



Confederation of Indian Industry

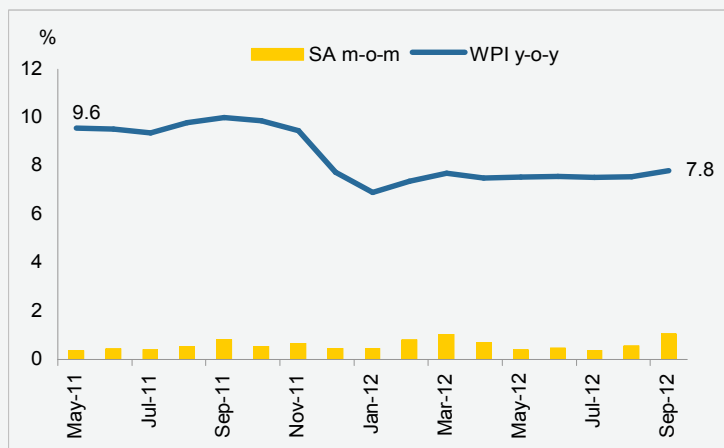
Economy Update - Inflation



WPI Inflation rises driven by jump in fuel prices

15 October, 2012

Inflation inches up to 10-month high in September 2012



- Wholesale price based inflation (WPI) jumped to a 10-month high of 7.8 per cent in September 2012 as compared to 7.6 per cent in the previous month, mainly driven by higher fuel prices.

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

- Bulk of the rise in inflation in September 2012 is attributable to the first-round effects of the recent diesel price increase. But this may not deter the RBI from cutting the key repo rate in the forthcoming monetary policy meeting as the spike in inflation in September was expected, with the impact of rise in fuel prices expected to soften in the coming months.

Sectoral components of inflation

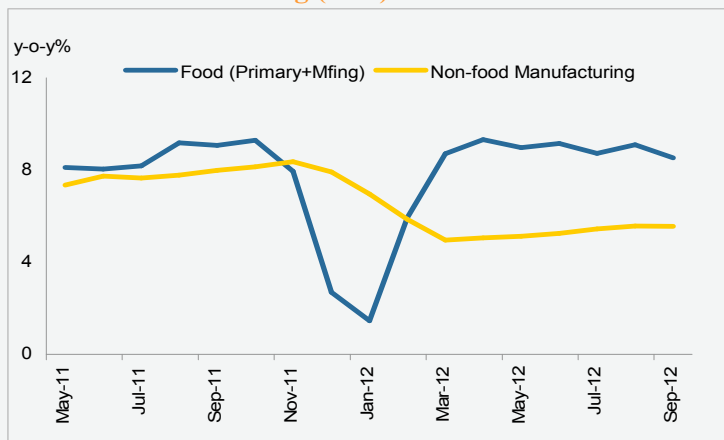
	Weight	Sept-11	July-12	Aug-12	Sept-12	Apr-Sept	
						FY12	FY13
General	100.0	10.0	7.5	7.6	7.8	9.7	7.6
Primary	20.1	12.2	10.5	10.1	8.8	12.6	9.8
- Food	14.3	9.6	10.2	9.1	7.9	9.0	9.9
- Non-Food	4.3	14.6	13.3	13.8	10.0	19.2	8.9
- Minerals	1.5	26.1	8.7	9.7	12.4	25.0	11.0
Fuel	14.9	14.0	8.4	8.3	11.9	12.9	10.7
- Petrol	1.1	26.3	8.9	9.5	6.7	25.4	9.9
- High Speed Diesel	4.7	9.3	0.0	0.4	8.9	7.6	5.7
Manufacturing	65.0	8.0	5.9	6.1	6.3	7.6	5.7
- Food	10.0	8.0	7.0	9.0	9.8	7.9	7.3
- Non-food	55.0	8.0	5.6	5.6	5.6	7.6	5.4

- Primary articles inflation moderated to a 7-month low of 8.8 per cent in September 2012 as compared to 10.1 per cent in the previous month underpinned by softening in both its food and non-food components. Inflation in mineral sub-group however jumped to double-digits.

- Fuel inflation rose sharply to 11.9 per cent in September 2012 due to higher prices of aviation turbine fuel (ATF), high speed & light speed diesel, naphtha and furnace oil.

- Inflation in manufacturing category continued to rise and reached a 8-month high of 6.3 per cent in September 2012 due to an increase in its food component to 9.8 per cent from 9.0 per cent in the previous month.

Non-food manufacturing (core) inflation remains stable



- Encouragingly, non-food manufacturing inflation which is popularly regarded as the proxy for demand-side pressures in the economy, remained stable at 5.6 per cent.

- Total food inflation (primary and manufacturing) slowed to 8.5 per cent in September 2012 as compared to 9.1 per cent in the previous month. The moderation was mainly due to sharp slowdown in primary food inflation.

- We remain hopeful for an interest rate cut in the forthcoming monetary policy review due in the month-end as the core inflation has remained stable and much of the increase in inflation recently has been mainly due to temporary factors.

Source: Ministry of Industry & CII computations

Outlook: Inflation jumped up in September 2012 mainly driven by higher fuel prices. The rise reflected the direct impact of the recent increases in diesel and ATF prices. But, we feel that this should not discourage the RBI to cut the repo rate as the core inflation which the central bank invariably targets has remained stable in the last few months.