

Updating the indices

5.17 The Labour Bureau is in the process of revising the base year of the existing series of CPI-IW (1980=100) to a more recent year, namely 2001, to take into account the temporal changes in the consumption pattern of industrial workers. This is in consonance with the recommendation for updating the index as frequently as possible by the International Labour Organisation (ILO), Second National Commission on Labour, and the National Statistical Commission. The index with the new base will be released after due consultations with all stakeholders. The weighting diagrams for all the 78 selected

centres have been derived on the basis of the expenditure data from the Working Class Income & Expenditure Survey conducted during 1999-2000 at these centres.

5.18 Another expert group under the Chairmanship of Dr. Abhijit Sen, Member, Planning Commission is working to shift the base of the Wholesale Price Index (1993-94=100) to a more recent year and to appropriately revise the weighting diagrams for construction of the index. The Group is also examining the feasibility of switching over from WPI to a more comprehensive Producers Price Index (PPI) as in most other countries (Box 5.1).

Box 5.1 : A note on compilation of Producer Price Index (PPI) in India

A Working Group on Revision of Wholesale Price Index (WPI) (1993-94=100), under the chairmanship of Prof. Abhijit Sen, Member, Planning Commission, is inter-alia, looking into the feasibility of switching over from WPI to a Producer Price Index (PPI) in India. PPI measures price change from producers' perspective as against the Consumer Price Index (CPI), which measures price change from consumers' perspective. The Group is also examining alternative weighting diagrams based on concepts like gross value of output, value added, and net output concepts.

Most 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 measuring inflation, are used as deflators in the compilation of GDP. PPI is considered to be a better measure of inflation as price changes at *crude and intermediate stages* can be tracked before it creeps into the finished goods stage.

Three alternative variants of PPIs can be considered :

- a) **Commodity indices:** Here the commodity classification structure of PPI organizes products by similarity of end use, and indices are more akin to the current WPI series, except for the difference in definition of prices. However, all commodities PPI, like all commodities WPI, are affected by multiple counting of price change at successive stages as the weights are based on gross value of output.
- b) **Stage of processing (SOP):** SOP structure organizes PPIs by class of buyer and degree of fabrication. SOP indices partially correct the multiple counting defects, as the indices are compiled separately for 'Crude' goods, 'Intermediate' goods and 'Finished' goods.
- c) **Industry net output indices:** Here the commodities are grouped according to standard industry and product classification. Net output indices consistently correct the multiple counting of price changes at all levels of aggregation as the weights are based on the total value of industry output net of the value of output consumed within the industry. The industry net output indices are considered more useful because of their concordance with the classification structure of national income and production indices.