

## IX

### Inflation

Inflation rate in India is measured by the wholesale price index (WPI). Currently, WPI (Base year 1993-94 =100) is a combined index of 435 articles/items, comprising 98 'primary articles', 19 items of 'fuel, power, light and lubricants' variety and 318 'manufactured products'. This index is the most commonly quoted measure of inflation in India mainly because of its availability on a weekly basis and also the absence of a representative retail price index at such regular high frequency.

It can be seen from Table 9.1 that the inflation rate measured by wholesale price index remained moderate and has kept below the threshold limit of 5.5 per cent since 1995-96 except in 1999-00, 2002-03 and 2006-07. It is interesting to note that while in the earlier years the price spurt had been backed by the fuel group mainly due to increases in international crude prices, the current years (2006-07) inflation is the result high price rise of primary articles arising from a of mismatch between demand and supply of essential food items.

**Table 9.1: WPI Inflation- Major Groups (Point-to-Point and Average Basis)**  
(Base Year 1993-94 =100)  
(percent)

	All-commodities		Primary Articles		Fuel Group		Manufactured Products	
	Point-to-point Average Basis	Point-to-point Average Basis	Point-to-point Average Basis	Point-to-point Average Basis	Point-to-point Average Basis	Point-to-point Average Basis	Point-to-point Average Basis	Point-to-point Average Basis
1995-96	4.4	8.0	3.1	8.2	5.1	5.1	4.7	8.5
1996-97	5.4	4.6	9.2	8.4	13.3	10.4	2.4	2.1
1997-98	4.5	4.4	4.6	2.7	13.7	13.8	2.3	2.9
1998-99	5.3	5.9	7.6	12.1	3.2	3.3	4.9	4.4
1999-00	6.5	3.3	4.0	1.2	26.7	9.1	2.4	2.7
2000-01	4.9	7.2	-0.4	2.8	15.0	28.5	3.8	3.3
2001-02	1.6	3.6	3.9	3.6	3.9	8.9	0.0	1.8
2002-03	6.5	3.4	6.1	3.3	10.8	5.5	5.1	2.6
2003-04	4.6	5.5	1.6	4.3	2.5	6.4	6.7	5.7
2004-05	5.1	6.5	1.3	3.6	10.5	10.1	4.6	6.3
2005-06	4.1	4.4	5.4	2.9	8.9	9.5	1.7	3.1
2006-07	6.5*	5.5	11.7*	7.9	1.2*	5.6	6.7*	4.4
<b>1995-07</b>	<b>5.0</b>	<b>5.2</b>	<b>4.8</b>	<b>5.1</b>	<b>9.6</b>	<b>9.7</b>	<b>3.8</b>	<b>4.0</b>
<b>12 year average</b>								

Note: \* Point-to-point - March 30,2007 over March 25,2006, Average 2006-07 over 2005-06

Source: *Economic Advisor (ea.industry.nic.in)*

If price movements are considered to be a flow and inflation rate is worked out as an average of weekly indices then the inflation rate for 2006-07 at 5.5 per cent is within the threshold limit set by the RBI and the spurt in prices of primary articles at 7.9 per cent appears more sanguine.

While the average method of measuring inflation rates into account changes during each of the intervening weeks, the point-to-point method captures seasonal fluctuations between the two methods the averaging method is considered to be more suitable for policy prescriptions and time series analysis. The price movements of the fuel group can explain this point in a better way. The price index of the fuel group was around 330 during the majority of the weeks through the year, which came down to 320 by March 2007. Reflecting this the annual average price index rise was 5.6 per cent as against 1.2 per cent on a point-to-point basis for end-March 2007.

### **Year-on-Year Variation**

The inflation rate based on WPI on a point-to-point basis registered an increase of 5.7 per cent on a year-on-year basis for the year ending March 30, 2007 (over April 1, 2006) as compared to a lower rise of 4.0 per cent during the corresponding period last year (Table 9.2). The spurt in the price index of 'primary articles' at 10.7 per cent during the period under review is more than double the rate of 4.8 per cent recorded in the comparable period of last year. At this level it has contributed 40 per cent to the general price rise during the current year as against 26 per cent last year. The large weighted 'manufactured products' main group index has also recorded a substantially higher rise of 5.8 per cent during the year as against a lower increase of 1.9 per cent during the comparable period last year. Unlike last year, when the main group, 'fuel, power, light and lubricants' index recorded considerable rise of 8.3 per cent, in current year it has witnessed a mere 1.0 per cent increase mainly due to stable international oil prices.

A scanning of Table 9.2 reveals that during the current year all groups under each of the three main groups have recorded increases in their prices at varying level with food articles leading the way.

Some of the reasons, which can be cited to cause this spurt in inflation, are.

- i) Exceptional economic growth during the last four years, which has been mainly consumption-led. As a result, demand for credit grew rapidly further fuelling inflation.
- ii) Genuine supply-side shortages. During the last couple of years agriculture growth has been meagre. While reasons for this may be varied viz., climate change, lack of irrigation and other facilities, etc, the fact remains that agriculture has not kept pace with the rest of the economy. With other sectors doing exceptionally very well, incomes in these sectors recorded unprecedented rises resulting in more demand resulting in rapid price rise.
- iii) Reserve Bank of India's efforts to support the rupee and the ever bulging foreign asset reserves led to ample unintended liquidity into the economy.

More over, the general well being of the country has also been on the rise with more money available in the hands of the public who are spending and consuming more nutritious food like rice, wheat, pulses, milk, etc according to the recently concluded NSSO survey on household consumption expenditure for 2004-05. This has also contributed to the rise in prices in the face of low availability of these commodities.

It is believed that for a developing nation like India, an inflation rate in the range of 4 to 5 per cent – the monetary authority put this figure at 5 to 5.5 per cent last year, however, for the current year they brought it down to 5 per cent - is generally conducive to overall economic growth by means of augmenting aggregate demand for investment in the economy by providing incentives to producers. However, the overall inflation scenario, though manageable, as represented by the average WPI index reflects increasing price pressures on the Indian economy.

**Table 9.2: Movements in Wholesale Price Index**

(Base Year 1993-94 = 100)

(per cent)

Weight		March 31, 2007	Mar 31,07 over Apr 01,06	April 01 2006	Apr 01,06 over Apr 02, 05	April 02 2005
100.00	All Commodities	210.0	(5.74)	198.6	(3.98)	191.0
22.03	Primary Articles	215.9	(10.72)	195.0	(4.78)	186.1
15.40	Food Articles	214.8	(8.32)	198.3	(5.93)	187.2
5.01	Food Grains	211.3	(8.08)	195.5	(9.04)	179.3
4.41	Cereals	205.7	(7.47)	191.4	(5.92)	180.7
0.60	Pulses	252.1	(11.99)	225.1	(33.27)	168.9
2.92	Fruits and Vegetables	221.5	(3.80)	213.4	(0.57)	212.2
1.46	Vegetables	180.4	(1.41)	177.9	(7.56)	165.4
1.46	Fruits	262.6	(5.46)	249.0	(-3.90)	259.1
4.37	Milk	202.7	(8.40)	187.0	(1.85)	183.6
2.21	Eggs, Fish & Meat	239.8	(11.07)	215.9	(13.16)	190.8
0.66	Condiments & Spices	231.4	(18.85)	194.7	(11.13)	175.2
0.24	Other Food Articles	149.0	(15.59)	128.9	(11.51)	115.6
6.14	Non-food Articles	202.8	(16.55)	174.0	(-2.41)	178.3
1.52	Fibres	170.9	(16.18)	147.1	(3.08)	142.7
2.67	Oilseeds	200.4	(30.64)	153.4	(-9.23)	169.0
1.95	Other Non-food Articles	231.1	(3.59)	223.1	(3.72)	215.1
0.48	Minerals	418.4	(16.97)	357.7	(43.60)	249.1
14.23	Fuel, Power, Light & Lubricants	320.1	(1.04)	316.8	(8.31)	292.5
63.75	Manufactured Products	183.4	(5.77)	173.4	(1.94)	170.1
11.54	Food Products	186.6	(6.39)	175.4	(0.98)	173.7
1.34	Beverages, Tobacco & Prods.	250.4	(6.60)	234.9	(5.86)	221.9
9.80	Textiles	133.4	(1.06)	132.0	(0.38)	131.5
0.17	Wood and Wood Products	215.9	(3.85)	207.9	(15.50)	180.0
2.04	Paper and Paper Products	192.5	(3.55)	185.9	(4.73)	177.5
1.02	Leather and Leather Products	165.5	(6.09)	156.0	(-4.76)	163.8
2.39	Rubber and Plastic Products	151.4	(8.14)	140.0	(2.49)	136.6
11.93	Chemicals and Chemical Products	197.5	(2.86)	192.0	(3.34)	185.8
2.52	Non-metallic Mineral Products	201.6	(8.97)	185.0	(9.60)	168.8
8.34	Basic Metals, Alloys & Metal Products	241.7	(11.02)	217.7	(-0.64)	219.1
8.36	Machinery and Machine Tools	162.1	(7.99)	150.1	(3.23)	145.4
4.29	Transport Equipment and Parts	163.5	(2.06)	160.2	(0.95)	158.7

*Source: Same as Table 9.1*

However, the current inflation level, though moderate as compared to the early 1990s or 1980s is felt more intensely due to low levels of inflation tolerance in the recent years. This phenomenon is reflected in the persistent monetary measures undertaken by the RBI in order to combat inflationary pressures. The RBI has raised the repo rate six times in a row since January 2006 and it now stands at 7.75 per cent (March 30,2007) from 6.5 per cent (January 24, 2006). Reverse repo rate has been raised from 5.50 per cent to 6.00 per cent in three instalments during the same period. The Cash Reserve Ratio (CRR), the amount of demand and time liabilities that banks have to keep locked up with

the RBI, has been increased from 5 per cent to 5.5 per cent in December 2006 and then to 6 per cent in March 2007. The government's apprehension on the price front manifested itself when it banned forward trading in wheat, rice, tur, and urad. Exports of wheat and pulses have been banned while imports of pulses, maize and wheat have been made duty free. Customs duty on palm oils have been reduced by 10 percentage points in August 2006 and on crude palm oil, sunflower oil and refined sunflower oil by 10 percentage points each in January 2007.

Yet, the current inflationary scene appears to be more serious than what it meets the eye through the all-commodities index. As can be seen from Table 9.2: that prices of all essential consumer items which appear in the construction of WPI have registered substantial increases during the period under review. Secondly, though all essential commodities registered sizeable price rises their influence in the movement of the all-commodities index is minimal as these commodities are assigned very low weight in the construction of the wholesale price index.

### **Fiscal Year Variation**

Fiscal year 2006-07 (end-March 2007 to end-March 2006) (53 weeks) has witnessed an inflationary spiral. The inflation rate at 6.5 per cent measured by the movements in WPI is the highest price rise since 2002-03 when the prices rose by 6.5 per cent. Yet, unlike 2002-03 when the 'fuel, power, light and lubricants' prices went up by 10.8 per cent as against an increase of 1.2 per cent in 2006-07, it is the prices of 'primary articles' which have accelerated by 11.7 per cent in 2006-07 as against 6.1 per cent in 2002-03. 'Manufactured products' registered increases of 6.6 per cent in 2006-07 and 5.1 per cent in 2002-03.

During the current fiscal year (end-March 2007 to end-March 2006), the inflation rate measured by WPI at 6.5 per cent is more than that of 4.1 per cent recorded during fiscal 2005-06 (end-March 2006 to end-March 2005). The wholesale prices of primary articles have accelerated by 11.7 per cent as compared to a rise of 5.4 per cent last year.

**Table 9.3: Fiscal Year Movements in Wholesale Prices**

(Base 1993-94 =100)

End-Mar	All-Commodities		Primary Articles (22.03)			Fuel Group (14.23)			Mfg. Products (63.75)		
	Index	Change (per cent)	Index	Change (per cent)	WC (per cent)	Index	Change (per cent)	WC (per cent)	Index	Change (per cent)	WC (per cent)
2001	159.2		161.6			222.7			144.2		
2002	161.8	1.6	167.9	3.9	53	231.3	3.9	47	144.2	0.0	0
2003	172.3	6.5	178.2	6.1	22	256.3	10.8	34	151.5	5.1	44
2004	180.3	4.6	181.1	1.6	8	262.8	2.5	12	161.6	6.7	80
2005	189.5	5.1	183.4	1.3	6	290.4	10.5	43	169.1	4.6	52
2006	197.2	4.1	193.3	5.4	28	316.3	8.9	48	171.9	1.7	23
2007	210.0	6.5	215.9	11.7	39	320.1	1.2	4	183.4	6.7	57

Note: Growth percentage increase over the year and WC is weighted contribution

Source: Same as Table 9.1 and WC calculated by EPWRF

At this level, this main group has contributed 39 per cent to the rise in the general price level as against 28 per cent last year. Unlike last fiscal year when prices of fuel group increased by 8.9 per cent and contributed 48 per cent to the general price rise of 4.1 per cent, the current year has witnessed the fuel group contribution slide to a meagre 4 per cent. Meanwhile, the contribution of manufactured products has also been substantial during the current fiscal year at 57 per cent as against 23 per cent in the last fiscal (Table 9.3).

### ***Flare Up In The Price Index Of Primary Articles***

Each of the three groups, food articles, non-food articles and minerals have contributed to the increase in prices of primary articles, the index for which has accelerated to a double-digit price spiral for the first time during the current millennium in 2006-07 (Table 9.4).

<b>Table 9.4: Acceleration in the Price index of Primary Articles (Point-to-Point)</b> (per cent)				
	Primary Articles (22.03)	Food Articles (15.4)	Non-food Articles (6.14)	Minerals (0.48)
Weight				
2001-02	3.9	5.2	0.6	1.7
2002-03	6.1	0.9	22.1	-1.3
2003-04	1.6	0.2	4.1	25.3
2004-05	1.3	3.0	-6.9	68.0
2005-06	5.4	6.6	-1.9	43.6
2006-07	11.7	9.7	16.6	17.0

Source: Same as Table 9.1

It is interesting to note that inflation in food articles group at 9.7 per cent is lower than that in non-food articles (16.6 per cent) and minerals (17.0 per cent). Table 9.4 also reveals that though food article

prices registered an increase of 6.6 per cent last year, its influence on the primary articles price movements was some what muted by the declining trend exhibited by non-food articles which went down by 1.9 per cent last year. The high price rises experienced by the mineral group are not amply reflected in the primary articles index due to the trivial weights assigned to the mineral group.

### *Movements In Food Articles Prices*

All sub-groups in this group have recorded varying degrees of price increases. The cereals index is combined index of 7 commodities viz. rice, wheat, jowar, bajra, maize, barley and ragi, six of which have recorded substantial price rises mainly because of supply constraints (Table 9.5). Only wheat prices have remained firm despite low stocks and high international prices. Domestic wheat stock was 5.4 million tonnes against buffer stocks norm of 8.2 million tonnes. as on February 1,2007. Though there has been some moderation, wheat prices have gone up by 5.9 per cent during the current fiscal year as against the rise in international price of 14 percent and a much higher increase of 12.9 per cent last year. Wheat production in India was hovering around 68 million to 72 million tonnes since the last four years.

Price index of rice, whose production stands at around 88 to 90 million tonnes has also moved up by 5.7 per cent as against 2.7 per cent in 2005-06.

Production of pulses, which has been stagnating around 13 to 14 million tonnes against an ever-increasing consumption demand - currently estimated at 18 - 19 million tonnes - pushed up the price index of pulses by 13 per cent during fiscal year 2006-07 as against 33.2 per cent last year. A ban on futures trading in wheat, tur and urad and import of some important pulses on the face of an estimated production of 14.1 million has helped to somewhat sober the price rises of pulses. International availability of pulses, though limited, imports of pulses during the year up to January 2007 stood at 1.7 million tonnes.

**Table 9.5: Movements in food articles prices (Point-to-point basis)**

(Base Year 1993-94 =100)

Weight		Index Mar30, 07	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
			(per cent)					
15.40	Food Articles	214.8	9.7	6.6	3.0	0.2	0.8	5.2
5.01	Food Grains	211.3	7.9	9.3	2.2	-0.5	3.5	0.3
4.41	Cereals	205.7	7.0	6.2	2.9	-0.3	4.0	0.8
2.45	Rice	184.0	5.7	2.7	2.9	-2.0	4.1	-2.3
1.38	Wheat	223.0	5.9	12.9	-1.1	6.1	0.1	3.1
0.22	Jowar	277.9	10.6	4.3	9.8	1.6	6.7	15.9
0.11	Bajra	238.0	9.1	3.4	28.7	-19.2	20.6	6.3
0.19	Maize	250.5	21.4	4.6	10.7	-12.6	12.4	2.4
0.03	Barley	221.4	6.8	4.4	10.4	-11.5	26.0	0.4
0.03	Ragi	229.4	21.7	2.3	-1.7	-3.3	24.2	-1.9
0.60	Pulses	252.1	12.9	33.2	-2.6	-2.6	0.3	-3.3
0.22	Gram	201.0	18.9	24.9	-1.1	-4.1	-7.3	2.5
0.13	Arhar(Tur)	190.0	30.7	-9.7	-7.1	4.7	24.1	-5.3
0.11	Moong	307.8	13.6	46.3	0.9	-11.9	0.9	3.7
0.04	Masur	265.1	10.4	6.7	-3.5	10.7	3.6	3.5
0.10	Urad	387.9	9.6	69.1	-2.9	-2.8	-8.4	-16.3
2.92	Fruits & Vegetables	221.5	12.3	2.1	11.6	-4.9	-1.2	14.4
1.46	Vegetables	180.4	24.1	8.1	11.9	2.8	-15.7	23.4
0.26	Potatoes	192.9	-6.3	42.4	40.4	3.6	-44.9	69.7
0.09	Onions	219.4	102.6	-7.1	-27.7	59.2	-3.9	-1.2
0.06	Tapioca	227.5	18.1	23.1	-12.8	-4.5	42.3	-3.1
0.48	Tomatoes	123.6	35.4	-2.1	29.2	-12.7	-25.2	39.2
0.08	Cauli Flower	139.0	37.9	-6.8	-25.1	15.3	15.7	-19.2
0.09	Okra	273.6	46.5	-6.9	22.1	-15.9	-3.8	15.7
0.06	Cabbage	205.9	162.0	-14.4	7.7	-8.0	-1.5	30.7
1.46	Fruits	262.6	5.4	-1.0	11.5	-8.6	7.6	9.5
0.28	Banana	217.0	8.5	0.1	8.2	9.5	12.6	14.1
0.13	Apples	623.3	43.0	-20.3	8.9	-25.1	5.7	13.1
0.05	Oranges	479.5	-34.2	21.1	54.2	-28.2	7.8	-4.9
0.01	Papaya	347.6	30.8	-11.1	18.5	25.2	-14.2	8.7
4.37	Milk	202.7	8.4	1.9	-1.7	8.4	0.6	4.7
2.21	Eggs, Fish & Meat	239.8	9.7	14.3	7.3	-6.5	-4.0	9.3
0.66	Condiments & Spices	231.4	18.5	12.0	-12.8	0.2	7.4	-0.2
0.23	Black Pepper	333.0	36.6	29.7	-13.4	-4.1	9.4	-40.5
0.19	Chillies	333.3	21.2	35.8	-24.7	-1.2	8.5	-0.2
0.02	Cardamoms	145.0	44.9	-4.8	-22.3	-19.3	-17.0	5.4
0.06	Garlic	251.5	18.4	34.5	-18.2	-14.7	6.6	123.4
0.10	Cumin	165.9	49.3	-4.3	-0.3	-13.1	-6.9	-11.1
0.02	Coriander	245.5	14.6	14.7	-10.7	-2.1	-3.7	4.6
0.24	Other Food Articles	149.0	12.9	11.0	22.1	-5.9	17.9	-25.7
0.16	Tea	124.4	11.8	-2.2	12.2	-2.5	14.2	-21.6
0.08	Coffee	196.2	14.1	33.7	43.2	-12.5	25.9	-33.1

*Source: Same as Table 9.1*

Vegetable index has been pushed up by increases in prices of its constituent commodities viz., onions (102.6 per cent), tomatoes (35.4 per cent), cauliflower (37.9 per cent), okra (48.8 per cent) and cabbage (162.0 per cent). However, the price index for



potatoes has declined by 6.3 per cent during the current fiscal year as against a substantial gain of 42.4 per cent last year. Thus, the wholesale price index of vegetable has gone up by 24.1 per cent against a lower increase of 8.1 per cent a year ago. Onion prices went up by 102.6 per cent mainly due to higher export of onion in the face of stagnant production of 6.2 million tonnes in 2006-07.

Though prices of apples, papaya, banana and sapota went up, the fall in the prices of oranges, cashew nut, grapes, pineapple, coconut and guava have had a sobering effect on the prices of the fruits group as a whole whose index has risen by 5.4 per cent in contrast to a fall of 1.0 per cent last year.

Except turmeric, all the commodities under condiments and spices recorded increases in their prices ranging from 2 per cent for dry ginger and 49.3 per cent for cumin seed. Prices of turmeric have come down by 7.5 per cent during the year compared to 6.8 per cent decline last year. As a result, price index for condiments and spices registered a double-digit rise of 18.5 per cent as compared to 12.1 per cent last year.

Other food articles, like milk, eggs, fish and meat, tea and coffee, have also contributed to the rising inflationary pressures.

#### *Double-Digit Inflationary Spiral In Non-Food Articles*

Non-food articles consist of commodities that are usually used as industrial raw materials. During the current year, prices of non-food articles flared up by 16.6 per cent in contrast to a 1.9 per cent decline last year. All three sub-groups recorded price rises (Table 9.6).

Sub-group fibres with a weight of 1.52 per cent rose by 16.7 per cent in contrast to a fall of 1.4 per cent in their prices last year. Raw cotton prices increased sharply in March 2007, and prices were 22.4 per cent higher, as on March 31, 2007 over March 25, 2006.

**Table 9.6: Movements in Non-food articles Prices (Point-to-point)**

(Base Year 1993-94 =100)

Weight		Index Mar30,07	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
			<i>(per cent)</i>					
6.14	Non-food Articles	202.8	16.6	-1.9	-6.9	4.1	22.1	0.6
1.52	Fibres	170.9	16.7	-0.7	-19.2	12.3	26.5	-17.9
1.36	Raw Cotton	170.1	22.4	-1.4	-23.8	12.3	34.3	-21.3
2.67	Oilseeds	200.4	30.1	-7.8	-6.5	-1.2	30.0	6.8
1.03	Groundnut	221.2	40.0	-5.2	-7.3	-9.5	37.0	3.4
0.58	Rape & Mustard	185.3	16.7	3.0	-10.7	6.1	31.6	5.9
0.03	Copra	124.8	-12.3	-20.2	3.2	19.9	42.0	16.6
0.13	Gingelly Seed	201.8	19.5	-2.1	-4.9	8.7	10.5	12.3
0.03	Niger Seed	357.7	109.4	-10.3	-17.5	-13.0	80.4	-8.2
0.45	Cotton Seed	171.8	8.9	4.0	-13.8	6.3	13.3	-11.0
0.03	Linseed	188.6	7.6	1.7	-9.0	5.1	33.5	6.0
0.09	Castor Seed	166.4	24.2	-3.9	-10.0	-10.2	42.0	-8.5
0.06	Safflower (Kardi Seed)	145.4	1.5	0.7	-20.4	-3.7	43.6	13.0
0.20	Sunflower	250.0	52.9	-18.9	0.2	3.4	14.3	32.3
0.45	Soyabean	162.1	22.2	-24.1	0.3	8.1	20.5	7.9
1.95	Other Non-food Articles	231.1	3.7	3.6	0.9	5.3	11.4	7.6
1.31	Sugarcane	232.7	1.1	0.7	-0.7	6.5	11.5	6.2
0.15	Raw Rubber	314.6	10.5	49.8	-0.9	17.2	30.4	23.3
0.13	Raw Tobacco	228.3	5.3	7.9	10.3	8.1	-0.3	14.2

*Source: Same as Table 9.1*

In contrast to a fall of 5.2 per cent in its price index last fiscal year, oilseeds prices flared up by 30.1 per cent during the current fiscal year. Out of nine constituent commodities, except copra, the prices of all other oilseeds went up (Table 9.6). Lower domestic production and firm global prices have been responsible for this spurt in prices of oilseeds.

Other non-food articles sub-group prices have risen by 3.7 per cent same as last year.

### ***Smoothering Effect Of Fuel Group Inflation***

The fuel group has recorded an increase of only 1.2 per cent during the current fiscal year as against 8.9 per cent last year. Mineral oils inflation moderated to 0.8 per cent during the year as against 13.2 per cent last year (Table 9.7). Domestic prices of petrol and diesel were reduced by Rs. 2 per litre and Re.1 per litre, respectively, on November 2006 and by a similar magnitude again effective February 15, 2007, following

the reduction in the international crude oil prices In June 2006, the government has (i) raised domestic petrol and diesel prices by Rs. 4 and Rs.2 per litre, respectively, following the up trend in international prices, (ii) reduced customs duty on petrol and diesel to 7.5 per cent from 10.0 per cent and (iii) announced issuance of oil bonds worth Rs. 28,000 crore (over and above Rs. 11,5000 crore issued during 2005-06) to oil marketing companies to compensate for their under-recoveries in domestic production. The government has issued oil bonds worth Rs. 24,121 crore during 2006-07 in five tranches.

**Table 9.7: Movements in Index of Fuel group (point-to-point)**

(Base Year 1993-94 =100)

Weight		Index Mar 30, 07	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
			(per cent)					
14.23	Fuel, Power, Light & Lubricants	320.1	1.2	8.9	10.5	2.5	10.8	3.9
1.75	Coal Mining	231.6	0.0	0.0	17.1	9.2	0.0	-1.9
6.99	Mineral Oils	379.7	0.8	13.2	16.0	0.0	18.4	1.2
0.89	Petrol	241.5	0.0	14.6	12.0	0.6	26.4	-7.4
2.02	High Speed Diesel	450.3	0.0	15.6	21.2	-1.8	33.4	-2.2
0.16	Light Speed Diesel	480.8	2.8	17.0	25.4	17.3	18.4	-8.5
5.48	Electricity	272.4	2.3	4.5	0.8	4.9	3.4	9.2
0.96	Domestic use	266.2	4.0	0.6	-1.3	6.5	6.1	4.6

Source: Same as Table 9.1

### ***Sput in WPI inflation of Manufactured Products***

**Table 9.8: Movements in WPI of Manufactured Products group (point-to-point)**

(Base Year 1993-94 = 100)

Weight		Index Mar30, 07	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
			(per cent)					
63.75	Manufactured Products	183.4	6.7	1.7	4.6	6.7	5.1	0.0
11.54	Food Products	186.6	6.2	0.9	0.4	9.7	8.7	0.3
1.34	Beverages, Tobacco & Prods.	250.4	6.6	6.0	6.5	2.0	0.5	5.6
9.80	Textiles	133.4	2.1	-0.5	-5.7	8.8	10.6	-5.0
0.17	Wood and Wood Products	215.9	3.8	15.5	0.2	0.3	0.6	4.5
2.04	Paper and Paper Products	192.5	3.6	5.0	2.4	-1.1	0.8	-2.1
1.02	Leather and Leather Products	165.5	6.1	-4.8	9.6	15.1	-1.1	-8.2
2.39	Rubber and Plastic Products	151.4	8.1	4.5	-1.3	2.0	6.0	0.8
11.93	Chemicals and Chemical Products	197.5	2.8	3.6	3.9	0.1	4.2	2.5
2.52	Non-metallic Mineral Products	201.6	10.3	8.6	11.4	3.0	3.3	-2.8
8.34	Basic Metals, Alloys & Metal Prods.	241.7	16.4	-2.9	17.1	22.1	6.6	-0.9
1.47	Non-Ferrous Metals	277.8	30.1	17.0	7.8	4.2	0.8	0.6
0.67	Metal Products	153.8	5.1	5.0	10.0	2.2	3.2	-4.3
8.36	Machinery and Machine Tools	162.1	8.4	3.9	7.1	3.1	0.5	2.0
4.29	Transport Equipment and Parts	163.5	1.9	1.2	6.2	1.4	-0.9	1.3

The current fiscal year has witnessed a spurt of 6.7 per cent in the prices of manufactured products main group as against an increase of 1.7 per cent last year. Though, all constituent groups have recorded price increases during the year at varying degrees, grain mill products and edible oils in food products, metals and cement have recorded double-digit inflation (Table 9.8).

### *Rise in Price Index of Food Products*

Food products prices have risen by 6.2 per cent during the current fiscal year as against a lower increase of 0.9 per cent last year. It can be seen from Table 9.9 that all important commodity prices except sugar, have recorded substantial increases during the current fiscal year.

<b>Table 9.9: Movements in Wholesale Price Indices of Food Products (point-to-point)</b> (Base Year 1993-94=100)								
Weight		Index Mar30, 07	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
<i>(per cent)</i>								
11.54	Food Products	186.6	6.2	0.9	0.4	9.7	8.7	0.3
0.69	Dairy Products	219.8	4.6	3.7	-3.0	11.6	1.8	0.1
1.03	Grain Mill Products	237.3	18.0	12.4	-1.3	7.8	10.4	-0.1
0.57	Maida	234.1	16.6	14.4	-1.8	6.8	11.0	0.3
0.11	Rawa	246.5	19.5	18.8	-2.6	1.1	13.9	1.3
0.21	Atta	258.3	22.2	9.3	-0.1	10.8	6.2	3.8
0.15	Bran	213.1	15.8	5.1	-0.2	13.3	11.8	-8.3
0.44	Bakery Products	186.4	7.0	-1.5	3.0	1.2	-6.3	6.7
0.12	Bread & Bun	264.5	18.7	1.2	7.9	5.8	3.8	-1.4
3.93	Sugar, Khandasari & Gur	163.9	-11.3	6.2	17.5	14.5	-10.5	-3.2
3.62	Sugar	148.9	-12.5	6.6	19.7	16.9	-15.0	-3.8
0.17	Khandasari	183.4	-11.8	15.6	30.2	14.0	-11.6	-0.1
0.06	Gur	171.1	-4.6	4.1	31.2	15.5	-9.5	4.5
0.02	Salt	220.0	-8.4	-0.9	41.6	-0.9	0.2	-10.3
2.76	Edible Oil	164.4	14.2	-2.4	-8.4	6.6	27.4	12.5
0.80	Vanaspati	143.3	8.2	0.4	-4.0	5.8	18.8	19.6
0.17	Groundnut Oil	215.5	33.4	-1.3	-5.2	-11.4	39.6	15.8
0.06	Gingelly Oil	206.8	19.6	-6.8	-12.6	2.2	39.2	21.8
0.49	Rape & Mustard Oil	178.6	15.5	-4.2	-16.6	13.2	44.7	-3.7
0.17	Coconut Oil	139.0	4.4	-23.9	1.7	29.4	42.6	-3.9
0.13	Sunflower Oil	180.6	14.7	1.9	-4.6	0.9	7.3	25.6
0.18	Soyabean Oil	141.5	10.2	-7.1	-0.4	2.8	52.7	1.8
0.97	Tea and Coffee Processed	190.7	13.6	-8.3	2.9	19.7	3.9	-25.3

Source: Same as Table 9.1

Domestic sugar prices have declined by 12.5 per cent during the current fiscal as against a rise of 6.6 per cent last year in consonance with the international sugar prices. All grain mill products recorded double-digit inflation rates. Even price index of bread and bun have risen by 18.7 per cent during the year as against 1.2 per cent last year. Edible oil prices have accelerated by 14.2 per cent against a decline of 2.4 per cent last year. Lower production of oil seeds, coupled with strong demand for non-food uses such as fuels and as feedstock for bio-diesel production, have pushed up oilseeds prices which in turn have been manifested in the increase in prices of edible oil. Domestic consumption of edible oils is estimated at over 10 million tonnes per year and increasing. Further while domestic production has been is staggering at around 6 million tonnes. Import of edible oils to augment availability does not have much impact during the current fiscal year due to firm international prices of soya bean and palm oil.

#### *Acceleration in Cement and Metal Prices*

Domestic prices of cement have increased by 13.4 per cent during fiscal year 2006-07 on top of an increase of 13.0 per cent a year ago, in consonance with strong domestic demand emanating from construction activities which remained robust during 2006-07.

<b>Table 9.10: Movements in Cement and Metal Prices (point-to-point)</b>								
(Base 1993-94 =100)								
Weight		Index Mar 30, 07	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
			<i>(per cent)</i>					
2.52	Non-metallic Mineral Products	201.6	10.3	8.6	11.4	3.0	3.3	-2.8
1.73	Cement	210.4	13.4	13.0	10.2	1.3	1.1	-4.7
8.34	Basic Metals, Alloys & Metal Products	241.7	16.4	-2.9	17.1	22.1	6.6	-0.9
6.21	Basic Metals and Alloys	242.6	13.9	-7.1	19.6	28.5	8.4	-1.0
3.64	Iron and Steel	261.6	15.4	-7.5	21.3	34.6	9.2	0.0
1.47	Non-Ferrous Metals	277.8	30.1	17.0	7.8	4.2	0.8	0.6
0.82	Aluminium	269.5	21.6	6.7	9.8	2.4	2.2	0.1

*Source: Same as Table 9.1*

Iron and steel prices have also risen by 15.4 per cent in contrast to a decline of 7.5 per cent a year ago mainly due to robust demand from emerging economies, especially China, amidst speculative investor interest.

Non-ferrous metals prices have accelerated by 30.1 per cent during 2006-07 on top of an increase of 17.0 per cent in 2005-06. Aluminium prices have spiralled up by 21.6 per cent during current fiscal year as against a lower rise of 6.7 per cent last year due to supply constraints.

## Inflation in Consumer Prices

Inflation rate has galloped where it hurts most – at the retail level – during 2006-07. However, in absence of any official retail price index one cannot measure the impact of inflation spiral in retail prices. Hence, one has to measure this inflationary impact in an indirect way i.e. by the movements of consumer price indices.

**Table 9.11: Salient Features of Price Indices**

Index	CPI-UNME	CPI-IW	CPI-AL	CPI-RL	WPI
	Based on Consumer Expenditure Survey				Based on Wholesale Transactions
1. Weights allocated on the basis of	First: 1958-59 Latest: 1982-83	First: 1958-59 Latest: 2001	First: 1956-57 Latest: 1983	First: 1983 Latest: 1983	
2. Base year of current series	1984-85	2001	1986-87	1986-87	
3. Number of items/commodities in the basket	146-365	120-160	260	260	435
4. Number of centres/villages	59	76	600	600	1918 Quotations
5. Time lag of dissemination	2 weeks	1 month	3 weeks	3 weeks	2 weeks
6. Frequency	Monthly	Monthly	Monthly	Monthly	Weekly

In India, 4 consumer price indices viz., consumer price index for industrial workers (CPI-IW), consumer price index for urban non-manual employees (CPI-UNME), consumer price index for agricultural labourers (CPI-AL) and consumer price index for rural labourers (CPI-RL) are compiled officially with reference to four different population groups. These four indices account for the entire population. These indices are compiled in terms of general standards and guidelines set by International Labour Organisation (ILO). While CPI-UNME is compiled and released by central statistical organisation (CSO), the other three indices are compiled by labour bureau, ministry of labour.

Salient features of these price indices along with wholesale price index are given in Table 9.11. The weight of different commodities/services included in the consumer price index is decided by the expenditure pattern of different reference people as revealed by surveys as against the weight allocation of wholesale price index where weights are allocated based on magnitude of wholesale transactions.

### ***Trend in Different Price Indices during the Current Millennium***

It can be seen from Table 9.12 that consumer prices have risen faster than wholesale prices. The current year has witnessed accelerations in consumer price indices mainly due to more than double-digit inflation registered during the current year in wholesale price index of food articles and food products. The effect of substantial increases in these two groups for the overall price rise of wholesale price index is minimal due to low weight ascribed to them. But these increases in food articles and food products prices have a greater impact on the movements of consumer price indices because these items have got about 50 per cent weight in the consumer price index compilations.

**Table 9.12: A Comparison of Movements in Different Consumer Price Indices with those of Increases in Wholesale Prices Indices (per cent)**

	CPI-IW		CPI-AL		CPI-RL		CPI-UNME		WPI	
	Point-to-point	Average	Point-to-point	Average	Point-to-point	Average	Point-to-point	Average	Point-to-point	Average
2001-02	5.2	4.3	3.0	1.3	3.0	1.3	4.8	5.1	1.6	3.6
2002-03	4.1	4.1	4.9	3.2	4.8	3.2	3.8	3.8	6.5	3.4
2003-04	3.5	3.7	2.5	3.8	2.5	3.7	3.4	3.7	4.6	5.5
2004-05	4.2	4.0	2.4	2.7	2.4	2.7	4.0	3.8	5.1	6.5
2005-06	5.3	4.6	5.3	3.8	5.3	3.8	5.0	4.6	4.1	4.4
2006-07	6.7	6.7	9.5	7.6	9.2	7.6	7.6	6.6	6.5	5.5

Source: Same as Table 9.1

It can also be seen from Table 9.12 that CPI-AL and RL have been most affected in the current year especially through higher prices of food items because industrial workers and urban non-manual employees were more or less compensated by the increase in their dearness allowance. But agricultural and rural labourers, who eke out a living by doing casual work in the field etc. are not in any way compensated for the increase in prices.

## Current Trends in Consumer Price Index

### *Industrial Workers*

<b>Table 9.13: CPI-IW - Major Groups Year-on-Year Variation</b> (Base: 2000 = 100) (per cent)						
	Weight	March 2003	March 2004	March 2005	March 2006	March 2007*
Industrial Workers	100.0	4.1	3.5	4.2	5.3	6.7
Food	46.2	3.7	3.1	1.6	4.9	11.3
Pan, Supari, etc	2.3	1.9	4.2	2.1	3.1	3.5
Fuel and Light	6.4	6.3	6.5	4.9	2.9	4.8
Housing	15.3	5.4	3.9	20.4	6.6	4.1
Clothing, etc.	6.6	1.5	2.1	2.3	3.0	2.7
Miscellaneous	23.3	5.3	3.2	3.9	4.6	3.3
* Data for the groups pertains to January 2007						

Table 9.13 reveals that on a point-to-point basis inflation, during the fiscal year 2006-07, is the highest since the last five years. A substantial increase of 11.3 per cent in food items has been witnessed during the year as compared to a much lower

increase of 4.9 per cent last year. All other constituent groups except fuel and light group have recorded lower rate of increase in the price index during the current year than that of last year.

### *Urban-Non-Manual Employees*

During 2006-07 substantial increase 10.9 per cent in food and beverage items as against a lower rise of 5.3 per cent last year pushed up the general price level to 7.6 per cent in 2006-07 as

<b>Table 9.14: CPI-IW - Major Groups Year-on-Year Variation</b> (Base : 1984-85 =100) (per cent)						
	Weight	March 2003	March 2004	March 2005	March 2006	March 2007*
Urban Non-Manual Employees	100.0	3.8	3.4	4.0	5.0	7.6
Food, Beverages, etc.	47.1	2.6	3.0	2.2	5.3	10.9
Fuel and Light	5.5	3.1	3.2	9.6	1.9	6.4
Housing	16.4	6.3	5.2	7.5	5.5	5.6
Clothing, etc.	7.0	2.6	2.6	2.0	2.9	3.6
Miscellaneous	24.0	6.0	2.8	4.4	5.1	4.4
* Data for the groups pertains to January 2007						

compared to 5.0 per cent in 2005-06. Price indices for food items like cereals(8.2 per cent), pulses (18.0 per cent), oils and fats (17.2 per cent) meat and fish (14.0 per cent) condiments and spices ( 19.4 per cent), fruits (20.3 per cent) and vegetables (24.1 per cent); have recorded substantial increases during the year. However, prices of sugar and honey have declined by 17.8 per cent during the year The price increases in medical care, education, transport, recreation, personal care etc. at 4.4 per cent is less than that



registered last year. All other constituent groups have recorded increases more than that witnessed last year.

### ***Agricultural and Rural Labourers***

**Table 9.15: CPI-AL - Major Groups Year-on-Year Variation**

(Base: 2000 = 100)

(per cent)

	Weight	March 2003	March 2004	March 2005	March 2006	March 2007*
Agriculture Labourers	100.0	4.9	2.5	2.4	5.3	9.2
Food, Beverages, etc.	69.2	6.0	1.6	2.2	5.5	11.2
Pan, Supari, etc	3.8	3.5	4.7	-1.3	6.6	4.3
Fuel and Light	8.4	4.8	3.0	3.0	4.3	6.3
Clothing, etc.	7.0	3.0	4.1	2.5	2.2	3.0
Miscellaneous	11.7	3.1	2.7	5.5	5.5	6.0

\* Data for the groups pertains to January 2007

Consumer price indices for agriculture /rural labourers during the current fiscal year have witnessed a substantial increase of 9.2 per cent as compared to 5.3 per cent last fiscal year. Price indices of the food and beverages group spiralled up by 11.2 and 10.9 per cent, respectively, during the year as compared to 5.5 and 5.8 per cent last year respectively. In both series all other groups also recorded higher prices (Table 9.14 and 9.15).

**Table 9.16: CPI-RL - Major Groups Year-on-Year Variation**

(Base: 2000 = 100)

(per cent)

	Weight	March 2003	March 2004	March 2005	March 2006	March 2007*
Rural Labourers	100.0	4.8	2.5	2.4	5.3	9.2
Food, Beverages, etc.	66.8	5.6	1.9	1.9	5.8	10.9
Pan, Supari, etc	3.7	3.5	4.7	-1.0	6.3	4.3
Fuel and Light	7.9	4.8	3.0	2.9	4.0	6.3
Clothing, etc.	9.8	3.3	3.4	2.8	2.7	2.6
Miscellaneous	11.9	3.1	3.0	5.5	5.2	5.8

\* Data for the groups pertains to January 2007

## Global Inflation

The fiscal year has witnessed a firming up of non-fuel commodity prices led by metal prices all over the world. Metal prices, have recorded large gains due to robust demand from developing economies mainly, china. Metals like lead, nickel, tin have registered large gains during 2006-07. Prices of aluminium, copper, tin, zinc in March 2007 stood higher by about 14 per cent, 26, per cent, 75 per cent and 35 per cent respectively over their levels a year ago. Food prices, led by wheat and edible oils, rose sharply reflecting production shortfalls in all producing countries. Global wheat production is expected to decline by 4.4 per cent because of hot and dry weather/drought affecting crops in Australia, Argentina, Brazil, etc. However, international sugar prices, which had increased sharply in early 2006, eased reasonably by March 2007 due to substantial increase in sugar production, which went up by 7.5 million tonnes to reach a global production of 160 million tonnes. At this level production exceeded global consumption of 7.2 million tonnes.

Inflation remains relatively modest though higher than that recorded during last year.

In China, consumer price inflation increased to 3.3 per cent in March 2007 from 0.8 per cent a year ago, partly on the back of higher food prices (Table 9.16) People's Bank of China, in order to mop up liquidity from the banking sector due to persistent BOP surpluses has increased the benchmark 1-year lending rate by 27 basis points each in April, August and March 2007. It also raised the cash reserve ratio by 300 basis point since July 2006 in six steps.

Table 9.17: Global Inflation Scenario during 2006-07 as per Consumer Prices (March over March) ( in per cent)					
Country	Inflation Rate		Country	Inflation Rate	
	Latest	Year Ago		Latest	Year Ago
<b>Asian Countries</b>			<b>European Countries</b>		
China	3.3	0.8	Britain	3.1	1.8
Hong Kong	2.4	1.6	France	1.2	1.5
<b>India #</b>	<b>6.7</b>	<b>5.3</b>	Germany	1.9	1.8
Indonesia	6.5	15.7	Italy	1.7	2.1
Malaysia	1.5	4.8	Spain	2.5	3.9
Pakistan	7.7	6.9			
Singapore	0.7	1.2	<b>Euro Area</b>	<b>1.9</b>	<b>2.2</b>
South Korea	2.2	2.0			
Taiwan	0.8	0.4	<b>United States</b>	<b>2.8</b>	<b>3.4</b>
Thailand	2.0	5.7	<b>Russia</b>	<b>7.1</b>	<b>10.6</b>
Japan	-0.2	-0.1	<b>South Africa</b>	<b>6.1</b>	<b>3.4</b>
Notes: #: for industrial workers					
Source: <i>The Economist</i> , 2007					

In Korea, since inflation remained stable at 2.2 per cent, the Bank of Korea has kept its policy rate unchanged at 4.5 per cent since August 2006. However, it increased the cash reserve ratio on demand deposits and money market deposits accounts from 5.0 per cent to 7.0 per cent effective December 23, 2006 to slow down the pace of liquidity expansion in the economy.

In Thailand, the consumer price inflation eased to 2.0 per cent during the current year as against 5.7 per cent last year and hence largely have been no noteworthy changes in the monetary policy.

In Indonesia, consumer price inflation during the current fiscal year almost halved to that registered last year.

Amongst other emerging economies, the South African Reserve Bank raised the policy rate by 200 basis points to contain the inflationary pressures emanating from volatility in oil, food and services prices.

In Russia, consumer price inflation remains high, although it has eased to 7.1 per cent in March 2007 from a two-digit inflation rate of 10.6 per cent a year ago.