dec-20	Dec-20	Dec-20	Dec-20
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
WPI	100.00	1.5%	1.3%	1.6%	1.2%	0.2%	3.4%	100.0%
Primary Articles	22.62	4.7%	4.3%	2.7%	-1.6%	-3.1%	6.6%	-36.2%
- Food	15.26	6.4%	7.1%	3.9%	-1.1%	-4.9%	6.3%	-18.3%
- Non-Food	4.12	2.9%	2.9%	8.4%	3.1%	0.4%	10.7%	11.5%
- Minerals	0.83	9.1%	-0.2%	2.0%	3.9%	5.4%	-2.2%	3.2%
- Crude Petroleum and Natural Gas	2.41	-13.0%	-22.9%	-25.6%	-23.5%	5.5%	4.3%	-33.3%
Fuel and Power	13.15	-10.9%	-11.1%	-9.9%	-8.7%	3.2%	-5.3%	-78.9%
- Coal	2.14	-0.1%	-0.1%	0.0%	0.4%	0.4%	0.4%	0.7%
- Minerals Oils	7.95	-17.9%	-18.3%	-16.0%	-11.2%	6.0%	-6.5%	-54.1%
- Electricity	3.06	-4.3%	-4.3%	-4.3%	-10.7%	0.0%	-7.6%	-25.7%
Manufactured Products	64.23	2.1%	2.2%	3.0%	4.2%	1.4%	3.7%	214.1%
- Food	9.12	4.5%	4.4%	4.9%	4.9%	1.1%	5.3%	40.7%
- Non-Food	55.11	1.7%	1.8%	2.6%	4.2%	1.5%	3.4%	175.7%

[^]Buildup with reference to March 2020; Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Gol; CEIC; ICRA research

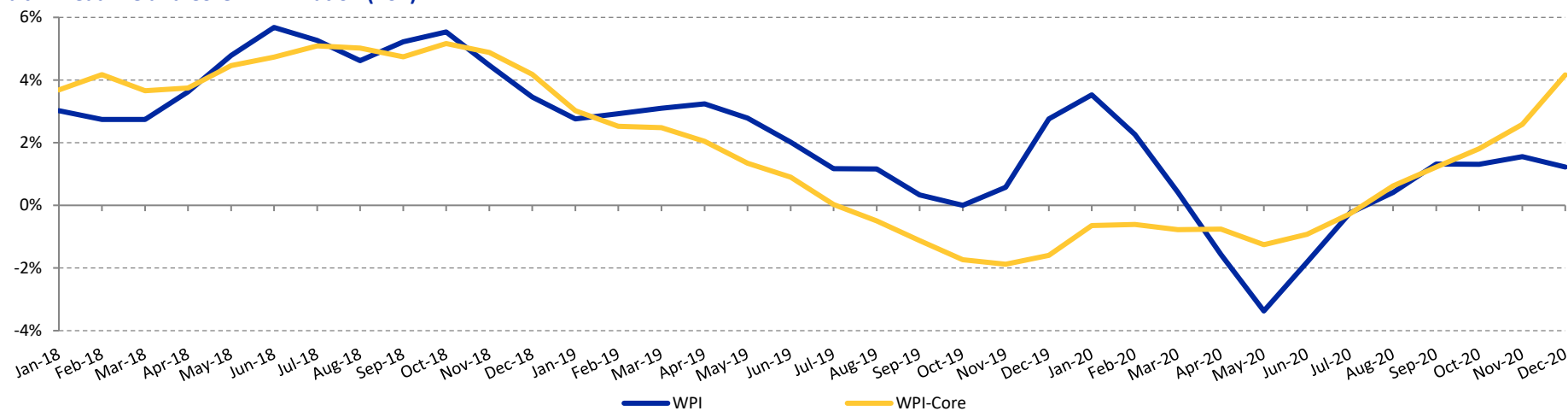
Exhibit 3: Trend in Monthly Inflation related to Non-Food Manufactured Products (YoY)

	Weight	YoY Inflation				MoM	Buildup^	Contribution
		Oct-20	Oct-20	Nov-20	Dec-20	Dec-20	Dec-20	Dec-20
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
Non-Food Manufactured Products	55.11	1.7%	1.8%	2.6%	4.2%	1.5%	3.4%	100.0%
Beverages	0.91	0.5%	0.4%	0.4%	-0.4%	-0.8%	-1.1%	-0.2%
Tobacco Products	0.51	0.6%	2.1%	2.0%	3.9%	0.5%	1.6%	1.1%
Textiles	4.88	-2.2%	-2.1%	-0.1%	2.0%	1.6%	1.4%	4.3%
Wearing Apparel	0.81	-0.1%	-0.1%	0.7%	-0.1%	-0.4%	0.4%	-0.1%
Leather and Related Products	0.54	-0.4%	-0.7%	-0.3%	0.1%	-0.3%	0.9%	0.0%
Wood and Products of Wood and Cork	0.77	-0.1%	0.0%	1.4%	1.3%	-0.1%	1.4%	0.5%
Paper and Paper Products	1.11	-0.7%	-0.6%	-0.1%	1.5%	0.9%	0.2%	0.8%
Printing and Reproduction of Recorded Media	0.68	2.0%	2.5%	1.2%	4.8%	3.2%	3.2%	1.8%
Chemicals and Chemical Products	6.47	-0.3%	-0.3%	1.0%	2.7%	1.4%	3.3%	7.6%
Pharmaceuticals, Medicinal Chemical and Botanical Products	1.99	3.3%	2.9%	2.9%	2.6%	-0.1%	1.1%	2.5%
Rubber and Plastics Products	2.30	1.2%	1.5%	2.9%	4.6%	2.2%	5.4%	4.4%
Other Non-Metallic Mineral Products	3.20	1.0%	1.0%	1.2%	1.6%	0.2%	1.0%	2.2%
Basic Metals	9.65	5.3%	5.3%	7.2%	11.5%	4.2%	9.0%	43.5%
Fabricated Metal Products, Except Machinery and Equipment	3.15	-0.6%	-0.4%	0.1%	2.4%	1.9%	2.3%	3.4%
Computer, Electronic and Optical Products	2.01	-0.8%	-0.8%	-1.4%	-0.6%	0.9%	-0.8%	-0.5%
Electrical Equipment	2.93	1.2%	1.3%	1.2%	3.8%	1.4%	3.1%	4.7%
Machinery and Equipment	4.79	1.1%	1.3%	0.8%	1.3%	0.7%	1.1%	2.7%
Motor Vehicles, Trailers and Semi-Trailers	4.97	2.3%	2.5%	2.4%	2.7%	0.5%	2.4%	5.8%
Other Transport Equipment	1.65	7.4%	7.4%	7.7%	7.8%	0.1%	5.9%	5.8%
Furniture	0.73	1.0%	0.7%	2.9%	2.8%	0.8%	1.5%	1.0%
Other Manufacturing	1.06	15.5%	16.5%	19.9%	18.8%	-0.1%	13.4%	8.7%

^ Buildup with reference to March 2020

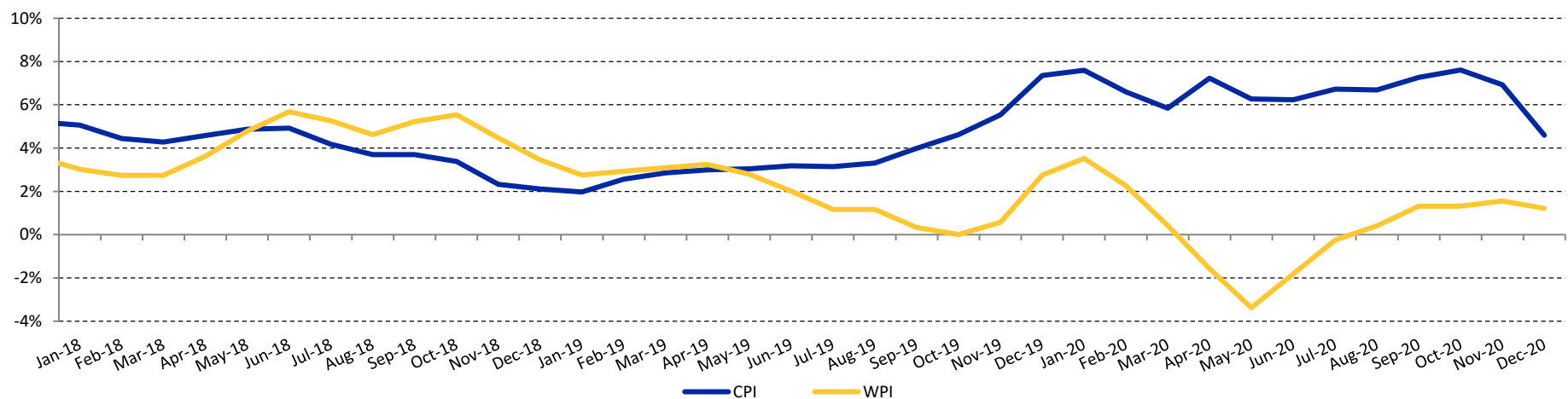
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; CEIC; ICRA research

Exhibit 4: Headline and Core WPI Inflation (YoY)



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

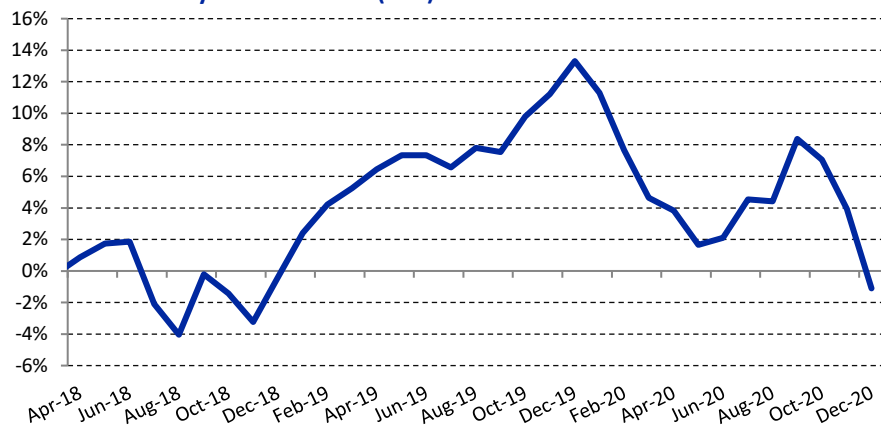
Exhibit 5: WPI Inflation and CPI Inflation (YoY)



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

ANNEXURE

Exhibit 6: Primary Food Inflation (YoY)



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

Exhibit 7: Primary Non-Food Inflation (YoY)

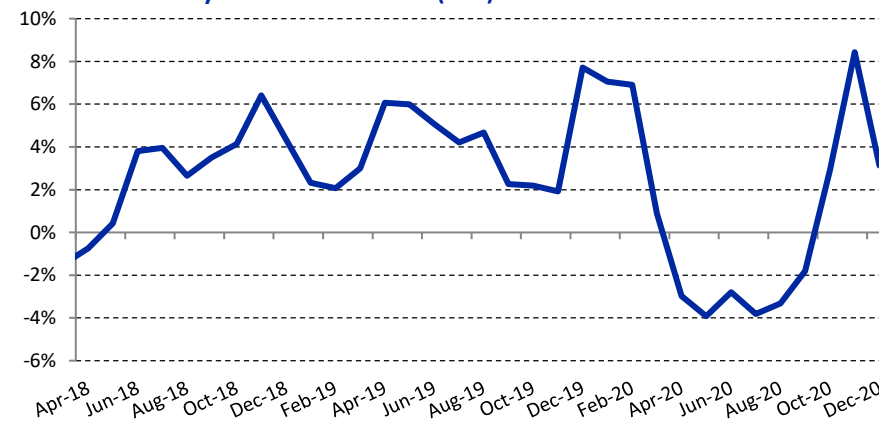
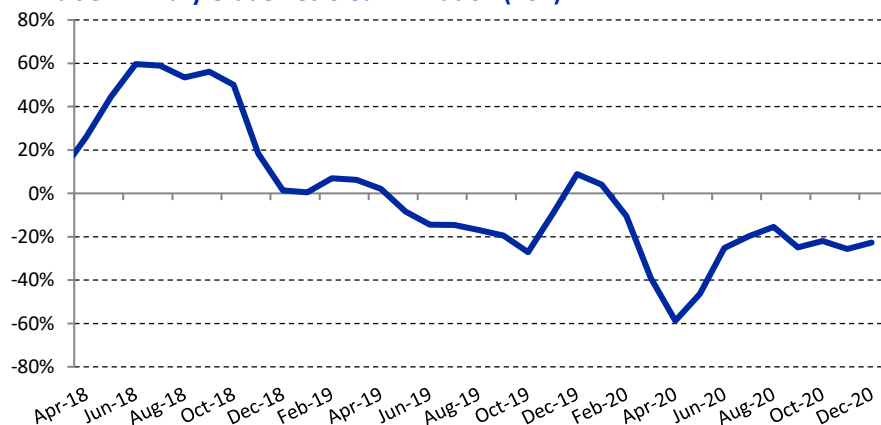


Exhibit 8: Primary Crude Petroleum Inflation (YoY)



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

Exhibit 9: Primary Natural Gas Inflation (YoY)

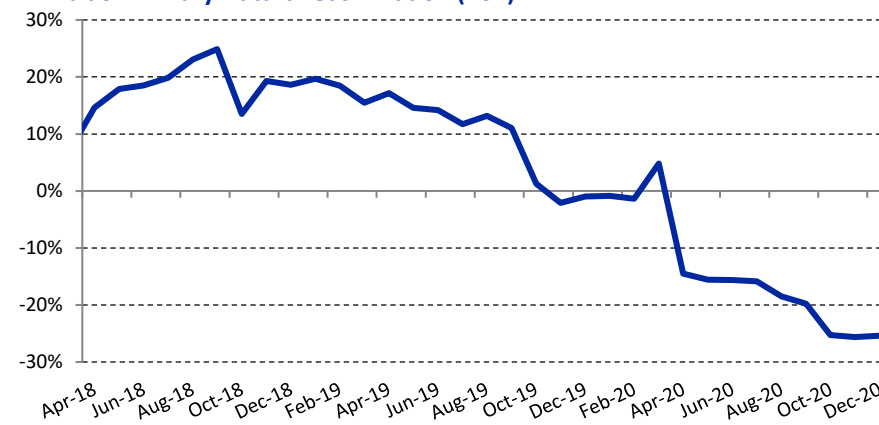
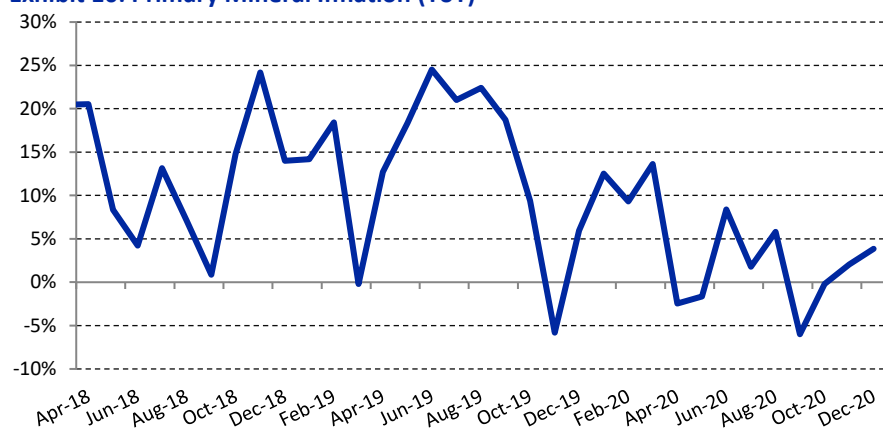
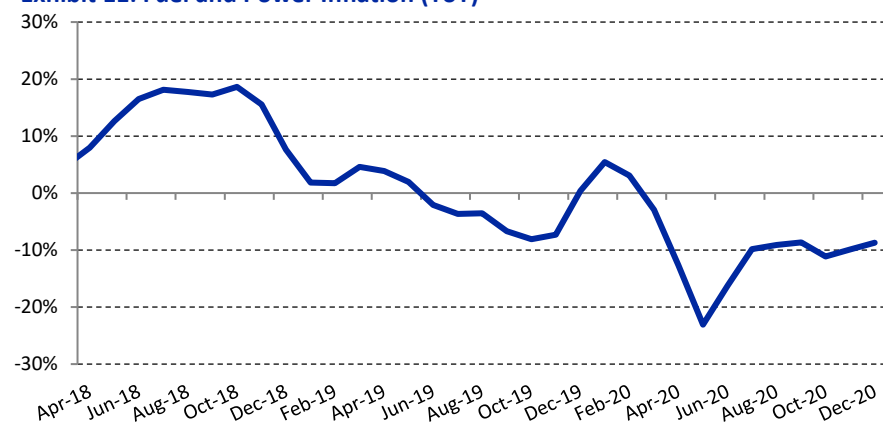
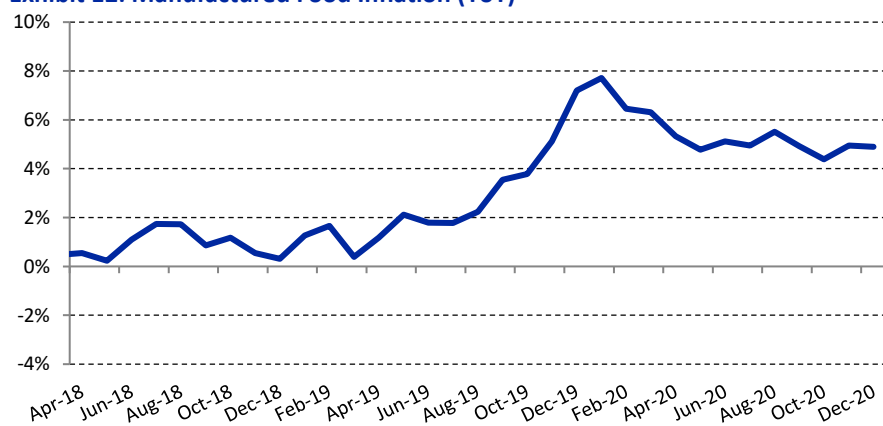
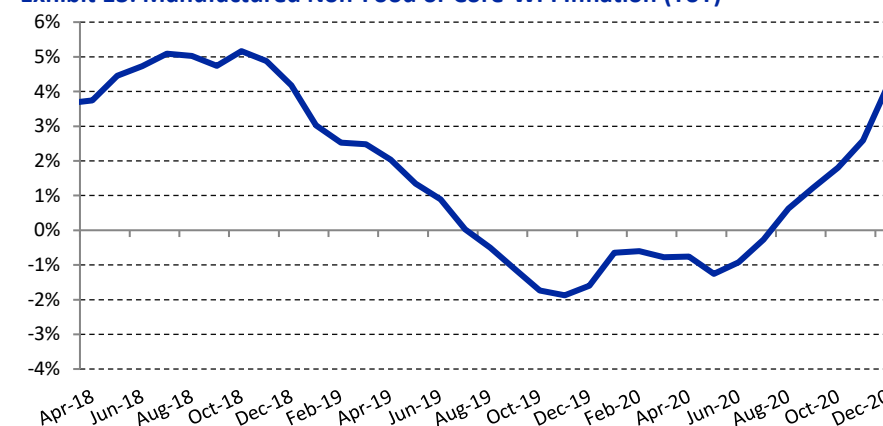


Exhibit 10: Primary Mineral Inflation (YoY)


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

Exhibit 11: Fuel and Power Inflation (YoY)

Exhibit 12: Manufactured Food Inflation (YoY)


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

Exhibit 13: Manufactured Non-Food or Core-WPI Inflation (YoY)


ABOUT ICRA

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