

## 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 43<sup>rd</sup> 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
<b>Long term trends (Average Annual)</b>					
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	–
<b>Recent Annual trends (Points to point)</b>					
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
<b>2006-07#</b>	<b>9.76</b>	<b>3.67</b>	<b>5.65</b>	<b>6.11</b>	<b>4.90</b>
<b>2005-06#</b>	<b>5.87</b>	<b>7.84</b>	<b>2.32</b>	<b>4.24</b>	<b>4.65</b>
<b>Contribution (adjusted) to annual inflation (per cent)</b>					
<b>2006-07#</b>	<b>34.90</b>	<b>13.51</b>	<b>51.58</b>	<b>100.0</b>	–
<b>2005-06#</b>	<b>29.44</b>	<b>39.79</b>	<b>30.77</b>	<b>100.0</b>	–

# : 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

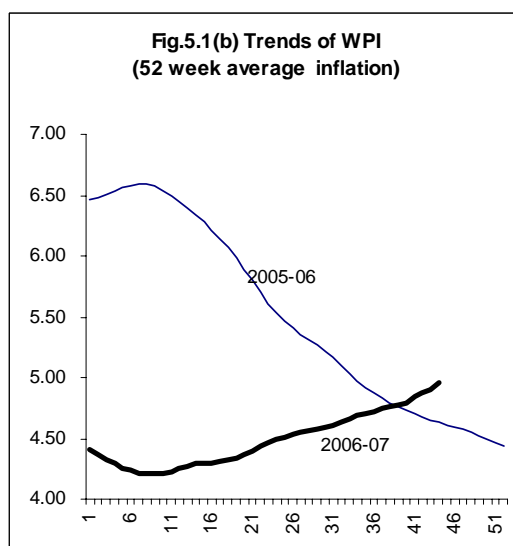
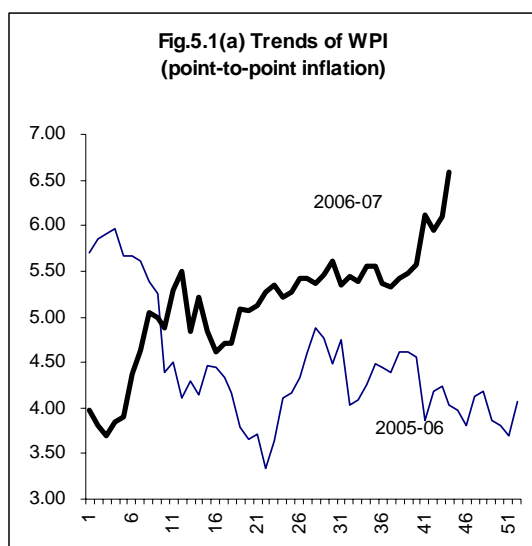
vegetables, and condiments and spices has been the major contributor to the higher

**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.

## 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, 2004 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).

### Consumer Price Indices

5.16 There are four consumer price indices (CPI) measuring the changes over time in

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

Year/	General of wholesale Prices	Price Inde of Manufactured products	Price Index of Agricultural products@	Manu-facturing Price Index as per cent of Agricultural Price Index
Weights	100.00	63.75	21.54	(col 3/col4)*100
1	2	3	4	5
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

the general level of prices of goods and services that four different reference population groups acquire, use or pay for consumption – CPI for Urban Non-Manual Employees (CPI-UNME); CPI for Industrial Workers (CPI-IW); CPI for Agricultural Labourers (CPI-AL) and CPI for Rural Labourers (CPI-RL) (Table 5.7). These are compiled in terms of the general standards and guidelines set by the International Labour Organisation (ILO) for all the member countries. While CPI-UNME is compiled and released by Central Statistical Organisation (CSO), Ministry of Statistics and Programme Implementation, the rest three are compiled and released by Labour Bureau, Ministry of Labour. CPI-IW is the most well known of these indices, as it is used for wage indexation in Government and organized sector.

5.17 With differing commodity composition and weights to the various commodities and services, inflation measured in terms of the CPI-IW and CPI-AL – available only until December 2006 – have been 1.3–2.2 percentage points higher than the corresponding WPI inflation in the current year (Table 5.8).

5.18 Year-on-year, the All-India CPI-UNME was up 6.9 per cent in December 2006. Between November and December 2006, at the group level, the index was higher by 1.09 per cent in 'fuel & light', by 0.46 per cent in 'clothing, bedding & foot-wear, etc.'. However, the index of 'food, beverages and tobacco' declined by 0.61 per cent over the previous month.

**Table 5.7: Salient features of price indices**

S. No.	CPI-UNME	CPI-IW	CPI-AL	CPI-RL	WPI
1	Weights allocated on the basis of	Consumer Expenditure Survey			Weights allocated based on wholesale transactions
	First:1958-59 Latest: 1982-83	First:1958-59 Latest: 2001	First:1956-57 Latest:1983	First 1983 Latest 1983	
2	Base year of the current series	1984-85	2001	1986-87	1986-87 1993-94
3	No of items/ commodities in basket	146-365	120-160	260	260 435
4	No of centres/ villages	59	76	600	600 1918 quotations
5	Time lag of the index	2 weeks	1 month	3 weeks	3 weeks 2 weeks
6	Frequency	Monthly	Monthly	Monthly	Monthly Weekly

**Table 5.8 : Rate of inflation (per cent) based on different Indices**

	WPI	CPI-UNME	CPI-IW	CPI-AL	CPI-RL
2001-02	3.6	4.3	5.1	1.1	1.3
2002-03	3.4	4.0	3.8	3.2	3.1
2003-04	5.5	3.9	3.7	3.9	3.8
2004-05	6.5	3.8	3.6	2.6	2.6
2005-06	4.4	4.4	4.7	3.9	3.9
2006-07#	5.0	6.6	6.3	7.2	6.9
<b># April-December 2006</b>					

5.19 The rate of year-on-year inflation based on CPI-AL, after increasing from 5.6 per cent in April 2006 to 7.2 per cent in June, 2006, decreased to 6.3 per cent in July, 2006. However, thereafter it started increasing and reached 8.9 per cent in December, 2006. Of all the price indices, the CPI-AL attaches the highest weight to the food group of commodities, and CPI-AL is highly vulnerable to food prices.

#### **Consumer Price Index- Industrial Workers- current trends**

5.20 CPI-IW based year-on-year inflation, after peaking at a 7-year high of 7.6 per cent in June 2006, moderated to 6.9 per cent in December 2006 as against 5.6 per cent in December 2005. The trend of lower-than-WPI

inflation in CPI-IW was reversed in November 2005.

5.21 In the new series of CPI-IW, introduced from January 2006 with 2001 as the base, the food group has a weightage of 46.19 per cent – considerably higher than the corresponding 26.94 per cent (including those in the primary and manufactured subgroups) in the WPI. This greater importance of the food group together with the higher rate of inflation in the food group has resulted in CPI-IW inflation being higher than WPI inflation (Table 5.9).

5.22 Inflation in food items within CPI-IW, after decreasing from 5.4 per cent in January 2006 to 5.0 per cent in March 2006, showed an increasing trend since April 2006 to reach 10.0 per cent in June 2006. The decline to

Year	Year-on-year WPI inflation						Year-on-year CPI-IW inflation	
	Items	All Commodities	Essential Commodities	Food Group	General Index	Food Group		
	Weight	100.0	17.6	26.9	100.0	57.0 (Old)	46.2 (New)	
2005-06	APR	5.9	4.4	2.4	5.0			2.6
	MAY	5.5	3.3	1.4	3.7			2.0
	JUN	4.3	3.1	2.0	3.3			1.6
	JUL	4.3	4.3	3.6	4.1			4.0
	AUG	3.7	4.2	2.8	3.4			3.1
	SEP	4.1	3.3	2.3	3.6			3.5
	OCT	4.7	4.0	3.0	4.2			4.1
	NOV	4.2	5.2	4.5	5.3			6.6
	DEC	4.4	4.9	5.0	5.6			6.7
	JAN	4.1	3.9	4.7	4.8			5.4
	FEB	4.0	5.1	4.4	5.0			5.2
	MAR	3.9	5.7	3.5	5.0			5.0
2006-07	APR	3.9	5.9	3.5	5.1			5.7
	MAY	4.8	7.7	4.9	6.3			8.1
	JUN	5.1	8.6	6.1	7.6			10.0
	JUL	4.8	5.4	3.3	6.7			7.2
	AUG	5.1	5.3	3.9	6.3			8.7
	SEP	5.5	7.2	6.4	6.8			8.9
	OCT	5.5	7.5	6.5	7.3			9.9
	NOV	5.5	6.6	5.7	6.3			7.8
	DEC	5.4	6.4	6.6	6.9			-

Figures of December are provisional in terms of WPI.

7.2 per cent in July 2006 proved to be temporary. The inflation in food items in CPI-IW declined to 7.8 per cent in November, 2006 from 9.9 per cent in October, 2006.

#### Quarterly price trend for CPI-IW (major groups)

5.23 The trend in CPI-IW based quarter-over-previous-quarter inflation (Table 5.10) indicates that the overall CPI-IW inflation during

(Percentage change over previous quarter)								
Group	Weight (%)		2005-06				2006-07	
	1982=100	2001=100	Apr-June	July-Sep	Oct-Dec	Jan-Mar	Apr-June	July-Sep
General	100.0	100.0	0.6	2.2	1.9	0.1	1.9	2.5
Food	57.00	46.20	1.4	3.5	2.7	-2.5	4.0	3.9
Pan, supari, tobacco & intoxicants	3.15	2.27	0.5	0.4	0.5	1.0	1.1	1.2
Fuel & light	6.28	6.43	-6.6	-2.4	2.7	2.2	1.6	1.3
Housing	8.67	15.27	0.0	2.0	0.0	4.5	0.0	2.5
Clothing, bedding & footwear	8.54	6.57	1.1	0.4	-0.4	1.9	1.2	0.0
Miscellaneous group	16.36	23.26	0.7	1.1	1.2	1.5	0.8	1.6

Source : Labour Bureau, Shimla/Chandigarh.

Note : Indices from January 2006 (2001=100) onward are converted to the previous base i.e. 1982=100 by applying a linking factor of 4.63 to arrive at the rate of inflation.



the second quarter of 2006-07 at 2.5 per cent was higher than 2.2 per cent in the second quarter of 2005-06 as well as 1.9 per cent in the first quarter of 2006-07. Of the six major groups in CPI-IW, three – pan, supari, tobacco & intoxicants; housing; and miscellaneous group – witnessed acceleration of quarterly inflation between the first and second quarters of the current year.

### Updating of the Price Indices

5.24 At present, four price indices – namely, WPI with base year 1993-94, CPI-UNME with base year 1984-85, and the CPI-AL and CPI-RL with base year 1986-87 – are in need of updating. The consumption expenditure patterns in both rural and urban areas and the structure of economy have undergone significant changes over the years, and there is a need to shift the existing bases of these indices to a more recent year. Accordingly, several exercises are being carried out under the directives of various technical advisory committees.

### Wholesale Price Index

5.25 A Working Group under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission, is currently engaged in the revision of the current series of WPI (Base 1993-94) (Box 5.2).

### Consumer Price Index for Urban Non-Manual Employees (CPI-UNME)

5.26 CPI-UNME (Base 1984-85 = 100) has limited use and is basically used for determining dearness allowances of employees of some foreign companies working in India in service sectors such as airlines, communications, banking, insurance and other financial services. It is also used under the Income Tax Act to determine capital gains and by the CSO for deflating selected service sectors' contribution to GDP at factor cost at current prices to arrive at the corresponding figure at constant prices.

5.27 For shifting the present base of CPI-UNME, presently, on the advice of its governing

#### Box 5.2 : Revision of the existing wholesale price index and compilation of producer price index

- The Working Group has set up four sub-groups on (a) analytical issues, (b) manufactured items & related matters, (c) unorganized/unregistered industries, and (d) agricultural commodities. The sub-groups (b) and (c) have already submitted their reports and the work of the sub-group on agricultural commodities is at the final stages. Based on the recommendations of the three other sub-groups, the sub-group on analytical issues would arrive at a consolidated picture of the commodity basket and weighting diagram for the new series of WPI. The Working Group has decided to shift the base from 1993-94 to 2000-01 for the new series.
- The Working Group has also decided to recommend initiating the process of compilation of Producer Price Index (PPI) simultaneously, with the objective of ultimately switching over from WPI to PPI. PPI measures price changes from producers' perspective as against the consumer price index which measures these from consumers' perspective. Many of the countries have switched over to PPI from WPI. In PPI, only basic prices are used for compilation, while taxes, trade margins and transport costs are excluded. PPIs, apart from their use as measure of inflation, are used as deflators in the compilation of GDP.
- PPI is considered to be a better measure of inflation as price changes at primary and intermediate stages can be tracked before it gets built into the finished goods stage.
- The Office of the Economic Adviser, Department of Industrial Policy & Promotion (DIPP), at the instance of the Working Group, has already initiated the process of collection of price data from organized and SSI units, as identified by the concerned sub-groups. Proforma for collecting the price data have already been sent to the organized manufacturing units and are currently being sent to the SSI units. The Working Group has emphasized the need for involvement of State Governments for interacting with the various industry/trade associations/government agencies to get the required price data from source agencies. Chief Secretaries of State Governments have been requested to nominate nodal officers for assisting in price collection activity. The Office of the Economic Adviser, Department of Industrial Policy and Promotion is planning to organize interactive sessions with the local industry/trade associations in different States in collaboration with the State Government agencies to facilitate smooth flow of price data for the new WPI series.

council, the National Sample Survey Organisation (NSSO) is conducting a Family Living Survey (FLS) to obtain the profile of the present consumption pattern of urban non-manual employees. The CSO is also examining the possibility of constructing a consumer price index for the urban employees.

### **Consumer Price Index for Agricultural Labourers (CPI-AL)**

5.28 CPI-AL is basically used for revising minimum wages for agricultural labourers in different States. The present base year of CPI-

AL is 1986-87. As the consumption pattern of agricultural labourers has changed since 1986-87, the Labour Bureau proposes to revise the base of the existing series of CPI-AL by using the consumer expenditure data collected by the NSSO during its 61<sup>st</sup> NSS (2004-05) round.

### **Real Estate/ Housing Price Index**

5.29 Housing and real estate constitute not only a major proportion of national wealth but also an important and fast expanding component of the service sector of the economy. Because both lenders and

#### **Box 5.3 : An operational housing price index (HPI) for India**

- There are various concepts of housing price indices, and many sources and ways for compiling price data, both private and public. The methodology for construction of indices differs from country to country depending on the use and purpose of such indices and the availability of data.
- With an Adviser, Ministry of Finance as the Chairman, the Technical Advisory Group (TAG) comprises of technical experts and members from NHB, CSO, RBI, Labour Bureau, HDFC, HUDCO, LIC Housing Finance Ltd., Dewan Housing Finance Corporation Ltd., and the Society for Development Studies.
- After reviewing international best practices and the methodology, sampling techniques, collection of price data for construction of real estate price indices in USA (index developed by the Office of Federal Housing Enterprise Oversight), Canada (New Housing Price Index) and UK (Halifax index), the TAG has suggested a methodology for India. The TAG decided to conduct a pilot study for Delhi and to use both the (a) hedonic regression model and (b) the basic Laspeyre's weighted index for constructing an HPI for Delhi.
- For the survey, the residential colonies in Delhi were categorized into 8 tax zones (A to H) as decided by the Municipal Corporation of Delhi (MCD) under the Unit Area Method for property tax assessment. 30 colonies in different tax zones were selected on the basis of transactions for the collection of basic data. Survey was also conducted for Bangalore, Bhopal, Kolkata and Mumbai. The Society for Development Studies [SDS] has submitted their survey reports to TAG and final report with property price indices in 5 cities together with the methodology to be adopted for compilation and regular dissemination of the index is expected to be submitted by March 2007.
- It is well known that the registered prices of houses are grossly under-estimated due to very high registration fees and stamp duty. The subsequent obligations for the payment of property tax act as a disincentive to individual purchasers (except corporate bodies) for revealing the exact purchase price of a house. Therefore, in addition to information from registration offices, basic data on value, plinth area, location, age and basic characteristics of houses are being collected from property dealers, Residents' Welfare Associations (RWAs), Development Authorities/Municipal Corporations and the private builders.
- The TAG has decided to take 2001 as the base year for the construction of HPI. The choice of the base year for HPI is consistent with the base period of other indices, that is, 2001 for the revised CPI-IW series, 2000-01 for the revised WPI and 1999-2000 for the revised GDP series.
- For HPI, basic data has been collected for each year since 2001 for the 5 cities. For each selected colony of the 5 cities and for each year, information has been collected for 20 transactions, which actually took place during the year.

borrowers may have large real estate/housing exposures (direct as well as indirect), financial balance sheets may be affected by any large volatility of prices in this sector. Thus, it is desirable to monitor housing and real estate prices – an important segment of asset prices – for formulation of appropriate monetary and fiscal measures. The National Housing Bank (NHB) has set up a Technical Advisory Group (TAG) to explore the possibility of constructing a real estate price index (Box 5.3).

### Service Price Indices

5.30 Given the importance of the service sector, there is a need to develop service price indices for selected services, particularly in the national accounts framework. The need for such indices was highlighted by the Working Group set up to revise the WPI and reiterated by the National Statistical Commission. The Office of the Economic Adviser, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry has been implementing two plan

schemes aiming at (i) switching over from the existing WPI to the PPI, and (ii) developing service sector price indices, as per international best practices. Under the plan schemes, studies are being commissioned for selected services – road transport, railways, air transport, port, banking, insurance, posts, telecommunication, business services and trade services – to develop service price indices (Box 5.4).

### Anti-Inflationary Measures

5.31 High inflation hurts the poor, and by putting pressure on interest rates, adversely affects both savings and investment. Thus, containment of inflation is high on the Government's agenda. The anti-inflationary policies of Government include strict fiscal and monetary discipline; rationalization of excise and import duties of essential commodities to lighten the burden on the poor; effective supply-demand management of sensitive items through liberal tariff and trade policies; and strengthening the public distribution system.

#### Box 5.4 : Service price indices in India

As per OECD-Eurostat 2005 Inquiry on National Collection of Services Producer Prices Preliminary Report, giving information on 45 countries, the number of National Statistical Agencies taking up data collection on service producer prices, though growing, is still small. While some agencies have focused exclusively on the prices of services provided to enterprises, others have approached the subject more broadly through the development of services producer price indices. Approaches differ and coverage varies. Attempts are on to enhance the coverage, aiming at an improved deflator for the sector.

According to the OECD-Eurostat report, 30 countries collect services producer prices. These are Australia, Austria, Belgium, Canada, China, Czech Republic, Denmark, Finland, France, Germany, Hong Kong (China), Ireland, Israel, Italy, Japan, Korea, Lithuania, Mexico, Netherlands, New Zealand, Norway, Poland, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States, and Vietnam. In addition, preliminary work has started in several others, particularly European countries, under the auspices of Eurostat.

The need for a service sector price index in India is warranted by the growing dominance of the sector in the economy. So far, there is no index number to measure the changes in the prices of the service sector. The present Wholesale Price Index (WPI) takes care of price movements of only commodity-producing sectors, viz. primary and secondary sectors, of the economy. The need for such an index was recommended by the Working Group set up to revise the WPI (1993-94) series and was reiterated by the National Statistical Commission. The Office of the Economic Adviser, Ministry of Commerce and Industry has been making an effort to develop sector specific service price indices for the country. Technical assistance for this work is being received under World Bank Assisted Economic Reforms Project.

Efforts are being made to develop service price indices for selected service sectors on an experimental basis, initially covering road transport, railway services, air transport services, business services, trade services, port services, postal, telecommunication services, banking services and insurance services. The basic studies relating to construction of index numbers for road transport, air transport, ports services, insurance, railway transport and banking services have been completed and are under examination. Studies on postal, telecommunication, business and trade services are proposed to be launched soon. The completed studies would be discussed among academicians, practitioners and users before putting in place the service price indices.

5.32 During 2006-07, the Government initiated a slew of measures to contain the price rise of primary commodities:

- State Trading Corporation tendered overseas for import of 55 lakh tonnes of wheat to supplement domestic availability.
- Permission was given to private trade to import wheat first at 5 per cent duty from June 27, 2006 and then at zero duty from September 9, 2006 as against the normal applicable duty of 50 per cent.
- Import of pulses was permitted at zero duty from June 8, 2006 and a ban on export of pulses was made with effect from June 22, 2006.
- Close monitoring of prices of each and every essential item on a weekly basis was put in place.
- Regulatory measures were initiated by the Forward Markets Commission (FMC) to contain volatility in the futures prices of wheat, sugar and pulses and ban on futures trading in some pulses was imposed to reduce speculative pressures.

- Reduction in duty on palm group of oils by 20-22.5 percentage points was effected in two phases, first in August 2006 and later in January 2007. Further, tariff values of these oils were frozen at levels prevailing in July 2006, thus reducing to that extent the impact of increase in international prices.
- On January 22, 2007, further duty cuts were announced for portland cement, various metals and machinery items.

#### International prices of select commodities

5.33 In an open economy, domestic prices react to movement of prices of various commodities in the world markets. International prices of edible oils, cereals and metals witnessed sharp increases in January 2007 relative to the prices that prevailed in October-December 2005 quarter (Table 5.11). Domestic production shortfalls in wheat and maize, and dependency on imports for metals and edible oils, transmitted the international price shocks to domestic prices.

**Table 5.11 : International prices of select commodities (quarterly averages)**

Commodity	Unit	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Dec	Jan	Increase in
		2005	2006	2006	2006	2006	2006	2007	Jan 2007 relative to Oct.-Dec. 2005 (per cent)
Coal, Australia	\$/mt	39.6	46.9	52.6	50.3	46.6	49.8	51.3	29.6
Crude oil, avg, spot	\$/bbl	56.6	61.0	68.3	68.8	59.0	61.0	53.5	-5.4
Tea, auctions (3), average\$	c/kg	166.2	178.7	192.3	195.6	182.4	182.8	175.3	5.5
Coconut oil	\$/mt	574.0	578.3	578.7	599.1	671.2	731.7	731.0	27.4
Groundnut oil	\$/mt	963.0	917.7	896.3	946.3	1120.4	1174.0	1180.0	22.5
Palm oil	\$/mt	438.3	436.4	438.7	492.7	542.8	583.0	599.0	36.7
Soybean oil	\$/mt	558.7	535.3	576.3	620.3	662.2	696.7	696.0	24.6
Maize	\$/mt	99.8	105.0	109.3	117.4	155.7	160.4	165.4	65.7
Rice, Thailand, 5%	\$/mt	281.6	298.8	307.6	312.4	300.3	305.0	313.0	11.2
Wheat, US, HRW	\$/mt	164.5	173.8	189.6	196.1	208.7	204.3	196.1	19.2
Sugar, world	c/kg	26.3	37.5	36.5	30.6	26.0	25.5	24.1	-8.3
Cotton A Index	c/kg	126.1	129.0	121.8	128.4	127.6	130.5	130.8	3.7
Urea, E. Europe, bulk	\$/mt	224.7	219.2	228.1	210.4	234.0	254.7	269.8	20.1
Aluminum	\$/mt	2075.6	2420.8	2653.3	2481.8	2723.7	2813.6	2809.3	35.4
Copper	\$/mt	4302.0	4939.9	7210.4	7670.0	7068.2	6675.1	5669.7	31.8
Lead	c/kg	104.9	124.2	110.0	119.0	162.7	172.6	166.6	58.8
Nickel	\$/mt	12649.3	14810.5	19924.6	29153.5	33129.0	34570.3	36811.1	191.0
Steel cr coilsheet	\$/mt	750.0	750.0	666.7	700.0	658.3	650.0	650.0	-13.3
Tin	c/kg	643.2	760.6	852.9	865.3	1033.5	1115.9	1136.2	76.6
Zinc	c/kg	164.0	224.2	329.2	336.3	420.4	440.5	378.7	130.8

\$ Arithmetic average of prices at three auction center—Kolkata, Colombo and Manbasa/Nairobi.

**Table 5.12 : Import of Wheat (2006-07)—Some basic estimates**

	1 <sup>st</sup> Tender	2 <sup>nd</sup> Tender	3 <sup>rd</sup> Tender	4 <sup>th</sup> Tender	5 <sup>th</sup> Tender
Quantity tendered (lakh tonnes)	5	8	22	4	16.7
Supply Schedule	March-May	July-October	September-January	September-October	November-February
Rate in US\$ per tonne	179	187-198	190-205	210-215	224-270
Landed weighted average cost estimated US\$ per tonne	179	191	198	211	229
Landed cost (In Rupees/per tonne)	7,981	8,851	9,101	9,815	10,582

### Commodity Profiles

5.34 The overall availability of most of the essential commodities including rice, sugar, tea, milk and edible oils was generally satisfactory. However, the prices continued to be under pressure for most part of the year. The stocks of rice with central agencies on November 1, 2006 were satisfactory as per the buffer stock norms. There was some concern about dwindling stocks of wheat and its impact on the prices in mid-January, 2006; however, the stocks position was addressed with imports (Table 5.12). To augment their domestic availability, edible oils and pulses, in which the country is not self-sufficient, continued to be imported.

### Wheat

5.35 With adoption of modern production technology, the production of wheat – the second most important cereal in India after

rice – accelerated from 11.0 million tonnes in 1960-61 to a record 76.4 million tonnes in 1999-2000. But production has more or less plateaued since then, and is estimated at 72.5 million tonnes in 2006-07.

5.36 The decline in wheat output to 69.4 million tonnes in 2005-06 coincided with a bad international wheat year. World wheat production was estimated to be around 587 million tonnes as against a production of 628 million tonnes in 2004-05 (corresponding to India's agriculture year of 2003-04) and sharp increases in international wheat prices (Table 5.11). Wholesale price index of wheat, after increasing by 10.7 per cent between January 22, 2005 and January 21, 2006, increased by a further 11.8 per cent between January 21, 2006 and January 20, 2007 (Table 5.13).

**Table 5.13 : Wholesale price index of selected commodities (1993-94=100)**

	24-Jan-04	22-Jan-05	21-Jan-06	16-Sep-06	14-Oct-06	18-Nov-06	16-Dec-06	20-Jan-07
Wheat	191.3	188.5	208.6	215.5	220.7	232.0	233.0	233.2
Gram	139.9	136.5	173.0	214.3	236.8	239.5	233.6	221.8
Arhar	178.4	169.4	172.0	181.6	185.6	182.0	180.8	186.7
Moong	187.2	191.2	240.9	303.2	323.1	311.0	305.3	303.1
Masur	252.4	237.2	241.7	251.4	254.6	249.1	250.8	251.8
Urad	213.2	222.6	327.1	391.1	451.0	426.6	424.2	403.8
Rape & Mustard Oil	197.1	174.1	157.8	161.8	162.3	164.1	174.7	169.7
Groundnut Oil	176.2	169.2	166.0	184.4	191.8	195.7	196.6	208.3
Coconut Oil	167.8	184.7	131.7	140.5	149.0	150.1	151.5	150.0
Potatoes	92.7	127.2	193.5	292.0	321.0	289.2	226.9	186.3
Onions	235.5	126.3	158.3	147.3	154.3	159.8	151.0	202.9
Tea	107.1	115.8	120.6	144.0	144.0	144.0	144.0	144.0
Sugar	124.1	162.2	166.7	168.7	166.8	164.7	161.6	155.2



5.37 Besides daily monitoring, the Government has taken several measures to stabilize the price of wheat such as (a) release of adequate quantities under targeted public distribution scheme (TPDS) and other welfare schemes, (b) augmenting domestic supplies through Open Market Sales Scheme, (c) ensuring adequate stocks in all the regions in the country together with supplementing the domestic availability with import of 55 lakh tonnes through State Trading Corporation, and (d) by permitting private trade to import at zero duty. However, higher international prices continued to push the landed cost of the imported wheat in each successive tender (Table 5.12).

5.38 With a perceived supply-demand mismatch and private trade offering prices above the minimum support price (MSP), Government procurement was lower than the target fixed for 2006-07 (rabi marketing season corresponding to agriculture year of 2005-06). Stock of wheat (with Food Corporation of India (FCI) and State agencies) at 6 million tonnes in November 2006, the latest month for which data is readily available, was lower than 10.3 million tonnes recorded in October, 2005. The upward trend in year-on-year inflation in wheat prices commenced in August 2006 (12 per cent) and reached 20 per cent in November 2006. Such inflation declined to 12 per cent in January 2007 (Figure 5.4). The domestic price of wheat has been following the trend in the international prices.

### **Pulses**

5.39 The chronic demand-supply imbalance for most of the pulses observed over the last decade has continued. With rising incomes, domestic consumption of pulses, estimated at over 15-16 million tonnes per year, is steadily increasing. With limited price elasticity, price of pulses tend to be highly sensitive to supply-shortfalls.

5.40 Domestic production of pulses, after its peak of 14.9 million tonnes in 2003-04, declined to 13.1 million tonnes in 2004-05 and to 13.4 million tonnes in 2005-06. In the current year, production is estimated to recover to 14.5 million tonnes. International

availability of pulses is limited in quantity as well as in origin (mainly Australia, Canada, Turkey and Myanmar), During 2005-06, 1.6 million tonnes of pulses were imported as against 1.3 million tonnes in 2004-05. Imports during the current year upto January 2007 were 1.7 million tonnes as against 1.41 million tonnes in April to January 2006.

5.41 Wholesale price index of three out of the five important pulses – the two exceptions being arhar and masur – increased significantly in the last two years (Table 5.13). Year-on-year, price of gram increased by 28.2 per cent and 26.7 per cent in January 2006 and January 2007, respectively. The corresponding increase in the price of moong was 25.8 per cent and 26.0 per cent, and of urad 23.0 per cent and 46.9 per cent. WPI-based average inflation of pulses as a group (Figure 5.5) was in the range of 28-44 per cent since April 2006. The current financial year started with 36 per cent year-on-year inflation in pulses. Such inflation, after decelerating to 28 per cent in August 2006, accelerated to 44 per cent in October 2006. However, recent months have shown some declining tendencies with inflation down from 34 per cent in November 2006 to 30 per cent in January 2006.

### **Edible Oils**

5.42 Prices of edible oils were generally stable during 2004-2006. During this period, domestic production of nine oilseeds also increased from 148.4 million tonnes in 2002-03 to 279.8 million tonnes in 2005-06. In 2006-07, production of these nine oilseeds is estimated to have declined by 18.5 per cent to 236.2 million tonnes.

5.43 Domestic consumption of edible oils is estimated at over 10 million tonnes per year, while domestic production has been hovering around 6 million tonnes. Import of edible oils (mainly soyabean and palm group of oils), which bridges the gap between domestic supply and demand, was 47.00 lakh tonnes and 42.88 lakh tonnes in 2004-05 and 2005-06, respectively. During the first six months of 2006-07, such imports were 21.58 lakh tonnes compared to 24.86 lakh tonnes in the corresponding period a year ago.

5.44 During the current year, edible oil prices, after remaining steady till around August, started hardening thereafter. Firm international prices and low domestic availability contributed to such hardening. WPI for edible oils as a sub-group (with a weight of 2.76 per cent in overall WPI), year-on-year, increased by 11.46 per cent on January 20, 2007 as against a decline of 5.73 per cent on the corresponding date of the previous year. (Figure 5.6)

5.45 Government reduced basic customs duty on crude palm group of oils by a total of 20 percentage points in two equal instalments in August 2006 and in January 2007. The duty on refined palm group of oils was reduced by 22.5 per cent. A reduction in basic customs duty of 10 percentage points was also announced for sunflower seed oil in January 2007. The impact of the duty cuts is now getting reflected on the price of imported edible oils. Groundnut oil prices, however, continue to experience upward pressures as the import option is not available and domestic production has declined considerably.

### **Sugar**

5.46 India is the largest consumer of sugar and the second largest producer of sugar with a share of over 15 per cent of world sugar production. Sugar production is provisionally estimated at 193 lakh tonnes in 2005-06 sugar season (October-September) as compared to 130 lakh tonnes in 2004-05 sugar season. In the the current 2006-07 sugar season, sugar production is preliminarily estimated to peak at 227 lakh tonnes, surpassing the previous record of 201 lakh tonnes in 2002-03 sugar season. Consumption is estimated at 190 lakh tonnes.

5.47 The retail price of sugar, which was in the range of Rs. 17.00 to 21.00 per Kg in January 2005 increased to Rs. 19.50 to 23.00 per kg in the month of February 2006 and further to Rs. 20.00 to 23.00 per Kg in the month of May 2006. In order to check the rising prices, the Government in July, 2006 decided to allow import of white sugar without any quantitative restrictions upto September 30,

2006 at zero rate of duty, besides disallowing exports till the end of current financial year, i.e. March 31, 2007. However, sugar exports towards discharge of export obligation against advance licenses, provided the export obligation period had not expired prior to the imposition of export restriction, were allowed. Release mechanism was also discreetly deployed to contain the price hike. Subsequently, in December, 2006, on account of fresh assessment of the sugar situation, with production estimates of 227 lakh tonnes in sugar year 2006-07, the Government decided to open sugar exports to the license holders for fulfillment of their export obligation on account of raw sugar imports in the sugar year 2003-04 and 2004-05. This was further revised in January 2007 to open up sugar exports for all. In terms of WPI, the year-on-year price of sugar declined by 0.7 per cent in December, 2006 and by 9.1 per cent as on January, 20, 2007. The year-on-year inflation was 7.0 per cent in April, 2006 (Figure 5.7).

### **Onion**

5.48 During the initial months of the current financial year 2006-07, onion prices remained at lower levels as compared to last year. Production of onion during 2006-07 is estimated at 6.21 million tonnes which is the same as in 2005-06. Exports of all varieties of onion by NAFED and other State Trading Enterprises during 2006-07 (up to January 16, 2007) were relatively higher at 9.14 lakh tonnes as against 6.37 lakh tonnes in the corresponding period of the previous year. Prices of onion have registered increase during the latter half of January in the north zone. For example, retail prices in Delhi increased from Rs. 9 per kg on December 1, 2006 to Rs. 11 per kg on December 28, 2006 and further to Rs.17 per kg on January 18, 2007. The increased price is apparently due to higher exports of onion in the current year than in the previous one.

### **Potato**

5.49 Production of potato during 2005-06 is estimated at 26.48 million tonnes, around the same level as in the previous year. Price of

potato registered an increase for a temporary phase during July-November, 2006. With only stored potato available, prices tend to show a general upward trend during the months of September-November. The new potato crop from Karnataka and Himachal Pradesh starts arriving from November, and such arrivals increase by the third week of November from Bihar, Uttar Pradesh, Uttaranchal, Punjab, Gujarat and Haryana. Since November, prices of potato have eased in the various markets, such as Delhi, Lucknow, Shimla, and Thiruvananthapuram. (Figure 5.8)

## Tea

5.50 The retail prices and availability of tea indicated a steady trend during the current year under review. As per DGC&S data, exports of tea during the first five months of 2006-07 (April-September) were 899.60 lakh kg as against 764.15 lakh kg in the corresponding period a year ago.

5.51 In terms of WPI, monthly average inflation rate of tea (Figure 5.9) came down from 32.1 per cent in October 2006 to 19.4 per cent on January 20, 2007. International prices of tea have also declined since October 2006. Prices of tea (Kolkata auction) came down from US cents 184 per Kg in October 2006 to US cents 166 Kg in January 2007.

## II. Food Management

5.52 Procurement higher than the offtake had resulted in a build-up of excessive stocks of foodgrains during the two successive years of 2001-02 and 2002-03. Subsequently, however, due to increased offtake under TPDS and other welfare schemes, stocks of foodgrains stood at 18.8 million tonnes on January 1, 2006, lower than not only the stocks of 21.7 million tonnes on January 1, 2005 but also the buffer stock norm of 20 million tonnes. The main reason for the decline in stocks was the lower stock of wheat.

5.53 Coarse grain procurement was higher at 1.14 million tonnes in 2005-06 as against 0.8 million tonnes in 2004-05. Wheat stocks were depleted down to 2 million tonnes in April 2006 against a buffer stock norm of 4 million tonnes. Poor procurement of wheat

further reduced the actual stocks relative to buffer norms. To make up for the shortfall of wheat procurement in the rabi marketing season (RMS) 2006-07, Government decided to import 5.5 million tonnes of wheat through the State Trading Corporation (STC) for the central pool at an average weighted price of US\$ 205.31 per tonne, of which 4.5 million tonnes arrived by end of January 2007. In addition, one million tonnes of wheat import on account of private traders was also contracted.

5.54 On the sugar front, adequate domestic availability is ensured with a supply of 22.7 million tonnes as against estimated consumption of 19.0 million tonnes. In so far as rice and wheat are concerned, accelerated procurement of rice (Table 5.14) together with the augmentation of stocks through imports of wheat has ensured adequate consumption-stocks in food grains. Government's timely decision of importing wheat checked the deficit and augmented the domestic availability of foodgrains, pre-empting major negative impact on food security for the nation.

## Procurement of Foodgrains

5.55 The year 2005-06 was a normal agricultural year with adequate procurement of foodgrains. Rice procurement during the kharif marketing season (KMS) 2005-06 at 27.7 million tonnes was higher by around 3 million tonnes compared to 2004-05 (Table 5.15). Wheat procurement during RMS 2006-07 (as on November 30, 2006) at 9.2 million tonnes was, however, substantially lower by 5.6 million tonnes than that during RMS 2005-06. In KMS 2006-07, which started from October 2006, procurement of rice upto January 15, 2006 was satisfactory at 11.1 million tonnes compared to 11.5 million procured in the corresponding period of 2005-06.

5.56 Till recently, it was a common grievance of many States that their farmers have not benefited much from the price support operations, since the procurement of foodgrains by the Food Corporation of India (FCI) has been largely concentrated in a few States such as Punjab, Haryana, Uttar Pradesh and Andhra Pradesh. These four

**Table 5.14: Procurement of wheat and rice (central pool)  
(Million tonnes)**

MarketingYear	Wheat		Rice	
	(April - March)		(October - September)	
	Qty	Per cent change	Qty	Per cent change
1995-96	12.33	3.88	10.07	-26.55
1996-97	8.16	-33.82	12.97	28.80
1997-98	9.30	13.97	15.59	20.20
1998-99	12.65	36.02	12.60	19.18
1999-00	14.14	11.78	18.23	44.68
2000-01	16.35	15.63	21.28	16.73
2001-02	20.63	26.18	22.13	3.99
2002-03	19.05	-7.66	16.42	-25.80
2003-04	15.80	-17.06	22.83	39.04
2004-05	16.80	6.33	24.68	8.10
2005-06	14.79	-11.96	27.66	13.57
2006-07*	9.23	-	9.96	-

\* As on November 30, 2006  
Source : Department of Food and Public Distribution.

**Table 5.15: Procurement of Rice**

State/U.T.	Quantity (Lakh tonnes)			Per cent share of states		
	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06
	Andhra Pradesh	42.30	39.04	49.72	18.5	15.8
Bihar	3.63	3.43	5.24	1.6	1.4	1.9
Chhattisgarh	23.74	28.37	32.65	10.4	11.5	11.8
Haryana	13.34	16.62	20.54	5.8	6.7	7.4
Maharashtra	3.08	2.05	1.94	1.4	0.8	0.7
Orissa	13.73	15.90	17.85	6.0	6.4	6.5
Punjab	86.62	91.06	88.55	37.9	36.9	32.0
Tamil Nadu	2.07	6.52	9.26	0.9	2.6	3.3
Uttar Pradesh	25.54	29.71	31.51	11.2	12.0	11.4
Karnataka	-	0.21	0.48	-	0.1	0.2
Kerala	-	0.33	0.94	-	0.1	0.3
Uttaranchal	3.23	3.16	3.36	1.4	1.3	1.2
West Bengal	9.25	9.44	12.75	4.1	3.8	4.6
Others	1.75	0.99	1.77	0.8	0.4	0.6
Total	228.28	246.83	276.56	100.0	100.0	100.0

Source : Department of Food and Public Distribution.

States accounted for nearly 74 per cent of rice procured for the central pool in KMS 2003-04 (Table 5.15) while only two states, Punjab and Haryana, accounted for more than 91 per cent

of wheat procurement in RMS 2005-06 (Table 5.16). The procurement of rice in non-traditional States, which have adopted the decentralized procurement scheme, like

State/U.T.	Procurement of wheat			Per cent share of states		
	2004-05	2005-06	2006-07*	2004-05	2005-06	2006-07*
Bihar	0.15	45.30	-	0.1	23.5	-
Haryana	51.15	45.29	22.29	30.5	23.5	24.2
Himachal Pradesh	0	0.00	-	0.0	0.0	-
Madhya Pradesh	3.49	4.80	0.00	2.1	2.5	0.0
Punjab	92.4	90.10	69.46	55.0	46.7	75.3
Rajasthan	2.79	1.60	0.02	1.7	0.8	0.0
Uttaranchal	0.54	0.40	0.00	0.3	0.2	0.0
Uttar Pradesh	17.41	5.60	0.49	10.4	2.9	0.5
Chandigarh	-	-	-	-	-	-
Delhi	0.02	0.02	-	0.0	0.0	-
<b>Total</b>	<b>167.95</b>	<b>193.11</b>	<b>92.26</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* : As on November 30 2006.  
Source : Department of Food and Public Distribution.

Chhattisgarh, Orissa, Tamil Nadu and West Bengal, has gone up substantially from 7.8 million tonnes in KMS 2003-04 to 10.9 million tonnes in 2005-06 (Table 5.15).

#### Off-take of foodgrains from the central pool

5.57 Offtake of foodgrains from the central pool for the year 2005-06 was 42.2 million tonnes, and for the year 2006-07 upto October 2006 was 20.6 million tonnes, which was lower than 24.7 million tonnes recorded during the corresponding seven months of the previous year (Table 5.17). The offtake under TPDS, had gone up from 29.7 million tonnes to 31.4

million tonnes between 2004-05 and 2005-06; the off-take during the first seven months of the current year at 17.5 million tonnes was lower than the off-take during the corresponding period of the previous year.

5.58 The offtake under Antyodaya Anna Yojana (AAY) at 4.8 million tonnes and above the poverty line (APL) category at 5.0 million tonnes during April-October, 2006 were higher than 4.2 million tonnes and 4.7 million tonnes, respectively, recorded in the corresponding seven months of the previous year. However, the offtake of foodgrains under below the poverty line (BPL) category at 7.7 million tonnes during the first seven months of the

Schemes	2001-02	2002-03	2003-04	2004-05	2005-06	2005-06*	2006-07*
TPDS of which	138.36	203.40	241.94	296.52	313.87	181.84	175.06
BPL	100.52	137.24	158.04	174.52	156.43	92.88	77.00
APL	21.06	30.78	42.24	67.29	83.02	47.27	50.44
AAY	16.78	35.39	41.65	54.71	74.42	41.69	47.61
Welfare schemes	71.84	113.80	135.00	106.09	97.48	62.96	30.81
Open market sale	55.98	56.61	13.30	2.47	10.71	2.44	0.10
Export	46.84	124.64	103.08	9.67	0.00	0.00	0.00
<b>Total</b>	<b>313.04</b>	<b>498.45</b>	<b>493.32</b>	<b>414.75</b>	<b>422.06</b>	<b>247.24</b>	<b>205.96</b>

\* April to October.



current year was lower than the corresponding 9.3 million tonnes during the first seven months of the previous year. Open market sales during April to October, 2006 also witnessed a decline.

### Buffer stock

5.59 The years 2001-02 and 2002-03 witnessed high levels of stock build-up in the central pool (Table 5.18). Foodgrains stocks reached a peak of 64.7 million tonnes, an all time record, in June 2002. The year 2003-04 witnessed a general easing in the foodgrains stocks with relatively lower procurement of rice and wheat following a bad agricultural year in 2002-03 and relatively high offtake of foodgrains, especially for drought-related relief operations and under the welfare schemes.

5.60 The steady reduction in stocks prompted the Government to stop fresh allocation of rice and wheat for export with effect from August 2003, which has continued till date. The year 2004-05 started with a much lower stock of 20 million tonnes on April 1, 2004, down from 32.8 million tonnes on April 1, 2003. Stocks, however, remained consistently higher than the buffer requirement during 2004-05 with sufficient procurement of rice and wheat and relatively lower offtake than in the previous year. On April 1, 2005, the stock at 17.40 million tonnes was above the buffer norm of 16.2 million tonnes.

5.61 The stock of foodgrains on November 1, 2006 at 18.50 million tonnes against the buffer norm of 16.2 million tonnes was sufficient to meet the requirements under TPDS, Welfare Schemes and Open Market Sales during the current financial year.

**Table 5.18 : Central foodgrains stock and minimum buffer norms**

(in million tonnes)

Beginning of The month	Wheat		Rice		Total (wheat and rice) Buffer norm	Actual stock
	Buffer norm	Actual stock	Buffer norm	Actual stock		
January-2001	8.4	25.0	8.4	20.7	16.8	45.7
April	4.0	21.5	11.8	23.2	15.8	44.7
July	14.3	38.9	10.0	22.8	24.3	61.7
October	11.6	36.8	6.5	21.5	18.1	58.3
January-2002	8.4	32.4	8.4	25.6	16.8	58.0
April	4.0	26.0	11.8	24.9	15.8	50.9
July	14.3	41.1	10.0	21.9	24.3	63.0
October	11.6	35.6	6.5	15.8	18.1	51.4
January-2003	8.4	28.8	8.4	19.4	16.8	48.2
April	4.0	15.6	11.8	17.2	15.8	32.8
July	14.3	24.2	10.0	11.0	24.3	35.2
October	11.6	18.4	6.5	5.2	18.1	23.6
January-2004	8.4	12.7	8.4	11.7	16.8	24.4
April	4.0	6.9	11.8	13.1	15.8	20.0
July	14.3	19.1	10.0	10.8	24.3	29.9
October	11.6	14.2	6.5	6.1	18.1	20.3
January-2005	8.4	8.9	8.4	12.8	16.8	21.7
April	4.0	4.0	12.2	13.3	16.2	17.4
July	17.1	14.5	9.8	10.1	26.9	24.5
October	11.0	10.3	5.2	4.8	16.2	15.1
January-2006	8.2	6.2	11.8	12.6	20.0	18.8
April	4.0	2.0	12.2	13.7	16.2	15.7
July	17.1	8.2	9.8	11.1	26.9	19.3
October	11.0	6.4	5.2	6.0	16.2	12.4
November-2006	11.0	6.0	5.2	12.5	16.2	18.5

Figures from 2002 onwards provisional.

Source : Department of Food and Public Distribution.

## Minimum Support Prices (MSP)

5.62 Substantial increases in the MSPs of paddy and wheat after the mid-nineties and upto 2000-01 (Table 5.19) resulted in a large gap between the cost of production (C2 costs) and the MSP of wheat and paddy, and led to a build-up of foodgrains stocks with the FCI to an unprecedented level of 64.7 million tonnes in June 2002, almost three times the buffer norms. However, from 2001-02 onwards, the price policy for Rabi and Kharif crops announced modest MSP increases for wheat and paddy.

5.63 Despite the modest increase in MSP, procurement of paddy/rice for the Central Pool was at an unprecedented level of 27.6 million tonnes in KMS 2005-06. However, in spite of the announcement of an incentive bonus of Rs. 50/- per quintal over the MSP, procurement of wheat in RMS 2006-07 was only 9.2 million tonnes. The decline in wheat procurement in RMS 2006-07 is attributed to a shortfall of output of wheat from the targeted level, lower market arrivals, high ruling market prices, and

negative market sentiments due to low stocks of wheat. In order to encourage farmers to increase production of wheat as well as to enhance procurement in RMS 2007-08, the Government has announced an MSP of Rs. 750 per quintal, which is Rs. 100 per quintal more than last year's MSP. In order to enhance procurement of rice during KMS 2006-07, an incentive bonus of Rs. 40 per quintal for paddy crop 2006-07 upto March 31, 2007 has also been announced.

## Economic cost of foodgrains

5.64 Economic cost of rice has shown an increasing trend since 1999-2000. The budget estimate of economic cost of rice during 2006-07 was increased by 3.3 per cent from the revised estimate for 2005-06 due to high increase in distribution cost (Table 5.20). The increase in the procurement incidentals was 17.4 per cent during 2006-07(BE). Economic cost of wheat has also shown an increasing trend between 2002-03 and 2004-05 (actual). With increase in distribution cost, the economic cost of wheat in 2006-07(BE) rose by 9.3 per cent over 2005-06(RE).

**Table 5.19 : Minimum support/procurement price of wheat and paddy**

(Rs./Quintal)

Crop Year	Wheat		Paddy			
	MSP	per cent Change	Common	per cent Change	Grade'A'	per cent Change
1997-98*	510	7.4	415	9.2	455	-
1998-99	550	7.8	440	6.0	470	3.3
1999-00	580	5.5	490	11.4	520	10.6
2000-01	610	5.2	510	4.1	540	3.8
2001-02	620	1.6	530	3.9	560	3.7
2002-03	620\$	0.0	530\$	0.0	560\$	0.0
2003-04	630	1.6	550	3.8	580	3.6
2004-05	640	1.6	560	1.8	590	1.7
2005-06	650^	1.6	570	1.8	600	1.7
2006-07	750	15.4	580@	1.8	610@	1.7

**Note:** For MSP of other crops, see appendix-5.5

\* Effective 1997-98, MSP is fixed for two varieties of paddy, common and grade-A.

\$ One time special drought relief of Rs.20/- per quintal was given in case of paddy over and above the existing MSP and Rs 10/- per quintal for wheat was given over and above the MSP.

^ An incentive bonus of Rs.50/- per quintal over the MSP given for wheat procured in RMS 2006-07 during the period 20-03-2006 to 30-06-2006. @ An incentive bonus of Rs.40/- per quintal over the MSP allowed for paddy procured in KMS 2006-07 till 31-03-2007.

Source : Ministry of Agriculture.

**Table 5.20 : Economic Cost of Rice and Wheat***(Rupees per quintal)*

Year	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06(RE)	2006-07(BE)
<b>Rice</b>								
Procurement incidentals	56.1	69.9	66.8	61.7	25.6	56.3	21.3	25.0
Distribution Cost	187.5	189.9	119.6	157.7	215.4	270.1	181.4	320.7
Economic Cost \$	1074.8	1137.1	1098.0	1165.0	1231.3	1329.6	1350.7	1395.0
<b>% Increase over previous year</b>								
Procurement incidentals	-	24.6	-4.4	-7.6	-58.5	119.9	-62.2	17.4
Distribution Cost	-	1.3	-37.0	31.9	36.6	25.4	-32.8	76.8
Economic Cost \$	-	5.8	-3.4	6.1	5.7	8.0	1.6	3.3
<b>Wheat</b>								
Procurement incidentals	117.1	128.2	134.7	137.6	145.5	191.3	163.7	163.9
Distribution Cost	202.0	166.2	126.7	145.5	165.3	239.1	227.0	256.6
Economic Cost \$	887.5	883.8	852.9	884.0	928.7	1049.6	1031.5	1070.0
<b>% Increase over previous year</b>								
Procurement incidentals	-	9.5	5.1	2.2	5.7	31.5	-14.4	0.1
Distribution Cost	-	-17.7	-23.8	14.8	13.6	44.6	-5.1	13.0
Economic Cost \$	-	-0.4	-3.5	3.6	5.1	13.0	-1.7	3.7
<b>\$ : Weighted average of common and grade-A rice taken together.</b>								

5.65 FCI is reimbursed the difference between the economic cost of foodgrains and the issue price. The economic cost of foodgrains of FCI has been on the rise over the years (Table 5.20) with increases in the MSPs of rice and wheat. The imposition of State taxes and levies at over 10 per cent advalorem on procurement of foodgrains by the States of Punjab, Haryana and Andhra Pradesh (from where large quantities are procured) have been inflating the economic cost.

### Decentralized Procurement Scheme

5.66 The decentralized procurement scheme of the Government of India that is in operation since 1997 has evoked good response from the State Governments. Under this scheme, the designated States procure, store and also issue foodgrains under TPDS. The difference between the economic cost of the State Governments and the central issue price (CIP) is passed on to the State Governments as subsidy. The decentralized system of procurement,

helps to cover more farmers under the MSP operations, improves efficiency of the PDS, provides varieties of foodgrains more suited to local taste, and reduces the transportation costs of the FCI. 11 States/UT (West Bengal, Uttar Pradesh, Madhya Pradesh, Chhatisgarh, Uttarakhand, Gujarat, Orissa, Tamil Nadu, Union Territory of Andaman & Nicobar islands, Karnataka and Kerala) are undertaking decentralised procurement. There was record procurement of 10.9 million tonnes of rice under this scheme by these States in KMS 2005-06.

### Central issue price

5.67 Wheat and rice are issued by the Central Government at uniform CIP to States and Union Territories for distribution under TPDS (Table 5.21).

5.68 There has been no revision of CIPs for BPL since July 2000, and for APL since July 2001 (except for a reduction in APL prices for 3 months in 2002-03).

<b>Table 5.21 : PDS issue price of wheat and rice</b> (Rs/quintal)				
Year	Wheat	Change in per cent	Rice	Chang in per cent
<b>1998-99</b>				
BPL	250	0.0	350	0.0
APL	650	44.4	905	29.3
<b>1999-00</b>				
BPL	250	0.0	350	0.0
APL	682	4.9	905	0.0
<b>2000-01</b>				
BPL	415	66.0	565	61.4
APL	830	21.7	1130	24.9
<b>2001-02</b>				
BPL	415	0.0	565	0.0
APL	610	-26.5	830	-26.5
<b>2002-03 (April)</b>				
BPL	415	0.0	565	0.0
APL	510	-16.4	730	-12.0
<b>2002-03 (July)</b>				
BPL	415	0.0	565	0.0
APL	610	19.6	830	13.7
<b>Note: The CIPs of wheat and rice are subsidized and have remained unchanged for BPL families since July, 2000.</b>				

### Food subsidy

5.69 Provision of minimum nutritional support to the poor through subsidised foodgrains and ensuring price stability in different States are the twin objectives of food security system. To attain these twin objectives, Government incurs food subsidies. Annual increases in food subsidies, which were 27-45 per cent in the three years between 2000-01 and 2002-03, moderated in the four subsequent years (Table 5.22). Food subsidy as a proportion of GDP has also shown a moderating tendency since 2002-03.

5.70 Food subsidy is disbursed through FCI, which is the main instrument of Government for procurement and distribution of wheat and rice under TPDS and other welfare schemes, and for maintaining the buffer stock of foodgrains as a measure of food security. In the States which are undertaking decentralized procurement, State-specific economic cost is determined by the Government well in advance in consultation with the State Governments, and the difference between the economic cost so fixed

<b>Table 5.22 : Growth of food subsidies in India</b>			
Year	Food subsidy* (Rs crore)	Annual growth (Per cent)	As per cent of GDP Base: 1993-94
1997-98	7500	23.64	0.52
1998-99	8700	16.00	0.52
1999-00	9435	8.45	0.48 <sup>^</sup>
2000-01	12060	27.82	0.57 <sup>^</sup>
2001-02	17499	45.10	0.77 <sup>^</sup>
2002-03	24176	38.16	0.99 <sup>^</sup>
2003-04	25160	4.07	0.91 <sup>^</sup>
2004-05	25800	2.54	0.83 <sup>^</sup>
2005-06(RE)	23200	-10.08	0.66 <sup>^</sup>
2006-07(BE)	24200	4.31	-
<sup>^</sup> As per cent of GDP (new series based on 1999-00). * Other than that on sugar. Source : Budget documents, various issues and CSO.			

and the CIP fixed on an all-India basis is reimbursed to the States as food subsidy. Efforts are on to persuade other States to adopt this scheme.

### Outlook

5.71 In the current year, pressure on inflation may persist because of a mis-match in supply and demand for some primary articles and firm international prices. Higher demand as a result of an accelerated growth in GDP, higher growth in reserve money because of a faster increase in foreign assets, the multiplier effect of increase in broad money, and credit growth have also exerted pressure on demand side. Government has been quick in responding to these developments and has been making efforts to ease the pressure on prices. In petroleum products only a partial pass-through of the increase in international prices was provided and later a reduction in the prices of petrol and diesel was made which kept the inflation for the group 'fuel and power' moderate. Duty reductions in some essential commodities, metals and cement and the monetary stance of the Reserve Bank of India will have an added impact on inflationary expectations; results thereof may be visible in days to come. However, unless the supply side constraints— especially in food items— are removed, the inflationary pressure will not be tamed fully.