

## **Fuel, manufactured products inflation surge main contributing factors**

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The Wholesale Price Index (WPI) based inflation for September 2018 came in at 5.13 per cent, much higher than the August 2018 print of 4.53 per cent.

In September 2017, the WPI had come in at 3.14 per cent.

The Centre has also now revised upwards the July 2018 WPI print to 5.27 per cent from 5.09 per cent earlier.

For the month under review, manufactured products inflation was at 4.22 per cent, higher than 2.99 per cent in September last year. Manufactured products inflation was 4.43 per cent in August 2018. Currently, manufactured products accounted for 65 per cent weight in the WPI.

Food index-which has weightage of 24.38 per cent-inflation came in at 0.14 per cent in September 2018, higher than contraction of 2.25 percent seen in August 2018.

While Fuel and power inflation in September 2018 was up 16.65 per cent (10.46 per cent in September 2017), the primary articles inflation stood at 2.97 per cent (0.69 per cent).

Within the primary articles, food articles inflation was (-)0.21 per cent in September 2018 as against 2.04 per cent in September last year.

### **Experts' view**

Aditi Nayar, Principal Economist, ICRA said that the WPI inflation for September 2018 revealed a negative surprise, printing 30 bps higher than ICRA's forecast. Moreover, a lagged correction in the sub-index for crude oil is likely to result in the revised print for this month exceeding the initial 5.1 per cent.

She said that the divergence in the extent of the uptick displayed by the WPI and the CPI inflation prints for September 2018 reflects the underlying difference in the composition of these two indices, with a smaller weight of food items and a larger weight of globally traded commodities in the WPI than the retail basket.

"While crude oil prices have cooled in the recent sessions, and the excise duty and VAT cuts would provide some relief for fuel prices, the weaker INR would continue to push up the WPI inflation in the ongoing month. This remains a crucial risk for the CPI inflation trajectory as well.

Moreover, the sharp narrowing in the disinflation for primary food items, led by cereals, fruits, vegetables, condiments and spices, and tea, may be a precursor to a rise in the retail food inflation in the ongoing month", Nayar added.

### **In line with expectations**

Madan Sabnavis, Chief Economist, CARE Ratings said that WPI inflation came in line with the rating agency's expectations of 5.1 per cent and driven mainly by fuel prices

besides non-food products. Manufactured products showed some moderation in this month, he said.

"For the year we expect inflation to be in range of 4.5-5 per cent with an upward bias- (post November if oil prices do not come down, there would be an upward revision).

Manufactured goods inflation will remain above 4%", he said. Sabnavis said that MSP impact will become discernible in coming months and higher duty rates on select products will provide upward bias in October.