WPI INFLATION IN INDIA AT ITS FIVE YEAR LOW: A STUDY OF FACTORS WITH REFERENCE TO THE PERIOD FROM MAY 2014 TO NOVEMBER 2014

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ABSTRACT

This study emphasizes on the Wholesale Price Index (WPI) inflation in India during the period from May 2014 to November 2014. The study provides for better understanding of the factors that pull down the WPI based inflation to a 5-year low of 0% in November 2014. Findings of the study show that the fall in inflation is led majorly by the drop in Global crude oil prices, fall in food prices, government policy decision to decontrol the diesel prices and discourage export of onions by imposing minimum export price of $300 and RBI policy rate decision. Finally, after going through the facts, it can be concluded that, beside food prices, the fuel prices plays a significant role in curbing down the WPI inflation. The measures taken by RBI in this regards does well especially in a decision not to cut its policy rates (Repo rate).

Keywords: Wholesale Price Index, Food Prices, Fuel Prices, Policy Rates.

INTRODUCTION

During May 2014, when the new government elected, Shri Narendra Modi, Prime Minister of India amid anger over the rising food prices and stated that tackling inflation his top priority. Moreover, forecast of weak monsoon rains which irrigate much of India's food production have added to inflation fears and volatile vegetables prices have risen by double digits. In an effort to control the price rise of essential commodities, Finance Minister Shri Arun Jaitely imposed a minimum export price on onions of $300 per ton from $150 per ton to discourage overseas shipments. The weather department predicted a below average rainfall between June-September 2014 which could hit Kharif crops such as rice, corn, soybean and cotton. Monsoon rains are vital for 55 per cent of India's farm lands which have lack of irrigation facilities. In year 2009, patchy rains led to the worst drought in nearly four decades and drove annual food inflation up to more than 21 percent. With the monsoon having withdrawn from most parts of India and on the way out from some, the Meteorological office said that rainfall this season has been 88% of the long period average (LPA) or 50-year average. From above, it can be said that the deficient rainfall would add gravity to the situation of high food inflation but reverse has happened. The WPI inflation showed a tendency to come down from May 2014 onwards and finally touched the level of 0 % in November 2014, the lowest since July 2009. Now, the concern is what contributes to the fall in WPI inflation? Either the government policy or RBI measures or the fall in the global oil prices below $60 per barrel nearly 40 per cent fall from its high or the fall in food prices or the combined effect of the above factors.

OBJECTIVES OF THE STUDY

1) To study the factors that contributes to the fall in WPI inflation in India during the period from May 2014 to November 2014.

RESEARCH METHODOLOGY

The methodology used in this research is based on secondary sources of information. The secondary data is collected for the period from May 2014 to November 2014 from published articles, Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India, RBI etc.

REVIEW OF LITERATURE

The researcher acknowledges the literature available on the various websites of the Government of India and the published articles related to subject concern.

WPI Inflation in India (May 2014 to November 2014): At a Glance

From table 1, the annual inflation rate, based on monthly WPI, stood at 0% for the month of November 2014 as compared to 6.18% for the month of May 2014. Figure 1 shows continuous fall in the WPI from May, 2014 up to November 2014 and thereafter a recovery of 0.11% in December 2014. Also, build-up inflation rate for the financial year was 2.0% compared to the build-up rate of 6.23% in the corresponding period of the previous year.

Inflation eased for all three major product groups contributing to the overall decline in inflation. Inflation for primary articles dipped to level of (-) 0.98% from 8.58% in May 2014, while inflation for fuel and power group plunged to (-) 4.91% in November 2014 from 10.53% in May 2014. Further, inflation for manufactured products eased to 2.04% from 3.38%. From the major commodity group, primary articles, inflation for food articles (0.63%), non-food articles (-3.65%) and minerals (-7.12%) contributed to the overall decline in inflation in November 2014. Moreover, there is large contribution of non-food articles and minerals in the overall decline in inflation compared to food articles. Although, the WPI shows a fall in inflation in vegetables and fruits but the retail price of these commodities is way above the affordable level of common man.

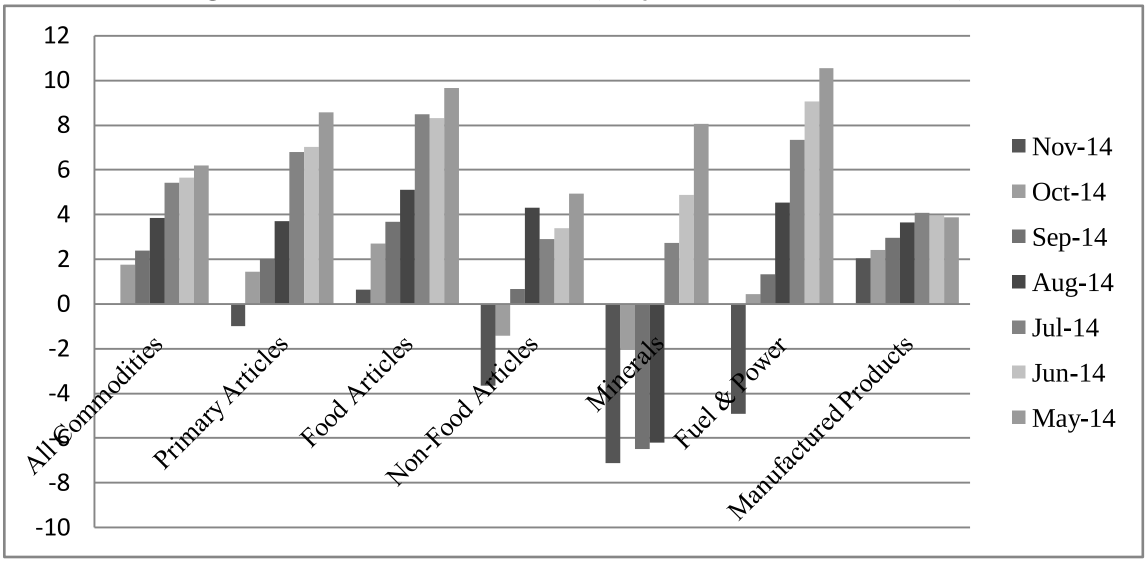
Of the 676 commodities, the inflation rate for about 233 commodities, which carry 33% weight in the WPI, rose in November 2014 compared with the May 2014 inflation rate. About 303 commodities, holding 55% weight in the WPI, witnessed a decline in the inflation rate in November 2014. However, inflation for 140 commodities, carrying 12% weight in WPI, remained unchanged in November 2014.

Table 1: WPI Inflation in India from May-November 2014

Commodity Description	Commodity Weight	Nov-2014	Oct-2014	Sep-2014	Aug-2014	Jul-2014	Jun-2014	May-2014
ALL COMMODITIES	**100.00**	0.00	1.77	2.38	3.85	5.41	5.66	6.18
PRIMARY ARTICLES	**20.12**	-0.98	1.43	2.02	3.69	6.78	7.01	8.58
a) Food Articles	**14.34**	0.63	2.70	3.68	5.11	8.47	8.32	9.64
b) Non-Food Articles	**4.26**	-3.65	-1.41	0.66	4.29	2.89	3.40	4.94
c) Minerals	**1.52**	-7.12	-2.03	-6.49	-6.19	2.72	4.87	8.06
FUEL & POWER	**14.91**	-4.91	0.43	1.33	4.54	7.35	9.04	10.53
MANUFACTURED PRODUCTS	**64.97**	2.04	2.43	2.97	3.65	4.07	3.95	3.88

Source: *Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.*

Figure 1: WPI Inflation in India (May 2014 to November 2014)

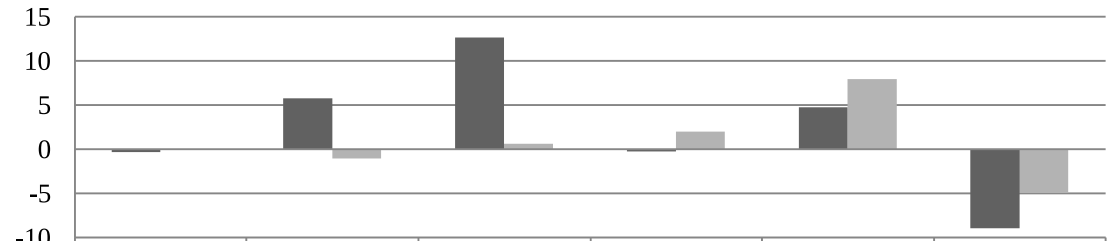


Source: *Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.*

RBI Measures to Combat Inflation: Repo Rate Mismatch

From figure 2, in July 2009, the Wholesale Price Index (WPI) was -0.3% on account of the global recession that followed the Lehman Brothers debacle and the bursting of the housing and derivatives bubble in some of the advance economies. With inflation so slow in 2009, RBI started cutting its repo rate from October 2008, when it was lowered from 9% to 8% (Table 2 & Figure 3). Thereafter, rate cuts followed rapidly one after another and in April 2009, the repo rate was cut to 4.75%. That was the policy rate prevailing in June and July 2009, when WPI inflation dipped in to negative territory. So, in July 2009, with WPI inflation at -0.3%, the repo rate was stood at 4.75%. Currently, with WPI inflation at 0%, the repo rate is at 8% (Figure 2). The periods being compared are very different in the sense that, in 2009, the government was readying a huge stimulus programme that brought growth back to the Indian economy, but at the cost of double-digit inflation. Indeed, by March 2010, WPI inflation rate was at 10.4% and RBI raised the repo rate to 5%. But this time, no such stimulus is contemplated and instead, the government is determined to reduce the fiscal deficit. The nature of inflation, too, was very different in 2009. Figure 2 shows that while there was disinflation in fuel prices in July 2009 too, inflation was much higher in primary articles and food prices than at present. Inflation in manufactured products, however, is higher now than it was then, which seems to show some pricing power. The reason for RBI not cutting its policy rate may be Raghuram Rajan, governor of RBI has shifted his focus to Consumer Price Index based inflation for policy purposes and therefore, the dramatic fall in WPI inflation to zero is not a deciding factor. This decision of RBI helps to keep WPI inflation stable below the comfortable level of 4-5%.

Figure 2: RBI Repo Rate Mismatch



	WPI	Primary Articles	Food	Manufactured Products	Repo Rate	Fuel & Power
Jul-09	-0.3	5.8	12.7	-0.2	4.75	-8.9
Nov-14	0	-0.98	0.63	2.04	8	-4.91

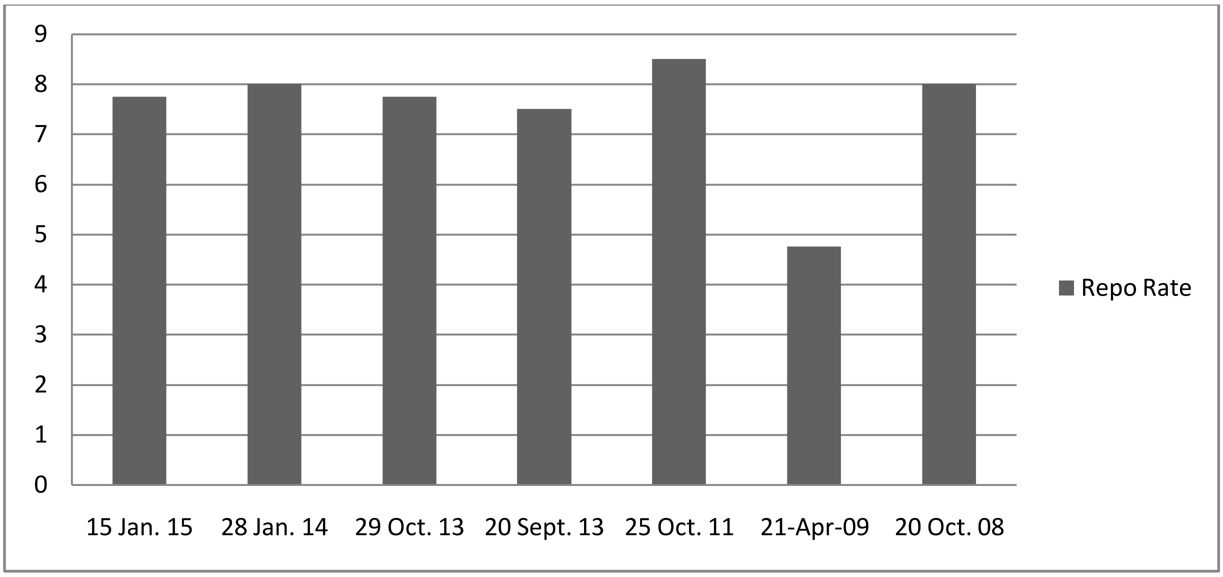
Source: *Self Complied*

Table 2: RBI Repo Rate from October 2008 up to January 2015

Year	Repo Rate (In Percent)
15 January 2015	7.75
28 January 2014	8
29 October 2013	7.75
20 September 2013	7.5
03 May 2013	7.25
19 March 2013	7.5
29 January 2013	7.75
17 April 2012	8
25 October 2011	8.5
16 September 2011	8.25
26 July 2011	8
16 June 2011	7.5
03 May 2011	7.25
17 March 2011	6.75
25 January 2011	6.5
02 November 2010	6.25
16 September 2010	6
27 July 2010	5.75
02 July 2010	5.5
20 April 2010	5.25
19 March 2010	5
21 April 2009	4.75
05 March 2009	5
05 January 2009	5.5
08 December 2008	6.5
03 November 2008	7.5
20 October 2008	8

Source: *www.rbi.org.in*

Figure 3: RBI Repo Rate (October 2008 up to January 2015)



Source: *www.rbi.org.in*

Fall in Global Crude Oil Prices

The Global crude oil price of Indian Basket as computed/published by Petroleum Planning and Analysis Cell (PPAC) under the Ministry of Petroleum and Natural Gas was $ 57.29 per barrel (bbl) on 17th December 2014 from a high of $115.71 in June, 2014. The Global oil prices breached the psychological level of $100 without any resistance from the producers who, in the past, never hesitated to cut production to shore up prices. In fact, Saudi Arabia rather than curtail production chose to drop its prices. The country, which is seen as a swing producer to control prices, has announced that it will hold on to its market share by cutting prices. Its action stems from the past bad experience. Saudi Arabia had cut production from 10 million barrels per day (bpd) in 1980 to 2.5 million bpd by 1986 when prices fell. It still failed to shore up prices as other producers continued to pump oil above their agreed quota. This left the country in a deep budget deficit and debt for 16 long years. Analysts say that, after its bitter experiences from the past, Saudi Arabia is reconciled to a period of sluggish demand and low oil prices. The International Energy Agency, on 14th October 2014, cut the 2015 oil demand estimate by 3,00,000 bpd and revised downwards its 2014 estimate by 2,00,000 bpd. The global energy watchdog has also said that, for the next few quarters, supply, fuelled by higher US shale oil production, will exceed demand in the market. Some countries, the economies of which depend on oil revenues, are worried. Russia, for instance, will lose $2.3 billion of budgetary revenues for every $1 drop in oil prices and may end up in a recession. Venezuela, which is equally dependent on oil, has been unsuccessfully clamouring for an emergency meeting of OPEC (Organization of the Petrol Exporting Countries) for cutting back production. A divided OPEC, for now, is disinterested. Sonal Verma, Economist at Nomura Financial Advisory says that, "In the absence of any geo-political shock, we expect oil prices to remain soft in the foreseeable future as China is expected to slow down into next year as well and rupee is expected to strengthen against dollar". A Nomura study says that every $10 fall in oil prices will boost India's GDP growth by 0.1 percent, lower wholesale price index by 0.5 percent, reduce current account deficit by 0.5 percent of the GDP, and improve fiscal balance by 0.1 percent of the GDP.

CONCLUSIONS

From the above discussion, it can be said that, the dramatic fall in inflation in fuel is relatively higher than the food articles from May 2014 to November 2014. The government policy decisions in this regards plays a vital role in curbing down the inflation by imposing the minimum export price of $300 per ton on onions as well as decontrol of diesel prices. The measure taken by RBI to keep the repo rate unchanged irrespective of low growth in the economy is commendable. Finally, 0% WPI inflation is the result of the combined effect of the factors discussed so far. But, after going through the facts, it is clear that, the significant contribution comes from fall in fuel prices and no rate cut in RBI repo rate.

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