

Research Report: Indian Wholesale Price Index (WPI) Inflation November 2024

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Introduction

This report examines recent trends in India's Wholesale Price Index (WPI) inflation. The report will analyse contributing factors to these trends and their implications for the Indian economy. It also examines the Reserve Bank of India's (RBI) monetary policy stance in light of inflationary pressures and global economic developments.

Recent Trends in WPI Inflation

Month of Year 2024	CPI	WPI
Nov		
Oct	5.49%	1.84%

Sep	3.65%	1.31%
Aug	3.54%	2.04%
Jul	5.08%	3.36%
Jun	4.75%	2.61%
May	4.83%	1.26%
Apr	4.85%	0.53%
Mar	5.09%	0.20%
Feb	5.10%	0.27%
Jan	5.69%	0.73%

Month of Year 2023	CPI	WPI
Dec	5.55%	-0.26%
Nov	4.87%	-0.52%
Oct	5.02%	-0.26%
Sep	6.83%	-0.52%
Aug	7.44%	-1.36%
Jul	4.81%	-4.12%
Jun	4.25%	-3.48%
May	4.70%	-0.92%
Apr	5.66%	1.34%
Mar	6.44%	3.85%
Feb	6.52%	4.8%
Jan	5.72%	5.02%

India's WPI inflation has been fluctuating in recent months. **The WPI Inflation Rate in India for October 2024 quickened to 1.84% vs 1.31% in September 2024.** This rise was already expected. The expected WPI inflation rate for October and September 2024 was 1.90% and 1.80% respectively.

This increase can be attributed to several factors, including:

- **Rising commodity prices:** Global commodity prices, particularly crude oil, have been on the rise, impacting domestic prices of various goods.
- **Supply chain disruptions:** Ongoing supply chain bottlenecks, both domestic and global, have contributed to higher input costs for businesses.
- **Weakening rupee:** Specifically, the depreciation of the rupee against the Chinese Yuan, is a concern as it makes imports from China more expensive. China is India's largest trading partner.

RBI's Monetary Policy Stance

The RBI has been closely monitoring inflationary pressures. The RBI recently decided to keep the repo rate unchanged at 6.5%. This indicates that the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) believes it would be premature to cut rates even though inflation is expected to ease in the coming months. The RBI will only consider rate cuts once it is confident that inflation will stay within the target rate.

Impact of WPI Inflation on the Indian Economy

Higher WPI inflation can have significant implications for the Indian economy:

- **Increased input costs for businesses:** Elevated input costs can erode profit margins and discourage investment.
- **Potential for higher consumer prices:** If businesses pass on higher costs to consumers, it can lead to increased inflation at the retail level.
- **Impact on economic growth:** High inflation can dampen economic growth by reducing consumer and business confidence.

WPI and CPI Divergence: A Quick Overview

While the WPI and CPI usually move in the same direction, they can sometimes diverge due to several factors:

- **Government subsidies** can reduce production costs or consumer prices, impacting CPI more directly. For example, fertiliser subsidies can lower food prices and therefore CPI, even if WPI remains high due to other factors.
- **Global economic conditions**, like exchange rate fluctuations and commodity price changes, can affect both indices but with varying intensity. A weaker rupee, for instance, makes imports costlier, potentially increasing WPI more significantly than CPI.
- **Supply chain disruptions**, like those experienced during the COVID-19 pandemic, can impact the two indices differently.
- **Different compositions and weightings of the baskets** used for calculating the indices result in varying sensitivities to specific price changes. The higher weightage of

food and beverages in the CPI (46%) makes it more susceptible to monsoon-related fluctuations compared to the WPI (24.4% combined weight for food articles and manufactured food products).

As a recent example, in September 2023, India experienced this divergence when CPI fell to 5.02% while WPI rose to -0.26%. This can be attributed to differing food price trends reflected in the two indices due to their composition and weighting differences.

Focusing on WPI, it's important to note that a negative WPI, as seen in recent months in India, suggests deflation in manufacturing input prices. While this may benefit users of these inputs, it could discourage manufacturers. The overall effect on manufacturing and industrial production depends on the relative strength of CPI and WPI.

Experts predict a potential rise in WPI in the coming months due to anticipated increases in crude oil prices, which could eventually spill over to retail prices.

Factors Influencing Future WPI Inflation

Several factors will influence the trajectory of WPI inflation in the coming months:

- **Global commodity prices:** Fluctuations in global commodity prices, particularly crude oil, will directly impact domestic inflation.
- **Monetary policy stance:** The RBI's monetary policy decisions, including interest rate adjustments, will play a crucial role in managing inflation.
- **Government policies:** Government policies related to taxes, subsidies, and trade can influence inflation.
- **Geopolitical tensions:** Geopolitical tensions can disrupt supply chains and lead to price volatility.

Conclusion

The resurgence in WPI inflation poses a challenge for the Indian economy. The RBI's monetary policy will be crucial in addressing inflationary pressures while supporting economic growth. It is essential to monitor global commodity prices, exchange rate movements, and domestic supply chain dynamics to assess the outlook for WPI inflation in the coming months.

The expected WPI Inflation Rate in India for November 2024 is 2.2%. This expectation is driven by several factors including:

- **Rising commodity prices,**
- **Supply chain disruptions,** and
- **Weakening rupee.**