

PRICES

4.2 The Wholesale Price Index (WPI), which is available on a weekly basis, continues to be the most popular measure of headline inflation in India. There are, however, four Consumer Price Indices (CPIs) that are specific to different groups of consumers. The commodity basket for these indices is derived on the basis of group-specific consumer expenditure surveys and weights to each commodity is proportionate to its expenditure. WPI is an economy-wide index covering 435 commodities. Weights of the commodities are derived based on the value of quantities traded in the domestic market. It is, therefore, the most comprehensive measure of economy-wide inflation available with high frequency. The four consumer price indices are: CPI-IW for industrial workers; CPI-UNME for urban non-manual employees; CPI-

AL for agricultural labourers; and, CPI-RL for rural labourers. CPI-IW is the most well known of these indices as it is used for wage indexation in Government and in the organized sectors. CPIs are compiled in terms of general standards and guidelines set by the International Labour Organization (ILO) for its member countries.

4.3 Inflation in terms of the wholesale prices started firming up from June 2006. This owed substantially to an increase in the prices of wheat, pulses and edible oils in the "primary articles" group and mineral oils in the group "fuel and power". The increase in the international prices of crude (Brent) from an average of US\$ 38/bbl in 2004 to US\$ 54/bbl in 2005 and further to US\$ 70/bbl during April-June 2006 necessitated an upward revision in the prices of petrol and diesel in the domestic market. The price of petrol and diesel

Table 4.1 Annual inflation as per different price indices (per cent)

Month	WPI ^a		CPI-IW		CPI-UNME		CPI-AL		CPI-RL	
	06-07	07-08	06-07	07-08	06-07	07-08	06-07	07-08	06-07	07-08
Apr	3.86	6.28	5.03	6.67	4.97	7.74	5.57	9.44	5.23	9.12
May	4.73	5.46	6.31	6.61	5.84	6.79	6.41	8.22	6.38	7.90
Jun	5.12	4.53	7.65	5.69	6.47	6.08	7.25	7.84	7.20	7.53
Jul	4.83	4.71	6.71	6.45	5.71	6.86	6.29	8.60	5.95	8.02
Aug	5.12	4.14	6.32	7.26	6.14	6.40	6.53	8.80	6.21	8.51
Sep	5.38	3.51	6.78	6.40	6.55	5.74	7.34	7.89	7.02	7.61
Oct	5.51	3.11	7.30	5.51	7.17	5.48	8.43	6.99	8.10	6.72
Nov	5.50	3.25	6.33	5.51	6.70	5.06	8.33	6.15	8.01	5.88
Dec	5.68	3.60	6.91	5.51	6.94	5.07	8.94	5.90	8.31	5.63
Jan	6.37		6.72		7.36		9.52		8.91	
Feb	6.36		7.56		7.81		9.80		9.47	
Mar	6.61		6.72		7.56		9.50		9.17	

^a Monthly averages

Figure 4.1 Annual Inflation as per different price indices (per cent)

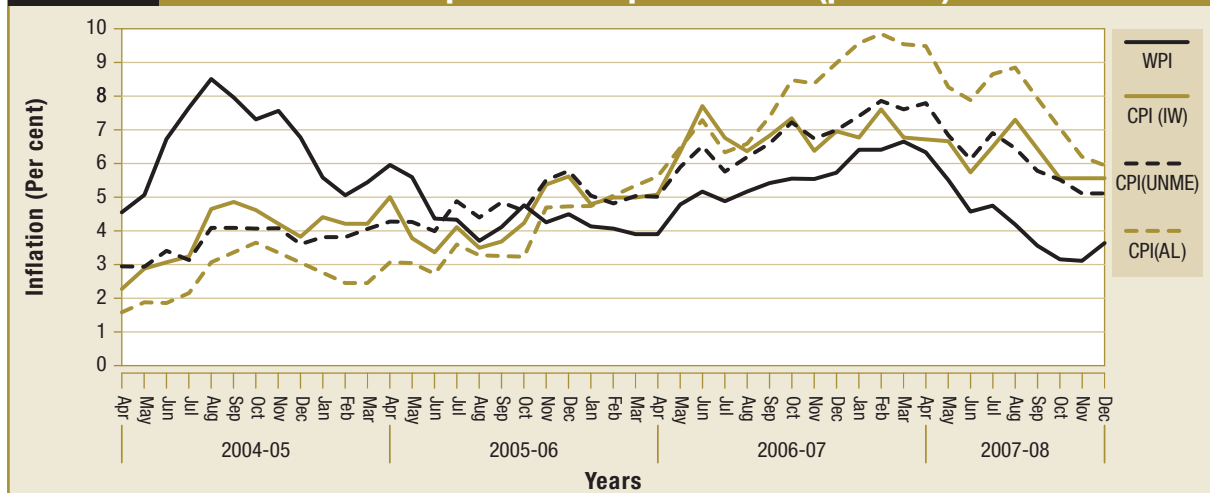


Figure 4.2 Inflation in WPI (per cent)

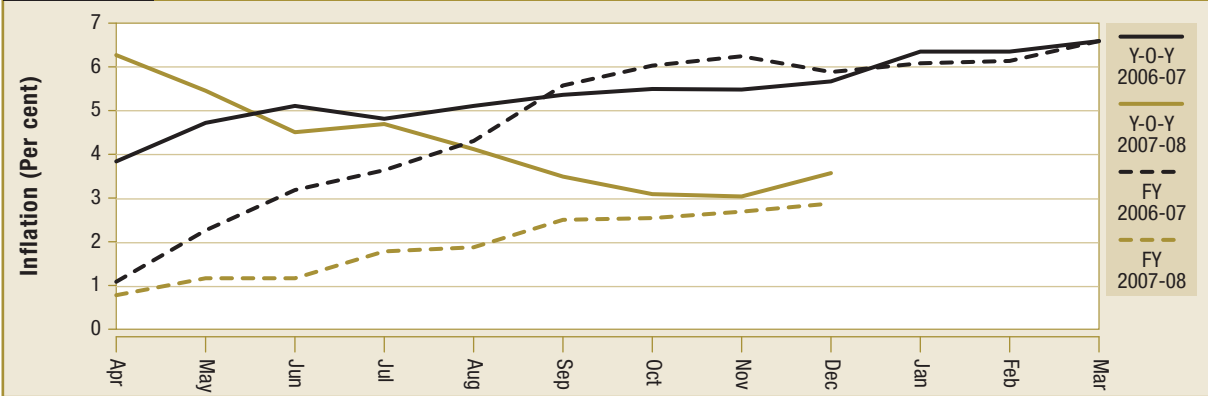


Figure 4.3 Inflation in CPI-IW (per cent)

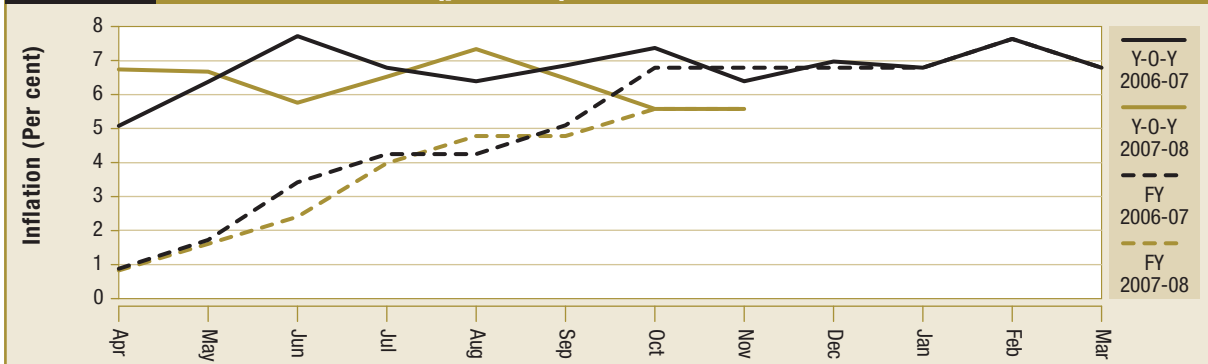


Figure 4.4 Inflation in CPI-UNME (per cent)

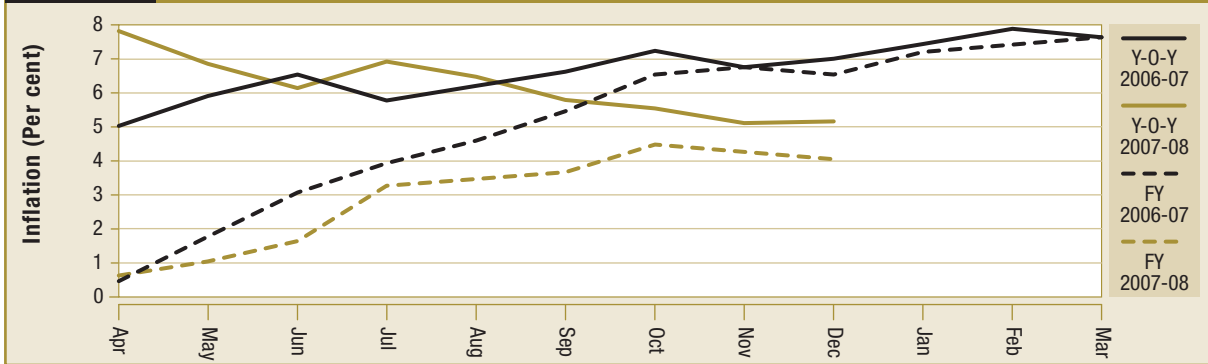
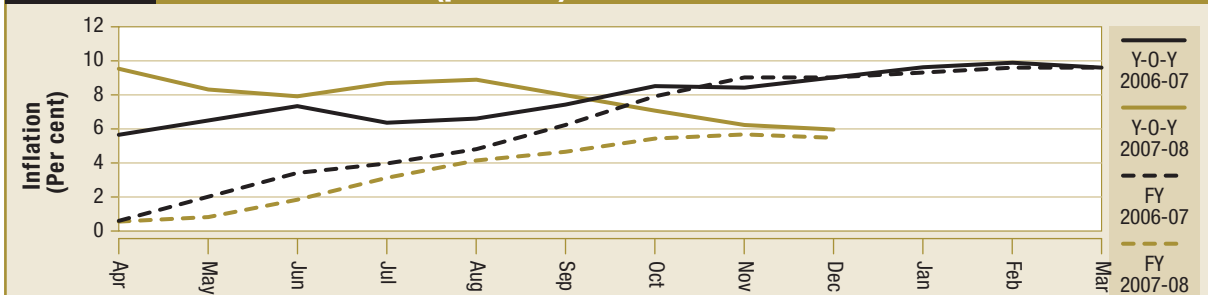


Figure 4.5 Inflation in CPI-AL (per cent)



was raised by Rs. 4 per litre and Rs. 2 per litre, respectively, with effect from June 6, 2006. However, the pass through to the consumers was restricted

to 12.5 per cent with the rest being absorbed by the Government, the upstream companies and the oil marketing companies. With softening of the

international prices of crude oil in the later months of 2006 and early 2007, domestic prices of petrol and diesel were reduced on November 30, 2006, and February 16, 2007 to their pre-June 6, 2006, levels. The increase in the prices of wheat, pulses and edible oils was largely because of the shortfall in the domestic supply relative to demand and firm international prices. Wholesale prices reached a peak of 6.6 per cent in March 2007 and started decelerating thereafter. The fiscal, administrative and monetary measures which were taken beginning June 2006 together with improved availability of wheat, pulses and edible oils started working through in terms of a decline in the inflation. Headline inflation declined gradually from April 2007 onwards to reach 3.6 per cent in December 2007. With decline in the prices of primary articles, deceleration was also observed in CPI. The decelerating trend in CPIs became apparent from September 2007 and in the next four months, the decline ranged from 1.3 percentage points (CPI-UNME) to 2.9 percentage points (CPI-AL). The year-on-year inflation remained generally high for CPI-AL and CPI-RL, as food

articles have relatively high weights in these indices. But with a deceleration in inflation of primary articles, the decline in inflation was manifest in all these indices (Table 4.1 and Figures 4.1, 4.3, 4.4 and 4.5).

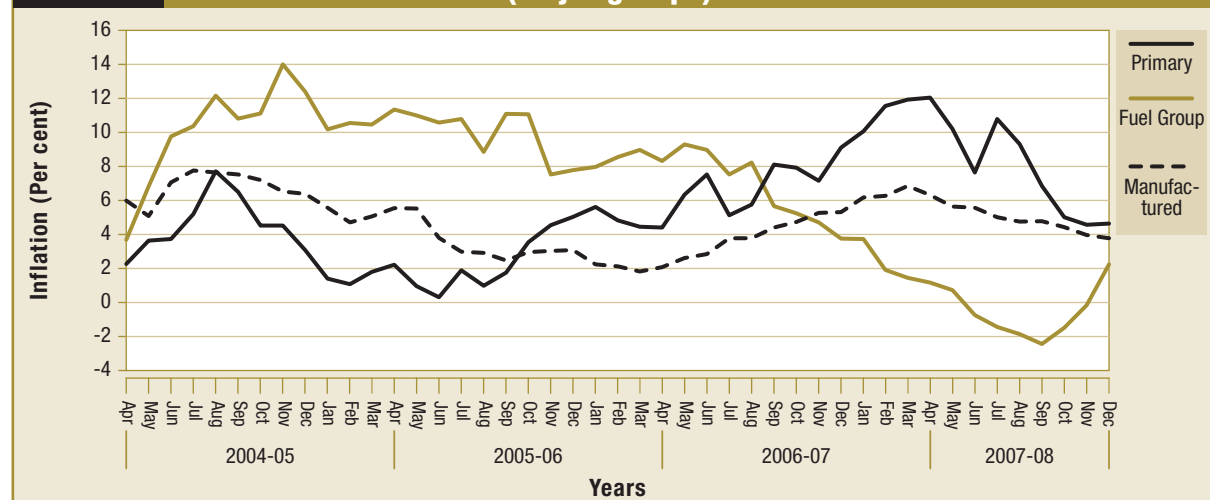
Wholesale Price Index — general trends

4.4 WPI recorded an inflation of 3.9 per cent, on January 19, 2008, down sharply from the 6.3 per cent inflation rate a year ago. Build-up of inflation in the current fiscal year (from end-March, 2007 to January 2008) at 3.2 per cent was also significantly lower than the inflationary build-up of 5.9 per cent in the corresponding period of previous year (Table 4.2 and Figure 4.2). All the three major components of the WPI, viz. "primary articles", "fuel, power, light and lubricants" and "manufactured products" showed a deceleration in annual inflation during 2007-08. There was a sharp deceleration in inflation of primary articles to 3.8 per cent on January 19, 2008, compared to 10.2 per cent a year ago. These commodities contributed 22 per cent to overall inflation as against 35.4 per

Table 4.2 Inflation as on January 19, 2008, in major groups (per cent)

Commodities	Weight (%)	Variations (April-January)				Variations (year-on-year)			
		Cumulative change		Contribution		Inflation		Contribution	
		07-08	06-07	07-08	06-07	07-08	06-07	07-08	06-07
All Commodities	100.00	3.18	5.93	100.00	100.00	3.93	6.31	100.00	100.00
Primary articles	22.03	3.20	11.02	22.68	40.10	3.82	10.22	22.03	35.35
Fuel power light & lubricants	14.23	4.47	1.74	30.36	6.69	3.92	3.57	21.86	12.73
Manufactured products	63.75	2.66	5.76	46.62	53.94	3.91	5.88	55.20	51.92

Figure 4.6 Annual inflation in WPI (major groups)



cent in the previous year. For primary articles, the year 2007-08 began with a year-on-year inflation of 12.2 per cent as on April 7, 2007, but this decelerated gradually to reach the current levels. Further, the overall build-up of inflation in the first 10 months (42 weeks) of the current fiscal year was 3.2 per cent contributing 22.7 per cent to the overall inflation. The corresponding inflation in 42 weeks of 2006-07 (up to January 20, 2007) was 11 per cent. Primary articles were major drivers of inflation in 2006-07 and were also the major contributors to decline in inflation in 2007-08.

4.5 Fuel, power, light & lubricants seemed to be emerging a major contributor of inflation in 2007-08 with a FY inflation rate of 4.5 per cent and a contribution of 30.4 per cent, which is more than twice its weight of 14.2 per cent in the index (Table 4.2). In the case of fuel and power, with the prices of petrol and diesel being administratively kept constant at the February 16, 2007 level, this component of inflation remained low during 2007-08. Annual inflation remained negative from June 9, 2007, to November 10, 2007. Though the increase in the prices of other commodities in this group continued to push up the index from 320.1 at end-March 2007 to 326.5 as on November 10, 2007, the base effect kept the inflation negative. Inflation increased in later months to reach 3.9 per cent on January 19, 2008, higher than the inflation on the same date in the earlier year. The contribution of this group to overall inflation also remained negative till November 2007 and started increasing thereafter. Annual inflation has been on a clear-up trend since October (Figure 4.6) because the sharply rising fuel prices have been passed through the items that are free of control.

4.6 In the case of “manufactured products” year-on-year inflation as on January 19, 2008, was 3.9 per cent compared to 5.9 per cent in the corresponding period of 2006-07. The manufactured products, with a weight of 63.8 per cent in WPI, contributed 55.2 per cent of the year-on-year inflation which is not significantly higher than their contribution in the previous year. In the financial year so far, the build-up of inflation was 2.7 per cent only, as annual manufactured goods inflation has been decelerating since it peaked in February 2007 (Figure 4.6).

Wholesale prices – primary articles

4.7 Primary articles are further subgrouped as food articles, non-food articles and minerals. In the case of food articles, year-on-year inflation decelerated to 2.1 per cent as on January 19, 2008. Food articles contributed 8.5 per cent to the overall inflation and their share in the inflation of primary articles was 38.4 per cent. The value of the index of the food articles, however, continued to show an upward trend till September 2007 and a decline thereafter. In the current fiscal so far, food articles with an inflation of 2.7 per cent contributed 13.1 per cent to the overall inflation. Within food articles, milk recorded inflation of more than 6 per cent. In case of “condiments and spices”, while the annual inflation as on January 19, 2008, was negative, build up of inflation in 42 weeks of the current fiscal was 5.1 per cent. The index of “condiments and spices” after a decline during February 2007 to May 2007, witnessed an increase, making what was earlier a negative point to point inflation into a positive build up in inflation in the current fiscal year. However, both on year-on-year basis and in terms of build-up inflation in the current fiscal remained lower than in the previous year. In non-food articles, inflation was significantly higher for fibres, particularly cotton. Oilseeds and other non-food crops (sugarcane) witnessed a deceleration in inflation. Deceleration in inflation in minerals was also significant. The level of prices for minerals, as reflected by the value of the index, after reaching a level of 453.5 (1993-94=100) on May 19, 2007 declined to 424.7 on September 1, 2007, and remained at that level until January 19, 2008. Build up of inflation, therefore, remained moderate (Table 4.3).

4.8 Year-on-year inflation in the primary articles was highest in April 2007. However, there was a significant deceleration since July 2007. Between July 28, 2007 (10.5 per cent) and January 19, 2008, inflation in primary articles declined by 665 basis points. Year-on-year inflation was negative for fruits and vegetables; eggs, meat and fish; condiments and spices; and other non-food articles. With a deceleration in inflation of primary articles, contribution of these articles to overall inflation declined from 51.8 per cent as on July 7,

Table 4.3 Inflation as on January 19, 2008, in primary articles (per cent)

Commodities	Weight (%)	Variations (April-January)				Variations (year-on-year)			
		Cumulative change		Contribution		Inflation		Contribution	
		07-08	06-07	07-08	06-07	07-08	06-07	07-08	06-07
Primary articles	22.03	3.20	11.02	22.68	40.10	3.82	10.22	22.03	35.35
Food articles	15.40	2.66	10.01	13.10	25.80	2.09	9.56	8.45	23.35
Food grains	5.01	2.98	9.09	4.71	7.62	1.82	9.82	2.38	7.72
Fruits & vegetables	2.92	-0.72	16.43	-0.70	8.08	-4.18	11.62	-3.41	5.62
Milk	4.37	6.61	5.51	8.73	3.84	9.53	8.23	10.01	5.28
Eggs, meat & fish	2.21	-1.35	7.00	-1.05	2.89	-0.30	2.27	-0.19	0.93
Condiments & spices	0.66	5.05	26.32	1.15	2.91	-2.19	35.10	-0.44	3.42
Other food articles	0.24	3.76	15.38	0.20	0.42	1.51	14.08	0.07	0.36
Non-food articles	6.14	5.00	12.93	9.34	11.80	8.96	11.02	13.17	9.65
Fibres	1.52	7.00	4.64	2.73	0.89	19.71	-1.86	5.61	-0.36
Oilseeds	2.67	8.72	26.95	7.00	9.46	12.28	25.24	7.80	8.47
Other non-food articles	1.95	-0.60	3.99	-0.41	1.48	-0.39	4.42	-0.21	1.54
Minerals	0.48	1.05	17.00	0.32	2.52	1.51	17.17	0.37	2.40

2007, to 22.0 per cent. All three components of primary articles – food, non-food and minerals – contributed more than proportionately to acceleration in inflation during 2006-07 and all three contributing (more or less in equal proportion) to the decline in primary articles and overall inflation in 2006-07.

Wholesale prices – fuel and power

4.9 In the major group “fuel and power” the index of petrol, diesel, kerosene and LPG remained at the February 17, 2007, levels as there was no change in the administered prices of these products. Stable prices of petroleum products also exerted a significant neutralizing influence on overall inflation. The other products in the mineral oil group, particularly naphtha, bitumen, furnace oil and aviation turbine fuel (ATF), were not covered by the price freeze. However, since these products had a smaller weight in the overall basket of the WPI, increase in prices of these products only moderately affected the level of prices in the fuel

and power group. Further, there was no increase in the prices of coal until December 2007. The WPI of coal after remaining unchanged from February 2005 to December 2007 moved upwards in the first week of January 2008 after a revision in its prices. The index for electricity also remained stationary since May 2007 indicating a stable price regime. As a result of upward revision of coal prices and increase in the prices of mineral oils, products not covered by the administered prices, inflation of this group increased to 3.9 per cent as on January 19, 2008. Coal mining had an inflation of 8.8 per cent followed by mineral oils with an inflation of 5.8 per cent. The contribution of mineral oils to overall inflation was 18.8 per cent. The inflation of the subgroup “mineral oils” in the current fiscal year (over end-March 2007) was 6.2 per cent compared to 1.2 per cent in the previous year. Mineral oils contributed nearly a quarter to the total build-up of inflation in the current year (Table 4.4).

Table 4.4 Inflation as on January 19, 2008, in fuel group (per cent)

Commodities	Weight (%)	Variations (April-January)				Variations (year-on-year)			
		Cumulative change		Contribution		Inflation		Contribution	
		07-08	06-07	07-08	06-07	07-08	06-07	07-08	06-07
Fuel, power light & lubricants	14.23	4.47	1.74	30.36	6.69	3.92	3.57	21.86	12.73
Coal mining	1.75	8.77	0.00	5.31	0.00	8.77	0.00	4.34	0.00
Minerals oils	6.99	6.24	1.19	24.72	2.69	5.80	3.36	18.84	6.99
Electricity	5.48	0.18	3.15	0.41	3.94	-0.66	4.93	-1.20	5.70

Wholesale prices—manufactured products

4.10 In the case of manufactured products the increase in the prices was generally moderate. Year-on-year inflation as on January 19, 2008, continued to show deceleration for many product groups within the manufacturing sector. An increase in the rate of inflation was observed for food products; beverages and tobacco; wood products; leather products; chemicals and chemical products; and transport equipments. In the case of textiles, the level of index declined and inflation turned negative in September 2007 and remained so in the next four months. In the case of basic metals, inflation substantially moderated from 13.9 per cent as on January 20, 2007, to 2.7 per cent. The build-up of inflation for metal products, over end-March 2007 at 2.4 per cent was significantly lower. International prices of metals also witnessed deceleration during this period and deceleration in the domestic inflation was keeping with the global trend (Table 4.5).

4.11 It has generally been observed that for most of the products the inflation is usually high in the first and second quarter of the year. Cumulative increase in the prices in the first half of the year 2005-06, 2006-07 and 2007-08 was 4 per cent, 5.5 per cent and 2.5 per cent, respectively. In the second half of these years this increase was only -0.2 per cent, 1 per cent and

0.4 per cent, respectively. While it is still early to say whether this trend will also be observed in the last quarter of 2007-08, the current indications are that build-up of inflation in the second half except for the group "fuel and power" may remain moderate (Table 4.6).

4.12 Broadly seven commodity groups were the major contributors to inflation. The overall contribution of these seven commodity groups averaged 82 per cent during April 2006 to December 2007. Overall contribution increased from 75 per cent in 2006-07 to 92 per cent in nine months of the current year. Acceleration in the rate of inflation during January-April 2007 was associated with an increasing contribution of food articles, edible oils (including oilseeds and oilcake) and metals. A decline in the contribution of metals (from July 2007 onwards), mineral oils (negative contribution from May 2007 to October 2007) and food articles (October 2007 to December 2007) to the overall inflation resulted in deceleration in the inflation rate in the subsequent months (Table 4.8). Commodity composition of main drivers of inflation in recent months indicates that domestic inflation has been affected by global commodity price changes (metals, mineral oils, edible oils and food items), domestic supply shortfalls (edible oils and food) and a buoyant demand (machinery, chemicals and cement). There are also spillover effects due to inter-linkages of commodities.

Table 4.5 Inflation as on January 19, 2008, in manufactured goods (per cent)

Commodities	Weight (%)	Variations (April-January)				Variations (year-on-year)			
		Cumulative change		Contribution		Inflation		Contribution	
		07-08	06-07	07-08	06-07	07-08	06-07	07-08	06-07
Manufactured Products	63.75	2.66	5.76	46.62	53.94	3.91	5.88	55.20	51.92
Food products	11.54	5.16	5.52	16.53	9.57	5.56	3.63	14.49	6.05
Beverages tobacco & tobacco products	1.34	6.83	6.60	3.50	1.77	9.35	7.79	3.82	1.95
Textiles	9.80	-3.75	1.91	-7.31	2.09	-3.53	2.38	-5.62	2.45
Wood & wood products	0.17	0.00	-2.02	0.00	-0.06	5.99	-2.02	0.26	-0.06
Paper & paper products	2.04	1.14	3.82	0.67	1.24	0.78	7.63	0.37	2.26
Leather & leather products	1.02	1.58	6.09	0.40	0.83	1.09	-1.55	0.22	-0.21
Rubber & plastic products	2.39	4.84	8.14	2.67	2.33	7.27	7.30	3.20	1.98
Chemicals & chemical products	11.93	3.27	0.99	11.58	1.94	5.93	2.70	16.73	4.91
Non-metallic mineral products	2.52	4.36	5.80	3.30	2.28	8.84	13.10	5.25	4.54
Basic metals alloys & metals products	8.34	2.35	16.23	7.10	24.03	2.73	13.87	6.71	19.78
Machinery & machine tools	8.36	3.08	6.96	6.24	7.43	4.63	8.04	7.55	8.03
Transport equipment & parts	4.29	2.08	1.56	2.18	0.92	2.33	1.31	1.99	0.73

Table 4.6 Cumulative movement in WPI (per cent)

	2005-06		2006-07		2007-08	
	First Half	Second Half	First Half	Second Half	First Half	Second Half ^a
All commodities (100.00)	4.0	-0.2	5.5	1.0	2.5	0.4
Primary articles (22.03)	6.4	-2.1	9.9	1.4	5.2	-1.5
Food articles (15.40)	6.7	-1.4	10.3	-0.3	5.3	-1.8
Non-food articles (6.14)	1.8	-3.9	7.4	6.5	5.7	-0.7
Minerals (0.48)	37.2	-1.5	20.5	-0.6	1.3	0.0
Fuel and power (14.23)	7.8	0.9	4.6	-3.2	0.7	2.3
Manufactured products (63.75)	1.5	0.2	4.2	2.4	2.2	0.4
Food products (11.54)	2.2	-1.1	3.8	1.2	1.6	2.4
Textiles (9.80)	-2.8	2.4	2.2	-0.2	-0.2	-2.3
Chemicals and products (11.93)	1.0	2.6	0.6	2.7	2.8	0.3
Non-Metallic mineral products (2.52)	0.0	7.1	5.0	6.4	4.1	0.0
Basic Metals, alloys & products (8.34)	4.3	-6.9	12.4	3.1	2.1	0.2
Machinery & machine tools (8.36)	3.1	0.9	3.1	4.9	3.5	-0.1

^a Up to December 2007.

Wholesale price index – essential commodities

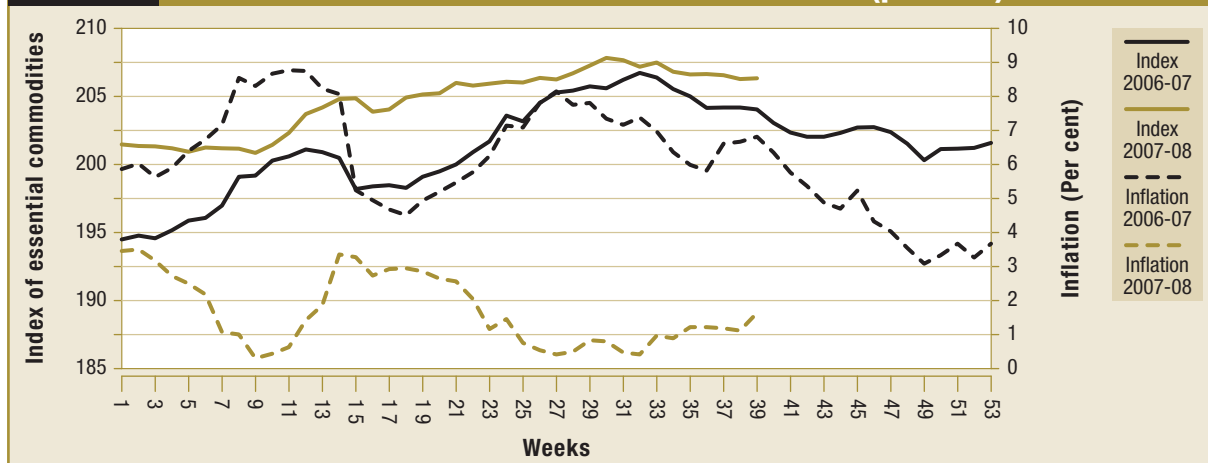
4.13 About 30 commodities within the Wholesale Price Index have been identified as essential commodities. These commodities are broadly grouped into seven categories: cereals and their products; pulses; edible oils; vegetables and spices; dairy, fisheries and animal products; tea, sugar and salt; and other essential commodities. Nearly 16 of these 30 commodities are primary articles, 12 manufactured products and 2 belong to fuel and power group. These commodities together have a weight of 17.6 per cent in the WPI and also figure in the consumption basket of CPI-IW (Table 4.7 and Figure 4.7).

4.14 The overall level of prices as reflected in the value of the composite index of the 30

commodities continued to show moderate increase from 201.4 as on April 7, 2007 (1st week of 2007-08) to 207 as on January 19, 2008. Year-on-year inflation, however, moderated from 3.4 per cent in the first week of 2007-08 to 2.5 per cent in the 42nd week, indicating a deceleration of 89 basis points. Inflation was also significantly lower compared to 4.8 per cent as on January 20, 2007. The rate of inflation, however, differed across the seven groups by a wide margin. In case of pulses, and “tea, sugar, gur and salt” the index witnessed a decline in the current financial year, with inflation measured either on year-on-year basis or as a build-up during the current fiscal year so far turning negative. The deceleration in inflation was also significant for cereals (including atta) and edible oils. The fiscal and administrative measures (reduction in customs duty on edible oils, import

Table 4.7 Inflation as on January 19, 2008, in essential commodities (per cent)

Commodities	Weight (%)	Variations (April-January)				Variations (year-on-year)			
		Cumulative change		Contribution		Inflation		Contribution	
		07-08	06-07	07-08	06-07	07-08	06-07	07-08	06-07
All commodities	100.00	3.2	5.9	100.0	100.0	3.9	6.3	100.0	100.0
Essential commodities	17.63	2.8	3.7	14.6	10.8	2.5	4.8	11.0	13.3
Cereals	4.37	4.1	10.4	1.4	1.1	3.5	9.8	0.9	1.1
Pulses	0.60	-3.8	14.6	-0.4	0.4	-4.1	18.9	-0.5	0.5
Edible oils and vanaspati	1.63	5.7	16.1	0.6	0.6	4.5	15.4	0.5	0.6
Vegetables and spices	0.54	3.3	47.9	0.4	0.7	2.7	33.2	0.1	0.8
Dairy, fisheries & animal pdts.	5.31	0.7	0.5	2.5	1.0	3.2	0.4	3.2	1.3
Tea, sugar, gur & salt	3.86	-0.1	-0.7	-0.7	-1.2	-2.8	-1.1	-1.2	-0.9
Other essential commodities	1.32	1.7	0.9	0.1	0.0	4.3	2.6	0.2	0.1

Figure 4.7 Essential commodities Index and annual inflation (per cent)

of wheat and pulses through PSUs to increase domestic availability and a strict vigil on prices of these products) contributed to this deceleration in inflation. The value of index for the other essential commodities, mainly the manufactured products and two products of the fuel group, remained stable throughout these 10 months. In case of “vegetables and spices”, increase in index up to October 2007 was primarily because of an increase in the prices of onions. With a deceleration in the prices of

onions in later months, there was also a moderation in the index and inflation rates.

4.15 Deceleration in the year-on-year inflation for the 30 essential commodities was both on account of base effect and also because of a decline in the index for pulses and “tea, sugar, gur and salt”. Inflation of 30 essential commodities in the current year also remained lower than the overall WPI inflation. Essential commodities contributed 11 per cent of the overall inflation as on January 19,

Table 4.8 Contribution of selected commodity groups to inflation (per cent)

Month/Year	Head line inflation ^a	Edible Oils ^b	Food Articles	Mineral Oils	Chemicals	Cement	Metals	Machinery	Total
2006-07									
Apr	3.9	-8.6	18.5	37.9	9.5	6.3	-3.4	5.4	65.7
May	4.7	-4.9	21.0	35.3	7.1	5.6	0.2	4.3	68.6
Jun	5.1	-3.7	24.9	39.0	8.6	5.3	0.7	4.6	79.3
Jul	4.8	-4.3	13.9	35.1	9.4	5.9	8.3	5.3	73.7
Aug	5.1	-2.1	15.9	36.1	6.8	5.7	8.7	5.3	76.3
Sep	5.4	0.1	25.7	18.3	6.8	5.0	9.1	4.8	69.8
Oct	5.5	1.3	24.6	13.1	4.9	4.9	11.2	6.3	66.3
Nov	5.5	6.2	21.3	11.0	4.8	5.3	12.8	7.7	69.1
Dec	5.7	13.4	23.8	7.3	5.2	5.3	14.1	8.4	77.5
Jan	6.4	15.2	23.0	7.0	4.8	4.2	20.9	7.8	83.0
Feb	6.4	17.3	24.8	3.5	4.8	3.7	22.6	7.9	84.6
Mar	6.6	18.7	23.6	2.1	5.8	3.8	22.0	8.0	83.9
2007-08									
Apr	6.3	21.1	24.9	1.2	7.7	2.8	17.5	8.5	83.7
May	5.5	21.6	25.1	-0.6	10.5	2.9	17.1	10.2	86.7
Jun	4.5	26.3	18.4	-8.1	11.0	3.7	20.0	11.9	83.3
Jul	4.7	28.1	31.8	-11.2	9.6	3.7	12.8	11.8	86.5
Aug	4.1	29.7	31.7	-15.0	13.5	4.2	11.6	12.8	88.5
Sep	3.5	33.9	22.8	-12.7	17.7	6.0	14.4	15.5	97.5
Oct	3.1	38.3	15.2	-7.2	20.6	6.2	12.8	14.7	100.5
Nov	3.3	34.5	12.7	4.6	19.5	5.3	10.9	13.5	101.0
Dec	3.6	27.6	13.1	15.7	17.3	4.9	7.8	10.3	96.8

a Inflation and contribution of commodities are based on monthly averages.

b Includes edible oils, oilseeds and oilcake.

2008, compared to a contribution of 13.3 per cent in the corresponding period of 2006-07.

Essential commodities – retail prices

4.16 The Department of Consumer Affairs monitors the prices of 16 essential commodities at selected centres throughout the country. These commodities witnessed wide fluctuations in year-on-year inflation in the last five years. In 2007-08 (measured as increase in prices as on January 16, 2008 over January 17, 2007), however, 9 of these commodities witnessed a deceleration in inflation compared to a deceleration in prices of 4 commodities in the previous year. Highest inflation of 28.5 per cent was recorded for tur dal. An increase in the rate of inflation was observed for rice, groundnut and mustard oil, milk and salt (both in packets and loose) (Table 4.9).

Consumer price index and other price indicators

4.17 The commodity composition of the Consumer Price Indices significantly differ from the Wholesale Price Index and also across the other group specific CPIs. Because of a different commodity composition and weights assigned to various commodities and services in the CPIs,

inflation measured in terms of Consumer Price Indices and Wholesale Price Index differ significantly over the months.

4.18 From a long-term perspective, however, inflation as measured in terms of WPI and CPIs seems to be converging. Reconstructing the WPI and CPIs, including the GDP consumption deflator with a common 1999-2000 base, reveals that the cumulative increase in inflation during the year 1999-2000 to 2006-07 was the highest for the Wholesale Price Index. There, however, were inter year variations in the rate of inflation based on these indices. But, over the years, the difference seemed to be narrowing considerably. The average difference between monthly rate of inflation, measured in terms of WPI and CPI-IW, during 2001-02 to 2007-08 (up to December) was only 5 basis points and between WPI and CPI-UNME was 3 basis points. While the inflation measured in terms of WPI remained higher compared to the CPIs in 2003-04 and 2004-05, it was lower than these indices during 2006-07. General converging of overall indices, measuring changes in prices notwithstanding their year-on-year variations, indicates a strong association in inflation, both in its acceleration and deceleration phase across all these indices (Table 4.10 and Figure 4.8).

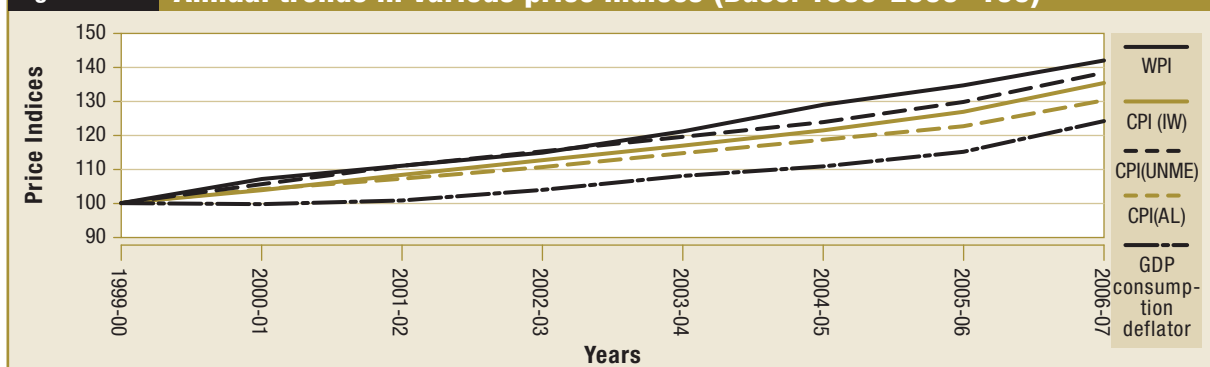
Table 4.9 Average retail prices of essential commodities

Commodities	Retail prices (Rs. /kg.)									
	14-1-2004	19-1-2005	18-1-2006	17-1-2007	16-1-2008	14-1-2004	19-1-2005	18-1-2006	17-1-2007	16-1-2008
	Prices (Rs/kg)					Year-on-year inflation (per cent)				
Rice	10.8	11.4	11.6	12.6	14.3	0.5	5.5	1.9	8.4	13.0
Wheat	10.0	9.8	11.3	13.9	13.3	12.2	-2.1	16.3	22.4	-4.4
Atta	10.9	10.7	12.2	15.2	14.8	NA	-2.0	13.5	24.7	-2.1
Gram	21.8	21.3	27.4	38.2	32.7	1.7	-2.3	28.5	39.4	-14.3
Tur	29.8	29.3	30.3	31.9	40.9	13.7	-1.7	3.4	5.3	28.5
Sugar	15.0	19.1	20.1	18.7	16.2	4.9	27.9	5.2	-7.3	-13.3
Gur	13.9	17.8	18.5	18.0	17.0	10.1	28.1	3.8	-2.4	-5.7
Groundnut oil ^a	66.9	63.6	62.9	72.4	84.9	11.9	-5.0	-1.0	15.1	17.3
Mustard oil ^a	60.2	56.5	53.8	58.8	65.3	14.7	-6.1	-4.8	9.2	11.0
Vanaspati ^a	49.7	49.5	46.6	54.0	57.4	9.2	-0.4	-6.0	15.9	6.4
Tea (loose)	113.8	112.8	114.4	123.1	128.0	-0.1	-0.9	1.4	7.6	4.0
Milk ^a	15.8	16.4	16.5	17.5	19.4	NA	3.8	0.2	6.2	10.9
Potato	5.8	6.5	9.5	10.5	10.5	3.6	12.1	46.2	11.0	0.4
Onion	11.9	7.9	8.7	12.2	11.2	111.6	-33.5	10.6	39.6	-8.2
Salt (pack) ^b	6.7	6.6	7.2	7.6	8.3	3.3	-0.9	8.6	6.0	9.2
Salt (loose)	2.5	2.7	2.8	3.1	3.4	-5.3	6.8	6.0	9.9	9.6

^a (Rs./lt.). ^b Iodized. NA: Not Available.

Table 4.10 Annual trends in various price indicators

Year / Indices	WPI	CPI-IW	CPI-UNME	CPI-AL	CPI-RL	GDP consumption deflator
Price indices based on 1999-2000=100						
1999-00	100.0	100.0	100.0	100.0	100.0	100.0
2000-01	107.1	103.8	105.6	99.7	100.0	103.5
2001-02	111.0	108.3	111.0	100.8	101.4	106.8
2002-03	114.8	112.6	115.2	103.9	104.5	109.8
2003-04	121.1	116.9	119.5	108.0	108.5	113.8
2004-05	128.9	121.4	123.8	110.8	111.3	117.0
2005-06	134.6	126.8	129.7	115.1	115.6	120.5
2006-07	141.9	135.3	138.3	124.1	124.3	126.7
Year-on-year Inflation (in per cent)						
2000-01	7.1	3.8	5.6	-0.3	0.0	3.5
2001-02	3.6	4.3	5.1	1.1	1.3	3.2
2002-03	3.4	4.0	3.8	3.2	3.1	2.9
2003-04	5.5	3.9	3.7	3.9	3.8	3.6
2004-05	6.5	3.8	3.6	2.6	2.6	2.8
2005-06	4.4	4.4	4.7	3.9	3.9	3.0
2006-07	5.4	6.7	6.6	7.8	7.5	5.1

Figure 4.8 Annual trends in various price indices (Base: 1999-2000=100)

4.19 There is, however, no aggregate, broad-based CPI in India. While considering shifting the present base of CPI-UNME, the Technical Advisory Committee on Statistics of Prices and Cost of Living in its 44th Meeting decided that (i) the resources proposed to be utilized for revision of CPI-UNME may be used for compilation of CPI numbers separately for rural and urban, and (ii) existing series of CPI-UNME may be continued without revision till CPI (Urban) series gets stabilized. The Central Statistical Organisation has already initiated steps to bring out CPI (Urban).

Real estate/housing price index

4.20 Rapid urbanization and high economic growth experienced by the urban centres in the last few years has resulted in an upsurge in property values. The importance of facilitating supply of affordable housing to the people and the

necessity of designing a right mix of policy initiatives to encourage house acquisition highlight the necessity of tracking the movement of residential house prices. Moreover, the real estate assets are a significant component of the wealth of the private sector and financial freedom allowed for acquiring this wealth is one of the important financial obligations of this sector. For the financial intermediaries also, lending for residential houses has been a significant component of their credit portfolio. The authentic data on the real estate sector in the country, development of a credible database on market driven price trends and price index of market-segments have, therefore, emerged as crucial elements of market development and for enhancing the efficiency of market processes. The National Housing Bank (NHB) had earlier set up a Technical Advisory Group (TAG) to explore the possibility of constructing a real estate price

Table 4.11 Housing price index for selected cities

City	2001	2002	2003	2004	2005
Delhi City	100	106	129	150	201
Mumbai Metropolitan Region	100	116	132	149	178
GMCC	100	119	136	159	198
OM	100	114	130	141	163
Kolkata Metropolitan Region	100	115	129	148	172
Kolkata MC	100	120	136	159	192
KMA	100	111	125	139	158
Bangalore City	100	133	170	224	275
Bhopal City	100	120	136	154	179

GMCC: Greater Mumbai City Corporation; OM: Other Municipalities (Mumbai); KMC: Kolkata Municipal Corporation; KMA: Kolkata Municipality Area; Based on the housing price index of five cities, the annual increase in the housing prices has been as indicated in Table 4.12.

Table 4.12 Housing price inflation in selected cities (year-on-year, per cent)

City	2002	2003	2004	2005	Annual average
Delhi City	6.0	21.7	16.3	34.0	19.1
Mumbai Metropolitan Region	16.0	13.8	12.9	19.5	15.5
GMCC	19.0	14.3	16.9	24.5	18.6
OM	14.0	14.0	8.5	15.6	13.0
Kolkata Metropolitan Region	15.0	12.2	14.7	16.2	14.5
Kolkata MC	20.0	13.3	16.9	20.8	17.7
KMA	11.0	12.6	11.2	13.7	12.1
Bangalore City	33.0	27.8	31.8	22.8	28.8
Bhopal City	20.0	13.3	13.2	16.2	15.7

index. TAG has since submitted its report and have provided index of housing prices in five cities for 2000-05 on a pilot basis.

4.21 The housing prices in the five selected cities have increased between 12.1 per cent (KMA) and 28.8 per cent (Bangalore) [per year on an

average basis], over the last five years and inter-year and inter-city variations have been quite significant. These results are only indicative as they are based on a pilot study. NHB, however, is setting up an institutional mechanism for releasing an economy-wide housing price index on a regular basis.