



Confederation of Indian Industry

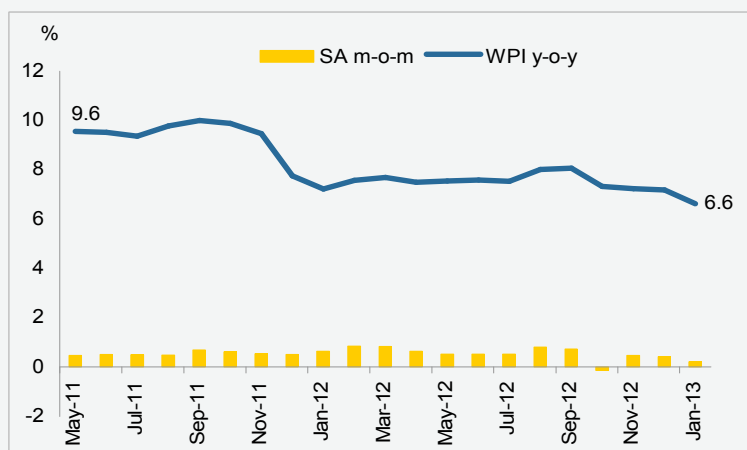
# Economy Update - Inflation



WPI inflation Slips below 7 per cent in January 2013

14 February, 2013

## Inflation posts a 3-year low in January 2013



- Wholesale price inflation for January 2013 dipped below the psychological 7 per cent mark, providing a welcome break from the string of dismal macroeconomic indicators over the last month. The WPI reading of 6.62 per cent for January 2013 (against 7.18 percent in December 2012) is the fourth consecutive monthly decline.

- On a sequential basis (seasonally-adjusted basis) too, inflation moderated to 0.2 per cent in January 2013 as compared to 0.4 per cent in the previous month.

- In contrast, retail inflation (CPI) accelerated to 10.8 per cent in January 2013 as compared to 10.6 per cent in the last month mainly on the back of higher food prices. The rising wedge between WPI and CPI inflation is due to the higher weight of food article in the latter.

- Primary articles inflation climbed to 10.3 per cent in January 2013 as compared to 10.6 per cent in the December 2012 driven by higher food prices during the month.

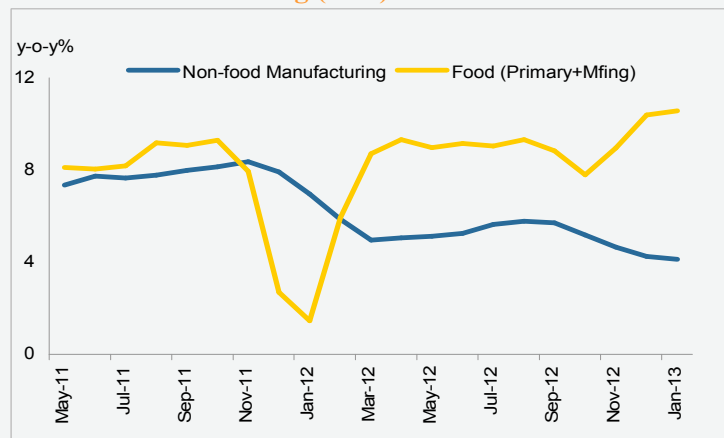
- Fuel inflation moderated sharply to 7.1 per cent in January 2013 as compared to 9.4 per cent in the previous month partly due to high base of last year. This moderation will be temporary as Government has announced its decision to deregulate the diesel prices.

- Inflation in manufacturing category softened to 4.8 per cent in January 2013 as compared to 5.0 per cent in the previous month due to moderation in both its food and non-food components.

## Sectoral components of inflation

	Weight	Jan-12	Nov-12	Dec-12	Jan-13	FY12	FY13
<b>General</b>	100.0	7.2	7.2	7.2	6.6	9.2	7.5
<b>Primary</b>	20.1	2.8	9.6	10.6	10.3	10.0	9.9
- Food	14.3	-0.7	8.8	11.2	11.9	7.1	9.8
- Non-Food	4.3	0.7	14.0	13.2	10.5	12.3	10.3
- Minerals	1.5	30.7	6.9	3.7	2.1	25.2	9.5
<b>Fuel</b>	14.9	17.0	10.0	9.4	7.1	14.0	10.3
- Petrol	1.1	15.0	1.5	3.4	3.8	24.2	7.1
- High Speed Diesel	4.7	9.2	14.6	14.6	15.0	8.3	9.4
<b>Manufacturing</b>	65.0	6.7	5.4	5.0	4.8	7.6	5.6
- Food	10.0	5.5	9.2	9.0	8.2	7.4	8.1
- Non-food	55.0	7.0	4.6	4.2	4.1	7.7	5.1

## Non-food manufacturing (core) inflation slides further



Source: Ministry of Industry & CII computations

- Non-food manufacturing inflation continued its downward movement as it stood at 4.1 per cent in the reporting month, indicating the moderation of demand side pressures.

- Total food inflation (primary and manufacturing) meanwhile continued to remain high at 10.6 per cent in January 2013 as compared to 10.4 per cent in December 2012.

- Acknowledging the abatement of inflationary pressures in the economy recently, RBI in its last monetary policy held in end-January 2013, cut the key policy rates by 25 bps each. However, given the sharp slide in growth and concomitant moderation in inflation, we hope that RBI will oblige with a larger reduction in its next policy.

**Outlook:** CII is happy to note the moderation in WPI-based inflation for the fourth consecutive month in January 2013 mainly underpinned by a softening in fuel and manufacturing prices. However, food prices still remain stubbornly high led by an increase in the prices of fruits & vegetables. The declining trajectory of both headline and core inflation has created sufficient room for RBI to cut its policy rates by 50 basis points in its next review of monetary policy due in March. What is significant is that core inflation continues to be stable and inflation related to food prices is supply driven and not due to excess demand.

CII Economy Update is a report prepared by the CII Economic Research Group. Reach us at: [ecoresearch@cii.in](mailto:ecoresearch@cii.in)