

Prices and Food Management

Inflation

Annual point-to-point inflation rate in terms of the Wholesale Price Index (WPI) increased from 4.6 per cent at end-March 2004 to 5.1 per cent at end-March 2005. The year 2005-06 started with an inflation rate of 5.7 per cent on April 2, 2005, which was followed by a

softening trend until August 27, 2005 when it reached a trough of 3.3 per cent. While the rate rose steadily thereafter, it remained below 5 per cent. At 4.5 per cent on January 21, 2006 it was significantly lower than 5.4 per cent recorded a year ago (Table 5.1, Figure 5.1). Average WPI inflation decelerated from 10.6

**Table 5.1 : Annual WPI Inflation rate
(as on January 21, 2006)**

(per cent)

Year	Annual point to point Inflation rate				52-week
	Primary articles	Fuel, power, light, lubricants	Manufactured products	All commodities	Average (All commodities)
Weights (per cent)	22.0	14.2	63.7	100.0	100.0
2000-01	1.5	15.1	4.0	5.5	7.2
2001-02	3.9	3.9	0.0	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	1.3	10.5	4.6	5.1	6.5
2005-06 on 21/01/2006	5.7	7.9	2.8	4.5	4.7
2004-05 on 22/01/2005	1.0	10.2	5.4	5.4	6.5
Contribution to annual inflation					
2005-06 on 21/01/2006	26.9	38.3	35.2	100.0	100.0
2004-05 on 22/01/2005	4.3	39.0	56.5	100.0	100.0

Fig. 5.1

Trends of WPI inflation in 2004-05 and 2005-06

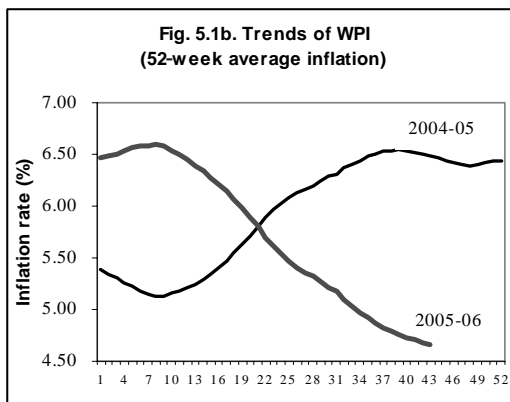
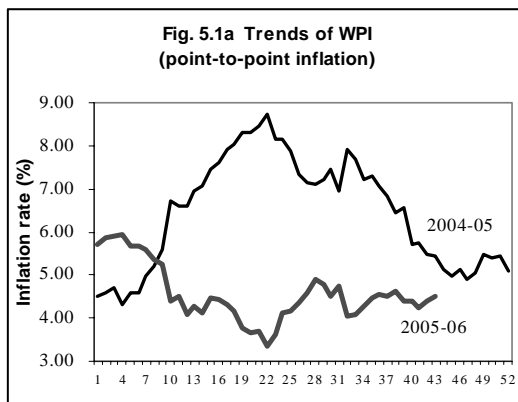


Table 5.2 : Inflation in terms of Wholesale Price Index since 1991-92 (Based on 52-week average inflation rates)				
Annual average WPI inflation (%)				
	All commodities	Primary Fuel	Manufactured	
Period ↓				
Weights →	100.0	22.0	14.2	63.8
1991-92 to				
1995-96	10.6	11.3	11.3	10.1
1996-97 to				
2000-01	5.1	5.4	13.0	3.1
2001-02 to				
2004-05	4.7	3.7	7.7	4.1
2005-06 as on				
28-01-2006	4.7	2.4	9.8	3.6
2004-05 as on				
29-01-2005	6.5	3.9	9.2	6.5

per cent in the first half of 1990s to 4.7 per cent during 2001-02 to 2004-05 (Table 5.2).

5.2 Average headline world price of Indian basket of crude petroleum increased by 47.9 per cent from US \$ 36.3 per barrel in April-

September 2004 to US \$ 53.7 per barrel in April-September 2005. The downward secular trend in inflation observed since the beginning of reforms in 1991 came under threat with this rapid rise in international price of crude and petroleum products. Annual average WPI inflation in the fuel group was 9-10 per cent both at end of 2004 and 2005. Nevertheless, there was successful containment of the inflationary pressure with the overall annual average inflation rate declining from 6.5 per cent at end-2004 to 4.7 per cent at end-2005.

5.3 In line with the decelerating trend in inflation observed since the last quarter of 2004-05, inflation rate for manufactured products was lower at 2.8 per cent on January 21, 2006 compared to 5.4 per cent a year ago, but there was an acceleration in the inflation rate for primary articles to 5.7 per cent from 1.0 per cent in the same reference period (Table 5.1). The prices of petroleum products (diesel and motor spirit) were revised twice on June 20 and September 6, 2005, but the timings and extent of the revisions as well as fiscal intervention ensured that the large increases in the world price of crude and petroleum products were only partially passed through to the consumers and the rest of the economy.