

## Annual Inflation 1999-2000

5.4 The year began with an annual inflation rate of 4.6 percent (point to point) which decelerated continuously to reach 2.6 percent by the end of June, 1999 and then fell to an eighteen year record low of 2.0 percent in the week ended 24th July, 1999. Inflation increased marginally but remained below the 3.0 percent level till the end of September 1999. Thereafter, inflation has remained close to the 3 percent level and was even below 3 percent in November (Table 5.2).

5.5 The sharp rise in prices recorded in the preceding year 1998-99, was largely due to the rise in prices of primary products especially vegetables, fruits, oilseeds and pulses. This situation was reversed during 1999-2000 due to abundant supply. Prices of vegetables like onions and potatoes were lower than last year (by 55.2 percent and 17.0 per cent respectively) for the week ending January 15, 2000. Increase in prices of edible oils recorded during 1998-99 due to detection of adulteration in mustard oil, shortfall in groundnut oil production and high international prices was reversed during 1999-2000. Prices and supply of edible oils remained comfortable during the current year, aided by a sharp decline in international prices and consequent imports in large volumes. Moreover, satisfactory crop output in 1998-99 and advance administrative action ensuring effective supply management by the Government also helped in easing the supply situation during the current year.

5.6 Annual rise in wholesale prices of primary articles was 2.2 per cent as of January 15, 2000 as against 7.3 per cent in the corresponding period last year. This group, which had contributed 54.7 per cent to the annual inflation during 1998-99 contributed just about 23.2 percent to annual inflation during the current year. Some price rise was recorded in foodgrains like rice and wheat but, much of this rise was due to the substantial increase in the Minimum Support Price given to the farmers, (see Box 5.2).

5.7 Price rise in the manufactured products group (with a weight of 57.04) for the week ending January 15, 2000, was only 1.1 percent as against 3.9 percent in the corresponding period last year. Absence of demand pressure during

most of the year, subdued international prices and, increasing domestic and foreign competition helped to maintain low price markups. Moreover, this sector to a large extent also depends on the primary sector for raw materials. Hence very low inflation in the primary sector producing raw materials also contributed to lower rate of inflation in the manufacturing sector.

5.8 The Fuel, Power, Light & lubricants sub-sector (with a weight of 10.66) represents the energy products whose prices are mostly administered. This group contributed most to the annual inflation this year particularly during the second half of 1999-2000. Annual rate of inflation of this group for the week ended January 15, 2000 was 17.3 per cent as against a decline of

### BOX 5.2

#### Minimum support prices and Annual Inflation

Minimum Support Prices (MSP) lay the floor for the market price of foodgrains, especially the two dominant foodgrains-rice and wheat. In recent years annual increases in MSP have been substantial and at times much above the the current inflation rate.

#### Minimum Support Prices (Rs/quintal) and Annual Inflation

	MSP Wheat	% Increase (Common)	MSP Paddy	% Increase (%)	Annual inflation
1995-96	380	5.6	360	5.9	4.4
1996-97	475	25.0	380	5.6	6.9
1997-98	510	7.4	415	9.2	5.3
1998-99	550	7.8	440	6.0	4.8
1999-2000	-	-	490	11.4	3.3@

@ as on January 15, 2000.

Consequently, MSP after inclusion of state taxes and procurement incidentals etc. becomes a benchmark price for the free market. The second impact is seen in public agencies such as FCI procuring a much larger quantity since private trade finds it costlier to stock large volumes at higher prices. Higher procurement prices invariably cause FCI to procure more than what is required for food security, leading to much higher commitments for Government subsidy. Lower volumes stocked by trade means higher market price during lean season. This explains why despite an eighteen year low inflation in 1999-2000, wholesale prices of rice and wheat alone were higher by 5.7 per cent and 13.5 per cent for the week ended January 15, 2000 over corresponding period last year.

There is need for some restraint in fixing Minimum Support Prices so that they are not too mis-aligned with the realities of the market.

**TABLE 5.2**  
**Wholesale Price Index movement by commodities and their contribution to Inflation**  
 (Base: 1981-82=100)  
 (As on January 15th)

Commodity group/ sub-group	Weight (per cent)	Annual rate of inflation (%)		Percentage share in inflation	
		1999-2000	1998-99	1999-2000	1998-99
ALL COMMODITIES	100.000	3.3	4.5	100.0	100.0
PRIMARY ARTICLES	32.295	2.2	7.3	23.2	54.7
Food articles	17.386	4.1	6.3	26.5	29.3
Food-grains	7.917	6.9	7.2	19.2	14.2
Cereals	6.824	9.0	7.8	20.6	12.7
Rice	3.685	5.7	11.3	7.3	10.0
Wheat	2.248	13.5	1.5	10.0	0.8
Pulses	1.093	-3.0	4.5	-1.4	1.6
Gram	0.410	1.3	-21.7	0.2	-2.9
Fruits & Vegetables	4.089	3.8	8.9	5.3	8.8
Vegetables	1.291	-11.7	-6.5	-5.1	-2.3
Potatoes	0.472	-17.0	32.9	-2.1	2.4
Onions	0.156	-55.2	-26.0	-4.7	-2.3
Fruits	2.798	10.7	17.6	10.4	11.2
Milk	1.961	3.9	6.1	2.5	2.8
Eggs,Fish & Meat	1.783	-0.1	4.9	-0.1	2.6
Condiments & Spices	0.947	-0.1	24.6	-0.0	8.9
Other food articles	0.689	-1.6	-25.5	-0.5	-8.1
Tea	0.564	4.7	-30.5	1.1	-7.7
Coffee	0.125	-20.0	-5.3	-1.6	-0.3
Non-food articles	10.081	-3.2	11.9	-10.7	27.3
Fibres	1.791	-9.1	3.5	-5.1	1.4
Raw Cotton	1.335	-13.9	-0.5	-5.8	-0.1
Raw Jute	0.160	4.3	42.9	0.3	1.5
Oil seeds	3.861	-6.8	22.1	-8.1	16.4
Groundnut seed	1.296	-4.5	8.2	-1.7	2.2
Rape & mustard seed	0.661	-24.5	52.5	-5.3	5.7
Other non-food articles	4.429	1.5	8.3	2.4	9.4
Sugarcane	2.706	5.2	6.8	4.9	4.6
Minerals	4.828	11.4	-4.0	7.5	-2.1
Petroleum crude & natural gas	4.274	14.0	-6.2	6.8	-2.5
FUEL,POWER,LIGHT & LUBRICANTS	10.663	17.3	-1.0	58.9	-2.6
Coal Mining	1.256	3.5	3.2	1.9	1.3
Petroleum pdts.(Mineral oils)	6.666	26.0	-6.1	43.6	-8.4
Electricity	2.741	11.3	5.2	13.4	4.5
MANUFACTURED PRODUCTS	57.042	1.1	3.9	18.0	47.3
Food products	10.143	-1.6	5.1	-4.9	11.2
Sugar,Khandsari & gur	4.059	3.3	-5.5	3.3	-4.5
Sugar	2.013	2.5	0.2	1.2	0.1
Khandsari	0.300	-2.0	3.4	-0.1	0.2
Gur	1.746	4.9	-11.8	2.3	-4.8
Edible Oils	2.445	-18.4	19.5	-13.9	9.5
Rape & Mustard Oil	0.276	-32.9	70.5	-3.3	3.2
Groundnut Oil	0.526	-6.3	13.5	-1.0	1.4
Oil cakes	0.432	13.6	5.0	1.9	0.5
Beverages Tobacco & tobacco prod.	2.149	4.2	9.9	3.8	6.2
Textiles	11.545	1.1	2.7	3.5	6.3
Wood & Wood products	1.198	-1.5	4.6	-0.9	2.2
Paper & paper products	1.988	1.5	5.9	1.0	2.8
Leather & Leather products	1.018	7.1	0.5	1.8	0.1
Rubber & Plastic products	1.592	-1.2	1.8	-0.4	0.5
Chemicals & Chemical products	7.355	0.1	7.4	0.2	9.6
Fertilizers	1.748	0.9	3.5	0.3	0.9
Urea	0.992	9.0	0.0	1.3	0.0
Non-metallic mineral products	2.477	-1.1	7.4	-0.9	4.1
Cement	0.860	-10.0	7.3	-2.0	1.0
Basic metals,alloys & metal products	7.632	3.5	0.2	8.0	0.3
Iron & steel	2.441	2.4	-1.6	1.6	-0.8
Non-ferrous metals(without aluminium)	0.571	6.6	-0.5	1.3	-0.1
Machinery & machine tools incl.	6.268	1.7	1.9	2.8	2.3
Transport equipment & parts	2.705	6.0	3.8	4.0	1.9
Other misc. manufacturing industries	0.972	0.4	1.2	0.1	0.1
Administered items	15.929	16.6	-1.6	67.0	-5.0
Seasonal items	34.403	0.6	7.4	7.0	62.0
Raw materials	14.909	-0.8	8.9	-3.2	25.2
Essential Commodities	21.770	1.5	3.4	10.6	17.3

<b>TABLE 5.3</b>					
<b>Annual Rates of Inflation based on WPI and CPI</b>					
<b>(point-to-point)</b>					
<i>(Per cent)</i>					
Year	Month	WPI	CPI	CPI	CPI
		81-82	(IW) 1982	(UNME) 84-85	(AL) 86-87
1997-98	APR	6.4	9.3	9.7	8.8
	MAY	5.8	7.3	8.1	6.2
	JUN	5.7	6.6	7.7	4.9
	JUL	4.0	5.6	5.7	3.6
	AUG	3.7	4.7	5.7	2.3
	SEP	3.8	4.9	6.0	1.5
	OCT	4.4	5.5	5.9	1.2
	NOV	3.9	4.9	5.2	0.0
	DEC	4.5	6.3	6.2	0.8
	JAN	5.8	9.7	7.9	4.6
	FEB	4.9	9.1	7.6	3.8
	MAR	5.0	8.3	7.2	3.8
1998-99	APR	5.6	8.2	7.8	4.6
	MAY	6.6	10.5	9.2	7.0
	JUN	7.5	12.4	10.5	8.9
	JUL	8.3	14.8	13.1	10.7
	AUG	8.3	15.0	12.7	11.8
	SEP	8.5	16.3	13.0	12.9
	OCT	8.3	18.6	14.5	15.6
	NOV	8.1	19.7	15.5	18.3
	DEC	6.3	15.3	12.4	15.1
	JAN	4.7	9.4	9.3	9.1
	FEB	5.3	8.6	8.6	8.8
	MAR	5.0	8.9	9.0	8.8
1999-2000	APR	4.3	8.4	7.9	8.1
	MAY	3.8	7.7	7.5	8.0
	JUN	3.1	5.3	6.1	6.7
	JUL	2.3	3.2	4.2	5.2
	AUG	2.2	3.1	4.5	5.1
	SEP	2.7	2.1	3.8	4.4
	OCT	2.9	0.9	2.9	3.6
	NOV	2.8*	0.0	2.0	1.9
	DEC	2.8*	0.5	2.6	2.0

\* Provisional.

1.0 per cent in the corresponding period last year. Their contribution to the general price rise was 58.9 percent this year. This was largely the result of the 40 percent hike in diesel prices announced by the Government in October 1999 in line with the doubling of international prices of crude oil between January to October 1999. The index of electricity prices also registered a substantial increase of 11.3 percent, (Fig 5.1).

