

## Developments in 2006-07

### Primary Articles

5.4 On January 20, 2007, primary articles recorded an inflation rate of 9.76 per cent as compared to 5.87 per cent a year ago, and contributed 34.87 per cent to over- all inflation this year as against 29.73 per cent last year (Table 5.2). Year-on-year rate of inflation for these articles two years ago (January 22, 2005) was 1.04 per cent.

5.5 The primary articles' group in WPI consists of three sub-groups, viz., food articles; non-food articles; and minerals. Food group, having 15.4 per cent weight in WPI basket, recorded year-on-year inflation of 9.16 per cent on January 20, 2007 and contributed 23.10 per cent to overall inflation. Non-food articles (with weight of 6.14 per cent in WPI)

with inflation of 10.17 per cent contributed 9.21 per cent to overall inflation. Though the rate of inflation for minerals sub-group decelerated from 126.99 per cent as on January 22, 2005, it has remained high in the current year at 34.81 per cent.

5.6 In the current year, commodity-wise analysis of inflation in primary products reveals that in cereals and pulses sub-groups, 8 commodities – urad, moong, gram, wheat, maize, ragi, jowar and arhar – had inflation in excess of 5 per cent. Duty-free import of wheat and pulses to ameliorate the shortfall in domestic output relative to domestic demand had a limited impact on domestic prices because of firm international prices. In case of wheat, a sharp decline in world production in 2006-07 (estimated to be around 590 million tonnes compared to 618 million tones in 2005-

**Table 5.2 : Rate of inflation of primary articles and their contribution**

Items	Weight	Inflation (%) (point to point)				Contribution to overall Inflation (%)			
		24-Jan-04	22-Jan-05	21-Jan-06	20-Jan-07	24-Jan-04	22-Jan-05	21-Jan-06	20-Jan-07
All Commodities	100.00	6.24	5.43	4.24	6.11	100.00	100.00	100.00	100.00
Primary Articles	22.03	4.06	1.04	5.87	9.76	14.89	4.31	29.73	34.87
<b>(A) Food Articles</b>	15.40	1.52	1.67	7.43	9.16	3.96	4.76	26.18	23.10
Cereals	4.41	0.68	1.81	6.43	7.66	0.50	1.45	6.39	5.40
Pulses	0.60	2.63	-1.14	23.19	21.39	0.26	-0.12	3.04	2.30
Fruits & Vegetables	2.92	5.70	0.00	11.01	11.62	2.78	0.00	7.44	5.81
Milk	4.37	2.79	4.46	-1.46	7.57	2.00	3.56	-1.47	5.02
Egg, Meat & Fish	2.21	-5.49	2.90	19.50	0.31	-2.27	1.23	10.29	0.13
Condiments & Spices	0.66	6.96	-12.29	0.33	38.55	0.85	-1.74	0.05	3.89
Other Food Articles	0.24	-5.51	18.77	11.06	21.27	-0.13	0.47	0.40	0.57
<b>(B) Non-Food Articles</b>	6.14	11.03	-6.45	-1.61	10.17	11.17	-7.85	-2.23	9.21
Fibers	1.52	28.06	-22.76	7.21	-1.22	5.99	-6.74	2.00	-0.24
Oilseeds	2.67	8.03	-3.49	-10.29	21.27	3.40	-1.73	-5.97	7.38
Other non-food articles	1.95	4.65	1.42	3.35	5.77	1.74	0.60	1.75	2.08
<b>(C) Minerals</b>	0.48	-1.93	126.99	34.81	18.23	-0.11	7.41	5.59	2.63

06) resulted in an increase in international prices from an average of US\$152.4 (for US Hard Red Wheat) during January-December 2005 to US\$212.1 in October 2006, with slight moderation to US\$204.3 in December 2006. Because of interplay of food-feed-fuel, price of maize also increased from US\$98.7 during January-December 2005 to US\$160.4 in December 2006.

5.7 Sweet potatoes, apples, brinjals, sapotas, pineapples, tomatoes, grapes, onions, banana and oranges were the commodities in the group 'vegetables and fruits' with high price rise even when seasonality is taken into account by measuring inflation on year-on-year basis. Sweet potatoes, tomatoes, oranges and onions had fairly high inflation in the previous year as well. A sharp increase in onion prices was observed in the last reporting week. With tight supply position in domestic and world markets, most of the condiments and spices, tea and coffee had inflation over 5 per cent. While international coffee prices of the Arabica variety firmed up in the last three months, robusta stabilized at US cents 162-170/kg during August-December 2006 compared to US cents 111.5/kg in January-December 2005. There was a softening trend in tea at Kolkata auctions, and the WP index was stable at 144.0 in the last 20 weeks.

5.8 In other non-food articles, edible oilseeds recorded significant price increases. While they had fallen in the previous year, such prices in January 2007 were above the levels that prevailed in January 2003, 2004 and 2005. Firm international prices of edible oils, particularly from November 2006, contributed

to this trend. In minerals—bauxite, chromite, fine clay, manganese ore and iron ore had a year-on-year inflation exceeding 15 per cent.

### Fuel, Power, Light and Lubricants

5.9 On January 20, 2007, fuel and power group with year-on-year inflation of 3.67 per cent contributed 13.51 per cent to overall inflation. Of the three sub-groups in fuel and power group – namely, coal mining, mineral oils and electricity – except for 'electricity', inflation has been lower in the current year than in the previous one (Table 5.3).

5.10 Within the mineral oil sub-group, lubricants, bitumen, aviation turbine fuel, naphtha, and light diesel oil, and in the electricity sub-group, electrify tariffs for agriculture had year-on-year inflation of over 5 per cent.

### Manufactured Products

5.11 Manufactured products, with a total weight of 63.75 per cent in WPI and a year-on-year inflation of 5.65 per cent on January 20, 2007, contributed more than half of the overall inflation (Table 5.4).

5.12 At the disaggregated level of 12 sub-groups within the manufactured products group, the sub-groups 'basic metals & metal products' and 'non-metallic mineral products' had year-on-year inflation in double digits, and with a weight of 10.86 in WPI, contributed 24.21 per cent to overall inflation. In the 'food products' sub-group, increase in prices was significant for wheat derivatives, skimmed milk powder and edible oils. Certain products in the sub-group 'textiles', particularly viscose staple fibre, polyester yarn and cotton yarn,

**Table 5.3 : Rate of inflation of products groups in fuel & power and their contribution**

Items	Weight	Inflation (%) (point to point)				Contribution to overall inflation (%)			
		24-Jan-04	22-Jan-05	21-Jan-06	20-Jan-07	24-Jan-04	22-Jan-05	21-Jan-06	20-Jan-07
All Commodities	100.00	6.24	5.43	4.24	6.11	100.00	100.00	100.00	100.00
Fuel & Power	14.23	7.70	10.17	7.84	3.67	25.34	39.01	40.19	13.51
A. Coal Mining	1.75	9.22	16.68	0.35	0.00	2.79	5.96	0.18	0.00
B. Minerals Oil	6.99	10.13	14.90	12.30	3.55	17.51	30.70	35.30	7.63
C. Electricity	5.48	4.07	1.59	2.75	4.93	5.12	2.26	4.80	5.89

**Table 5.4 : Rate of inflation of manufactured products sub groups and their contribution**

Items	Weight	Inflation (%) (point to point)				Contribution to overall inflation (%)			
		24-Jan-04	22-Jan-05	21-Jan-06	20-Jan-07	24-Jan-04	22-Jan-05	21-Jan-06	20-Jan-07
ALL COMMODITIES	100.00	6.24	5.43	4.24	6.11	100.00	100.00	100.00	100.00
Manufactured									
Products	63.75	6.56	5.40	2.32	5.65	59.50	56.52	31.08	51.53
Food Products	11.54	8.52	5.57	1.53	3.07	14.39	11.06	3.89	5.29
Beverages & Tobacco	1.34	0.15	7.17	5.74	7.36	0.04	2.03	2.11	1.91
Textiles	9.80	10.49	-3.43	-1.59	2.54	12.13	-4.75	-2.57	2.69
Wood & Products	0.17	0.34	-0.56	16.34	-3.08	0.01	-0.02	0.63	-0.09
Paper & Products	2.04	-0.69	1.79	1.99	7.69	-0.23	0.65	0.89	2.35
Leather & Products	1.02	15.10	7.30	4.87	-5.23	1.90	1.15	0.99	-0.75
Rubber & Plastic Products	2.39	0.82	-1.63	6.17	7.51	0.25	-0.54	2.45	2.11
Chemicals & Products	11.93	1.31	3.09	2.89	2.86	2.61	6.77	7.90	5.37
Non Metallic Mineral Products	2.52	3.40	3.88	8.23	12.46	1.20	1.53	4.09	4.47
Basic Metals & Products	8.34	20.84	17.13	1.68	13.40	24.39	26.23	3.65	19.74
Machinery & Machine Tools	8.36	1.83	8.18	2.64	7.91	1.91	9.40	3.97	8.15
Transport & Parts	4.29	0.95	5.32	2.88	1.31	0.57	3.50	2.42	0.75

had inflation above 5 per cent. There was an increase of 4 per cent in the price of cotton yarn-cones between December 30, 2006 and January 6, 2007. In the 'paper & paper products' sub-group, paperboards and speciality papers witnessed inflation exceeding 10 per cent. In 'chemicals and chemical products', price rise was significant for epoxy resins, benzene, methanol and phenol.

5.13 With higher demand for houses, infrastructure and capacity additions in industry, cement prices, after nearly 8 per cent increase in one week – January 29, 2005 to February 5, 2005 have maintained a slow but steady upward trend. Cement prices, year-on-year, increased by 17.9 per cent on January 20, 2007. With basic customs duty on cement reduced from 15 per cent to zero per cent on January 22, 2007 moderation could be expected in the coming weeks. Basic metals including non-ferrous metals have witnessed upward pressure on prices due to

lower stocks, high demand from China, and the firming of international prices. In case of zinc and lead, there has been a decline in prices in the last two weeks (week ending January 13 and January 20, 2007), but aluminum and steel-related products have continued to witness an increasing trend.

5.14 Thirty essential commodities (with a combined weight of 17.63 per cent in the WPI basket) registered an aggregate inflation rate of 4.83 per cent on January 20, 2007 compared to 4.00 per cent a year ago and contributed 13.67 per cent to overall inflation compared to 16.31 per cent a year ago. Out of 30 essential commodities, 9 items witnessed either no-change or decline in prices as compared to a year ago. Annual inflation rate was less than five per cent for 3 items in the same period (Table 5.5).

#### Terms of trade

5.15 Price-terms of trade between agricultural and manufacturing showed some improvement in favour of manufacturing during

**Table 5.5 : Grouping of essential items according to price rise  
(as on January 20, 2007)**

Rate of inflation	Items
1. Decline of absolute prices over last year or no increase	Potatoes, sugar, salt, fish-inland, gur, coking coal, kerosene, long cloth, and dhoti, sarees & voils
2. Positive inflation: up to 5 per cent	Rice, masur, bajra
3. Annual inflation: 5 per cent to 10 per cent	Arhar, mustard oil, milk, vanaspati, mutton and safety matches
4. Annual inflation above, 10 per cent	Wheat (11.8 per cent), gram (28.2 per cent), tea (19.4 per cent), groundnut oil (25.5 per cent), jowar (10.0 per cent), moong (25.8 per cent), urad (23.5 per cent), chillies (dry) (62.4 per cent), atta (19.6 per cent), coconut oil (13.9 per cent), household laundry Soap (10.3 Per cent), onions (28.2 per cent)

2005-06 and 2006-07. But, in overall terms, with agricultural prices rising much faster than manufacturing prices in the post-reform period, the terms of trade in 2005-06, relative to 1993-94, continued to be in favour of agriculture by about 10 percentage points (Table 5.6).

**Table 5.6 : Movement of manufactured prices vis-à-vis agricultural prices**

Year/	General of wholesale Prices	Price Inde of Manu- factured products	Price Index of Agri- cultural products@	Manu- facturing Price Index as per cent of Agri- cultural Price Index
1	2	3	4	5
Weights	100.00	63.75	21.54	(col 3/ col4)*100
1993-94	100.0	100.0	100.0	100.0
1994-95	112.6	112.3	116.0	96.8
1995-96	121.6	121.9	126.0	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	85.0
1999-00	145.3	137.2	159.1	86.2
2000-01	155.7	141.7	163.7	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	182.9	85.6
2004-05	187.3	166.3	186.7	89.1
2005-06	195.6	171.4	190.7	89.9
2006-07**	205.1	177.7	202.0	88.0
* Composite index of the sub-groups – Food Articles and Non-food Articles				
** Apr-Dec 2006				