

Prices and Food Management

Inflation

The Wholesale Price Index (WPI), available weekly and going back the longest, continues to be the most popular measure for monitoring inflation (Box 5.1). In terms of the WPI, annual point-to-point inflation was 6.11 per cent on January 20, 2007, the end of the 43rd week of the current year. The inflation rate in the corresponding week of the previous year was 4.24 per cent. Starting with a rate of 3.98 per cent, the inflation rate in 2006-07 has been on a general upward trend with intermittent decreases in between. While average inflation in the 52 weeks ending on January 20, 2007

remained below 5 per cent, such a spurt in inflation as observed in the current year had been surpassed in the recent past in 1998-99, 2000-01, 2003-04 and 2004-05 (Table 5.1).

5.2 The inflation rate for primary articles at 9.76 per cent on January 20, 2007 was higher than 5.87 per cent recorded in the corresponding week of the previous year. On January 20, 2007, while the inflation rate for manufactured products at 5.65 per cent was higher than 2.32 per cent recorded in the corresponding week a year ago, there was a significant deceleration in inflation in the fuel group from 7.84 per cent a year ago to 3.67 per cent.

Table 5.1 : Annual WPI inflation rate

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	63.8	100.0	100.0
Long term trends (Average Annual)					
1991-1996	11.3	11.3	10.1	10.6	–
1996-2001	5.4	13.0	3.1	5.1	–
2001-2006	3.6	8.1	3.9	4.7	–
Recent Annual trends (Points to point)					
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	6.4
2005-06	5.4	8.9	1.7	4.1	4.4
2006-07#	9.76	3.67	5.65	6.11	4.90
2005-06#	5.87	7.84	2.32	4.24	4.65
Contribution (adjusted) to annual inflation (per cent)					
2006-07#	34.90	13.51	51.58	100.0	–
2005-06#	29.44	39.79	30.77	100.0	–

: As on 43rd week – January, 20, 2007 and January 21, 2006.

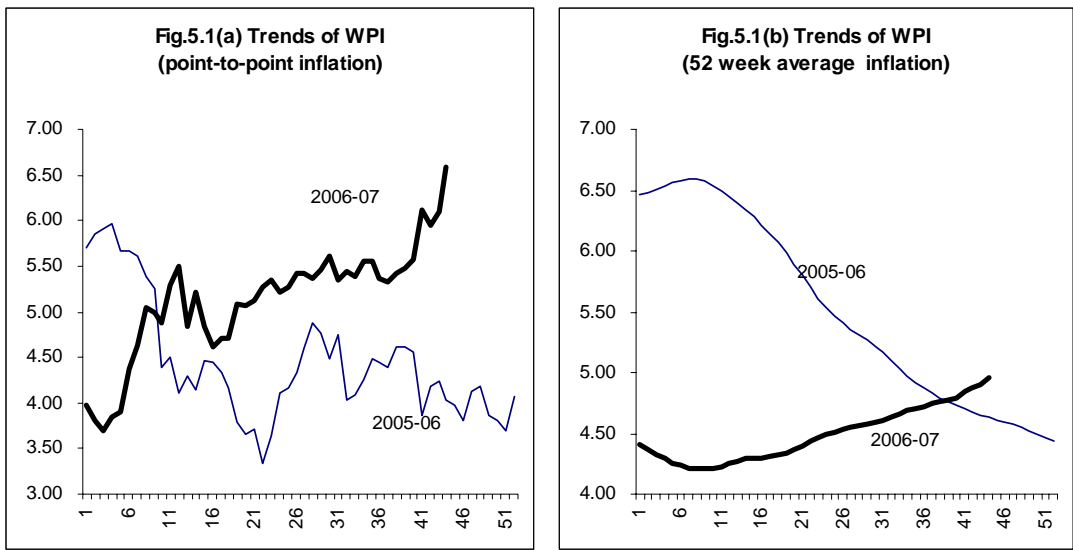
5.3 In the current year, increase in prices of wheat, pulses, edible oils, fruits and

vegetables, and condiments and spices has been the major contributor to the higher

Box 5.1 : History of the Wholesale Price Index (WPI) in India

The Office of the Economic Adviser to the Government of India (Ministry of Industry) undertook to publish for the first time, an index number of wholesale prices, with base week ended August 19, 1939 = 100, from the week commencing January 10, 1942. The WPI was calculated as the geometric mean of the price relatives of 23 commodities. Each item was assigned equal weight and for each item, there was a single price quotation. From 1947, the series included as many as 78 commodities, covering 215 individual quotations, classified into five groups: food articles; industrial raw materials; semi-manufactures; manufactures; and miscellaneous. In accordance with the recommendations of the Standing Committee of the Departmental Statisticians, the Economic Adviser's Office issued a revised series of WPI, with 1952-53 as price base and 1948-49 as weight base, consisting of 112 commodities, and 555 individual quotations. The commodities were classified into five groups: food articles; liquor & tobacco; fuel, power, light & lubricants; industrial raw materials; and manufactures. The weighted arithmetic average was adopted in preference to the weighted geometric mean used for the earlier series. A new series of WPI with base 1961-62 = 100 and with an improved coverage of non-agricultural commodities was issued from July 1969. It covered 139 commodities and 774 quotations. For commodity classification, the 'Standard International Trade Classification' (SITC) with slight alterations made to fit in with the Indian conditions was followed. While introducing the series with base 1961-62, it was decided to constitute a working group to go into the methodological aspects of the index relating to the revised series, with a more recent year as the base. Accordingly, a new series, with the base year as 1970-71, was introduced in January 1977. The wider coverage of this series extended to 360 items and 1,295 price quotations. For non-agricultural items, commodities with a total value of production of more than Rs one crore each according to the Annual Survey of Industries, 1965, and items whose indigenous outputs were small but imports were substantial, were generally included. In the case of agriculture, selection of commodities was done in consultation with the Directorate of Economics & Statistics, Ministry of Agriculture. For a more representative sample, weights were assigned on the basis of the entire wholesale transactions in the economy and the values of transactions of the non-selected commodities were assigned to selected commodities whose nature and price trends were similar. To bring about greater uniformity, the 'National Industrial Classification' (NIC) was adopted, and the commodities were divided into three major groups: primary articles; fuel, power, light & lubricants; and manufactured products. The WPI series underwent another restructuring in terms of its base and weighting diagram from the beginning of 1989. The new series with 1981-82 as the base year continued the conceptual tradition followed by its predecessors. As against 360 items in the 1970-71 series, the 1981-82 series included 447 distinct commodities and 2,371 price quotations. The method of compilation and assigning of weights, as well as the classification into three major groups continued. The latest WPI series with the new base year 1993-94 follows the same methodology as earlier. There are altogether 435 articles/items in the new series, comprising of 98 'primary articles', 19 items of 'fuel, power, light and lubricants', and 318 'manufactured products'.

Fig. 5.1 Trends of WPI inflation



inflation rate of primary articles. Shortfall in domestic production vis-à-vis domestic demand and hardening international prices were the major causes for the increase in prices of these commodities. The international annual average (Jan-Dec) price of crude oil (Brent) per barrel, which was around US\$38 in 2004, after increasing to US\$54 in 2005, reached US\$65 during 2006. This necessitated an upward revision of prices of petro products in the domestic market with effect from midnight of June 6, 2006 to reduce

the shortfall of their domestic prices from the corresponding import-parity prices. But the pass-through to consumers was restricted to just 12.5 per cent with the rest absorbed by Government and oil marketing companies. With the softening of international petroleum prices in 2006-07, domestic prices of petrol (motor spirit) and high-speed diesel were reduced by Rs. 2 and Re.1 respectively with effect from November 30, 2006 and again by Rs. 2 and Re. 1 respectively with effect from February 16, 2007.