

Prices and Food Management

Inflation

In the current year, annual point-to-point inflation in terms of the Wholesale Price Index (WPI), after accelerating from 4.5 per cent on April 3, 2004 to a peak of 8.7 per cent on August 28, 2004, has been on a decelerating trend since September 2004. It stood at 5.2 per cent on January 29, 2005, significantly lower than 5.9 per cent recorded a year ago (Figure 5.0). However, because of the higher inflation in the early part of the year, the 52-week average inflation rate of 6.5 per cent on January 29, 2005 was higher than 5.5 per cent registered a year ago.

5.2 During the post-reforms period, inflation has had a distinct decelerating trend as liberalisation of both internal and external trade and continual reduction and rationalization of taxes has led to greater competition and cost-efficiency. Average annual WPI inflation decelerated from 10.6 per cent in the first half of 1990s to 4.1 per cent during 2001-02 to 2003-04 (Table 5.1).

5.3 The trend was reversed in 2004-05 with pressures on prices across all groups. Erratic and delayed monsoon in 2004-05 with uneven distribution of rainfall over time and space had

Table 5.1 : Inflation in terms of Wholesale Price Index (WPI) since 1991-92 (Based on 52 week average inflation rates)

Annual average WPI inflation (%)				
	All commo- dities	Primary Fuel	Manu- factured	
Period ↓				
Weights →	100.0	22.03	14.23	63.75
1991-92 to 1995-96	10.6	11.3	11.3	10.1
1996-97 to 2000-01	5.1	5.4	13.0	3.1
2001-02 to 2003-04	4.1	3.7	7.0	3.3
2004-05 as on 29-01-2005	6.5	3.9	9.2	6.5
2003-04 as on 31-01-2004	5.5	4.8	6.9	5.3

an adverse impact on the expectation about the kharif crops and fueled inflation of some agro-based products. Inflationary pressures were exacerbated by hardening of international prices of crude oil, minerals and metal related products. With prices of these items shooting up in world markets, imported inflation played a crucial role in domestic inflation in 2004-05.

Fig. 5.0

Trends of WPI inflation in 2003-04 and 2004-05

Fig. 5.0a Trends of WPI (point-to-point inflation)

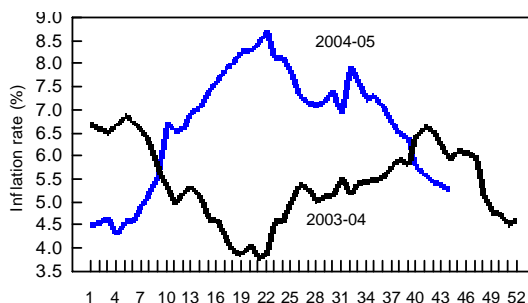


Fig. 5.0b Trends of WPI (52 week average inflation)

