

Inflation rate based on CPI(IW)

5.11 Consumer Price Index (CPI) reflects changes in the retail prices of selected goods and services on which a homogeneous group of consumers spend a major part of their income. There are three distinct series of CPI - for industrial workers (IW), for agricultural labourers (AL) and for urban non-manual employees (UNME). Of these, the CPI (IW) is the most popular as the Central Government employees' wage compensation (dearness allowance) is calculated on the basis of movement in this index. CPI(IW) is constructed on a monthly basis, with a lag of one month. The base year for CPI (IW) is 1982.

5.12 Food items with a weight of 57 percent dominate the CPI(IW), and is therefore sensitive to changes in prices of food articles. (see Box 5.2)

5.13 Inflation rate based on this index has remained moderate during the year despite drought, indicating comfortable availability of food items. The CPI(IW) based inflation rate declined from 4.7 percent in April 2002 to 3.2 percent in December 2002. (Table 5.3 and also see Figure 5.2)

5.14 Movement of WPI and CPI by quarter (over previous quarter) may be seen in Tables 5.4 and 5.5.

Year	Month	WPI	CPI	CPI	CPI
		93-94	(IW) 1982	(UNME) 84-85	(AL) 86-87
2001-02	APR	5.4	2.3	4.7	-2.0
	MAY	5.6	2.5	4.9	-2.3
	JUN	5.3	3.4	5.5	-1.3
	JUL	5.2	4.0	5.7	-0.3
	AUG	5.4	5.2	6.2	1.3
	SEP	4.5	4.7	5.9	1.6
	OCT	2.9	4.2	4.8	2.6
	NOV	2.6	4.9	5.1	2.3
	DEC	2.1	5.2	5.1	3.0
	JAN	1.5	4.9	4.5	2.3
	FEB	1.4	5.2	4.3	3.0
	MAR	1.8	5.2	4.8	3.0
2002-03	APR	1.5	4.7	4.5	2.7
	MAY	1.6	4.7	4.2	2.6
	JUN	2.4	4.2	4.1	2.6
	JUL	2.8	3.9	3.8	2.3
	AUG	3.3	3.9	3.6	2.2
	SEP	3.5	4.3	4.1	3.2
	OCT	3.1	4.1	3.8	2.9
	NOV	3.2*	3.6	3.3	3.2
	DEC	3.2*	3.2	2.8	2.9

* Provisional.

Commodity group	Weight	2001-02				2002-03		
		Qrt 1	Qrt 2	Qrt 3	Qrt 4	Qrt 1	Qrt 2	Qrt 3
		Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
All commodities	100.000	1.0	0.7	0.4	-0.6	1.3	2.1	0.4
Primary Articles	22.025	3.8	1.3	0.4	-1.9	1.9	2.7	0.3
Fuel, Power, Light & Lubricants	14.226	0.4	1.0	2.3	-0.2	0.9	2.9	0.7
Manufactured Products	63.749	0.1	0.3	-0.2	-0.2	1.2	1.6	0.2

Source : Office of Economic Adviser, Ministry of Industry.

Box 5.2 : Sensitivity of WPI & CPI- A comparison

The Wholesale Price Index (WPI) is the most widely used price index in India, and is an indicator of movement in wholesale prices of 435 commodities in all trade and transactions. WPI is the only price index in India, which is available on a weekly basis with the shortest time lag of two weeks. It is due to these attributes that it is widely used in business and industry circles and by Government and is generally taken as an indicator of the rate of inflation in the economy. The base year of the WPI series is 1993-94.

The Consumer Price Index for Industrial Workers - CPI (IW) is constructed on a monthly basis, with a lag of one month. CPI measures changes in retail prices of goods and services covering 260 items of consumption from 70 centres. The base year for CPI (IW) is 1982. WPI and CPI (IW) differ conceptually in terms of purpose and use, commodity coverage, weighting diagram, associated markets and the base year. Therefore, some degree of difference between the two is unavoidable. Differences in market and price behaviour of some uncommon items in the two series are responsible for creating differences in the movements of the two series. A comparison of the weighting diagram of the two series brings out this fact more clearly :

Weighting diagram of WPI and CPI (IW)			
WPI		CPI (IW)	
	(Weight)		(Weight)
All commodities	100.00	All commodities	100.00
Primary products	22.02	Food	57.00
Food articles	15.04	Non-food articles	6.14
Pan, Supari, Tobacco	3.15	Minerals	0.48
Fuel group	14.23	Fuel & light	6.28
Coal Mining	1.75	Mineral oils	6.99
Housing	8.67	Electricity	5.48
Manufactured products	63.75	Clothing, Bedding	8.54
Food Products	11.54	Textiles	9.80
Miscellaneous	16.36	Chemicals	11.93
Basic Metals	8.34	Others	21.62

The WPI and CPI (IW) series differ significantly in terms of their weighting diagram. This implies that the degree of importance given to specific commodity groups is not the same in the two series. While food gets the maximum weight of 57 percent in the CPI (IW) series, food articles in the primary group and food products in the manufactured products group in the WPI series together have a weight of only 27 percent. The CPI (IW) series is therefore more sensitive to changes in food prices. The fuel group on the other hand gets a much higher weight in the WPI series (14.23) than in the CPI (IW) series (6.28). International price movements of crude oil would therefore have a greater bearing on the WPI series than on the CPI (IW) series in terms of their direct impact. One major subgroup in the CPI (IW) series is the miscellaneous group which includes services like transport, education, health etc. Services however do not get reflected in the WPI series. Differences in inflation rate in the two series could therefore also be on account of price movement in the services sector which gets captured in the CPI (IW) based inflation rate.

Table 5.5 : Movement in the CPI (IW) by quarter (over previous quarter)

(Percent)

Major group	Weight	2001-02				2002-03		
		Apr-Jun-	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Nov.
General	100.00	1.4	2.5	0.9	1.1	-1.9	4.9	0.8
Food	57.00	1.4	2.4	0.8	1.3	-2.3	5.2	0.8
Pan, Supari, Tobacco & Intox.	3.15	1.3	2.3	0.8	2.0	-2.6	5.3	0.7
Fuel & light	6.28	0.9	2.9	1.1	2.3	-3.1	6.4	0.8
Housing	8.67	1.3	3.4	0.9	1.5	-2.9	5.9	0.5
Clothing, bedding & footwear	8.54	1.8	1.6	1.3	0.2	-0.9	3.7	0.7
Miscellaneous group	16.36	1.0	2.0	1.5	0.0	-0.8	4.3	1.1
Essential Commodities	48.83	1.2	3.1	1.2	-1.3	0.8	3.3	1.0