

Inflation

Annual Inflation based on the WPI

5.3 The annual point to point inflation rate based on the WPI remained below 2 percent till the end of May 2002, and rose thereafter only to remain between 3-4 percent level. Even the 52-week average based inflation rate has remained below 3 percent for much of the year.

5.4 The uptrend in petroleum prices is now beginning to cause some inflationary undercurrent. The latest annual point to point inflation rate for the week ended January 18, 2003 has touched 4.4 percent and may creep up further if global oil prices continue to rise. (Table 5.1)

(i) Subdued trend in primary product prices

5.5 Primary products include various agricultural commodities of daily use like cereals, pulses, fruits and vegetables. Prices of agricultural commodities follow a seasonal pattern associated with the harvesting and marketing of these crops. Usually there is an uptrend in primary product prices during the summer months, which is the lean season, and this uptrend continues through the festival season in September-October. Thereafter, with the arrival of kharif crops in the market in the winter months, price rise in primary commodities gets arrested and remains subdued. Some contra-seasonal departure from this seasonal behaviour may occur on account of abnormal conditions.

5.6 Prices of primary products followed the usual seasonal pattern this year but remained below the 4 percent level during much of the

year. Accelerated release of public stocks of foodgrains for PDS and other poverty alleviation schemes, besides open market sale of foodgrains by FCI helped contain price rise in foodgrains despite the severity of the drought. (Table 5.2 and Figure 5.1)

(ii) Manufactured product prices

5.7 The major inflation determinant with the largest weight (63.75 percent) in the Wholesale Price Index, is the manufacturing sector. After remaining below the 2 percent level during the first five months of the financial year, inflation in the manufactured products group rose modestly to remain between 3 - 4 percent level.

5.8 Demand for manufactured products was expected to remain somewhat subdued because of a fall in farm incomes resulting from poor Monsoon. Besides, moving towards

Table 5.1 : Annual inflation rate based on Wholesale Price Index (base 1993-94=100)

	<i>(Percent)</i>	
	End of year	52 week average
1995-96	4.4	8.0
1996-97	5.4	4.6
1997-98	4.5	4.4
1998-99	5.3	5.9
1999-00	6.5	3.3
2000-01	5.5	7.2
2001-02	1.6	3.6
2002-03*	4.4	2.6

*Provisional as on January 18, 2003.

Table 5.2 : Movement in Wholesale Price Index by commodities and their contribution to inflation (base: 1993-94=100) – (as on January 18, 2003)

Commodity group/ sub-group	Weight (percent)	Annual rate of inflation (percent)		Percentage share in inflation	
		2002-03	2001-02	2002-03	2001-02
ALL COMMODITIES	100.00	4.4	1.4	100.0	100.0
PRIMARY ARTICLE	22.03	4.8	2.5	24.8	41.0
Food Articles	15.40	1.2	3.3	4.6	39.2
Food Grains	5.01	3.7	-1.2	4.4	-4.6
Cereals	4.41	5.0	-1.5	5.2	-5.0
Rice	2.45	1.9	-1.4	1.1	-2.6
Wheat	1.38	2.8	-1.0	1.0	-1.1
Pulses	0.60	-5.4	1.1	-0.8	0.5
Gram	0.22	-18.7	15.0	-1.0	2.3
Fruits & Vegetables	2.92	-3.7	12.2	-2.7	25.5
Vegetables	1.46	-16.5	13.3	-4.5	10.5
Potatoes	0.26	-34.7	130.9	-1.9	10.2
Onions	0.09	-8.0	-16.7	-0.1	-1.0
Fruits	1.46	4.1	11.5	1.9	15.0
Milk	4.37	3.5	5.6	3.6	17.5
Eggs, meat & Fish	2.21	-1.8	3.2	-1.1	6.0
Condiments & Spices	0.66	1.3	-1.0	0.2	-0.6
Other Food Articles	0.24	2.7	-28.0	0.1	-4.4
Tea	0.16	10.0	-33.1	0.2	-3.6
Coffee	0.08	-11.1	-15.6	-0.1	-0.7
Non-Food Articles	6.14	15.9	-0.1	20.5	-0.3
Fibres	1.52	5.0	-11.7	1.5	-12.9
Raw Cotton	1.36	7.4	-14.6	1.9	-14.5
Raw Jute	0.11	-19.4	18.9	-0.6	1.5
Oil Seeds	2.67	27.0	1.9	13.3	2.9
Groundnut seed	1.03	37.6	-4.0	6.9	-2.5
Rape & mustard seed	0.58	23.8	6.9	2.5	2.2
Other Non-Food Articles	1.95	11.5	6.7	5.7	10.0
Sugarcane	1.31	11.5	6.2	4.1	6.7
Minerals	0.49	-2.5	4.6	-0.2	1.2
FUEL POWER LIGHT & LUBRICANTS	14.23	6.4	3.2	29.1	45.9
Coal Mining	1.75	0.0	15.7	0.0	19.6
Minerals Oils	6.99	9.9	-4.3	22.8	-33.7
Electricity	5.48	3.4	11.5	6.2	59.8
MANUFACTURED PRODUCTS	63.75	3.6	0.3	46.7	11.6
Food Products	11.54	5.7	1.2	13.7	9.4
Sugar, khandsari & Gur	3.93	-11.5	-4.2	-9.1	-11.3
Sugar	3.62	-12.6	-5.0	-8.5	-11.5
Khandsari	0.17	-16.4	1.8	-0.6	0.2
Gur	0.06	-7.2	3.3	-0.1	0.1
Edible Oils	2.76	22.6	18.4	10.4	23.2
Rape & Mustard Oil	0.49	36.0	4.0	2.9	1.0
Groundnut Oil	0.17	33.2	10.2	1.1	1.0
Oil Cakes	1.42	51.6	3.0	15.0	2.8
Beverages Tobacco & Tobacco Pdts.	1.34	3.7	8.5	1.4	9.4
Textiles	9.80	5.8	-2.2	9.4	-11.6
Wood & Wood Products	0.17	0.6	4.5	0.0	0.6
Paper & Paper Products	2.04	2.6	-2.5	1.3	-4.0
Leather & Leather Products	1.02	-9.3	-4.2	-1.9	-2.9
Rubber & Plastic Products	2.39	9.1	-1.3	3.8	-1.7
Chemicals & Chemical Products	11.93	3.6	0.8	10.1	7.6
Fertilisers	3.69	4.6	0.9	3.8	2.3
Urea N_content	2.16	5.2	0.0	2.6	0.0
Non-Metallic Mineral Products	2.52	1.5	-2.2	0.7	-3.7
Cement	1.73	-0.3	-4.6	-0.1	-5.6
Basic Metals Alloys & Metals Products	8.34	4.7	-0.7	7.8	-3.8
Iron & Steel	3.64	6.3	-0.1	4.5	-0.2
Other Non-Ferrous Metals	0.61	7.1	-2.2	0.8	-0.8
Machinery & Machine Tools	8.36	0.6	2.4	0.9	11.8
Transport Equipment & Parts	4.30	-1.0	0.5	-0.9	1.6

an open economy and a liberal trade regime would increasingly exercise restraint on domestic industrial prices-through increased competition both within the domestic industry and with imported products.

(iii) Uptrend in fuel prices

5.9 The Administered Price Mechanism (APM) for petroleum products was dismantled with effect from April 1, 2002. Only prices of kerosene and LPG continue to be administered and are heavily subsidized. Domestic prices of other petroleum products are market determined. The transition from an administered to a market based pricing regime has been smooth so far with inflation rate in this sector hovering between 5-6 percent level. On account of heavy import dependence of India on crude oil (about 70 percent), global price movements of crude oil have a direct impact on domestic energy prices.

5.10 The year has witnessed an uptrend in crude prices. Brent crude oil prices rose by more than 15 percent during 2002. Production was disrupted in Venezuela, aggravating further the global supply. Secure supply of crude oil is especially important at present given the ongoing uncertainty surrounding supply from the Middle East in case of a US led war against Iraq. War could result in sudden and substantial hardening of crude oil prices. Prices have already reached \$33 per barrel. However, as of now, there is not much cause for worry for India as the overall inflation rate as well as inflation in the manufactured products sector in the country is quite moderate. Volatility in energy prices would result only if there is large unexpected rise in international prices of crude oil. Modern wars are short and the effect on crude oil prices may taper off once the conflict is resolved.