

## Chapter-39

### PRICES

**39.1 BACKGROUND:** Price mechanism refers to the system where the forces of demand and supply determine the prices of commodities and the changes therein. In other words, it is the outcome of the free play of market forces of demand and supply. However, sometimes the government controls the price mechanism to make commodities affordable for the poor people too. Thus, price movement reflects a complex phenomenon of demand-supply interaction, pattern and form of state intervention for various purposes. Inflation, a related term in economic lexicon, measures the rise in general level of prices of goods and services. It affects all by eroding the purchasing power of money, resulting in raising the cost of living which ultimately affects poor the most. Hence, inflation has always been one of the most closely monitored macroeconomic indicators.

**39.2 MEASURES OF INFLATION :** The Price Indices, which measures the changes over time in general level of prices of goods and services at large, incorporating their importance in the basket, are used to measure the inflation rate. Generally, the inflation rate is computed year on year basis e.g. Inflation for the month of January 2015 would be the rate of change of a Price Index with respect to that of January 2014. Inflation rate can be measured using either Wholesale Price Index (WPI) or Retail Price Index, which is generally known as Consumer Price Index (CPI). In many countries, Producers' Price Index (PPI), in place of WPI, is used to measure Inflation rate. Inflation rate based on PPI or WPI indicate increase in cost of production whereas the rate based on CPI shows a sign of burden on consumers pocket also.

**39.3** India has a rich tradition of collection and dissemination of price statistics dating back to 1861 when the Index of Indian Prices was released. Currently, there are five different primary measures of inflation - the Wholesale Price Index (WPI) and four measures of the Consumer Price Index (CPI). In addition, Gross Domestic Product (GDP) deflator and Private Final Consumption Expenditure (PFCE) deflator from the National Accounts Statistics (NAS) provide implicit economy-wide inflation estimate.

**39.4** A Committee headed by Dr. Urjit Patel, Governor, Reserve Bank of India submitted its Report on revising and strengthening India's monetary policy framework in January 2014. The Committee recommended, inter-alia, that *the RBI should adopt the CPI (combined, i.e rural and urban taken together) based inflation to guide monetary policy*. This is in line with the international practice of using CPI as a measure of headline inflation. Following the recommendation of the Committee, RBI has started using CPI for formulating the Monetary Policy Framework.

#### SALIENT FEATURES OF DIFFERENT INDICES

**39.5** Consumer Price Index for Industrial Workers - CPI (IW): This index is compiled by the Labour Bureau, Ministry of Labour and Employment. The target population is working class

family, defined as a family: (i) located within the center for industrial worker, (ii) has at least one member working as manual worker in an establishment in any of the seven sectors of employment covered viz., factories, plantations, mining, ports and docks, public motor transport undertakings, electricity generating and distributing establishments, and railways; and (iii) derived 50 per cent or more of its income during the calendar month preceding the day of enquiry through any manual work.

**39.6** The present series of CPI (IW) is on base 2001=100. The weighting diagrams for the purpose of compilation of index numbers had been derived on the basis of average monthly family expenditure of the working class obtained from the Working Class Family Income Expenditure Survey conducted during 1999-2000.

### **39.7 Consumer Price Index for Agricultural /Rural Labourer - CPI (AL/RL):**

These indices are compiled by the Labour Bureau, Ministry of Labour and Employment. The target populations are agricultural and rural labourers. A rural labour household is defined as one, which derives major income from manual employment (rural labour) during the last 365 days. From amongst the rural labour households, those households which earn 50% or more of their total income from gainful employment as manual labour in agriculture during the last 365 days, are categorized as agricultural labour households. Agriculture labour households form a subset of rural labour households. A person is considered engaged in agricultural labour if he/she follows one or more of the agricultural occupations in the capacity of wage paid manual labourer, whether paid in cash or kind (excluding exchange labour) or both. A person who does manual work in return for wages in cash or kind or partly in cash and partly in kind (excluding exchange labour) is a wage paid manual labourer. Persons who are self-employed doing manual work are not treated as wage paid manual labourers. People living in rural areas and engaged in manual labour by working in agricultural and/or non-agricultural occupations in return for wages paid either in cash or kind (excluding exchange labour) or both, are considered as rural labourers. Thus, rural labourers include both agricultural and other labourers.

**39.8** The present series of CPI (AL/RL) is on base 1986-87=100. Estimates of consumer expenditure generated from the results of NSS 38<sup>th</sup> round (1983), formed the source of weights for different items of goods and services used in compilation of CPI (AL) and CPI (RL).

**39.9** CPI (AL/RL) is released every month (20<sup>th</sup> or preceding working day of the following month) for each of the selected states as well as at all India level. It is mainly used for the determination/ fixation and revision of minimum wages in agricultural sector. CPI (AL) is also used in moving the base year poverty lines for rural areas to the subsequent years.

**39.10 Consumer Price Index: (Rural, Urban, Combined):** The CSO, Ministry of Statistics and Programme Implementation (MOSPI) has been, since January 2011, releasing separate rural, urban, and combined CPIs on monthly basis with base year (2010=100) for all India and States/UTs. In addition, separate rural, urban, and combined Consumer Food Price Indices (CFPI) for all India were also released. The weighing diagram for this series of CPI was derived on the basis of average monthly consumer expenditure of an urban/rural household

obtained from the Consumer Expenditure Survey data (2004-05) of 61<sup>st</sup> Round of the National Sample Survey (NSS). The CSO has revised the base year of the Consumer Price Index from 2010=100 to 2012=100. The basket of items and weighing diagrams for the revised series have been prepared by using the Modified Mixed Reference Period (MMRP) data of the Consumer Expenditure Survey, 2011-12 of the 68<sup>th</sup> Round of NSS.

**39.11 Wholesale Price Index (WPI):** WPI is compiled by Office of the Economic Adviser, Ministry of Commerce and Industry. Present series of WPI has Base Year 2004-05. The Office of the Economic Adviser undertook to publish this index for the first time, with base week ended August 19, 1939 = 100, from the week commencing January 10, 1942.

**39.12** The concept of wholesale price has hitherto covered the general idea of capturing all transactions carried out in the domestic market. The weights of the WPI do not correspond to contribution of the goods concerned either to value- added or final use. In order to give this idea a more precise definition, it was decided to define the universe of the wholesale price index as comprising as far as possible all transactions at first point of bulk sale in the domestic market.

**39.13** The existing series, with 2004-05 as the base, has 676 items in the commodity basket. The weighing diagram for the new WPI series has been derived on the basis of Gross Value of Output (GVO). The output values at current prices, wherever available at appropriate disaggregation, have been obtained from the National Accounts Statistics (NAS), 2007 published by the Central Statistics Office, Ministry of Statistics & Programme Implementation. The same have been reallocated and aggregated to conform to the structure of WPI basket.

**Name of Chapter : 39, Prices**

Sr. No.	No. of Table	Name of Tables
1	39.1	Index Number Of Wholesale Prices In India By Major Groups, Groups And Sub-Groups
2	39.2	Index Number Of Wholesale Prices In India By Major Groups, Groups And Sub-Groups, Details
3	39.3	Consumer Price Index For Industrial Workers
4	39.4	Consumer Price Index - General Index
5	39.5	Consumer Price Index - Important Commodities
6	39.6	Consumer Price Index For Agricultural Labourers And Rural Labourers

**References:**

- Price Statistics Division, Central Statistics Office, Ministry of Statistics and Programme Implementation
- Office of Economic Adviser, DIPP
- Labour Bureau, Ministry of Labour & Employment