

JANUARY 24, 2019
ISSUE NO:81, FY19**JUMP IN RURAL CORE STILL A MYSTERY**

Rural health inflation clocked a whopping 10.14% in Dec'18 vis-à-vis 4.93% in Dec'17. Such an increase still defies logic if we look into monthly pharmaceutical sales report (AIOCD). While prices have increased, this is still not adequate to explain such a huge data aberration.

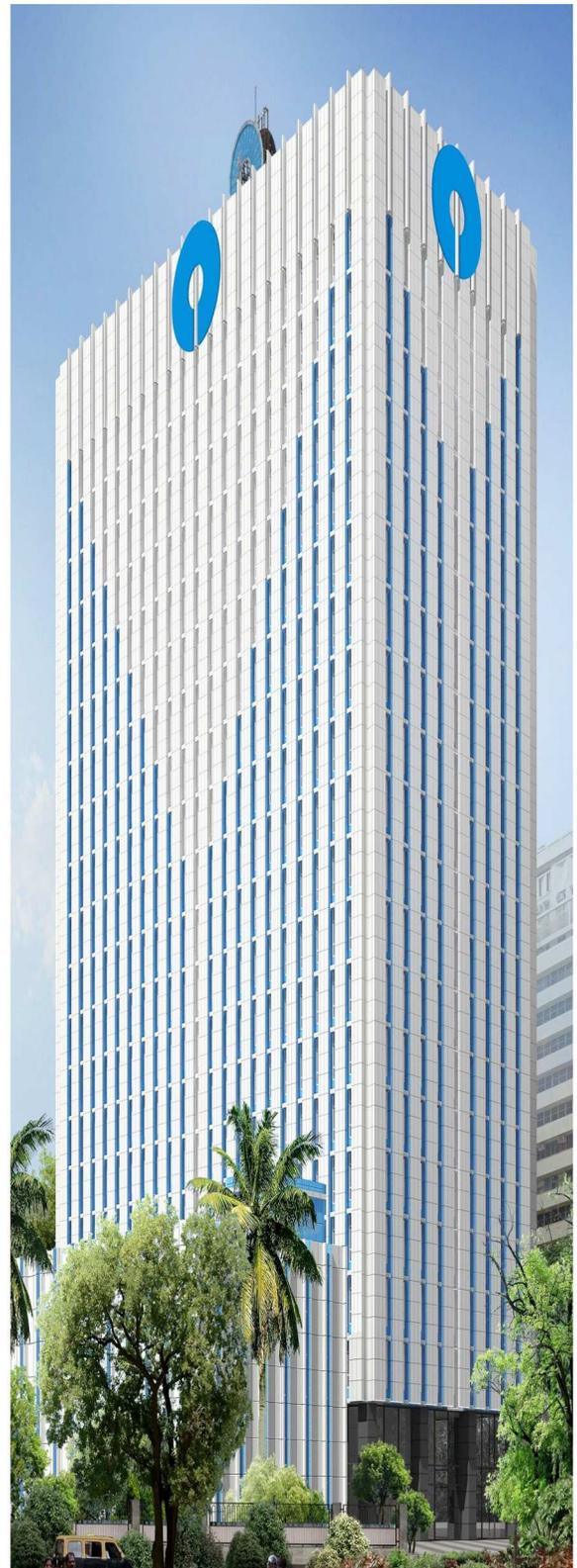
Such data suggest that Indian pharmaceutical market has shown a growth of 9.8% in Dec'18 as compared to previous month. Sales volume grew at 2.6%, prices grew at 4.7% and new product release have seen growth of 2.5%. However, the quarterly trend of prices of Indian pharma market suggest a different story. Since Q2 FY18 to Q1 FY19 (12 months), the pharma prices were continuously in the negative territory and thereafter it has jumped to 5% in Q2 FY19 and 4.7% in Q3 FY19.

With better facilities available post implementation of "Ayushman", there is a possibility that the generic medicines have been replaced by ones with a relatively higher price tag. For example, there are only 348 medicines mentioned which are regulated by the Government. But there are many medicines which are frequently purchased in rural areas at a higher prices. For example, there are more than 15 combinations of paracetamol alone which are sold at different prices and are outside the purview of price control.

However, even after all these, the average prices across all sub categories in December is around 4%, clearly inadequate to explain the double digit growth in health inflation in December 2018. The good thing is that, though hospital & nursing home charges have gone up the most in December, but is not reflecting in rural health, as the weightage is only 5 basis points.

Going forward, we believe this nursing home component may witness the sharpest increase. Independent estimates suggest that for a rural resident, the average cost of a hospitalization episode is two - three months' worth of household expenditure for rural families. The Ayushman scheme will only push this up.

For education, many kids are actually availing private tuitions. In West Bengal, 71% of children are availing private tuitions, that is showing the maximum increase. The national average is about 35%.

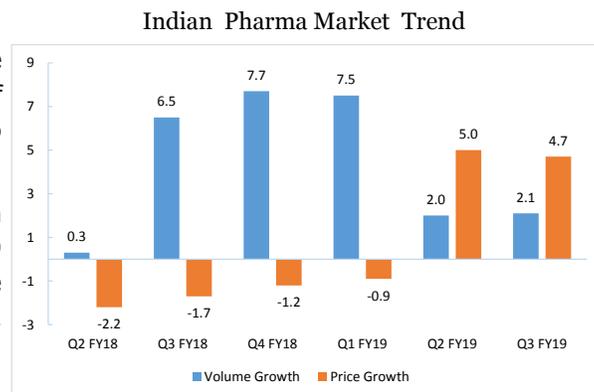


RURAL INFLATION AND PHARMA INDUSTRY

- ◆ The CPI numbers released for the month of Dec'18 invited lot of debate despite showing a decline. One of the crucial areas which gathered attention was Rural Health Inflation.
- ◆ Rural health inflation clocked a whopping 10.14% in Dec'18 vis-à-vis 4.93% in Dec'17. The urban areas however witnessed a decline in health inflation. The components that pushed up overall health inflation are hospital & nursing home charges and medicine (non-institutional). We understand from informed sources that there has been a normal increase in the prices of medicines (Allopathic, Homeopathic as well as Ayurvedic), which has also contributed to the increase and the same has been corroborated by the data collecting agencies by virtue of the quotations received by them for working out the inflation numbers. This is looking more pronounced because of the increase in prices due to supply constraint and API price increase.
- ◆ Meanwhile, the monthly pharma sale research report (AIOCD) suggest that Indian Pharmaceutical Market has shown a growth of 9.8% in Dec'18 as compared to previous month. Sales volume grew at 2.6%, Prices grew at 4.7% and new product release have seen growth of 2.5%.

| Component-wise All-India CPI inflation | | | | | |
|--|--------|--------|--------|--------|--------|
| Health | | | | | |
| | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 |
| Hospital & nursing home charges | 8.67 | 8.23 | 9.94 | 8.50 | 11.27 |
| Medicine (non-institutional) | 5.29 | 5.19 | 7.63 | 7.58 | 9.99 |
| Family planning devices | 3.76 | 3.91 | 4.04 | 3.89 | 3.59 |
| Spectacles | 3.94 | 3.49 | 5.15 | 4.42 | 5.26 |
| Other medical expenses (non-institutional) | 0.75 | -0.08 | 6.25 | 5.79 | 7.54 |
| Doctor's/ surgeon's fee-first consultation (non-institutional) | 7.97 | 9.27 | 8.72 | 6.07 | 5.55 |
| X-ray, ECG, pathological test, etc. (non-institutional) | 3.63 | 4.17 | 6.45 | 5.36 | 6.57 |

- ◆ Within the subgroups, National list of Essential Medicine (NLEM) showed volume growth of 4.6% with price growth of 1.9% whereas the non NLEM market volume grew at 2.4% with an increase in prices at 5.0%.
- ◆ However, the quarterly trend of prices of Indian pharma market suggest a different story. Since Q2 FY18 to Q1 FY19 (12 months), the pharma prices were continuously in the negative territory and thereafter it has jumped to 5% in Q2 FY19 and 4.7 % in Q3 FY19.



Source: SBI Research

- ◆ One other interesting factor which has come to notice is that the Vitamins and Minerals have recorded a growth of 8.7%. The usual perception of these medicines being expensive also contributes to price pressures and the common observation is that the consumption of these medicines is of late increasing.
- ◆ The matter of fact is that, though the growth in NLEM prices is subdued in Dec'18 but there are only 348 medicines mentioned in the NLEM which are regulated by the Government. But there are many medicines which are frequently purchased in rural areas at a higher prices. For example, there are more than 15 combinations of paracetamol alone which are sold at different prices and are outside the purview of price control. The policy also allows an annual price increase of up to 10% for non-NLEM products and after one year they will be allowed increases of up to 10% a year.

| Pharma Market performance in Dec'18 | | |
|-------------------------------------|---------------|--------------|
| Components | Volume Growth | Price Growth |
| IPM | 2.6 | 4.7 |
| NLEM | 4.6 | 1.9 |
| NON NLEM | 2.0 | 5.0 |
| Sch.Par | 9.4 | 4.3 |

Source: AIOCD, SBI Research

- ◆ All these above mentioned facts suggest that, the spike in rural health in inflation in Dec'18 is not in line with pharma industry figures and we believe this puzzle still remains unresolved. It may, therefore, be premature to arrive at any judgement on the reason for the sudden increase. But we believe that such contrarian trends in rural core inflation at a time when rural demand has almost collapsed, are sure to confuse the policy makers.

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of “tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis”.

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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