

Developments in 2005-06 so far

Primary products

5.4 Primary products with a weight of 22 per cent in WPI, contributed 26.9 per cent to overall inflation this year, significantly higher than 4.3 per cent a year ago. Primary food articles with a weight of 15.4 per cent and inflation of 7.2 per cent contributed 23.9 per cent to overall inflation in the current year compared to 4.8 per cent a year ago. An analysis of the individual 98 items belonging to the primary group confirms that selected primary food items were the main drivers of the price increase during the year.

5.5 Individual primary items with high inflation include: potatoes (58.3 per cent), onions (46.2 per cent), tomatoes 82.2 (per cent), bajra (12.3 per cent), maize (10.1 per cent), urad (39.8 per cent), gram (25.1 per

cent), moong (20.7 per cent), coffee (33.5 per cent), iron ore (47.7 per cent), fire clay (77.9 per cent) and fish-inland (30.3 per cent). Prices of many of these items were moderate during major parts of the previous year, and the inflationary bout in the current year could be seen as a rebound to the levels prevailing two years earlier. The increase in the annual inflation rates in primary products would have been much higher but for the declines in the rates for many items including oilseeds, condiments and spices, tea and some fruits.

Fuel, power, light and lubricants

5.6 Among the three major groups, the fuel group had the highest inflation since early 2004-05 (Figure 5.2). For the fuel group, the inflation rate (over same date of the previous year) during 2004-05 had varied between 8.1 per cent and 14.3 per cent since early June 2004. After kicking off with 11.1 per cent for

the week ending April 2, 2005, inflation for the fuel group remained high until end-October, 2005 reflecting partly the increase of Rs.3 and Rs. 2 per litre in the price of petrol and diesel, respectively on September 7, 2005 in response to the rise in their international prices. The prices of kerosene in the public distribution system (PDS) and LPG (domestic) were, however, kept unchanged to shield the consumers, particularly, the vulnerable sections of society. The unchanged prices of PDS kerosene and domestic LPG resulted in severe pressure on the bottom lines of public sector oil companies.

5.7 Inflation rate for the fuel group remained at single digit levels during November-December, 2005. This group, with a weight of 14.2 per cent in WPI, recorded an inflation rate of 7.9 per cent on January 21, 2006 which while lower than the rate during corresponding period of 2005, still contributed 38.3 per cent to the overall inflation compared to 39 per cent a year ago (Table 5.1).

5.8 In view of sharp and continuous increase in prices of crude and petroleum products in the international market, Government, on October 28, 2005, constituted a high-powered Inter-Ministerial Committee headed by Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister. The Committee has looked into the various aspects of prices and taxation of petroleum products with a view to stabilizing/rationalizing their prices, keeping in view the financial position of the oil companies, conserving petroleum products and establishing a transparent mechanism for autonomous adjustment of prices by the oil companies, and has submitted its report recently.

Manufactured Products

5.9 The decelerating trend in manufactured product price inflation observed since end-July 2004 continued in the first nine months of the current year. From a peak of 8 per cent in end-July 2004, the annual point-to-point inflation rate for manufactured products came

down to 5.5 per cent on April 2, 2005. The rate decelerated further to 2.3 per cent in end-September 2005, and this deceleration was significant in the aftermath of the introduction of value added tax (VAT) in most of the states with effect from April 1, 2005. Annual inflation rate fluctuated around 3 per cent during the last quarter of calendar year 2005.

5.10 Manufacturing group, with a weight of 63.75 per cent in WPI, recorded an annual point-to-point inflation of 2.8 per cent on January 21, 2006 and contributed 35.2 per cent to overall inflation in the current year compared to 56.5 per cent a year ago. Of the 12 broad commodity groups under manufactured products, seven groups (food products, edible oils, paper and paper products, leather and leather products, metal products, machinery and machine tools, transport equipment and parts) recorded lower annual inflation rates in 2005-06 than in 2004-05 (Table 5.3). The price rise in the group was due to high inflation in wood and wood products (16.3 per cent), rubber and plastic products (6.3 per cent), non-metallic mineral products (7.8 per cent), and other non-ferrous metals (30.9 per cent). Textile prices witnessed negative inflation, and fertilizer prices showed marginal increases. Prices of edible oils declined in both 2004-05 and 2005-06 with the impact of lower international prices. Cement prices rose by 12.7 per cent with higher demand from construction boom in the country.

5.11 Price terms of trade between agriculture and manufacturing showed some improvements in favour of manufacturing during 2004-05 and 2005-06, but with agricultural prices rising much faster than manufacturing prices in the post-reform period, relative to 1993-94, the terms of trade continued to be in favour of agriculture by about 11 percentage points in 2004-05. Since the wholesale price index of manufactured products remained at low levels during 2005-06, the trend in the terms of trade in favour of agriculture would continue in the current year (Table 5.4).

**Table 5.3 : WPI inflation of major commodities
(week ended January 21, 2006)**

(per cent)

Items	Weight	Annual inflation		Contribution to inflation	
		2005-06	2004-05	2005-06	2004-05
All Commodities	100.00	4.5	5.4	100.0	100.0
Primary Products	22.03	5.7	1.0	26.9	4.3
Food Articles	15.40	7.2	1.7	23.9	4.8
Food Grains	5.01	7.4	1.5	7.8	1.3
Cereals	4.41	5.9	1.8	5.5	1.5
Rice	2.45	2.0	2.6	1.0	1.1
Wheat	1.38	10.7	-1.5	3.3	-0.4
Pulses	0.60	19.0	-1.1	2.3	-0.1
Gram	0.22	25.1	-2.4	0.9	-0.1
Fruits & Vegetables	2.92	13.8	0.0	8.8	0.0
Vegetables	1.46	39.0	-12.9	8.4	-2.8
Potatoes	0.26	58.3	37.2	2.2	0.9
Onions	0.09	46.2	-46.4	0.6	-1.1
Fruits	1.46	0.9	8.2	0.4	2.8
Milk	4.37	-1.5	4.5	-1.4	3.6
Eggs, Meat & Fish	2.21	16.3	2.9	8.1	1.2
Condiments & Spices	0.66	0.8	-12.3	0.1	-1.7
Other Food Articles	0.24	13.7	18.8	0.5	0.5
Tea	0.16	2.3	8.1	0.0	0.1
Coffee	0.08	33.5	43.2	0.4	0.3
Non-Food Articles	6.14	-1.8	-6.4	-2.3	-7.8
Fibres	1.52	8.8	-22.8	2.3	-6.7
Raw Cotton	1.36	9.1	-27.2	2.0	-7.3
Raw Jute	0.11	17.9	32.9	0.4	0.5
Oil Seeds	2.67	-10.3	-3.5	-5.6	-1.7
Groundnut seed	1.03	-9.6	-2.4	-2.0	-0.5
Rape & mustard seed	0.58	-1.8	-12.7	-0.2	-1.5
Other Non-Food Articles	1.95	2.1	1.4	1.0	0.6
Sugarcane	1.31	0.7	-0.7	0.3	-0.2
Minerals	0.49	34.6	127.0	5.2	7.4
Fuel Power Light & Lubricants	14.23	7.9	10.2	38.3	39.0
Coal Mining	1.75	0.3	16.7	0.2	6.0
Minerals Oils	6.99	12.5	14.9	33.8	30.7
Liquified petroleum gas	1.84	0.0	16.4	0.0	8.9
Kerosene	0.69	0.0	-0.3	0.0	-0.1
Petrol	0.89	14.6	12.1	3.2	2.1
High speed diesel oil	2.02	16.0	20.7	14.8	13.9
Electricity	5.48	2.7	1.6	4.5	2.3
Manufactured Products	63.75	2.8	5.4	35.2	56.5
Food Products	11.54	1.2	5.6	2.9	11.1
Sugar, Khandsari & Gur	3.93	2.5	26.9	2.0	15.1
Sugar	3.62	2.3	30.7	1.6	14.2
Khandsari	0.17	13.4	40.4	0.5	0.9
Gur	0.06	8.2	34.6	0.1	0.3
Edible Oils	2.76	-5.3	-6.0	-2.6	-2.8
Rape & Mustard Oil	0.49	-7.9	-11.7	-0.8	-1.2
Groundnut Oil	0.17	-1.0	-4.0	0.0	-0.1
Oil Cakes	1.42	-6.9	-6.7	-2.3	-2.0
Beverages Tobacco & pdts.	1.34	5.4	7.2	1.9	2.0
Textiles	9.80	-1.9	-3.4	-2.9	-4.7
Wood & Wood Products	0.17	16.3	-0.6	0.6	0.0
Paper & Paper Products	2.04	1.0	1.8	0.4	0.7
Leather & Leather Products	1.02	4.9	7.3	0.9	1.1
Rubber & Plastic Products	2.39	6.3	-1.6	2.4	-0.5
Chemicals & Chemical Products	11.93	3.1	3.1	7.9	6.8
Fertilisers	3.69	2.4	1.1	1.8	0.7
Urea	2.16	0.0	0.0	0.0	0.0
Non-Metallic Mineral Products	2.52	7.8	3.9	3.7	1.5
Cement	1.73	12.7	-1.2	3.8	-0.3
Basic Metals Alloys & Metals pdts.	8.34	6.4	17.1	13.1	26.2
Iron & Steel	3.64	6.7	20.3	6.8	15.2
Other Non-Ferrous Metals	0.61	30.9	3.9	3.2	0.3
Machinery & Machine Tools	8.36	1.5	8.2	2.2	9.4
Transport Equipment & Parts	4.30	2.9	5.3	2.3	3.5

Table 5.4 : Movement of manufactured prices vis-à-vis agricultural prices				
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
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	187.3	165.1	186.4	89.1
2005-06 P *	195.3	171.5	191.4	89.7

**P- Provisional * April - December(average)
@ Food+nonfood**

Essential Commodities

5.12 Thirty essential commodities important for the common citizen, with a weight of 17.6 per cent in WPI, registered an annual inflation rate of 3.8 per cent on January 21, 2006 compared to 6.1 per cent a year ago, and contributed 14.5 per cent to overall inflation compared to 19.5 per cent a year ago. The annual inflation rate for essential commodities has been less than that of the overall index, which could partly reflect the importance attached by the Government to keeping the

Table 5.5 : Grouping of essential items according to price rise (as on January 21, 2006)	
Rate of inflation	Items
1. Decline of absolute prices over last year	Arhar, mustard oil, groundnut oil, vanaspati, milk, coconut oil, kerosene, long cloth/ sheeting and safety matches.
2. Annual inflation, less than 5 per cent	Rice, tea, sugar, salt, masur and mutton.
3. Annual inflation, 5 to 10 per cent	Jowar, atta, gur and laundry soap.
4. Annual inflation above 10 per cent	Wheat, gram, potatoes, onions, bajra, moong, urad, fish and chillies.

prices of essential items under check. Out of 30 essential items, relative to their prices last year, 9 items witnessed a decline, and 6 items recorded increases of less than five per cent (Table 5.5). There was upward pressure on prices of pulses from the substantial increase of minimum support prices (MSP) in the current year.

Items responsible for high inflation

5.13 Nine items belonging to different sub-groups in the primary articles' group, namely, potatoes and onion (in the vegetables' sub-group); bajra (in coarse grain); gram, moong, and urad (in pulses); and fish inland, with combined weight of 1.5 per cent in the WPI, contributed 10.9 per cent to total inflation compared to a contribution of only 2.0 per cent in 2004-05. These items had point-to-point annual inflation rates exceeding 10 per cent, substantially higher than those in 2004-05.