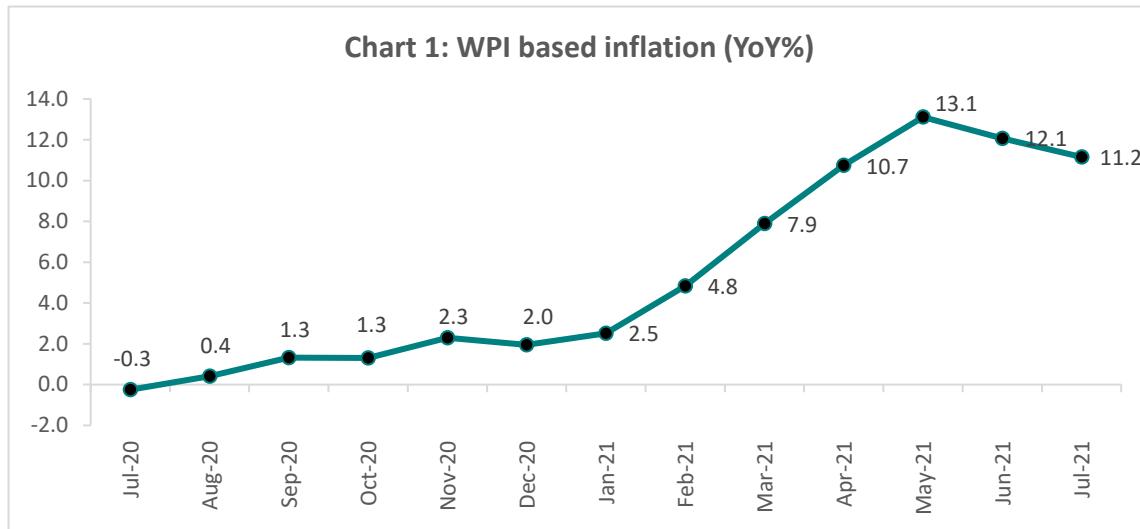


Wholesale Inflation – July'21

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Inflation in wholesale prices moderated to 11.2% in July against 12.1% in June'21 registering double digit growth for the fourth consecutive month. The elevated WPI inflation level is due to the low base (-0.3% in July 2020) recorded last year coupled with the hardening of crude oil and manufacturing input prices. The WPI inflation for May'21 has been revised upwards from 12.9% to 13.1%. **Wholesale inflation print for July'21 is in line with the CARE Ratings' projection of 11.1%.**

Consumer Price Index (CPI) that measures the retail inflation receded to 5.6% in July'21 (y-o-y growth) from 6.3% recorded in the previous month led by softening food prices and a strong base from last year. Even though, the elevated WPI inflation is not relevant from the RBI's MPC standpoint, the possibility of gradual spill over into the CPI could threaten the current accommodative stance.



Source: Office of Economic Advisor

Group-wise inflation analysis

A. Primary Articles:

- **Primary articles'** inflation moderated to 5.7% in July after peaking at 9.9% in April'21. For the past five months (since March'21), inflation in this segment has remained above the mark of 6% primarily due to the negative base during the corresponding months last year. However, the inflationary trend (YoY) has started moderating in recent months after achieving its peak in April'21 on account of softer food prices.
- **Food Inflation** remained stable in July'21 registering zero growth against 3.1% in June'21 and 4.5% in July'20 supported by lower prices of cereals, paddy, and wheat. However, the prices of onions and milk remained elevated due to the supply-demand mismatch.
- Cereal prices continued their downward trajectory, contracting by 2.8% in Jul'21 against inflation of 0.7% in Jul'20. The record high production amid good monsoon rains last year, has contributed to the declining prices of cereals, paddy, and wheat.
- Pulses inflation moderated to 8.3% in Jul'21 from 11.5% in the previous month. On sequential basis, pulses prices contracted by 2.7% reflecting the impact of several measures taken by government to reduce inflation in pulses (such as reducing import quota restrictions, offloading stocks etc. over the last 2-3 months).
- Vegetable prices have fallen for the 8th successive month with degrowth of 8.7% in July compared with (-) 0.8% in the previous month and 8.2% in the corresponding month last year.
- Inflation of fruits have entered negative trajectory registering a contraction of 3.5% in July 2021 compared with 5.6% in June'21 and a peak of 23.5% in April'21 led by supply-chain recovery.
- prices of onions accelerated by – in July against 64.32% in June'21 driving the index up.
- Milk prices have increased by 1.8% in July against 1.6% in June'21. The sequential rise in milk prices could potentially have a cascading effect on the prices of other food products.
- Inflation in protein items remained elevated, however, moderated to 8% in July against 8.6% in the previous month. The inflation in this segment is the result of demand-supply mismatch caused due to the pandemic led lockdown and disruption of economic activities.
- A substantial uptick in inflation of **Non-food articles** was witnessed in July 2021 at 23% against 18.7% in June'21 and (-)3.8% in July'20. The double-digit inflation number in this segment is predominantly due the low base effect.
- Inflation in **Crude Petroleum & Natural Gas** category inched up to 40.3% in July compared with 36% in June'21. Again, the negative base recorded last year due to lockdown and halting of economic activity has resulted in higher inflation print. Also, in sequential terms, prices have registered a growth of 7.9% which represents the firming of global oil prices.

B. Fuel and Power

- The inflation in fuel & power segment has cooled to 26% in July 2021, lower than 32.8% in the previous month. The elevated inflation number is reflective of higher LPG, kerosene, and electricity prices coupled with negative base effect.

C. Manufactured Products

- The inflation in manufacturing segment in July'21 saw an uptick at 11.2% compared with 10.9% a month ago. The low base of 0.6% in July'20 coupled with increasing input prices have contributed to the double-digit growth.
- Prices of basic metals (comprising of the highest weightage of 9.65% in the WPI index) rose to 29.1% in July'21 compared with 28.9% in June'21 and (-)2.9% in July'20.
- Inflation in manufactured food products (weight of 9.12 in the WPI basket) eased slightly at 13.1% in July'21 compared with 13.4% in the previous month and 4.9% in the corresponding month last year.
- All industries have recorded positive WPI growth during the month and nine out of 17 industries have recorded double-digit inflation growth. Fabricated metal products except machinery & equipment (13.6%), basic metals (29.1%), chemical & chemical products (11.1%) and textiles (15.6%) have witnessed notable and higher WPI growth compared with the previous month.

Table 1: Group-wise WPI (y-o-y%) for the last 12 months

Month	All Commodities	Primary	Fuel and Power	Manufactured goods
Weight	100	22.62	13.15	64.23
Jul-20	-0.3	1.6	-9.8	0.6
Aug-20	0.4	1.9	-9.1	1.4
Sep-20	1.3	4.1	-8.7	1.9
Oct-20	1.3	4.3	-11.1	2.2
Nov-20	2.3	3.8	-7.0	3.2
Dec-20	2.0	-0.6	-6.1	4.5
Jan-21	2.5	-1.6	-3.8	5.5
Feb-21	4.8	3.0	2.0	6.1
Mar-21	7.9	7.3	9.8	7.8
Apr-21	10.7	9.9	21.3	9.4
May-21	13.1	9.4	36.7	11.2
Jun-21	12.1	7.7	32.8	10.9
Jul-21	11.2	5.7	26.0	11.2

Source: Office of Economic Advisor

CARE Ratings' View:

While inflation prints (both WPI and CPI) eased in July, the fact that inflation expectations are on the rise (as per the RBI's survey) is a matter of concern. Moreover, the volatility in international oil market and rising metal prices due to demand recovery in manufacturing sector could lead to durable inflationary pressures as we are highly dependent on import of these items. Moderation in food prices due to good kharif harvest and lower global commodity prices could provide some respite in coming months.

Going forward, we expect wholesale inflation to remain in double digit, hovering around 10%, for the next 1-2 months. As the base effect drops off in following months, WPI based inflation could follow a downward trajectory, however, in real terms, prices will remain elevated due to the demand-led recovery across various segments.

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