

PRICES

4.2 The fiscal year 2008-09 had been a very unusual year, marked by extremes in price movements. The question of the appropriate index to track inflation assumed importance following the noticeable difference between inflation measured by the Wholesale Price Index (WPI) versus the sectional Consumer Price Indices (CPIs). The International Monetary Fund (IMF) statistics reveals that 24 countries use WPI as the official measure to track inflation, compared to 157 countries which use CPI. CPI actually measures the increase in prices a consumer will have to pay for the designated commodity basket (which may be revised every four-five years to factor in changes in consumption pattern). India does not have an aggregate CPI, but only sectional CPIs for industrial workers (CPI-IW), agricultural labour (CPI-AL), urban non-manual workers (CPI-UNME) and rural labour (CPI-RL)

Headline (WPI) inflation by broad commodity groups

4.3 The WPI commodity basket has three constituent commodity groups: (a) primary articles, (b) fuel, power, light and lubricants, and (c)

manufactured products, with respective weights of 22.02 per cent, 14.23 per cent and 63.75 per cent.

4.4 The inflation trends by broad commodity groups for each of the years beginning from 2000-01 to 2008-09 are given in Table 4.1. The 52-week averages show that inflation in 2000-01, 2004-05 and 2008-09 had been above the 6 per cent threshold with 2008-09 recording the highest average in the current decade. In contrast, annual inflation as on end-March 2009 recorded the lowest rate of 0.8 per cent overall and negative inflation of 6.1 per cent in the fuel and power group. Similarly, 2006-07 and 2007-08 stand out with inflation (at end March) in primary articles in the band of 10-11 per cent, though the 52-week average was only in the range of 5 (+/-) 0.5 per cent.

4.5 Over the five-year span, 2004-05 to 2008-09, inflation remained below 7 per cent, except for two breaches. The first breach was in the second half of 2004-05, when the price of crude oil per barrel (Brent) rose from US\$ 38 in 2004 to US\$ 54 in 2005, coupled with an erratic, delayed and uneven spatially-spread monsoon. The second breach began from March 2008, prior to the onset of the fiscal year. Inflation, which was rising but which was in single digit up to

Table 4.1 : Annual WPI inflation rate (%) (Base: 1993-94 = 100)

Year	March end annual inflation rate (per cent)				52-week Avg (All items)	Range of inflation during 52 weeks
	Primary articles	Fuel, power, light & lubri.	Manufactured products	All commodities		
Weights (per cent)	22.02	14.23	63.75	100.00	100.00	100.00
2000-01	1.5	15.1	4.0	5.5	7.2	4.9 - 8.8
2001-02	3.9	3.9	0.0	1.6	3.6	1.1 - 5.6
2002-03	6.1	10.8	5.1	6.5	3.4	1.4 - 6.5
2003-04	1.6	2.5	6.7	4.6	5.5	3.8 - 6.9
2004-05	1.3	10.5	4.6	5.1	6.5	4.3 - 8.7
2005-06	5.4	8.9	1.7	4.1	4.4	3.3 - 6.0
2006-07	10.7	1.0	6.1	5.9	5.4	3.7 - 6.7
2007-08	9.7	6.8	7.3	7.8	4.7	3.1 - 8.0
2008-09	5.2	-6.1	1.7	0.8	8.4	0.7 - 12.9

Source : D/o Indl Policy & Promotion

end-May, reached double digits from June to mid-October and remained above 8 per cent up to end-November, with the price of crude touching US\$ 147 in July 2008. On both occasions, inflation in the domestic economy was largely due to developments in the global economy, with the prime movers being the spurt in the prices of crude oil, minerals and metal related products, testifying to the growing connectivity between the domestic and the world

economies. In other periods, inflationary pressures were contained below 7 per cent, facilitated not only by the liberalized domestic and foreign trade, which served to foster greater competition, but also due to the reduction and rationalization of the tax structure, which gave a fillip to cost efficiency.

4.6 Component-wise inflation rates over the period 2004-05 to 2008-09 are given in Table 4.2. The inflation rates in primary articles in 2008-09 at

Table 4.2 : Average inflation in WPI (%)

Commodities	Weight	2004-05	2005-06	2006-07	2007-08	2008-09
All commodities	100.00	6.5	4.4	5.4	4.7	8.4
Primary articles	22.02	3.7	2.9	7.9	7.6	10.1
Food articles	15.40	2.7	4.8	7.8	5.5	8.0
Non-food articles	6.14	0.7	-4.5	5.1	12.6	11.2
Minerals	0.48	110.3	26.5	28.1	13.2	34.9
Fuel, power, light, lubricants	14.23	10.1	9.5	5.6	0.9	7.5
Coal mining	1.75	15.3	3.7	0.0	2.7	6.6
Minerals oils	6.99	15.2	13.9	7.9	1.0	11.1
Electricity	5.48	1.7	4.1	3.2	0.5	1.1
Manufactured products	63.75	6.3	3.1	4.4	5.0	8.1
Food products	11.54	5.0	1.1	3.2	4.3	10.0
Beverages, tobacco & products	1.34	5.3	4.9	7.4	10.3	9.5
Textiles	9.80	3.0	-4.5	2.2	-1.0	6.0
Wood & wood products	0.17	0.1	8.4	6.0	4.7	8.5
Paper & paper products	2.04	0.8	2.2	6.8	1.8	4.4
Leather & leather products	1.02	6.0	7.1	-4.4	4.1	1.1
Rubber & plastic products	2.39	-0.4	3.4	6.6	7.1	4.7
Chemicals & chemical products	11.93	2.5	3.6	3.0	5.6	7.2
Non-metallic mineral products	2.52	6.3	7.8	12.8	8.9	3.7
Basic metals alloys & products	8.34	21.2	7.4	6.8	6.9	14.4
Machinery & machine tools	8.36	5.7	5.1	5.6	7.1	4.7
Transport equipment & parts	4.29	4.7	3.6	1.6	2.7	5.2

Source : D/o Indl Policy & Promotion

10 per cent and in manufactured products at 8.1 per cent were the highest over the five-year span. Within the commodity groups, inflation in food articles for 2008-09 was high, while inflation in minerals at 34.9 per cent was the highest in four years from 2005-06 to 2008-09 and a third of the inflation rate that prevailed in 2004-05 at 110 per cent. Likewise, inflation in coal mining at 6.6 per cent was the highest in the four-year period from 2005-06. Inflation in mineral oils was at 11 per cent. Within the commodity group of manufactured products, inflation in the food products subgroup at 10 per cent was the highest in the five-year period, 2004-05 to 2008-09, as also in textiles at 6 per cent, in wood and products at 8.5 per cent, in chemicals and chemical products at 7.2 per cent and in transport equipment and parts at 5.2 per cent. In contrast, inflation was the lowest over the five-year span in machinery and machine tools at 4.7 per cent and in non-metallic mineral products at 3.7 per cent. In basic metals, alloys and products, inflation stood at 14.4 per cent in 2008-09, lower only to the rate of 21.2 per cent that prevailed in 2004-05.

WPI inflation as on March 28, 2009

4.7 While overall inflation as at end-March 2009 registered merely 0.8 per cent, the group-wise inflation rates varied. Measuring the weighted contribution captures the extent to which the group/commodity-wise inflation influences overall inflation. The weighted contributions of the groups to overall inflation in March 2009 were very different from those in the previous year.

Inflation in primary articles

4.8 Primary articles are subgrouped into food articles, non-food articles and minerals, with the weights of 15.40 per cent, 6.14 per cent and 0.48 per cent respectively in the commodity basket. While the group inflation rate as on end-March 2009 (Table 4.3) registered at 5.2 per cent, it was 7.0 per cent in food articles, 0.1 per cent in non-food articles and 7.2 per cent in minerals. The corresponding figures in 2007-08 were 6.5 per cent for food articles, 11.4 per cent for non-food articles and about 50 per cent in minerals in end-March 2008. As for the

Table 4.3 : WPI inflation in commodity groups (as on Mar. 28, 2009)

Items	Weight (%)	Y-o-Y Inflation (%)			
		Inflation		Contribution	
		08-09	07-08	08-09	07-08
All Commodities	100.00	0.8	7.7	100.0	100.0
Primary articles	22.02	5.2	9.7	141.8	28.2
Food articles	15.40	7.0	6.5	129.2	13.2
Non-food articles	6.14	0.1	11.4	1.0	8.8
Minerals	0.48	7.2	49.9	11.6	6.2
Fuel and power	14.23	-6.1	6.8	-156.1	18.9
Coal mining	1.75	-1.0	9.8	-2.4	2.5
Minerals oils	6.99	-8.7	9.3	-133.1	15.1
(i) Administered	5.44	-1.0	2.0	-10.4	2.5
(ii) Non-administered	1.55	-26.6	30.9	-122.7	12.7
Electricity	5.48	-2.6	1.5	-21.1	1.4
Manufactured products	63.75	1.7	7.3	114.3	52.8
Food products	11.54	8.8	9.4	109.0	12.4
of which, edible oils	2.76	-7.6	20.0	-21.7	5.5
Beverages tobacco & products	1.34	9.3	8.0	18.2	1.7
Textiles	9.80	9.9	-4.3	65.7	-3.4
Wood & wood products	0.17	0.7	0.0	0.1	0.0
Paper & paper products	2.04	5.0	1.0	10.5	0.3
Leather & leather products	1.02	1.1	-0.2	1.0	0.0
Rubber & plastic products	2.39	2.3	5.6	4.7	1.3
Chemicals & chemical products	11.93	2.0	6.0	26.4	8.7
Non-metallic mineral products	2.52	1.9	6.4	5.4	2.0
Basic, metals alloys & metals products	8.34	-12.2	20.3	-156.2	25.2
of which, other non-ferrous metals	0.61	-10.8	-7.5	-9.4	-0.8
Machinery & machine tools	8.36	2.6	3.5	19.0	2.9
Transport equipment & parts	4.29	3.1	3.9	12.0	1.7

Source : D/o Indl Policy & Promotion

contribution to inflation, that of food articles stood at 129 per cent as of end-March, 2009.

Inflation in fuel and power

4.9 The subgroups of the fuel group are coal mining, mineral oils and electricity, with the weights of 1.75 per cent, 6.99 per cent and 5.48 per cent respectively in the commodity basket. Group inflation rate as on end-March 2009, stood at (-) 6.1 per cent in comparison with 6.8 per cent in the corresponding period of 2008. Each sub-component of the group recorded negative rates, with coal mining at (-) 1 per cent in 2008-09 compared to 9.8 per cent in 2007-08, mineral oils at (-) 8.7 per cent compared to 9.3 per cent in 2007-08 and electricity at (-) 2.6 per cent vis-à-vis 1.5 per cent in the previous year. Within mineral oils, inflation in the subgroup of administered mineral oils — including petrol, diesel, LPG and kerosene, with a combined weight of 5.44 per cent — was (-) 1 per cent in 2008-09 compared to 2 per cent in 2007-08, while in contrast, in the non-administered oils covering, among other things, aviation turbine fuel, naphtha, light diesel oil, furnace oil, bitumen, etc. and with a weight of 1.55 per cent in the basket, inflation measured (-) 27 per cent versus 31 per cent in end-March 2008. The percentage contributions of all three subgroups to inflation were negative, but the extent of negativity was pronounced in the case of mineral oils at (-) 133 per cent, of which the non-administered component accounted for (-) 123 per cent (Table 4.4).

Inflation in manufactured products

4.10 In this group, the year-on-year inflation as on end-March 2009 was 1.7 per cent vis-à-vis 7.3 per cent in the corresponding period of 2008. Out of the 12 subgroups in this group, the maximum weight in the range of 11.5-12 per cent each is of food products and of chemicals & products. Textiles, machinery and machine tools, basic metals, alloys and metal products are next in order of importance, with weights ranging from 8-10 per cent. Transport equipment & parts has a weight of 4 per cent. Non-metallic mineral products, rubber & plastic products, paper & paper products have weights between 2 per cent and 2.5 per cent. Beverages, tobacco & products, leather & products have 1 per cent weight each, with wood & products constituting just 0.2 per cent in the commodity basket.

4.11 Subgroup examination shows that in food products (in manufactured products) inflation in end-March 2009 at 8.8 per cent was lower than 9.4 per cent that prevailed in March end 2008 but its contribution to overall inflation was almost 110 per

cent, owing partly to the negative contribution of the fuel group and the rising trend manifest in food as against non-food inflation. Edible oils under food products had recorded inflation of (-) 7.6 per cent compared to 20 per cent in end-March 2008. Textiles which had recorded inflation of (-) 4 per cent in end-March 2008 depicted 10 per cent inflation in end-March 2009. Another subgroup which recorded anomalous trends in the two comparable periods was that of basic metals, alloys and metal products which recorded 20 per cent inflation in end-March 2008 and (-) 12 per cent in end-March 2009. The subgroups of rubber and plastic, chemicals and non-metallic mineral products and paper also showed differing rates of inflation.

Quarter-wise inflation in 2007-08 and 2008-09

4.12 Table 4.4 provides data on the quarterly inflation in the WPI by major heads for 2007-08 and 2008-09. The uptrend in overall inflation from the third quarter of 2007-08 peaked in the second quarter of 2008-09 and declined thereafter, reaching 3 per cent in the last quarter. Within the commodity groups, inflation in primary articles peaked in the third quarter of 2008-09. Except in the last quarter of 2008-09, inflation in this group remained within 10-12 per cent. In fuel and power, inflation rose from (-) 2 per cent in the second quarter of 2007-08 to 17 per cent in the same quarter of 2008-09, while in the group of manufactured products, the uptrend in inflation followed the same pattern as overall inflation, peaking in the second quarter of 2008-09 at 11 per cent. The commodity groups/ subgroups recording two-digit inflation in 2008-09 were primary articles, mineral oils under fuel and power, food products, and basic metals, alloys & metal products in manufactured products. Groups that registered negative inflation in the last quarter included fuel and power (all three subgroups) and basic metals, alloys and products.

Month-wise inflation in 2008-09: WPI versus CPI

4.13 Measuring inflation as at the end of a fiscal year does not provide an insight into the fluctuations during the year, which can be gained by studying the month-wise trends in the price indices. In India, the weekly updated WPI continues to measure inflation since 1942. Concurrently, four CPIs are computed at the national level, viz., the CPI-IW for Industrial Workers, the CPI-AL for Agricultural Labourers, the CPI-RL for Rural Labourers and the

Table 4.4 : Quarterly inflation in WPI by major heads (%)

Major groups	Wt. (%)	2007-08					2008-09				
		Quarter				Apr- Mar	Quarter				Apr- Mar
		I	II	III	IV		I	II	III	IV	
All commodities	100.00	5.4	4.1	3.4	5.8	4.7	9.6	12.5	8.6	3.2	8.4
Primary articles	22.02	9.8	8.9	4.7	7.3	7.6	9.7	11.3	11.8	7.5	10.1
Food articles	15.40	8.1	7.7	2.6	3.8	5.5	5.7	6.9	10.1	9.3	8.0
Non-food articles	6.14	14.3	13.1	11.3	12.1	12.7	14.0	17.0	11.7	2.6	11.2
Minerals	0.48	13.3	2.7	0.5	36.4	13.2	46.0	48.3	42.2	10.6	34.9
Fuel, power, light, lubricants	14.23	0.3	-2.0	0.5	5.2	1.0	10.3	17.0	6.7	-3.7	7.4
Coal mining	1.75	0.0	0.0	1.8	9.0	2.7	9.8	9.8	7.6	-0.3	6.6
Minerals oils	6.99	-0.8	-3.9	1.4	7.4	0.9	15.4	26.8	9.4	-6.2	11.1
Electricity	5.48	2.4	1.0	-1.6	0.3	0.5	1.4	1.4	1.4	0.0	1.0
Manufactured products	63.75	5.7	4.8	4.1	5.4	5.0	9.2	11.3	7.9	4.1	8.1
Food products	11.54	3.5	3.1	3.0	7.4	4.3	11.7	14.2	6.1	8.4	10.0
Beverages, tobacco & products	1.34	11.6	11.1	9.6	8.8	10.2	8.9	10.7	9.0	9.4	9.5
Textiles	9.80	1.1	0.6	-2.1	-3.7	-1.0	-0.7	7.4	8.2	9.3	6.0
Wood & products	0.17	6.0	7.1	4.9	0.8	4.7	5.3	9.8	9.8	9.3	8.5
Paper & products	2.04	2.6	2.0	1.5	1.1	1.8	2.8	4.0	5.9	5.0	4.4
Leather & products	1.02	5.7	7.2	4.2	-0.1	4.2	1.3	0.6	0.6	1.8	1.1
Rubber & plastic products	2.39	8.8	6.5	5.9	7.7	7.2	5.7	6.8	4.0	2.3	4.7
Chemicals & products	11.93	4.6	4.8	6.0	6.9	5.6	8.4	10.2	7.9	2.2	7.2
Non-metallic mineral products	2.52	8.5	9.6	9.4	8.0	8.9	5.5	4.1	3.4	2.1	3.8
Basic metals alloys & products	8.34	10.7	5.6	3.6	7.8	6.9	21.1	22.4	15.6	-0.4	14.4
Machinery & machine tools	8.36	8.6	8.7	6.7	4.3	7.0	5.7	5.7	5.0	2.6	4.7
Transport equipment & parts	4.29	2.0	1.5	2.7	4.7	2.7	6.2	6.6	5.5	2.8	5.2

Source : D/o Indl Policy & Promotion

CPI-UNME for Urban Non-Manual Employees, but there is no single broad based CPI. An initiative is under way to compile CPIs (Urban) and CPIs (Rural) for all States/UTs and all-India, covering all sections of the population. Regular price collection has begun for CPI (Urban), but the modalities for collection are still being worked out for CPI (Rural).

4.14 The critical differences between the WPI and the CPI indices are brought out in Table 4.5. The WPI has the advantages of a comprehensive and economy-wide coverage and the weights in the commodity basket are based on the value of quantities traded in the domestic market. The CPIs are consumer group-specific and measure the changes over time in the general level of prices of goods and services consumed by the group, with the commodity basket being based on consumer expenditure surveys and the weights proportionate to the expenditure. The CPI-IW used for wage indexation in the organized sector, the CPI-RL and the CPI-AL (which is considered a subset of CPI-RL), are compiled by the Labour Bureau, while the CPI-UNME earlier compiled by the Central Statistical

Organisation as an independent index has since been discontinued and is currently linked to the CPI-IW. As an appropriate measure of inflation, perhaps, a modified WPI is preferable because of its comprehensive coverage and the absence of a uniform CPI at present. The CPIs weighting diagram based on consumer expenditure surveys of the identified groups are not representative of the national scenario, whereas, despite limitations, the WPI diagram is more aligned with the economy. The Working Group for revision of WPI Numbers headed by Prof. Abhijit Sen, Member of the Planning Commission, submitted its technical report in May 2008. The updated WPI with 2004-05 as the proposed new base year is expected to be finalized in the near future.

4.15 The WPI inflation reached a peak of near 13 per cent in August 2008 which had come down to 1 per cent in March 2009. The corresponding peaks in the CPIs were in October 2008 in the CPI-IW at 10.5 per cent; in January 2009 in the CPI-AL at 11.6 per cent as also in the CPI-RL at 11.4 per cent; in the CPI-UNME at 10.8 per cent in November 2008.

Table 4.5 : Differences in WPI and CPI indices

Item description	WPI	CPI-IW	CPI-UNME	CPI-RL	CPI-AL
Weighting diagrams					
Food group	25.43	46.2	47.13	66.77	69.15
Fuel, power etc	14.23	6.43	5.48	7.90	8.35
Beverages, tobacco	1.34	2.27		3.70	3.79
Clothing, bedding, footwear	10.82	6.57	7.03	9.76	6.98
Others	48.18	23.26	23.95	11.87	11.73
Housing		15.27	16.41		
Total	100.00	100.00	100.00	100.00	100.00
Non-food	73.06	53.80	52.87	33.23	30.85
Differences of degree					
Base year	1993-94	2001	1984-85	1986-87	
No: of items covered	435	120-360	146-365	260	
No: of centres/quotations	1918*	78	59	600#	
Time lag	2 weeks	4 weeks	6 weeks	3 weeks	
Treatment of Services	Excluded	Included		Included, minus housing	
Differences of structure					
Basis	Wholesale transactions	Consumer expenditure surveys			
Price quotations	Bulk transactions	Purchase price actually paid by the consumer			
Nature of the index	Single, national	Weighted average of the centre indices			
Weighting diagram	Country-wide, unique	Horizontal summation of weights of centre-specific indices			
Capital & intermediate goods	Included	Excluded			
Frequency	Weekly	Monthly			

* : Indicates quotations # : Sample villages spread over 20 states.

The troughs have not yet become evident, in view of the two to three months lag between the WPI and the CPIs (Table 4.6).

4.16 WPI inflation declined gradually from 6.3 per cent in April 2007 to 3.1 per cent in October 2007

and began to climb upwards thereafter to end at 7.5 per cent at the close of the fiscal year 2007-08.

The year 2008-09 saw the uptrend continuing from 8.0 per cent in April 2008 to a peak of 12.8 per cent in August 2008, followed by a reduction to 11.0 per

Table 4.6 : Annual inflation as per different price indices (%)

Month	WPI		CPI-IW		CPI-UNME		CPI-AL		CPI-RL	
	07-08	08-09	07-08	08-09	07-08	08-09	07-08	08-09	07-08	08-09
Apr	6.3	8.0	6.7	7.8	7.7	7.0	9.4	8.9	9.1	8.6
May	5.5	8.9	6.6	7.8	6.8	6.8	8.2	9.1	7.9	8.8
June	4.5	11.8	5.7	7.7	6.1	7.3	7.8	8.8	7.5	8.8
July	4.7	12.4	6.5	8.3	6.9	7.4	8.6	9.4	8.0	9.4
Aug	4.1	12.8	7.3	9.0	6.4	8.5	8.8	10.3	8.5	10.3
Sep	3.5	12.3	6.4	9.8	5.7	9.5	7.9	11.0	7.6	11.0
Oct	3.1	11.1	5.5	10.5	5.5	10.4	7.0	11.1	6.7	11.1
Nov	3.3	8.5	5.5	10.5	5.1	10.8	6.2	11.1	5.9	11.1
Dec	3.8	6.2	5.5	9.7	5.1	9.9	5.9	11.1	5.6	11.1
Jan	4.5	4.9	5.5	10.4	4.8	10.4	5.6	11.6	5.9	11.4
Feb	5.3	3.5	5.5	9.6	5.2	9.9	6.4	10.8	6.1	10.8
Mar	7.5	1.2	7.9	8.0	6.0	9.3	7.9	9.5	7.6	9.7
Average	4.7	8.4	6.2	9.1	5.9	8.9	7.5	10.2	7.2	10.2

Source : D/o Indl. Policy and Promotion, Lab. Bureau and CSO.

cent in October 2008, 4.9 per cent in January 2009 and 1.2 per cent in March 2009. The high domestic inflation in the first half of the year 2008-09 mirrored the inflation that prevailed in the global economy, driven by progressively rising prices of crude, which touched a record US\$ 147 in July 2008, as well as of metal prices. From August 2008, inflation decelerated in the global economy, triggered by the financial crisis which surfaced in September 2008 in the United States and which spread rapidly across the globe. The corresponding fall in the domestic WPI inflation began from September 2008, with the downward impetus gathering momentum with the passage of time and reaching a level of 1 per cent in March 2009.

4.17 The decelerating trend in the CPIs was noticed only in February 2009. The year-on-year inflation remained generally high for all CPIs as food articles account for relatively larger weights in these indices. Inflation as measured by CPI-IW ranged from 7.7-10.5 per cent during 2008-09. In CPI-UNME, the range was from 6.8-10.8 per cent. In CPI-AL, the monthly inflation in 2008-09 ranged from 8.8-11.6 per cent, while in CPI-RL, it was between 8.6 to 11.4 per cent (Table 4.6).

The divergence in inflation measured by WPI and CPIs

4.18 As seen from Table 4.6, WPI and CPI inflation moved in close range till October 2008, but witnessed divergence in recent months as the WPI started declining from November 2008. Figure 4.1 shows the rise and decline in the inflation measured in terms of WPI and in terms of CPIs. While WPI inflation showed a continuous decline from August 2008 on account of the base and price effects equally, the inflation in the CPIs had remained sticky.

4.19 WPI inflation rose sharply in May-June 2008, whereas the rise in CPI inflation was gradual. Similarly, WPI inflation moved from 13 per cent to 1 per cent between August 2008 and March 2009, but the decline in CPI inflation had been slow. However, past analysis shows that the inflation trends tracked by the WPI and CPI indices have not always been in conjunction with each other.

4.20 While the high WPI inflation up to August 2008 could be explained by the high oil, metal and mineral prices, the reason for higher values of CPI inflation from December 2008 owed to the higher weight of food articles in the CPIs relative to WPI. The combined index of food articles and food products in the WPI, CPI-IW and CPI-RL is around 25 per cent, 46 per cent and 67 per cent respectively. In addition, the prominent decline in inflation in the fuel group in the WPI was not reflected in the CPIs, as the weights assigned to fuel are lower and only kerosene and coking coal are included in the CPI basket. Since these are items with administered price, they remained unaffected by the high crude prices that prevailed in mid-2008. Hence, the drop in WPI and in CPI inflation differed owing to the differences in the structure of the indices.

4.21 Looking at quarterly inflation rates in CPI-IW and CPI-AL, CPI-IW inflation in food group had been in double digit from the first quarter of 2008-09, averaging 12 per cent for the year (Table 4.7). In the non-food group, the annual average was about 6 per cent. In contrast, in the WPI, the annual average inflation rate in the food group as well as non-food was about 9 per cent (not shown in the table). In the CPI-AL, food inflation was 11 per cent on the average and non-food about 8 per cent. It was observed that pan, supari, tobacco and intoxicants as well as fuel and light recorded inflation in double digits in the CPI-AL.

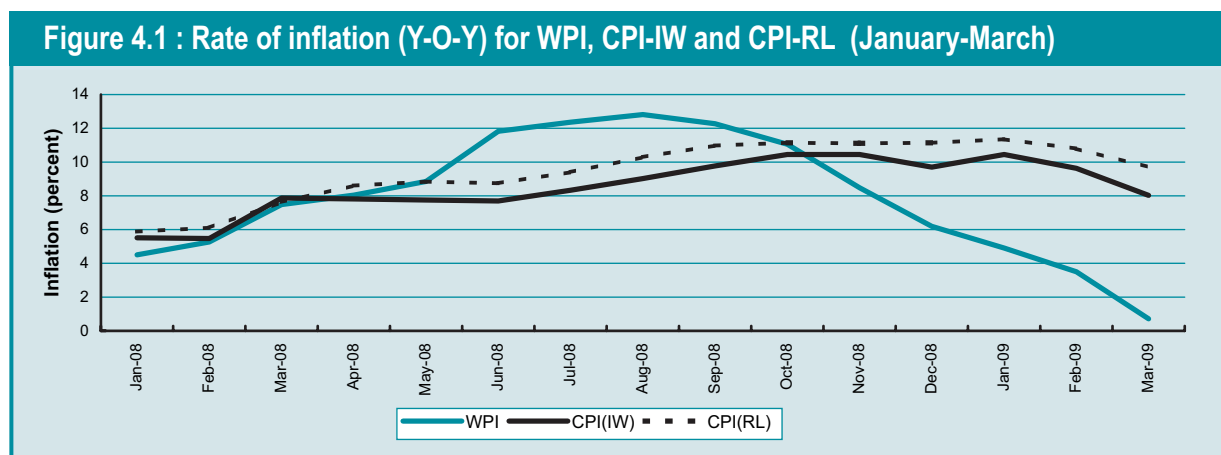


Table 4.7 : Quarterly inflation in CPI-IW and CPI-AL groups (%)

Major Groups	Wt (%)	2007-08					2008-09				
		Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Mar
CPI for Industrial Workers											
General Index	100.00	6.3	6.7	5.5	6.3	6.2	7.8	9.0	10.2	9.4	9.1
Food Group	46.20	9.4	9.6	7.0	7.8	8.4	10.7	11.7	14.5	12.5	12.4
Non-food (composite)	53.80	3.7	4.2	4.2	5.0	4.3	5.2	6.6	6.3	6.5	6.2
Pan, supari, tobacco & intoxicants	2.27	9.3	10.4	10.3	11.6	10.4	7.5	6.8	9.1	7.6	7.7
Fuel & light	6.43	2.6	1.6	1.8	3.1	2.3	5.3	9.4	9.5	8.4	8.2
Housing	15.27	4.1	4.0	4.0	4.7	4.2	4.7	3.8	3.8	6.0	4.6
Clothing, bedding & footwear	6.57	3.8	4.7	4.1	3.2	4.0	2.8	2.8	3.7	3.9	3.3
Miscellaneous Group	23.26	3.8	3.5	4.8	5.8	4.4	6.0	7.7	8.6	7.9	7.6
CPI for Agricultural Labourers											
General Index	100.00	8.5	8.4	6.4	6.6	7.5	8.9	10.2	11.1	10.6	10.2
Food Group	69.15	9.6	9.5	6.8	7.0	8.2	9.9	11.3	12.0	11.3	11.2
Non-food (composite)	30.85	6.2	6.1	5.3	5.8	5.8	6.9	7.8	9.1	9.1	8.2
Pan, supari, tobacco & intoxicants	3.79	8.0	11.0	11.0	10.5	10.1	11.0	11.8	13.6	15.0	12.9
Fuel & light	8.35	8.0	7.0	6.6	7.4	7.2	8.0	9.7	11.1	11.5	10.1
Clothing, bedding & footwear	6.98	3.0	2.0	1.4	1.8	2.1	2.6	4.9	6.9	7.2	5.4
Miscellaneous Group	11.73	6.6	5.6	5.3	5.9	5.8	6.4	7.0	7.1	6.6	6.8

Source : Labour Bureau, Shimla.

Inflation for common basket of goods

4.22 About 30 commodities are common between CPI-IW and WPI. Table 4.8 shows 17 commodities with higher inflation rate and 13 with

lower rates in the CPI-IW in comparison to WPI. Over the year 2008-09, washing soap, sugar, masur dal, rice, fresh fish, gur, arhar dal, milk, long cloth & sheeting, soft coke, dhotis and saris, urad and gram

Table 4.8 : Difference in CPI & WPI inflation in 2008-09 for common goods (basis points)

Item	Weight		Avg. inflation 08-09		%Diff (+)	Item	Weight		Avg. inflation 08-09		%Diff (-)
	CPI-IW	WPI	CPI IW	WPI			CPI-IW	WPI	CPI IW	WPI	
Washing soap	1.33	0.17	27.9	8.7	19.2	Salt	0.15	0.02	13.6	13.9	-0.3
Masur dal	0.41	0.04	38.8	23.7	15.1	Wheat	4.43	1.38	5.9	6.2	-0.3
Fish fresh	1.31	0.50	13.2	-1.4	14.6	Goat meat	2.12	0.44	12.8	13.5	-0.7
Sugar	2.24	3.62	24.1	12.3	11.8	Bajra	0.16	0.11	6.0	6.8	-0.8
Rice	12.45	2.45	21.2	11.1	10.1	Moong dal	0.53	0.11	5.7	7.3	-1.6
Gur	0.47	0.06	28.1	19.8	8.3	Coconut oil	0.09	0.17	18.4	20.0	-1.6
Arhar dal	1.69	0.13	16.7	10.2	6.5	Vanaspati	0.78	0.80	5.2	7.8	-2.6
Milk	5.52	4.37	13.5	7.5	6.0	Jowar	0.46	0.22	4.3	7.2	-2.9
Long cloth	0.20	0.06	5.0	0.0	5.0	Potato	1.23	0.26	-23.1	-16.0	-7.1
Soft coke	0.80	0.24	10.8	7.0	3.8	Kerosene oil	1.82	0.69	-11.0	0.0	-11.0
Dhoti & sari	2.40	0.04	3.2	-0.5	3.7	Chillies (dry)	0.63	0.19	10.7	21.7	-11.0
Onion	0.67	0.09	2.3	-0.6	2.9	Matchbox	0.23	0.12	12.3	24.2	-11.9
Mustard oil	1.44	0.49	21.8	19.6	2.2	Tea leaves	0.82	0.16	10.6	42.9	-32.3
Groundnut oil	2.27	0.17	0.2	-1.8	2.0						
Wheat (atta)	1.75	0.21	5.0	4.0	1.0						
Urad dal	0.35	0.10	0.8	0.5	0.3						
Gram dal	0.08	0.22	4.8	4.7	0.1	All 30 Items	48.83	17.63	12.2	8.1	4.1

Source : D/o Indl Policy & Promotion

dals, mustard and groundnut oils, onion and atta, had higher inflation rate in CPI-IW as compared to WPI.

4.23 The 13 commodities which had lower inflation rate in terms of CPI-IW in comparison to WPI were moong dal, coconut oil, wheat (whole), jowar, bajra, chillies dry, matchbox, tea leaves, kerosene, vanaspati, goat meat, salt and potato. In sum, of the 30 essential commodities, 57 per cent recorded higher inflation and 43 per cent recorded lower inflation in the CPI-IW as compared to WPI (Table 4.8).

Desegregated analysis

4.24 Desegregated analysis of the WPI inflation reveals that a deceleration in inflation rate in recent months was largely due to a decline in inflation for industrial intermediates, agricultural intermediates and basic goods. In particular, metals, fuels, chemicals, oilseeds and cotton which witnessed a global deceleration in prices and inflation rates,

contributed to the moderation in domestic inflation. The non-durable consumer items, particularly both industrial and primary food varieties, witnessed persistent inflation and a relatively lower level of moderation.

4.25 The global meltdown in commodity prices particularly in energy, metals and agricultural intermediates across the world, most of which are tradable, also led to a corresponding decline in domestic prices (Table 4.9). But there had still not been much of a decline in the wholesale prices of capital goods and consumer durables despite a decline in the prices of industrial intermediates and basic goods. Prices of these products remained relatively stable when those of other products witnessed an upsurge.

Food inflation

4.26 The food index is computed by clubbing the food articles of primary articles with the manufactured food products group. The primary food articles, with

Table 4.9 : WPI inflation (year-on-year % change) by major industrial product groups

	All Commo- dities	Consumer non-durables			Con- sumer Durables	Intermediates Goods			Capital Goods	Basic Goods
		Indus- trial	Primary Food	All		Indus- trial	Agri- culture	All		
Weight	100.00	25.3	15.4	40.7	5.8	17.2	6.1	23.4	6.0	24.0
Apr 08	8.0	5.2	5.6	5.3	3.2	7.1	11.0	8.3	5.2	13.0
May 08	8.9	6.2	5.7	6.0	3.3	9.0	13.9	10.5	6.3	13.2
Jun 08	11.8	10.0	5.9	8.5	3.7	16.4	17.1	16.6	6.8	15.4
Jul 08	12.4	9.2	6.0	8.0	3.7	20.3	17.0	19.3	6.4	16.2
Aug 08	12.8	9.7	6.9	8.7	4.3	21.1	16.9	19.8	6.6	16.4
Sep 08	12.3	9.8	7.7	9.0	3.8	19.5	17.0	18.7	6.3	14.9
Oct 08	11.1	7.8	9.9	8.6	3.6	15.3	13.7	14.9	6.0	14.0
Nov 08	8.5	6.3	10.3	7.8	3.4	5.2	12.1	7.3	6.3	11.4
Dec 08	6.2	5.2	10.0	7.0	2.8	0.4	9.3	3.1	4.5	7.8
Jan 09	4.9	5.9	11.0	7.8	2.3	-2.4	6.7	0.4	4.0	4.5
Feb 09	3.5	5.4	9.4	6.9	2.4	-1.2	2.2	-0.2	3.9	0.7
Mar 09	1.2	4.7	7.5	5.8	2.9	-3.1	-0.9	-2.4	3.9	-4.6

Source : D/o Indl Policy & Promotion

Figure 4.2 : Overall, food and non-food inflation (%)

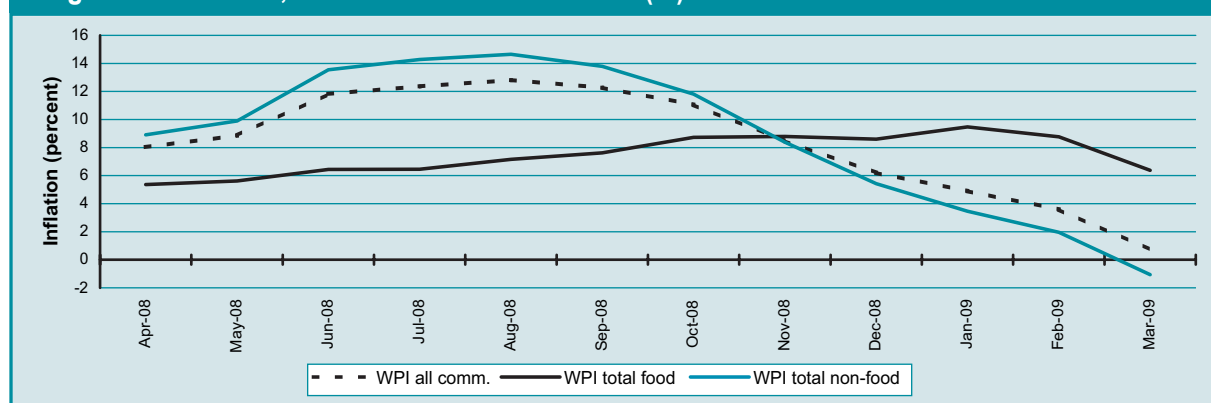


Table 4.10 : Components of food index in the WPI

Primary food articles	Weight (per cent)	Manufactured food products	Weight (per cent)
All subgroups	15.40	All subgroups (excluding oil cakes, cattle feed etc.)	10.03
Foodgrains	5.01	Sugar, khandsari & gur	3.93
Milk	4.37	Edible oils	2.76
Fruits & vegetables	2.92	Grain mill products	1.03
Eggs, meat & fish	2.21	Tea/coffee processing	0.97
Condiments & spices	0.66	Dairy products	0.69
Other food articles	0.24	Bakery products	0.44
		Other food products	0.15
		Cocoa & sugar confectionery	0.09
		Canning, processing of fish	0.04
		Common salt	0.02

Source : D/o Indl Policy & Promotion

Table 4.11 : Inflation in food group as on March 28, 2009

Items	Weight (per cent)	Y-o-Y Inflation (per cent)			
		Inflation		Contribution	
		08-09	07-08	08-09	07-08
Food index combined	25.43	6.8	6.4	194.0	19.9
Food articles	15.4	7.0	6.5	128.9	13.2
Foodgrains	5.01	10.6	6.0	62.5	3.9
Fruits & vegetables	2.92	1.1	8.2	4.1	3.3
Milk	4.37	7.0	8.7	35.6	4.7
Eggs, meat & fish	2.21	3.2	2.4	8.9	0.8
Condiments & spices	0.66	15.5	4.0	12.9	0.4
Other food articles	0.24	21.9	8.7	4.5	0.2
Food products (excl oilcakes and cattle feed)	10.03	6.5	6.0	65.1	6.7
Sugar, khandsari & gur	3.93	19.2	-3.4	62.9	-1.3
Edible oils	2.76	-7.6	20.0	-21.6	5.5

Source : D/o Indl Policy & Promotion

a weight of 15.4 per cent, has six subgroups, while manufactured food products, a subgroup of manufactured products, carry a weight of 10.03 per cent in the WPI basket with ten subgroups. If de-oiled cakes (wt = 1.42) and cattle feed (under other food products, wt = 0.01) are taken out of the food index, the weight of food group would be 25.43 per cent (Table 4.10).

4.27 The inflation in the food group for the year 2007-08 and 2008-09 is brought out in Table 4.11. It is observed that the yearly inflation for 2008-09 was higher in respect of foodgrains, condiments and spices, other food articles, sugar, khandsari and gur.

4.28 Studying the ups and downs over the year, it is noticed that while 2007-08 opened with high inflation in food articles in the first half, 2008-09 closed with high inflation in the later half, with foodgrains, fruits and vegetables, other food articles, sugar and salt being the groups which registered two-digit inflation from October, 2008 onwards

(Table 4.12). In pulses, fruits and sugar, the high annual inflation prevalent in 2008-09 was in sharp contrast to the negative inflation in 2007-08, though volatility is the norm in fruits & vegetables. Inflation in milk remained in the range of 7-8.5 per cent in 2008-09 as against 7-9 per cent in the previous year. In eggs, meat and fish, inflation ranged from 1.5-6.5 per cent in 2008-09, while in the previous year, it had ranged from 1.0-9.5 per cent. Condiments & spices recorded severe inflation over 10 per cent in 2008-09 in contrast to below 5 per cent in 2007-08. Similar is the case of other food articles. Among manufactured food products, inflation in sugar, khandsari and gur, which had been negative throughout 2007-08 ranged from (-) 1 to 20 per cent in 2008-09. In common salt, yearly inflation of (-)0.15 per cent in 2007-08 became 14 per cent in 2008-09. Edible oils which recorded 11-15 per cent inflation in 2007-08 continued at 15 per cent for the first two quarters of 2008-09 and decelerated to (-) 5 per cent in its last quarter.

Table 4.12 : Quarterly inflation in WPI - Food group & subgroups (%)

Group/subgroups	Wt%	2007-08					2008-09				
		I qtr	II qtr	III qtr	IV qtr	Yearly	I qtr	II qtr	III qtr	IV qtr	Yearly
(A) Food articles	15.40	8.1	7.7	2.6	3.8	5.5	5.7	6.9	10.1	9.3	8.0
Foodgrains	5.01	7.4	6.4	1.9	3.2	4.7	5.9	6.6	9.7	12.0	8.6
Cereals	4.41	7.9	7.5	4.5	5.1	6.2	7.3	6.8	9.5	11.8	8.9
Pulses	0.60	4.1	0.1	-12.1	-8.1	-4.3	-2.2	5.5	10.8	13.7	6.8
Fruits & Vegetables	2.92	9.1	10.1	-4.3	0.4	3.6	3.3	4.7	15.2	9.4	8.1
Vegetables	1.46	18.8	24.0	2.0	7.9	13.3	2.5	-5.4	15.1	5.2	3.7
Fruits	1.46	1.7	-2.6	-9.2	-4.4	-3.8	4.1	16.5	15.3	12.5	12.0
Milk	4.37	6.7	9.2	8.7	9.0	8.4	8.4	7.0	7.1	7.6	7.5
Eggs, meat & fish	2.21	9.6	5.3	5.0	1.2	5.2	1.7	5.7	6.5	4.9	4.7
Condiments & spices	0.66	13.0	7.3	0.2	0.4	4.9	9.7	14.9	12.5	10.2	11.8
Other food articles	0.24	0.2	1.2	-4.3	5.2	0.5	25.4	35.7	40.6	26.1	31.9
(B) Food products	11.54	3.5	3.1	3.0	7.4	4.3	11.7	14.2	6.1	8.4	10.0
Dairy products	0.69	4.6	6.7	6.8	9.7	7.0	9.9	7.7	6.5	27.0	12.9
Fish canning, & processing	0.05	3.8	3.8	3.8	3.0	3.6	0.0	0.0	3.5	42.8	11.6
Grain mill products	1.03	12.0	6.4	0.4	2.0	4.9	8.7	5.0	2.5	1.8	4.4
Bakery products	0.44	9.1	3.4	5.2	6.8	6.1	4.7	4.7	2.7	0.0	3.0
Sugar, khandsari & gur	3.93	-15.0	-16.1	-14.4	-8.6	-13.6	-1.4	5.6	10.2	19.8	8.5
Manufacture of common salts	0.02	-9.3	0.7	2.2	6.7	-0.1	6.4	13.9	24.2	11.1	13.9
Cocoa, chocolate & confectionery	0.09	3.6	2.9	2.8	1.8	2.8	0.0	0.0	0.0	0.0	0.0
Edible oils	2.76	14.6	13.1	10.8	14.9	13.3	14.7	14.9	6.0	-5.0	7.3
Oilcakes	1.42	24.1	27.0	33.0	36.7	30.4	42.6	49.1	5.2	12.4	26.1
Tea & coffee processing	0.97	11.9	14.1	4.9	2.9	8.2	3.4	0.4	-0.3	9.3	3.2
Other food products n.e.c	0.15	7.3	7.8	9.1	17.3	10.4	13.6	11.3	11.1	3.6	9.8
(C) Food combined	25.43	5.3	4.7	1.2	3.3	3.6	5.8	7.1	8.7	8.7	7.6

Source : D/o Indl Policy & Promotion