

## Developments in 2004-05 so far

5.4 Inflation rates for both manufactured products and primary articles were lower at 5.1 per cent and 1.5 per cent, respectively as on January 22, 2005, compared with 6.6 per cent and 4.1 per cent, respectively on the corresponding date last year. But, there was an acceleration of inflation for the fuel and power group from 7.7 per cent last year to 10.1 per cent this year due to hardening of international prices of oil and minerals and rise in domestic production cost.

### Primary products

5.5 Primary products recorded an inflation of 1.5 per cent on January 22, 2005 compared to 4.1 per cent a year ago. Primary items with weights of 22 per cent in WPI contributed 6.2 per cent to overall inflation this year, lower than 14.9 per cent a year ago. Primary food articles with a weight of 15.4 per cent and average inflation of 2.1 per cent contributed 6.1 per cent to overall inflation in the current year compared to 4 per cent a year ago.

5.6 Primary items with high inflation include potato (40.7 per cent), bajra (18.8 per cent), tea (11.3 per cent), coffee (17.7 per cent), raw jute (26.7 per cent), fish inland (10.6 per cent), salt (20.1 per cent) and minerals (135.5 per

cent). These items with combined weights of only 1.73 per cent in the WPI contributed 11.5 per cent to current inflation compared to negative contribution last year. It may be further noted that prices of these items declined last year. So their prices in the current year are recovering to the levels prevailing earlier. Other primary items have either negative inflation or moderate price rise in the current year.

### Fuel, power, light and lubricants

5.7 This group with a weight of 14.2 per cent recorded an inflation rate of 10.1 per cent on January 22, 2005, substantially higher than 7.7 per cent a year ago, and contributed 39.1 per cent to overall inflation in the current year compared to 25.3 per cent a year ago. In this group, hike in electricity tariffs were moderate having inflation rate of only 1.6 per cent compared to 4.1 per cent last year, and contributed 2.3 per cent to the current inflation compared to 5.1 per cent last year. Major contribution to inflation was made by coal (5.9 per cent) and petroleum products (30.9 per cent) (Table 5.2).

### Manufactured products

5.8 The Manufacturing group (with total weight of 63.75 per cent in WPI) recorded an

**Table 5.2 : Annual WPI Inflation rate (per cent) as on January 22, 2005**

Year	Annual point to point Inflation rate (per cent)				52-week
	Primary articles	Fuel, power, light, lubricants	Manufactured products	All commodities	Average (All commodities)
Weights (per cent)	22.0	14.2	63.8	100.0	100.0
2000-01	1.6	15.2	4.1	5.6	7.2
2001-02	3.8	3.8	-0.1	1.6	3.6
2002-03	6.1	10.8	5.1	6.5	3.4
2003-04	1.6	2.5	6.7	4.6	5.5
2004-05 on 22-01-05	1.5	10.1	5.1	5.4	6.5
2003-04 on 24-01-04	4.1	7.7	6.6	6.2	5.5
<b>Contribution to annual inflation (per cent)</b>					
2004-05 on 22-01-05	6.2	39.1	54.4	100	100
2003-04 on 24-01-04	14.9	25.3	59.5	100	100

**Table 5.3: WPI inflation of major commodities (43rd week ended January 22, 2005)**

Items	Weight (per cent)	Annual inflation (per cent)		Contribution to inflation (per cent)	
		2004-05	2003-04	2004-05	2003-04
1	2	3	4	5	6
All commodities	100.0	5.4	6.2	100.0	100.0
Primary article	22.0	1.5	4.1	6.2	14.9
Food articles	15.4	2.1	1.5	6.1	4.0
Food grains	5.0	1.4	0.9	1.3	0.8
Cereals	4.4	1.7	0.7	1.4	0.5
Rice	2.5	2.4	-0.5	1.0	-0.2
Wheat	1.4	-1.5	6.3	-0.4	1.5
Pulses	0.6	-0.6	2.6	-0.1	0.3
Gram	0.2	-1.5	0.8	-0.1	0.0
Fruits & vegetables	2.9	2.4	5.7	1.3	2.8
Vegetables	1.5	-5.9	18.6	-1.3	3.2
Potatoes	0.3	40.7	-11.2	1.0	-0.3
Onions	0.1	-44.7	119.9	-1.0	1.2
Fruits	1.5	7.6	-1.2	2.6	-0.4
Milk	4.4	4.5	2.8	3.6	2.0
Eggs, meat & fish	2.2	3.3	-5.5	1.4	-2.3
Condiments & spices	0.7	-13.3	7.0	-1.9	0.9
Other food articles	0.2	13.2	-5.5	0.3	-0.1
Tea	0.2	11.3	-7.0	0.2	-0.1
Coffee	0.1	17.7	-1.9	0.1	0.0
Non-food articles	6.1	-6.4	11.0	-7.9	11.2
Fibres	1.5	-23.0	28.1	-6.9	6.0
Raw cotton	1.4	-27.2	31.2	-7.4	5.9
Raw jute	0.1	26.7	-2.0	0.4	0.0
Oil seeds	2.7	-3.0	8.0	-1.5	3.4
Groundnut seed	1.0	-2.4	-2.0	-0.5	-0.4
Rape & mustard seed	0.6	-11.5	31.5	-1.3	2.6
Other non-food articles	2.0	1.2	4.7	0.5	1.7
Sugarcane	1.3	-0.7	6.5	-0.2	1.8
Minerals	0.5	135.5	-1.9	8.0	-0.1
Fuel, power, light & lubricants	14.2	10.1	7.7	39.1	25.3
Coal mining	1.8	16.2	9.2	5.9	2.8
Minerals oils	7.0	14.9	10.1	30.9	17.5
Liquefied petroleum gas	1.8	16.4	1.3	9.0	0.6
Kerosene	0.7	-0.3	-0.3	-0.1	-0.1
Petrol	0.9	12.1	11.2	2.1	1.6
High speed diesel oil	2.0	20.7	13.3	14.0	7.3
Electricity	5.5	1.6	4.1	2.3	5.1
Manufactured products	63.8	5.2	6.6	54.5	59.5
Food products	11.5	5.3	8.5	10.6	14.4
Sugar, khandsari & gur	3.9	26.7	9.7	15.2	4.6
Sugar	3.6	29.9	7.1	14.0	2.8
Khandsari	0.2	40.4	6.3	0.9	0.1
Gur	0.1	34.6	9.3	0.3	0.1
Edible oils	2.8	-5.8	11.2	-2.7	4.3
Rape & mustard oil	0.5	-11.4	22.1	-1.1	1.7
Groundnut oil	0.2	-2.5	-4.5	-0.1	-0.1
Oil cakes	1.4	-8.7	1.3	-2.7	0.4
Beverages tobacco & pdts.	1.3	5.9	0.2	1.7	0.0
Textiles	9.8	-2.6	10.5	-3.6	12.1
Wood & wood products	0.2	-0.6	0.3	0.0	0.0
Paper & paper products	2.0	1.5	-0.7	0.5	-0.2
Leather & leather products	1.0	7.3	15.1	1.2	1.9
Rubber & plastic products	2.4	-1.4	0.8	-0.5	0.3
Chemicals & products	11.9	3.1	1.3	6.8	2.6
Fertilisers	3.7	0.9	-0.5	0.6	-0.3
Urea	2.2	0.0	-0.5	0.0	-0.2
Non-metallic min products	2.5	3.1	3.4	1.2	1.2
Cement	1.7	-0.6	2.4	-0.2	0.6
Metals alloys & metals prod	8.3	16.0	20.8	24.7	24.4
Iron & steel	3.6	19.2	35.2	14.5	18.0
Other non-ferrous metals	0.6	3.9	5.8	0.4	0.4
Machinery & machine tools	8.4	7.3	1.8	8.5	1.9
Transport equip & parts	4.3	5.0	1.0	3.3	0.6
30 essential items	63.8	5.2	6.6	54.5	59.5

annual inflation of 5.1 per cent on January 22, 2005, lower than 6.6 per cent a year ago. The price rise is due to high inflation rates in two groups viz. sugar, gur and khandsari (26.7 per cent), and basic metals, alloys and metal products (16 per cent), particularly iron and steel (19.2 per cent). Except these items, price rise of other manufactured items is moderate. Fertiliser prices are almost stable, and there was decline in the prices of edible oils, oil cakes, textiles, wood and wood products, cement and rubber and plastic products. Manufactured products with a weight of 63.8 per cent in the WPI contributed 54.4 per cent to overall inflation in the current year, lower than 59.5 per cent a year ago (Table 5.3).

5.9 The price rise in the manufacturing group in recent years has helped arrest the erosion in the domestic terms of trade of manufacturing group vis-à-vis agricultural products. Thus, the terms of trade of the manufacturing group, which recorded continued deterioration until 2002-03, staged a recovery in 2003-04 and 2004-05 so far (Table 5.4).

<b>Table 5.4 : Movement of manufactured prices vis-à-vis agricultural prices</b>				
Year/ Month	General wholesale prices	Index of manufactured products	Index of agricultural products@	Index of manufactured products as per cent of index of agricultural products
Weights	100.00	63.75	21.54	(col 3/ col4) X 100
1	2	3	4	5
1994-95	112.6	112.3	116.1	96.7
1995-96	121.6	121.9	125.9	96.8
1996-97	127.2	124.4	136.4	91.2
1997-98	132.8	128.0	140.3	91.2
1998-99	140.7	133.6	157.2	84.9
1999-00	145.3	137.2	159.1	86.3
2000-01	155.7	141.7	163.6	86.6
2001-02	161.3	144.3	169.5	85.1
2002-03	166.8	148.1	175.3	84.5
2003-04	175.9	156.5	182.8	85.6
2004-05 *	186.7	165.5	188.5	87.8
<b>P- Provisional * April - December(average)</b>				

### Essential commodities

5.10 Thirty essential commodities, important for the common person, with a weight of 17.6 per cent in WPI, registered an average annual inflation rate of 6 per cent on January 22, 2005, compared to 3.7 per cent a year ago, and contributed 19.2 per cent to overall inflation compared to 10.6 per cent a year ago. According to the classification of 30 essential items by price rise, 12 items witnessed decline in absolute prices over the last year, and annual inflation was less than five per cent for 8 items as on January 22, 2005 (Table 5.5).

<b>Table 5.5 : Grouping of essential items according to price rise as on January 22, 2005</b>	
Rate of inflation	Items
1. Decline of absolute prices over last year	Wheat, Gram, Arhar, Onion, Rape & Mustard oil, Groundnut oil, Masur, Chillies, Atta, Kerosene, Laundry soap, Safety matches
2. Annual inflation, less than 5 per cent	Rice, Vanaspati, Jowar, Moong, Urad, Milk, Mutton, Dhotis and Saris
3. Annual inflation, 5 to 10 per cent	Tea, Coconut oil, Long cloth
4. Annual inflation above 10 per cent	Potato (40.7%), Tea (11.3%), Sugar (29.9%), Salt (20.1%), Bajra (18.8%), Fish (10.6%), Gur (34.6%), Cooking coal (26.9%)

5.11 There is high inflation for potato, tea, sugar, gur, salt, bajra, fish and coking coal. Absolute prices of these items, except sugar, gur and coking coal, declined last year. So their prices are recovering to the levels prevailing in January 2003. Current absolute prices of rice, wheat, pulses, mustard oil, groundnut oil, potato are moderate.

### Items responsible for high inflation

5.12 Major groups (weights 0.5 per cent or more) having high inflation include fish inland, minerals, coal, POL, sugar group, and basic

metals and products. These items with weights of 22 per cent in the WPI contributed 86 per cent to the inflation up to January 22, 2005, compared to 48 per cent a year ago (Table 5.6). There has been a hardening of international prices of minerals, metals and POL due to a surge in global demand. Therefore, a major part of the inflation rate can be said to be imported.

5.13 There are no supply constraints in the domestic market. Domestic production of minerals, coal, POL, and metals group except steel has performed well in the current year. Furthermore, all these products are tradable. Therefore, current high inflation is not of the demand-pull variety, but basically of the cost-push type, driven by a hardening of international prices of oil, minerals and metals.

**Table 5.6 : Main contributors to Inflation (per cent) as on 22 January 2005**

Items	Weights	Annual inflation rate ( per cent)		Contribution to inflation (per cent)	
		2004-05	2003-04	2004-05	2003-04
Fish-Inland	0.5	10.6	-10.5	1.4	-1.3
Minerals	0.5	140.7	-1.9	8.2	-0.1
Coal	1.8	16.2	9.2	5.8	2.7
POL	7.0	14.9	11.0	30.8	18.0
Sugar group	3.9	29.2	9.3	16.4	4.2
Metal group	8.3	16.0	21.1	24.5	23.5
Total	22.0	–	–	87.0	46.9