



Confederation of Indian Industry

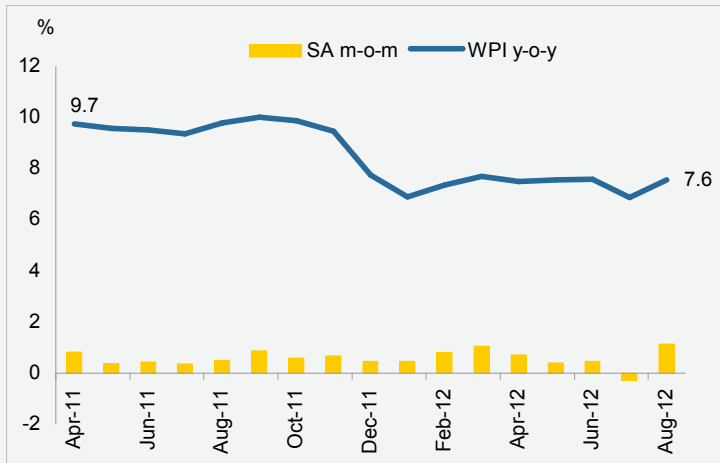
# Economy Update - Inflation



## WPI Inflation inches up once again in August 2012

14 September , 2012

### Inflation inches up to 7.6 per cent in August 2012



- Wholesale price based inflation (WPI) once again picked up pace by rising to 7.6 per cent August 2012 as compared to 6.9 per cent in the previous month mainly driven by higher food prices and fuel inflation.

- On a sequential basis (seasonally-adjusted basis) too, inflation increased to 1.1 per cent in August 2012, indicating the underlying upward momentum in the series.

- The government's decision to hike the diesel price by Rs 5/ltr and capping the number of LPG cylinders per family per year is a step in the right direction. Though it will increase inflation in the short-term, but ultimately it will help to rein in the high fiscal deficit which is extremely important in the current situation as it is adversely affecting investments and hence economic growth.

- Primary articles inflation remained firm at 10.1 per cent in August 2012, with primary non-food inflation galloping further to 13.8 per cent from 13.1 per cent in July 2012. Amongst the non-food categories, oil seeds witnessed the highest inflation to the tune of 28.3 per cent due to impact of deficient monsoons on oil seeds production this fiscal.

- Fuel inflation rose to 8.3 per cent in August 2012 from 6 per cent in the previous month due to higher price of electricity, naphtha, ATF and furnace oil.

- Inflation in manufacturing category increased to a 7 month high of 6.1 per cent in August 2012 due to an acceleration in both its food and non-food components.

- Non-food manufacturing inflation which is popularly regarded as the proxy for demand-side pressures in the economy increased further to 5.6 per cent in August 2012 as compared to 5.4 per cent in the previous month.

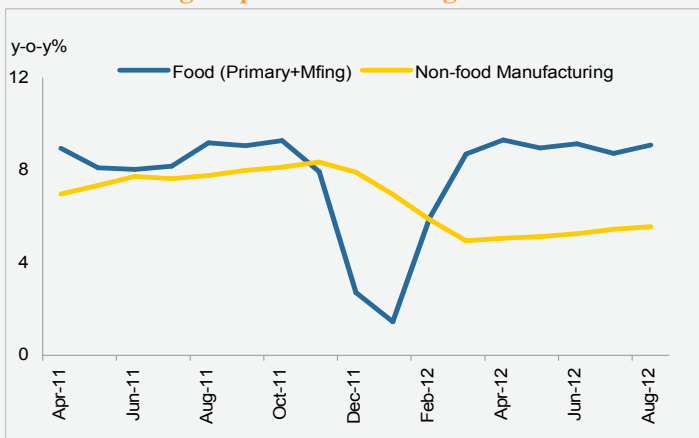
- Total food inflation (primary and manufacturing) jumped to 9.1 per cent in August 2012 as compared to a temporary respite to 8.7 per cent in the previous month. Though the rainfall deficit has improved lately, but still the uneven distribution of monsoons have raised the upside risks for food inflation.

- We remain hopeful for an interest rate cut on Monday as the government has done its bit to control the burgeoning fiscal deficit and now its turn of the RBI to act.

### Sectoral components of inflation

	Weight	Aug-11	Jun-12	July-12	Aug-12	Apr-Aug FY12	FY13
<b>General</b>	100.0	9.8	7.6	6.9	7.6	9.6	7.4
<b>Primary</b>	20.1	12.5	9.7	10.4	10.1	12.6	10.0
- Food	14.3	9.6	10.9	10.1	9.1	8.9	10.3
- Non-Food	4.3	18.2	7.2	13.1	13.8	20.1	8.7
- Minerals	1.5	21.5	7.6	8.4	9.7	24.8	10.6
<b>Fuel</b>	14.9	12.9	12.1	6.0	8.3	12.6	10.0
- Coal	2.1	13.3	13.9	13.9	13.9	13.3	13.9
- Mineral oil	9.4	16.5	10.3	4.5	5.0	16.0	9.1
<b>Manufacturing</b>	65.0	7.9	5.4	5.6	6.1	7.5	5.5
- Food	10.0	8.4	5.9	6.3	9.0	7.8	6.7
- Non-food	55.0	7.8	5.3	5.4	5.6	7.5	5.3

### Food inflation gallops further in August 2012



Source: Ministry of Industry & CII computations

**Outlook:** Inflation once again jumped above 7 per cent in August 2012 mainly driven by higher food prices. The recent announcement of increase in diesel prices will have a direct impact of around 78-80 bps on the overall WPI inflation as per our analysis. Nevertheless rationalization of fuel subsidies was the need of the hour, as it would help to rein in the high fiscal deficit and also enable RBI to start cutting interest rates to cushion falling growth.