



**ICRA**

A MOODY'S INVESTORS  
SERVICE COMPANY

## **WHOLESALE PRICE INDEX JANUARY 2021**

**WPI inflation surged to 2.0% in  
January 2021, driven by core items  
and fuels**

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### **February 2021**

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## HIGHLIGHTS

*The WPI inflation rose to 2.0% in January 2021 from 1.2% in December 2020, in contrast to the dip displayed by the CPI inflation*

*The rise in the WPI inflation was led by core items, fuel and power, and crude petroleum, even as the disinflation in primary food articles deepened*

*We expect core-WPI inflation to rise to 7.0-7.5% in Q1 FY2022, with further strengthening of demand and pricing power; headline inflation to average 5-5.5% in FY2022*

*Anticipated hardening in the CPI and WPI inflation going forward reinforces our view of no room for further rate cuts in this cycle*

- The year-on-year (YoY) WPI inflation surged to 2.0% in January 2021 (+3.5% in January 2020) from 1.2% in December 2020 (+2.8% in December 2019), contrary to our and the market's expectation of a soft print, as well as the dip displayed by the CPI inflation.
- The sequential uptick in the YoY WPI inflation in January 2021 relative to December 2020, was primarily driven by a rise in the inflation for non-food manufactured products (core-WPI), as well as a narrower disinflation in fuel and power, and crude petroleum and natural gas.
- On the contrary, the WPI-food index slipped into a YoY disinflation in January 2021, after 24 months, of a mild 0.3%, from an inflation of 0.9% in the previous month, driven primarily by a deeper disinflation for primary food articles (to -2.8% from -1.1%).
- With a sharp month-on-month (MoM) increase of 1.6%, the core-WPI inflation rose to a 27-month high 5.1% in January 2021 (+4.2% in December 2020). This partly reflects higher commodity and metal prices, as well as a rise in pricing power, in line with the revival in global demand with the covid-19 vaccines' roll out. In our assessment, rising demand and strengthening pricing power will make core inflation rise further to as much as 7.0-7.5% during Q1 FY2022.
- With the exceptionally low base related to the crash in fuel prices in Q4 FY2020, juxtaposed with the hardening of crude oil as well as other commodity prices in the ongoing month, the headline WPI inflation is set to record large upticks over the course of the next few months.
- We now expect the WPI inflation to average 5-5.5% in FY2022, unless the available vaccines turn out to be ineffective against new Covid-19 variants, causing commodity prices, consumer confidence and business sentiment to plunge.
- We expect the CPI inflation to have bottomed out in January 2021, with large upticks expected in the next two prints. This, combined with the anticipated hardening in the headline and core-WPI inflation, reaffirms our view that there is no room for further rate cuts in this cycle.

## OVERVIEW

- The YoY WPI inflation surged to 2.0% in January 2021 (+3.5% in January 2020; refer Exhibit 1 and 2, and Annexure) from 1.2% in December 2020 (+2.8% in December 2019), contrary to our (ICRA exp: +1.1%) and the market's expectation of a soft print, as well as the dip displayed by the CPI inflation.
- The sequential hardening in the YoY WPI inflation in January 2021 relative to December 2020, was driven by higher inflation for core items and primary non-food articles, as well as, lower disinflation for fuel and power, and crude petroleum and natural gas. The impact of the same was partly cushioned by a widening of the disinflation for primary food articles, and a softening in the inflation for minerals and manufactured food products in January 2021 relative to December 2020.
- The core-WPI inflation increased sharply to a 27-month high 5.1% in January 2021 from 4.2% in December 2020, extending the uninterrupted rise since June 2020. The uptick in the core inflation in January 2021 relative to the previous month was led by the continued uptrend in global commodity prices following the rollout of the Covid-19 vaccines, and an increase in pricing power of producers given the firming up of demand. For 13 of the 21 sub-sectors (with a considerable weight of 40.3% in the WPI) the YoY inflation rose, or the disinflation narrowed in January 2021 relative to December 2020; this sub-set includes beverages, textiles, wearing apparel, wood and of products of wood, rubber and plastics products, basic metals, paper and paper products, etc. (refer Exhibit 3). On the other hand, eight sub-groups (with a weight of 14.8% in the WPI) displayed either a softening in their inflation print or a deeper YoY disinflation in January 2021 relative to December 2020; this sub-set includes printing and reproduction of recorded media, pharmaceuticals, medicinal chemical and botanical products, other non-metallic mineral products, other manufacturing, etc. In MoM terms, the sub-index for the core-WPI increased by a sharp 1.6% in January 2021, more than twice as high as the 0.7% rise recorded in January 2020. As many as 17 of the 21 sub-indices (accounting for 49.6% of the WPI), such as beverages (+1.0%), textiles (+3.5%), paper and paper products (+2.1%), rubber and plastics products (+2.5%), basic metals (+5.5%), furniture (+1.3%), etc. registered a rise in MoM terms in January 2021. In contrast, there was a decline in MoM terms in January 2021 in the case of four of the 21 sub-indices (with a weight of 5.5% in the WPI), such as printing and reproduction of recorded media (-2.1%), other non-metallic mineral products (-1.2%), other manufacturing (-2.1%; led by a modest correction in gold prices) and leather and related products (-0.8%). Notably, the core inflation exceeded the headline WPI inflation for the fourth consecutive month in January 2021.
- Moreover, the YoY disinflation related to crude petroleum and natural gas narrowed sharply to 15.0% in January 2021 from 23.5% in December 2020, driven by the trend for crude petroleum (to -10.3% from -22.7%), even as the YoY disinflation widened for natural gas (to -26.5% from -25.4%). The initial level for the crude petroleum sub-index for January 2021 has been pegged at 68.7, 13.6% higher than the revised level for November 2020 (60.5). This is lower than the estimated 23.7% 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 January 2021 to subsequently be revised upwards. In MoM terms, the crude petroleum sub-index recorded a rise of 13.6% in January 2021 (-2.2% in January 2020), while the natural gas sub-index recorded a decline of 1.3% in January 2021 (+0.2% in January 2020).
- In addition, the YoY disinflation for fuel and power (with a weight of 13.2% of the WPI) nearly halved to 4.8% in January 2021 from 8.7% in December 2020, driven by the trend for mineral oils (to -8.7% from -11.2%) and electricity (to -0.4% from -10.7%), even as the YoY inflation for coal remained unchanged at 0.4% in January 2021. In MoM terms, the fuel and power sub-index rose by a sharp 5.8% in January 2021, significantly higher than 1.5% recorded in January 2020. The former was driven by the trend in mineral oils (to +5.5% from +2.7%) and electricity (to +11.5% from 0.0%), even as the sub-index for coal remained unchanged in MoM terms.

- Further, the YoY inflation in primary non-food articles increased to 4.2% in January 2021 (+7.1% in January 2020) from 3.1% in December 2020 (+7.7% in December 2019), driven by a higher YoY inflation in fibres (to +1.5% from -0.2%) and oil seeds (to +8.8% from +7.5%). On the other hand, YoY disinflation widened for floriculture (to -18.5% from -18.2%) and YoY inflation decreased for other non-food articles (to +7.9% from +8.4%). In MoM terms, the primary non-food articles sub-index declined by 0.4% in January 2021, narrower than the 1.4% decrease recorded in January 2020, led by fibres (to +1.9% from +0.3%) and oil seeds (to +4.0% from +2.7%).
- In contrast, the WPI-Food index recorded a disinflation of 0.3% in January 2021, as opposed to the 0.9% inflation in December 2020, driven by primary food articles (to -2.8% from -1.1%). The disinflation in the latter widened to 2.8% in January 2021 (+11.3% in January 2020) from 1.1% in December 2020 (+13.3% in December 2019), benefitting from the downtrend in the prices of many vegetables, eggs as well as various other items. The disinflation in vegetables (led by tomatoes, potatoes, green peas, carrots and a variety of other vegetables), cereals, and condiments and spices deepened to 20.8%, 7.3% and 3.5%, respectively, in January 2021, from 13.2%, 6.5% and 0.5%, respectively, in December 2020. Moreover, the YoY inflation eased in January 2021 relative to December 2020 for pulses (to +7.9% from +9.7%) and milk (to +3.6% from +3.9%). In addition, eggs, meat and fish sub-index recorded a disinflation of 1.8% in January 2021, in contrast to the inflation of 1.4% in December 2020. On the other hand, the YoY inflation increased in January 2021 relative to December 2020 for fruits (to +3.1% from +1.4%) and other food articles (to +15.8% from +14.6%). In MoM terms, the primary food articles sub-index recorded a sharper fall of 3.0% in January 2021 (-1.3% in January 2020), driven by the trend in vegetables (-18.9% vs. -11.1%), eggs (+1.1% vs. +10.7%), cereals (+0.1% vs. +11.1%), etc.
- In addition, the YoY inflation for manufactured food products eased marginally to 4.8% in January 2021 (+7.7% in January 2020) from 4.9% in December 2020 (+7.2% in December 2019), led by manufacture of macaroni, noodles, couscous and similar farinaceous products, sugar, molasses and honey, animal oils and fats, etc. In MoM terms, the manufactured food items sub-index increased by 0.8% in January 2021, slightly lower than the 0.9% rise recorded in January 2020.
- Partly reflecting the base effect, the YoY inflation for minerals softened to 2.3% in January 2021 (+12.5% in January 2020) from 3.9% in December 2020 (+6.0% in December 2019), led by the trend in metallic minerals (to +3.9% from +6.8%). In contrast, the YoY disinflation in other minerals narrowed to 1.9% in January 2021 from 3.6% in December 2020. In MoM terms, the minerals sub-index recorded a YoY increase of 2.7% in January 2021 (+4.2% in January 2020), led by trends in metallic minerals (to +2.2% from +5.0%).
- The build-up of the WPI inflation till January 2021 stood at 4.6%, considerably higher than the 2.9% displayed till January 2020, reflecting the trend for core-WPI (+5.1% vs. -0.8%), crude petroleum & natural gas (+14.2% vs -1.5%), primary non-food articles (+10.3% vs. +6.8%), etc., offset by a lower build-up for items such as minerals (+0.4% vs. +11.4%), primary food-articles (+3.2% vs. +11.1%), manufactured food products (+6.2% vs. +7.7%), etc.
- With an uptick in the WPI inflation and a decline in the CPI inflation, the gap between the two has eased to 2.0% in January 2021 from 3.4% in December 2020.
- The final WPI YoY inflation for November 2020 was revised substantially upwards to 2.3% from the initial value of 1.6%. This upward revision was broad-based reflecting the trend in all the components, such as minerals (to +10.4% from +2.0%), core-WPI (to +2.9% from +2.6%), primary food articles (to +4.6% from +3.9%), fuel and power (to -7.0% from -9.9%), crude petroleum and natural gas (to -21.5% from -25.6%), etc.

## OUTLOOK

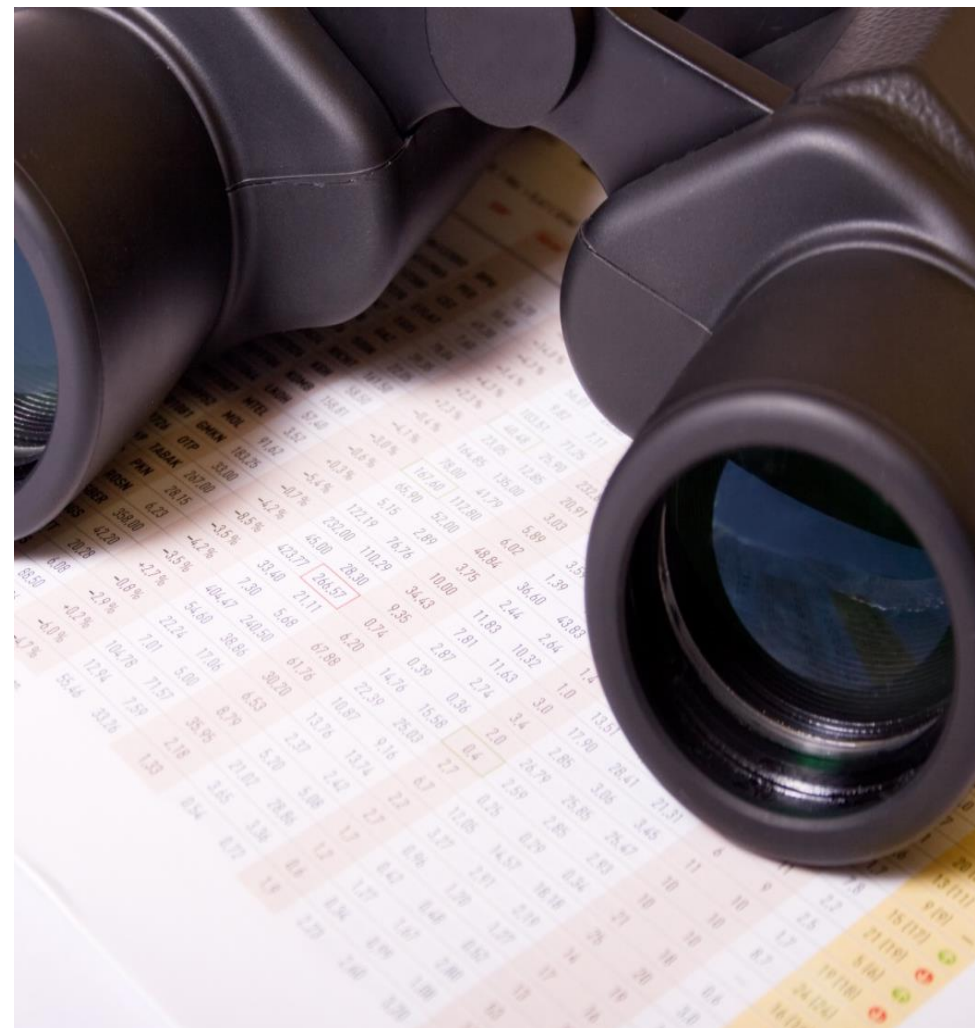
Available data for February 2021 reveals a varied trend in the wholesale prices of major food items. For instance, the wholesale prices of potatoes and tomatoes have receded in MoM terms in February 2021, whereas those of onions have displayed an uptick. While the average prices of some cereals and pulses have declined in February 2021 relative to the previous month, those of oilseeds and related products have hardened in tune with the global trend.

Crude oil prices have hardened by nearly 36% from an average of \$43.5/barrel in November 2020 to an average of \$59.0/barrel in February 2021 (till February 11, 2021), with a revival in global demand and sentiment with the roll out of the Covid-19 vaccines. With the exceptionally low base related to the crash in fuel prices in Q4 FY2020, juxtaposed with the hardening of crude oil as well as other commodity prices in the ongoing month, we expect the disinflation in crude petroleum and natural gas, as well as fuel and power, to narrow in February 2021, with a YoY inflation set to re-emerge in March 2021 and harden thereafter.

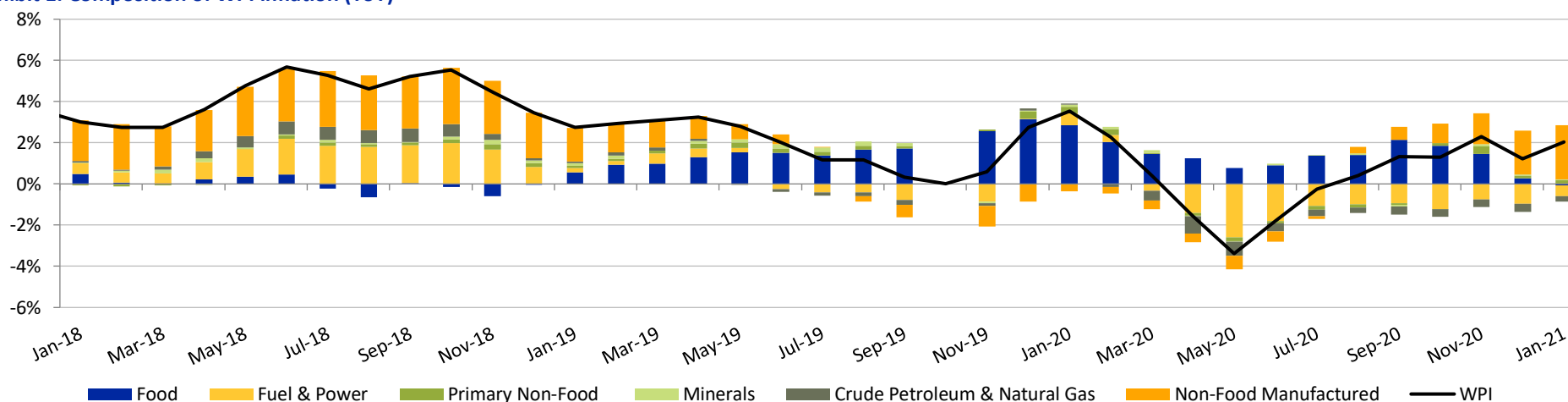
In our assessment, rising demand and strengthening pricing power will make core inflation rise further to as much as 7.0-7.5% during Q1 FY2022. Overall, the headline WPI inflation is set to record large upticks over the course of the next few months.

**We now expect the WPI inflation to average 5-5.5% in FY2022, unless the available vaccines turn out to be ineffective against new Covid-19 variants, causing commodity prices, consumer confidence and business sentiment to plunge.**

**We expect the CPI inflation to have bottomed out in January 2021, with large upticks expected in the next two prints. This, combined with the anticipated hardening in the headline and core-WPI inflation, reaffirms our view that there is no room for further rate cuts in this cycle.**





**Exhibit 1: Composition of WPI Inflation (YoY)**


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

**Exhibit 2: Trend in Monthly WPI Inflation (YoY)**

	Weight	YoY Inflation				MoM	Buildup <sup>^</sup>	Contribution
		Nov-20	Nov-20	Dec-20	Jan-21	Jan-21	Jan-21	Jan-21
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
<b>WPI</b>	100.00	<b>1.6%</b>	<b>2.3%</b>	<b>1.2%</b>	<b>2.0%</b>	<b>1.1%</b>	<b>4.6%</b>	<b>100.0%</b>
<b>Primary Articles</b>	22.62	<b>2.7%</b>	<b>3.8%</b>	<b>-1.6%</b>	<b>-2.2%</b>	<b>-1.8%</b>	<b>4.7%</b>	<b>-29.9%</b>
- Food	15.26	3.9%	4.6%	-1.1%	-2.8%	-3.0%	3.2%	-27.5%
- Non-Food	4.12	8.4%	8.7%	3.1%	4.2%	-0.4%	10.3%	9.1%
- Minerals	0.83	2.0%	10.4%	3.9%	2.3%	2.7%	0.4%	1.2%
- Crude Petroleum and Natural Gas	2.41	-25.6%	-21.5%	-23.5%	-15.0%	9.5%	14.2%	-12.5%
<b>Fuel and Power</b>	13.15	<b>-9.9%</b>	<b>-7.0%</b>	<b>-8.7%</b>	<b>-4.8%</b>	<b>5.8%</b>	<b>0.2%</b>	<b>-26.3%</b>
- Coal	2.14	0.0%	0.0%	0.4%	0.4%	0.0%	0.4%	0.4%
- Minerals Oils	7.95	-16.0%	-15.9%	-11.2%	-8.7%	5.5%	-1.3%	-26.1%
- Electricity	3.06	-4.3%	6.7%	-10.7%	-0.4%	11.5%	3.1%	-0.6%
<b>Manufactured Products</b>	64.23	<b>3.0%</b>	<b>3.2%</b>	<b>4.2%</b>	<b>5.1%</b>	<b>1.5%</b>	<b>5.3%</b>	<b>156.7%</b>
- Food	9.12	4.9%	5.2%	4.9%	4.8%	0.8%	6.2%	24.1%
- Non-Food	55.11	2.6%	2.9%	4.2%	5.1%	1.6%	5.1%	131.0%

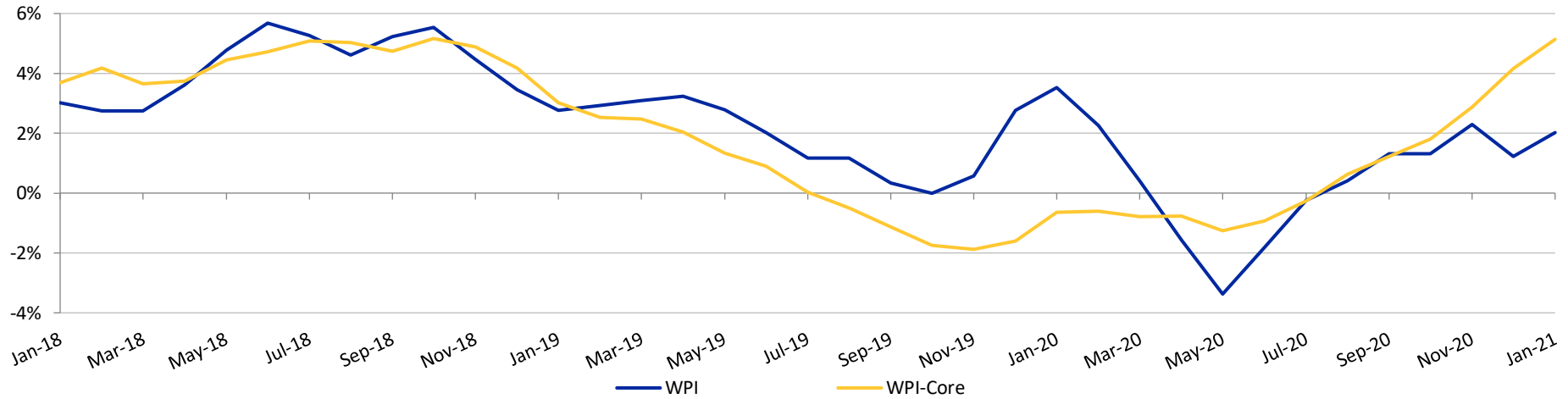
<sup>^</sup>Buildup with reference to March 2020; Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; CEIC; ICRA research

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

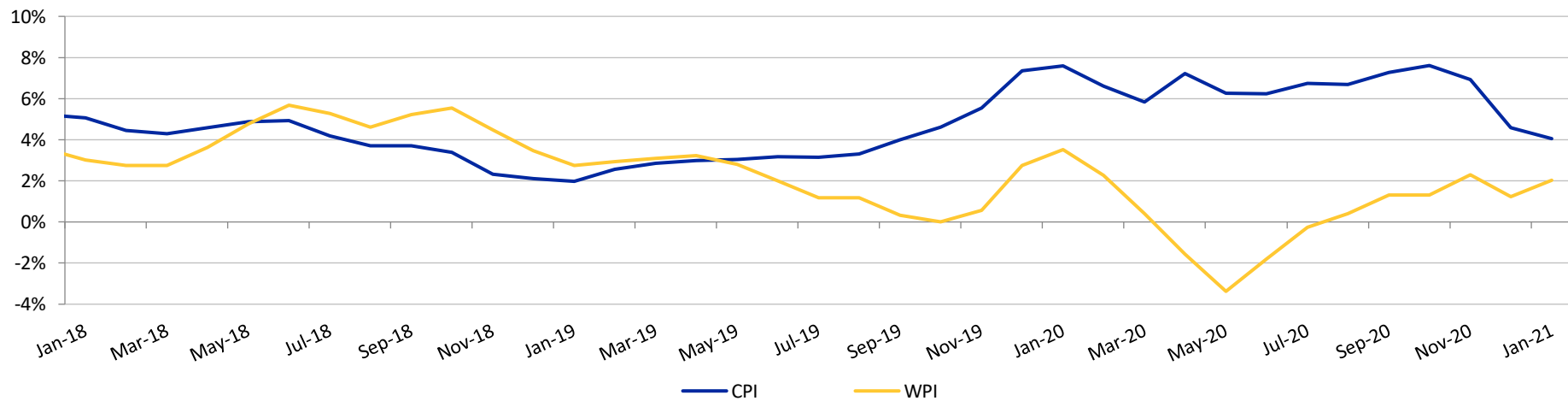
	Weight	YoY Inflation				MoM	Buildup <sup>^</sup>	Contribution
		Nov-20	Nov-20	Dec-20	Jan-21	Jan-21	Jan-21	Jan-21
		Initial	Revised	Initial	Initial	Initial	Initial	Initial
<b>Non-Food Manufactured Products</b>	<b>55.11</b>	<b>2.6%</b>	<b>2.9%</b>	<b>4.2%</b>	<b>5.1%</b>	<b>1.6%</b>	<b>5.1%</b>	<b>100.0%</b>
Beverages	0.91	0.4%	-0.1%	-0.4%	0.2%	1.0%	-0.2%	0.1%
Tobacco Products	0.51	2.0%	2.0%	3.9%	3.7%	0.5%	2.1%	0.9%
Textiles	4.88	-0.1%	0.3%	2.0%	5.2%	3.5%	4.9%	8.9%
Wearing Apparel	0.81	0.7%	0.6%	-0.1%	1.2%	0.4%	0.8%	0.4%
Leather and Related Products	0.54	-0.3%	-1.1%	0.1%	0.2%	-0.8%	0.1%	0.0%
Wood and Products of Wood and Cork	0.77	1.4%	1.2%	1.3%	2.6%	1.2%	2.6%	0.8%
Paper and Paper Products	1.11	-0.1%	0.3%	1.5%	2.4%	2.1%	2.3%	1.0%
Printing and Reproduction of Recorded Media	0.68	1.2%	3.7%	4.8%	2.0%	-2.1%	1.0%	0.6%
Chemicals and Chemical Products	6.47	1.0%	1.5%	2.7%	3.6%	0.9%	4.2%	8.3%
Pharmaceuticals, Medicinal Chemical and Botanical Products	1.99	2.9%	3.5%	2.6%	0.5%	0.1%	1.2%	0.4%
Rubber and Plastics Products	2.30	2.9%	4.0%	4.6%	7.3%	2.5%	8.0%	5.5%
Other Non-Metallic Mineral Products	3.20	1.2%	1.0%	1.6%	0.2%	-1.2%	-0.2%	0.2%
Basic Metals	9.65	7.2%	7.8%	11.5%	14.5%	5.5%	15.0%	45.4%
Fabricated Metal Products, Except Machinery and Equipment	3.15	0.1%	0.2%	2.4%	3.8%	1.4%	3.7%	4.2%
Computer, Electronic and Optical Products	2.01	-1.4%	-1.0%	-0.6%	0.5%	0.8%	0.0%	0.3%
Electrical Equipment	2.93	1.2%	1.0%	3.8%	4.7%	0.9%	4.0%	4.7%
Machinery and Equipment	4.79	0.8%	0.9%	1.3%	1.8%	0.6%	1.7%	2.9%
Motor Vehicles, Trailers and Semi-Trailers	4.97	2.4%	2.5%	2.7%	2.2%	0.1%	2.5%	3.8%
Other Transport Equipment	1.65	7.7%	7.7%	7.8%	7.8%	0.2%	6.1%	4.6%
Furniture	0.73	2.9%	3.4%	2.8%	2.1%	1.3%	2.8%	0.6%
Other Manufacturing	1.06	19.9%	18.9%	18.8%	16.9%	-2.1%	11.1%	6.2%

<sup>^</sup> Buildup with reference to March 2020

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

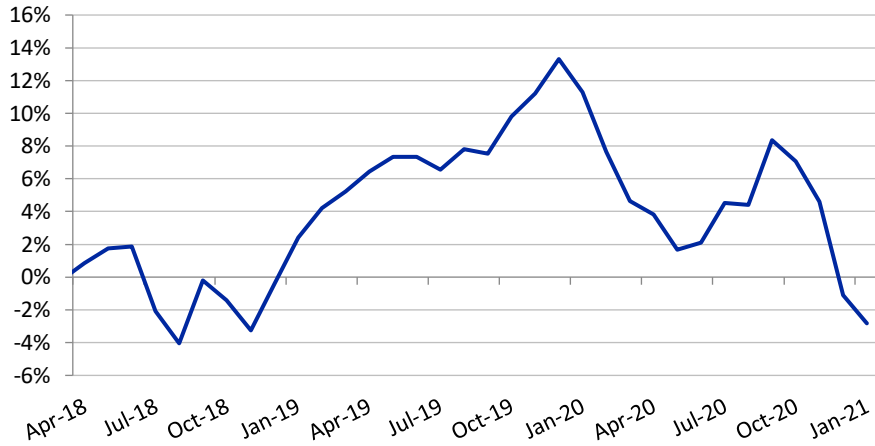
**Exhibit 4: Headline and Core WPI Inflation (YoY)**


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

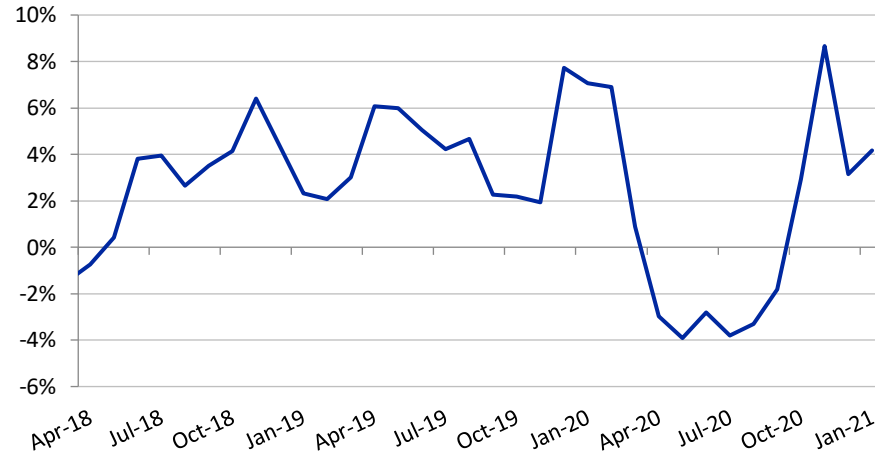
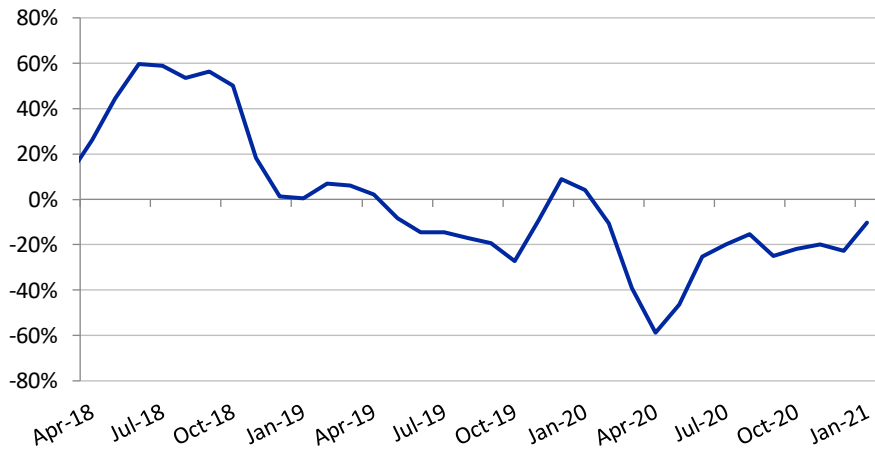
**Exhibit 5: WPI Inflation and CPI Inflation (YoY)**


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

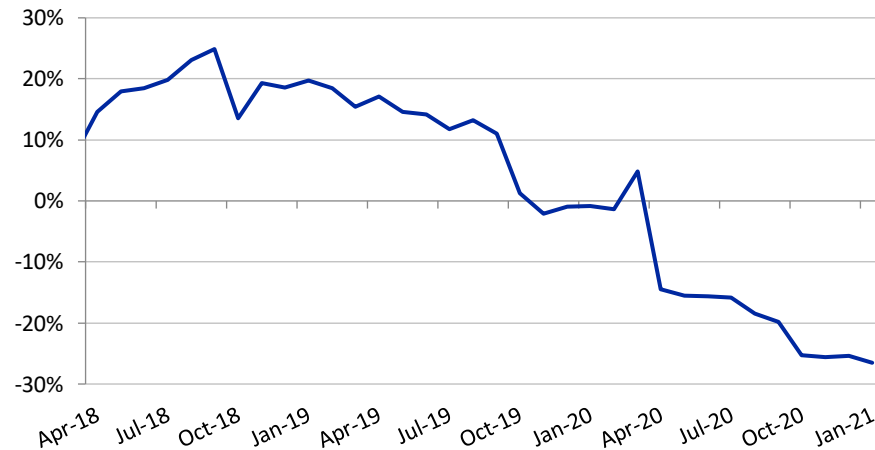


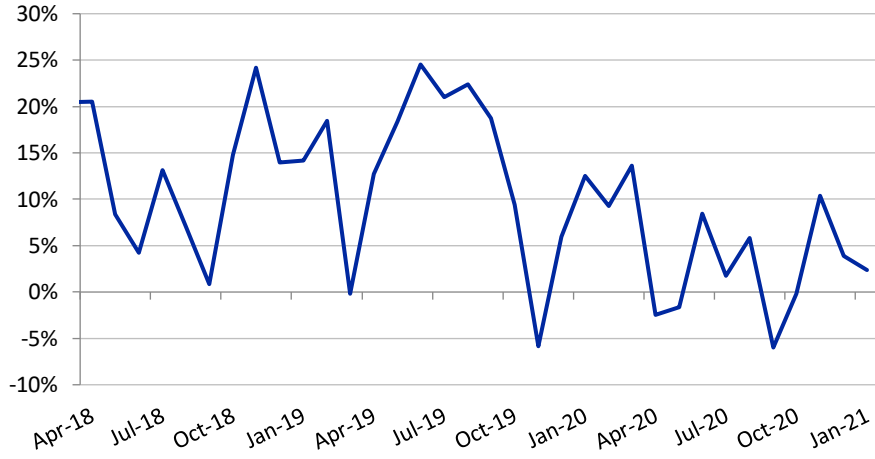
**ANNEXURE**
**Exhibit 6: Primary Food Inflation (YoY)**


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

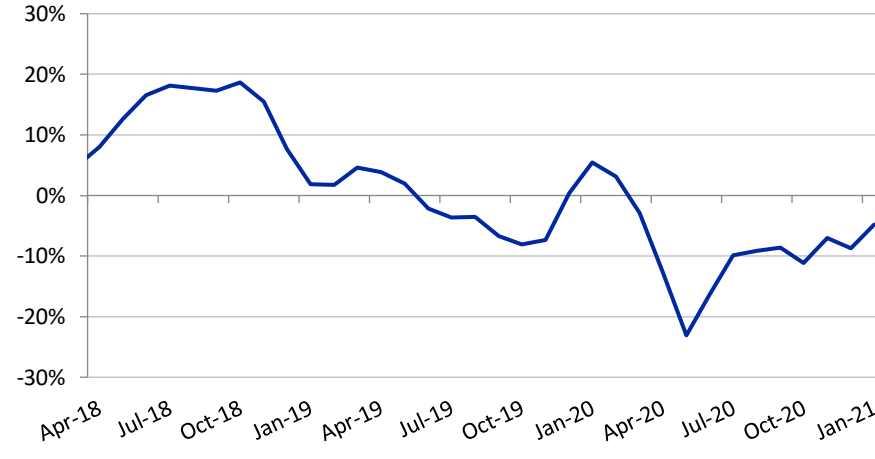
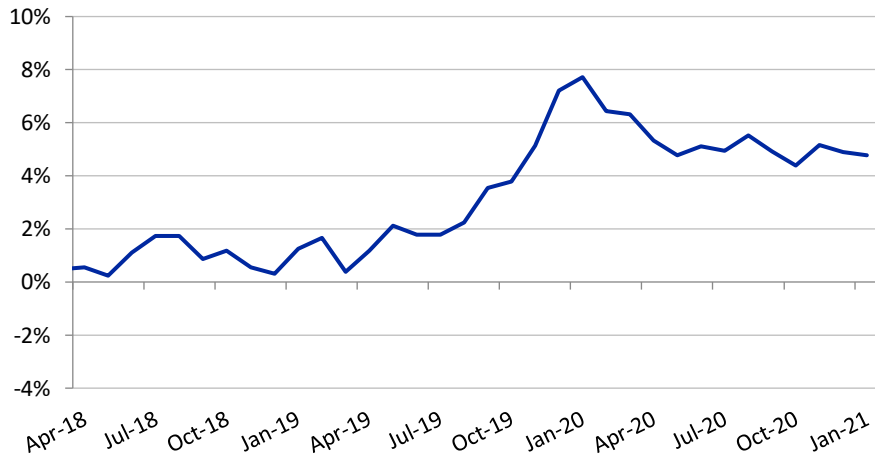
**Exhibit 7: Primary Non-Food Inflation (YoY)**

**Exhibit 8: Primary Crude Petroleum Inflation (YoY)**


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

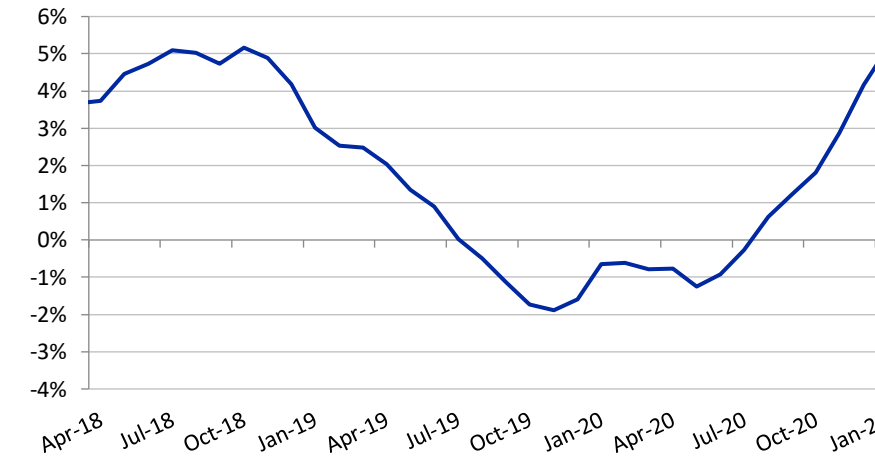
**Exhibit 9: Primary Natural Gas Inflation (YoY)**


**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

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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## Kolkata

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Appasaheb Marathe Marg,  
Prabhadevi,  
Mumbai - 400 025  
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