CHAPTER 39
PRICES

"Inflation is the form of taxation which the public find hardest to evade."- Keynes

39.1 Background : 39.1.1 Price trends reflect a complex phenomenon of demand-supply interaction, pattern and form of state intervention through determining the level of money supply, direct and indirect tax structure and the relative importance of different components of the national production basket which, in turn has been influenced by the investment priorities and policies of the yester years. Inflation, a related term in economic lexicon, indicating sustained rise in general level of prices of goods and services , assumes significance in economies ridden with disparities because of large many   experiencing the phenomenon of being *' priced out '* . In situation of high inflation, with a variety of goods and services getting out reach for many, the corrosion in the well being begins to undercut the achievements in economic growth. Even though it affects all by eroding the purchasing power of income, raising the cost of living and lowering the real value of savings, it is the poor who are most vulnerable to inflation as they do not have any effective hedge against it. Hence inflation has always been one of the most closely monitored macroeconomic indicators.

39.1.2   The changes in prices over a period of time can be gauged by the statistical device of index number of prices. The price index can be either at the wholesale level (WPI) or at the level of the retail end of marketing channel or Consumer Price (CPI).

39.2 Inflation Measures : Conceptual issues

39.2.1 *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. The WPI is considered as the headline inflation measure because of its availability at high frequency (weekly), until recently, national coverage and availability of disaggregated data which facilitate better* analysis of inflation.

39.2.2 While the WPI does not cover prices of services, CPIs till recently were meant to reflect the cost of living conditions for a homogeneous group of consumers based on retail prices. Among the four measures of CPI brought out earlier, the **CPI for Industrial workers (IW)** had a broader coverage than the others - the **CPI for agricultural labourers (AL), rural labourers (RL)** and **urban non-manual employees (UNME)**. *In the organised sector, CPI-IW is used as a cost of living index.* However , the Central Statistics Office, Ministry of Statistics & PI has now replaced CPI (UNME) by **new series of CPI** since 2010 which provides comprehensive index for population in

India **(rural, urban & combined)** instead of targeting a specific segment of urban/rural population.

39.2.3 *GDP Deflator, on the other hand, is a comprehensive measure of inflation, implicitly derived from national accounts data as a ratio of GDP at current prices to constant prices. While it encompasses the entire spectrum of economic activities including services, it is available on a quarterly basis with a lag of two months since 1996. Moreover, national income aggregates extensively use WPI for deflating nominal price estimates to derive real price estimates.*

39.2.4 *Even as each of the measures has its strengths and weaknesses, the selected measure of inflation should broadly capture the interplay of effective demand and supply in the economy at frequent intervals. However, the trend in various measures of inflation during the recent years has raised several conceptual measurement issues of inflation. First, the divergence between WPI inflation and CPI inflation has widened. Second, the representativeness of WPI has reduced as it does not capture the price movement in the services sector which has a larger and increasing share of GDP. Third, old base periods – for CPI-RL (1986-87), CPI-AL (1986-87) and CPI-IW (2001) - fail to capture the rapid structural changes in the economy* , though WPI(2004-05) and CPI(New Series brought out by CSO, 2010) with recent base years have addressed the issue for now.

39.3 Historical trends in inflation : 49.3.1 Global inflation pressure is generally subdued. In the euro area, t is expected to stay appreciably below the European Central Bank's objective for several years; in Japan it will bounce up in response to consumption tax increases and rising inflation expectations in response to the new monetary policy. Consistent with slowing activity and stabilizing commodity prices, inflation has eased in emerging market and developing economies

Global Inflation (Y-o-Y Percent Change)

Source : World Economic Outlook, 2013 International Monetary Fund
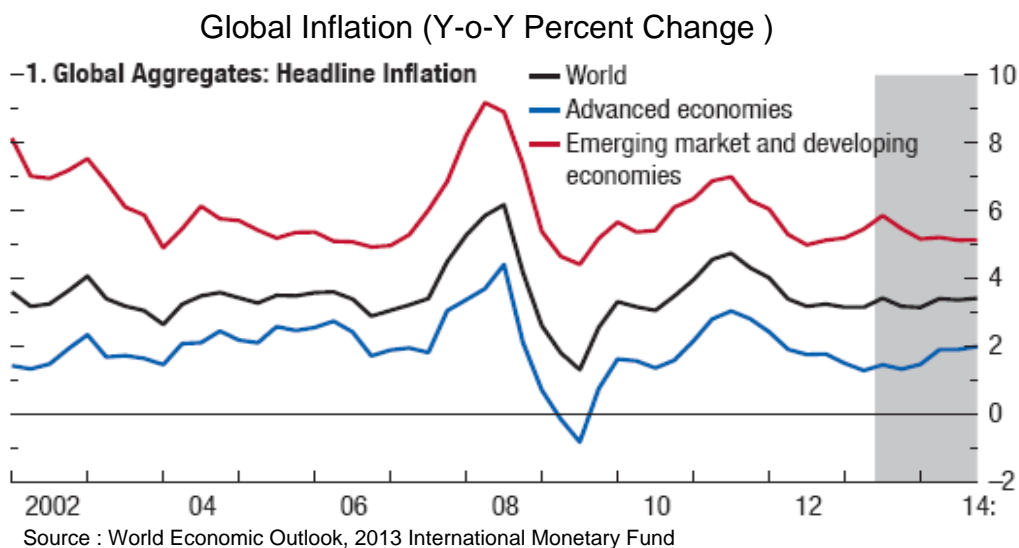
39.3.2 The Indian economy has experienced inflationary pressures for more than half a century. The pressures, however, became more pronounced since the early 'sixties with sharp rise in WPI during the 'eighties .

WPI- Base 1952-53=100
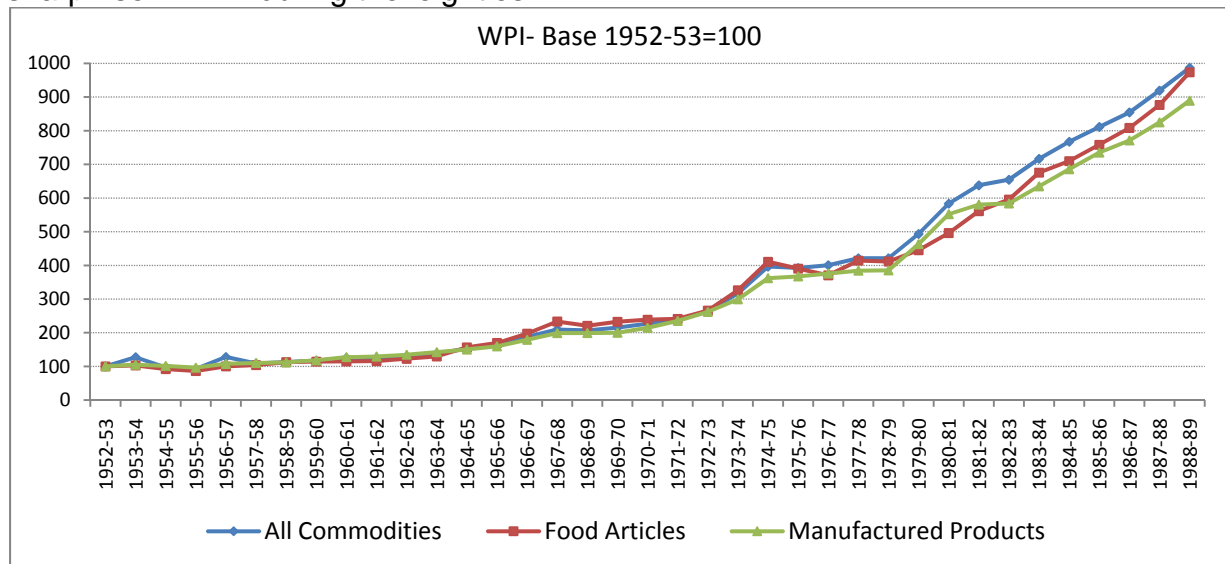
39.3.3 The trend in 70's and 80's reveals that the prices for the relatively non-essential food items have risen at a lower rate than the prices of the essential food items. The WPI for durable use consumer category has risen at a slower pace than all other categories. During the 80's inflation for food articles was more than that of the manufactured products and all commodities taken together.


WPI Base 1981-82=100
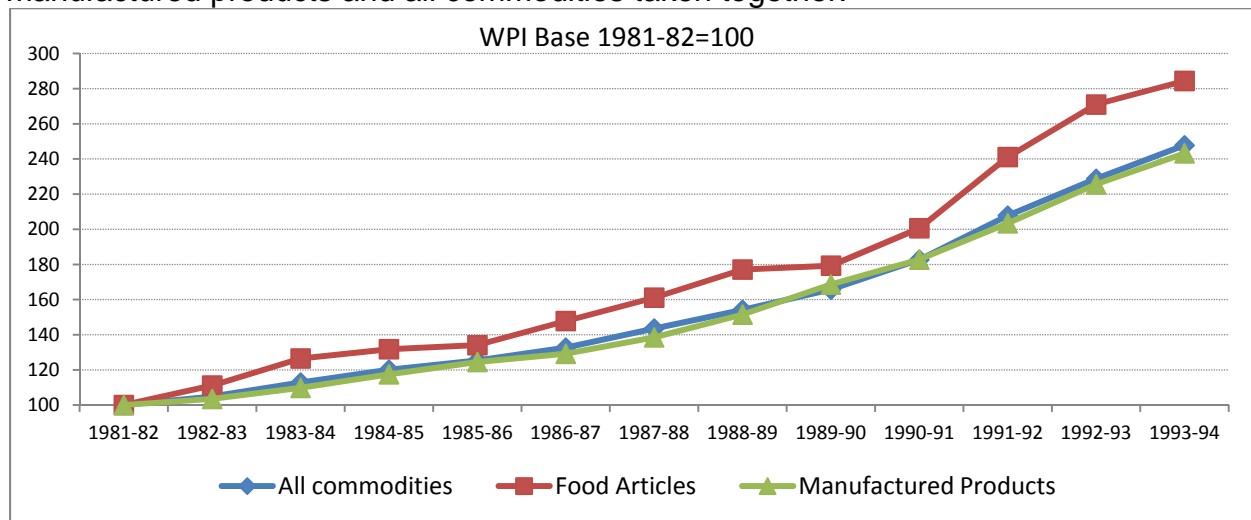
39.3.4 *However, India is a moderate inflation country. For example, in the 62 years since 1950-51 average annual inflation rate as measured by changes in the wholesale price index (WPI) increased at a rate of 6.7 per cent per annum, which is not a very high rate considering that many countries, both developed and developing, experienced very high inflation in their modern development history. In fact, more recently in the 1980s and 1990s the world inflation averaged around 17 per cent per annum. In the 2000s there was a sharp all round moderation in global inflation.*

39.4 Divergence between WPI & CPI

39.4.1 WPI & CPI differ in terms of their weighting pattern. First, food has a larger weight in CPI ranging from 46 per cent in CPI-IW to 69 per cent in CPI-AL whereas it has a weight of only 14 per cent in WPI. The CPIs are, therefore, more sensitive to changes in prices of food items. Second, the fuel group has a much higher weight in the WPI (15 per cent) than the CPIs (5.5 to 9.5 per cent). As a result, movement in international crude prices has a greater bearing on WPI than on the CPIs. Third, services are not covered under WPI while they are, to different degrees, covered under CPIs. Consequently, service price inflation has a greater influence on CPIs.

39.4.2 As the retail market receives commodities from wholesale market, it is expected that the change in the prices of commodities in wholesale market would normally transmit to the retail market. Granger causality test in a vector auto-regression (VAR) framework using monthly WPI and CPIs indicates that at the trend level CPIs lag behind WPI by a month. There is also a long run cointegrating relationship between WPI and CPI.Therefore, WPI and CPIs in India may not move away from each other in the long-run if this observed relationship continues to hold.

Long-run relationship between WPI and CPI Inflation
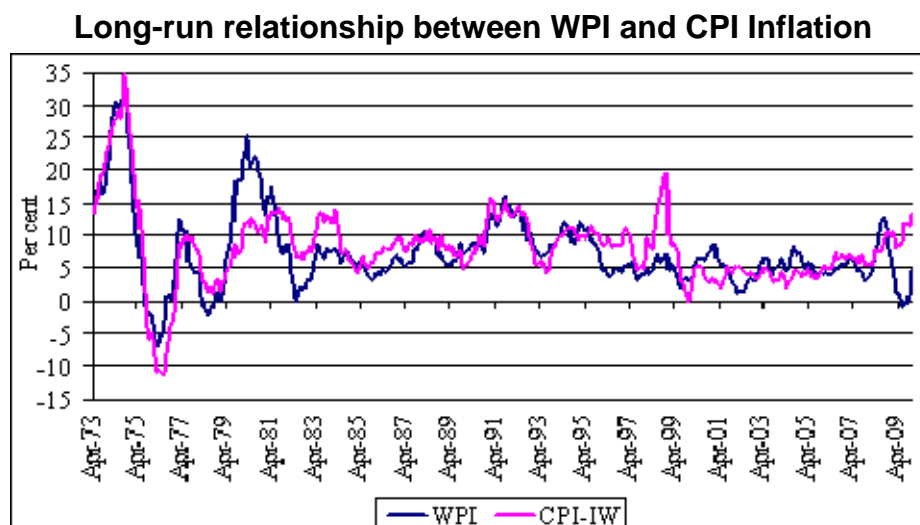
39.4.3   Notwithstanding the long-run lead-lag relationship, the divergence between WPI and CPI has accentuated since early 2008 though CPIs recorded very similar trends as the food component of WPI despite the divergence of the overall indices during the recent period.

39.4.4 In addition, annual inflation based on WPI, CPI-IW, GDP deflator, and PFCE deflator, over longer time spans, followed a similar path

Decades	WPI	CPI-IW	GDP Deflator	PFCE Deflator
1971-72 to 1980-81	10.3	8.3	8.8	8.4
1981-82 to 1990-91	7.1	9.0	8.7	8.3
1991-92 to 2000-01	7.8	8.7	8.1	8.5
2001-02 to 2008-09	5.2	5.3	4.6	4.4
Long-term Trend 1971-2009	7.7	8.0	7.7	7.6

39.5 Recent trends in Inflation: 49.5.1 Consumer price inflation , with higher weights on food , have been generally higher than the headline WPI inflation. However, private final consumption expenditure deflator (PFCED) which accounts for substitution due to altered spending habits caused by price changes , traces a lower trajectory than WPI. Price indices for rural laborers(CPI-RL) have reigned higher than those for industrial workers (CPI-IW) in response to improvements in purchasing power and consumption pattern.
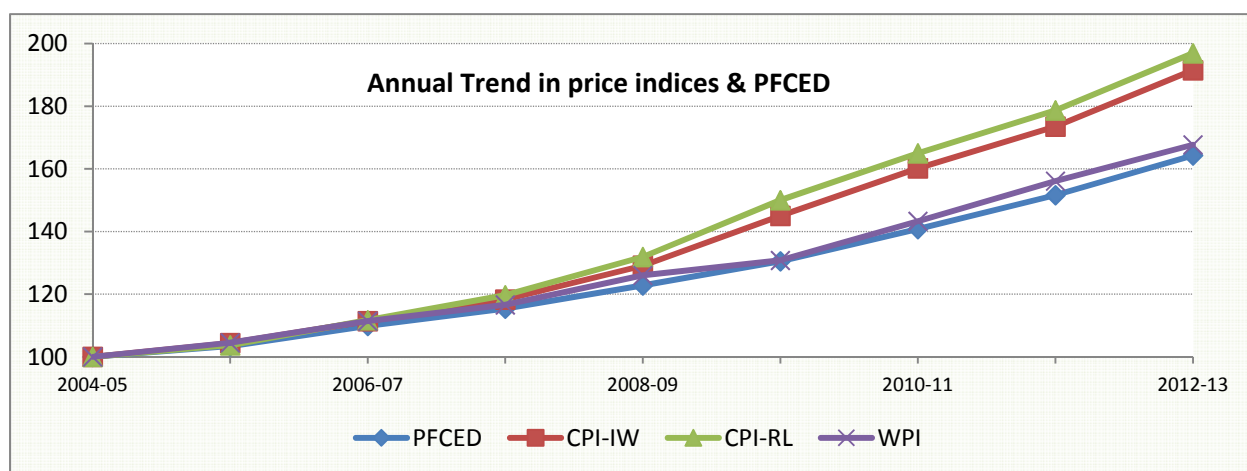
39.5.2 In the eight year period from 2000 to 2007, the world inflation averaged 3.9 per cent per annum. Even the emerging and developing economies (EDEs) which traditionally had very high inflation showed an average annual inflation at 6.7 per cent. India's inflation performance was even better at 5.2 per cent as measured by WPI and 4.6 per cent measured by the consumer price index (CPI-IW). In 2008 the global financial crisis struck following which inflation rose sharply both in advanced countries and EDEs as commodity and oil prices rebounded ahead of a sharp "V" shaped recovery. Thereafter, inflation rate moderated both in advanced economies and EDEs. In India too the inflation rate rose from 4.7 per cent in 2007-08 to 8.1 per cent in 2008-09 and fell to 3.8 per cent in 2009-10. However, the inflation rate backed up and stayed near double digits during 2010-11 and 2011-12 before showing some moderation in 2012-13.

In recent years India's inflation rate has been higher than world average							*(Year-on-year in per cent)*
	2000-07	**2008**	**2009**	**2010**	**2011**	**2012**	**2008-12**
	Average			**Annual**			**Average**
Global Inflation							
World	3.9	6.0	2.4	3.7	4.9	4.0	4.2
EDEs	6.7	9.3	5.1	6.1	7.2	6.1	6.8
Inflation in India							
WPI	5.2	8.1	3.8	9.6	8.9	7.6	7.6
WPI-Food	3.8	8.9	14.6	11.1	7.2	9.1	10.2
WPI-NFMP	4.3	5.7	0.2	6.1	7.3	5.2	4.9
CPI-IW	4.6	9.1	12.2	10.5	8.4	9.9	10.0
Indian inflation data pertains to financial year, Economies, WPI: Wholesale Price Index, products, CPI-IW: Consumer Price Index for Industrial Workers.				DEs: Emerging and Developing NFMP: Non-food manufactured			

39.5.3 Recent inflationary pressures have become more troublesome because they have persisted despite deceleration in the growth. Even the efforts of Reserve Bank to contain inflation by increasing policy repo rate (13 times between March 2010 and October 2011 by a cumulative 375 basis points from a low of 4.75 per cent to 8.5 per cent) have not succeeded in containing the inflation.

39.6 Factors affection recent price movements: Recent inflation spike has been attributed to several factors. *With increased liberalization & deregulation, crude oil and other global commodity price trends as well as exchange rate movements are increasingly playing an important role in defining domestic prices. Also , while the growth in domestic agricultural production has stagnated around 3 per cent per annum, the demand for food has increased. Further, demand for protein based products like meat, eggs, milk and fish as well as fruits and vegetables has increased substantially with rising per capita income. The protein inflation has assumed a structural character. This has also resulted in substantial divergence between WPI and CPI as food has a larger share in the consumer price index basket. Further, with the increase in income, real consumption expenditure has grown significantly. Recently released key results of the NSSO 68th round survey (2011-12) on household consumption expenditure indicate that real per capita consumption expenditure in rural areas increased at an average rate of 8.7 per cent during 2009-12 as compared with 1.4 per cent during 2004-09. Similarly, urban real per capita consumption increased by 6.7 per cent as against 2.4 per cent in the corresponding period. The fact that real consumption expenditure expanded during a period of high food inflation indicates that the demand remains strong, feeding into*

higher price levels as supply elasticities remain low. The high food prices are supported by increase in wages. The average nominal rural wage increase was of the order of 17 per cent during 2008-09 to 2012-13 so far. Even after adjusting for high rural consumer inflation, real wage increase over 6 per cent per annum was significant). In the formal sector, company finance data suggest that the wage bill has risen at a faster rate since the middle of 2009-10. As wages increase, entitlement goes up, and consequently demand and preference for essential commodities increases.

Index of Per Capita Net National Income(PCNNI), rural wages(RWI),WPI & CPI(IW)

Note: Q3 (12-13) figures for RWI is average of Oct & Nov, 2012
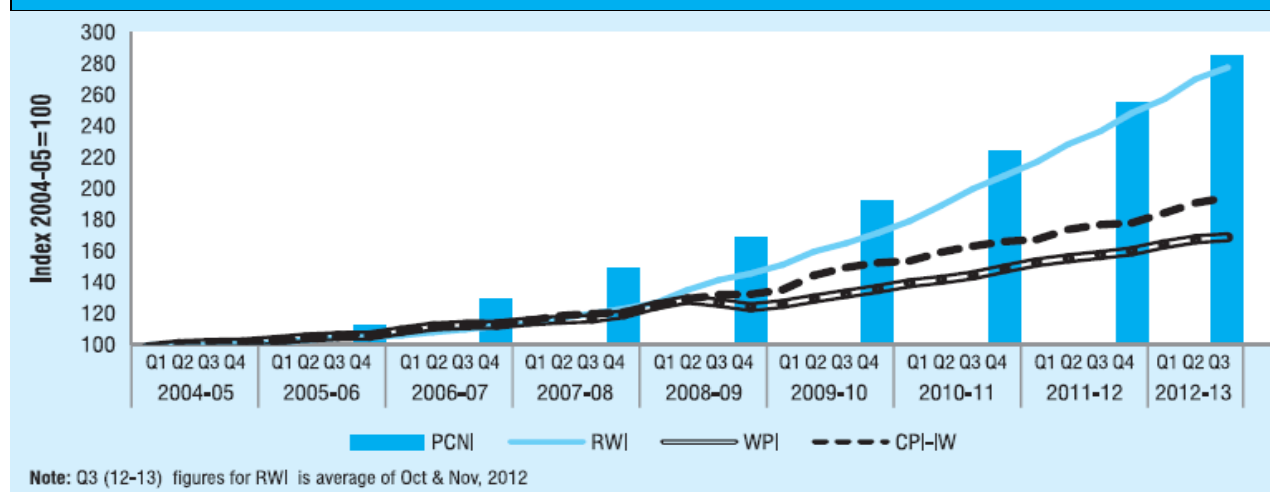
Source : Economic Survey 2012-13

Apart from the above, persistence of near double-digit inflation in 2010 and 2011 raising the medium- to long-term inflation expectations in the economy, stimulus from the crisis driven fiscal and monetary policy amongst others are the main reasons cited for the recent trends in prices.

39.7 Wholesale Price Index (WPI)   : 49.7.1 Wholesale Price represents bulk transactions generally at the early stage of trading. The price pertaining to bulk transactions may have divergent nomenclatures e.g. farm harvest prices, wholesale prices, procurement prices, support prices, administered prices, import prices, forward prices etc. Wholesale price Index relates to the transactions at the primary stage which broadly correspond to producer prices. The **Office of the Economic Adviser (www.eaindustry.nic.in) in the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry** is responsible for compiling WPI and releasing it. The Office published for the first time, the index number of wholesale prices, with base week ended August 19, 1939= 100, from the week commencing January 10, 1942. Since 1947 the index is being published regularly.

39.7.2 An implicit disadvantage of **Laspeyres** formula, the methodology used for compiling the WPI, is that the indices with fixed weighting diagram fail to capture the dynamic changes in product mix and st ructure of the economy over time. It has,

therefore, been the practice to revise the weighting diagram and the series of WPI based on the recommendations of a Working Group appointed by the Government, roughly once every decade. Ever since the introduction of the WPI on a regular basis, **six revisions** have taken place introducing the new base years, viz., **1948- 49, 1952- 53, 1961- 62, 1970- 71, 1981- 82 and 1993- 94.**

39.7.3 Latest revision of WPI has been done by shifting base year from 1993- 94 to 2004-05. A Working Group was set up with Prof. Abhijit Sen, Member, Planning Commission as Chairman for revision of WPI series. WPI of the new series [with base year 2004- 05] was launched on 14th September, 2010. The above evolution of WPI in India may be summed up in the following table:

Base:-	Year of Introduction	No. of items	No. of price quotations
week ended 19th August, 1939	10th January, 1942	23	23
End August, 1939	1947	78	215
1952-53 (1948-49 as weight base)	1952	112	555
1961-62	July, 1969	139	774
1970-71	January, 1977	360	1295
1981-82	July, 1989	447	2371
1993-94	April, 2000	435	1918
2004-05	September, 2010	676	5482

39.7.4 A comparative statement of weights, no of items and no of quotations between the old series and new series is given for the major groups in the table below:

Major Group / Group	Weight		No. of items		No. of Quotations	
	2004-05	1993-94	2004-05	1993-94	2004-05	1993-94
All Commodities	100.00	100.00	676	435	5482	1918
I Primary Articles	20.12	22.02	102	98	579	455
II Fuel & Power	14.91	14.23	19	19	72	72
III Manufactured Products	64.97	63.75	555	318	4831	1391

Graphical representation of differences in price movements between old (1993-94) and new series (2004-05) is given at the end of the chapter.

39.7.5   Change in Reporting of Inflation: 49.7.5.1 At present the WPI for all commodities including manufactured products is released only on a monthly basis. However, until recently WPI for primacy articles and the fuel group was also being released on a weekly basis. This practice was interred to help in analyzing the trends for

policy-making as these commodities are essential in nature. But it was observed over a period of time that there was a tendency for upward revisions in the indices reported once the final numbers were later released. The higher frequency weekly reporting was thus prone to more statistical 'noise' and sometimes provided a misleading picture. So the trade-off was between the more frequent and less reliable data and less frequent but more reliable data. International practice for reporting CPI inflation is also on a monthly basis.

39.7.5.2 In view of this, the Cabinet Committee on Economic Affairs (CCEA) in its meeting held on 24 January 2012 agreed to discontinue the weekly release of WPI for the commodities/item under the groups "primary articles" and "fuel and power" with immediate effect. The last weekly WPI for the week ending 14 January 2012 was released on 27 January 2012 WPI shall, henceforth, be released on a monthly basis only.

39.7.6 Drivers of headline inflation : Inflation, as measured by the WPI, has remained above 7since December 2009 Food inflation has been particularly elevated over this period, contributing to an average of one third of total inflation. A moderation in WPI inflation is now clearly visible, but the moderation has largely been due to deceleration in the rate of inflation of nonfood manufactured products. Inflation of primary articles, after declining in last two quarters of 2011-12 increased during last year. Deceleration in the inflation of non-administered petroleum products contributed to the moderation in fuel and power category mitigating the effects of the increase in administered prices of diesel effected in September 2012 . Inlation of manufactured products also decelerated during 2012-13 .

Weighted Contribution to headline WPI inflation (%)
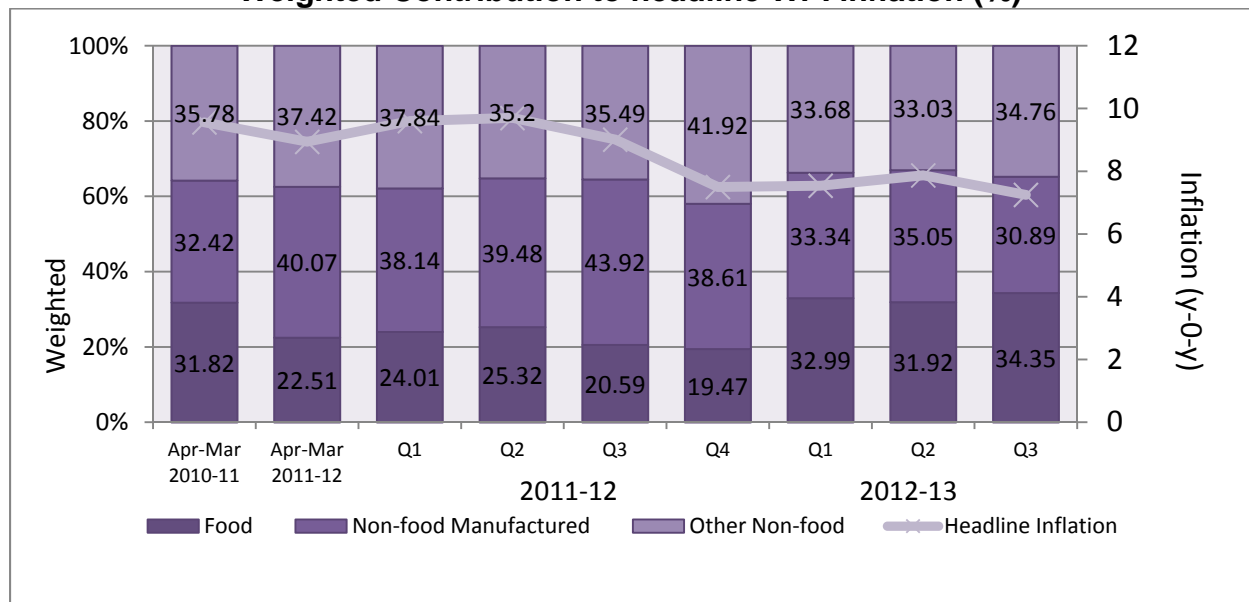
39.8 Consumer Price Index : (Rural/Urban/Combined)

39.8.1 The **Central Statistics Office (CSO)** of the **Ministry of Statistics and Programme Implementation** releases every month CPI for the entire rural population, viz. CPI (Rural), and CPI for the entire urban population, viz. CPI (Urban), which reflects the changes in the price levels of various goods and services consumed by the rural and urban population and also CPI (Combined). These indices on base 2010=100 are compiled at State/UT and all-India levels and are available from January 2011 onwards. For construction of CPI numbers, two requisite components are weighting diagrams (consumption patterns) and price data collected at regular intervals.

39.8.2 Weighting Diagram : Weighting diagram gives the share of each item considered in the total consumption expenditure. The weighting diagrams for the new CPI series have been derived on the basis of average monthly consumer expenditure of an urban/rural household obtained from the NSS 61st round Consumer Expenditure Survey data (2004-05). Only consumption expenditure has been considered for the purpose of preparation of weighting diagrams. Non-consumption expenditure items, like legal expenses, have been excluded.

39.8.3 Classification of items of consumption: After exclusion of non-consumption expenditure items, the remaining items were classified into several consumption groups and subgroups considering Classification of Individual Consumption according to Purpose (COICOP), the standard international classification as well as present classification of items adopted in the other CPI numbers compiled at national level. These items have been divided in five groups as follows:

Gr. 1 Food, beverages and tobacco	**Gr. 2 Fuel and light**
1.1 Cereals and products 1.2 Pulses and products 1.3 Oils and Fats 1.4 Egg, Fish and Meat 1.5 Milk and Milk Products 1.6 Condiments and spices 1.7 Vegetables 1.8 Fruits 1.9 Sugar, honey etc. 1.10 Non-alcoholic beverages 1.11 Prepared meals etc 1.12 Pan, tobacco and intoxicant	**Gr. 3 Housing** **Gr. 4 Clothing, bedding and footwear** 4.1 Clothing and bedding 4.2 Footwear **Gr. 5 Miscellaneous** 5.1 Medical Care 5.2 Education 5.3 Recreation and amusement 5.4 Transport & communication 5.5 Personal care and effects Household requisites Others

39.8.4 Criteria of selection of items

Multiple norms were adopted for selecting the items depending on their importance, their popularity and suitability for pricing on a continuing basis. Accordingly, following four-fold criteria were adopted:
- i) to include all PDS items
- ii) to include all items accounting for 1% or more of total expenditure at sub-group level.
- iii) to include all items accounting for more than specified percentage of total expenditure of all consumption items as given below:

Group	Group Description	Specified percentage out of total expenditure
Gr.1, Gr.3, Gr.5	Food, beverages and tobacco, Housing and Miscellaneous	>0.04%
Gr. 2	Fuel and light	>0.03%
Gr. 4	Clothing, bedding and footwear	>0.02%

- iv) to include all items for which more than 75% households have reported consumption.

All items satisfying any of the above four conditions were retained. These are termed as weighted items. Expenditure on certain item was imputed considering its insignificant share and/or difficulties involved in pricing to the item(s) retained on the basis of mainly same or similar price movements. All India weights are given in Table-I.

39.8.5 Price collection in urban areas
49.8.5.1 Number of price schedules (quotations) that could be canvassed by the field investigators available was fixed around 1100 and distributed to States/UTs on the basis of urban population (Population Census 2001).

39.8.5.2 For regular price collection by NSSO (FOD)/Specified State Governments, all cities/towns having population (2001 Population Census) more than 9 lakh and all state/UT capitals not covered therein were selected purposively. Quotations were allotted to these cities/towns as per following criteria.

Towns having population	No. of quotations allotted
More than 1 crore	24

25 lakh – 1 crore	12
9-25 lakh	8
Remaining State/UT capitals	4

39.8.5.3 After selecting the towns/cities as stated above, each State/UT was divided into four strata:

Stratum	Towns
I	Remaining Class I towns (population more than 1 lakh but less than or equal to 9 lakh)
II	All Class II towns (population 50000- 1 lakh)
III	All Class III towns(population 20000- 50000)
IV	All Class IV towns(population less than 20000)

39.8.5.4 After allocating quotations to the selected towns of more than 9 lakh population and State/UT capitals, remaining quotations earmarked for a State/UT were further allocated to different strata in proportion to total urban population of the towns falling in different strata. Number of towns to be selected from strata I and II was decided on the basis of no. of quotations allotted to those strata taking 4 quotations per town. For Strata III and IV, no. of towns were selected based on number of quotations allotted to those strata, taking 2 quotations per town. Towns were selected from each stratum circular systematically ensuring regional representation. In all 310 towns have been selected covering all the States and UTs from which 1114 price quotations (Schedules) are canvassed every month. Quotations allocated to a particular town have been distributed by ensuring both the geographical coverage of the selected town and the different segments of population living in the town (poor, middle and affluent). Further, quotations allotted for the town have been distributed over the four weeks of a month to take into account week to week variation in the prices.

39.8.5.5 In the selected towns, market survey was undertaken by NSSO (FOD) for (i) identification of popular markets (ii) selection of shops/outlets for different commodities in the selected markets and (iii) determination of specifications of commodities to be priced. Rented dwellings, from which house rent data are to be collected, were also identified in all the selected towns during the market survey. Prices are collected by the NSSO (FOD) every month.

39.8.6 House rent data Collection: For compilation of house rent index which is a component in the Housing group of CPI (Urban) rent data are also collected from a sample rented dwellings in each of the selected town. For each quotation, six rented dwellings units have been selected. These are selected in such a way that they represent various categories of dwellings with different number of living rooms. Dwellings are visited once in six months for canvassing house rent schedule.

39.8.7 PDS price data collection: Public Distribution System (PDS) prices, also known as Fair Price Shop prices, are also collected in respect of four items viz. Rice – PDS, Wheat/ wheat- Atta – PDS, Sugar-PDS and Kerosene- PDS. These are collected in respect of two groups of beneficiaries viz. Above Poverty Line (APL) and Below Poverty Line (BPL) households.

39.8.8 Price collection in rural areas: 39.8.8.1 With a view to have a workload within manageable limits and considering the fact that the CPI (Rural) would provide the price changes for the entire rural population of the country, a total of 1181 villages have been selected at all India level. The broad criterion of selection of villages is indicated below. These villages have been distributed more or less equally among the four weeks to take in to account weekly variations in the prices.

(i)   Within each State/UT, top 50 villages(if villages in a district are more than 50, all villages if it is less than 50) are arranged in the descending order on the basis of 2001 population for each district;

(ii)   50 villages selected above have been divided into two sets i.e Set 1 and Set 2 (Set 1 consists of top 25 villages and Set 2 the remaining 25 villages);

(iii)   Within a district two villages (one each from Set 1 and Set 2) have been selected randomly from different tehsils. In case of only one tehsil available in a district, both the villages have been selected from the same tehsil;

(iv)   In case of some UTs where number of districts is less than three, minimum five villages were selected within UT.

(v)   Sample size in some States/UTs, wherever required, was adjusted on the basis of rural population of the State/UT.

39.8.8.2 As the field investigators of NSSO (FOD) are not available for price collection in the rural areas, this work has been entrusted to the Department of Posts. Postal officials are trained by NSSO (FOD) and CSO at selected centres in the country for price data collection in the rural areas.

49.8.9 Web portal for data submission
49.8.9.1 One unique feature of consumer price index mechanism is online transmission and verification of data. This is a completely paperless survey in the sense that no

paper schedules are used for transmission of the data. Also the entire process of data validation is carried out using electronic mode of communication.

49.8.9.2 Two independent web portals for Rural and Urban Price Data have been developed by National Informatics Center (NIC).These web portals are exhaustive in their coverage and are meant for i) uploading and editing of price data by field offices for both rural and urban CPI using dedicated offline data entry software prepared by Computer Centre, MOSPI for the purpose, ii) online, real time scrutiny and validation of uploaded data by CSO supervisors using Diagnostic tables provided specially for the purpose, iii) maintaining the time schedule for survey by real time checking of uploading status besides providing all line information regarding Details of Markets, specifications, historic data and official and administrative details w.r.t. each village/quotation and Scrutiny instructions and guidelines issued by CSO from time to time.

39.8.10 **Compilation of indices**

39.8.10.1 Compilation of CPI numbers for items other than house rent consists of two stages i.e. (i) calculation of price indices for elementary aggregates (item level indices) and (ii) the aggregation of these elementary price indices to higher level indices using the weights associated with each level. Laspeyre's formula is used for aggregation of indices. Specifications of items have been selected on the basis of popularity in the respective areas. These specifications are different in terms of units, quantity, quality etc. for different price schedules. Prices relative of each product specification (current month price/base year average price) is worked out. Average of these price relatives under the respective item multiplied with 100 gives the index for that item.

39.8.10.2 In case of seasonal items of vegetables and fruits, whenever prices of these items are not reported in a particular month, weights of such items are imputed on pro-rata basis to the items in the respective section (root vegetables, fresh vegetables, fresh fruits, and dry fruits).

39.8.10.3 House rent index is compiled by chain base method. Two categories of dwellings viz. rented dwellings and self-owned dwellings are considered in the compilation of the house rent index. The rental equivalence approach is adopted in respect of self- owned dwellings. For each State/UT, previous five months and current month data are used to compile rent relatives for the current month. Rent relative is calculated as current month rent/rent six months ago and then simple average relative is worked out by classifying the dwellings by number of living rooms (1 room, 2 rooms, 3 rooms and 4 or more rooms). These rent relatives are weighted to get a combined rent relative using the estimated proportions of dwellings under each group, obtained from the NSS 65th round survey (2008-09) on Housing Conditions. House rent index is

obtained by multiplying the combined rent relative with the corresponding rent index six months ago.

39.8.10.4 For PDS items, price relatives are worked out separately for Above Poverty Line (APL) and Below Poverty Line (BPL) categories. These price relatives are combined with the respective share of expenditure as obtained from the Consumer Expenditure Survey (2004-05).

39.8.10.5 All India index at sub group level is compiled by taking the respective expenditure of the State/UT (average household expenditure X total estimated households) as weights. Rural and urban indices are also combined by taking expenditure as weight so as to get State/UT and national indices.

39.8.11 Dissemination of Indices: CSO has started releasing all India point-to point (annual) inflation rates for January 2012 onwards (Table-II). These provisional numbers are subsequently revised and final numbers are released along with the provisional indices of the next month. Indices are now released on 12th of the following month (on next working day if 12th is a holiday).This CPI series is used for formulation of monetary and fiscal policies.

39.9. Consumer Price Index Industrial Workers

39.9.1 **The Labour Bureau**, an attached office of the M/o Labour & Employment, has been compiling and disseminating Consumer Price Index for Industrial workers since its inception in the year 1946 .Consumer Price Index Numbers for Industrial workers measure a change over time in prices of a fixed basket of goods and services consumed by Industrial Workers. These index numbers are utilized for **regulation of wages and dearness allowances** of millions of employees and workers in the organized sector. It also serves as an indicator of retail prices in the country and is used for measuring inflation rates, formulation of wages and interest policies The Labour Bureau, an attached office of the M/o Labour & Employment, has been compiling and disseminating Consumer Price Index for Industrial workers since its inception in the year 1946.

39.9.2 The CPI-IW series on scientific lines was first introduced with base 1960=100 which was based on the results of Family Living Survey conducted in 1958-59 at 50 industrially important centres. The series was then, updated on base 1982=100 and a revision in 1999-2000 has further updated the base on 2001=100. The current series of CPI-IW with base year 2001=100 covers 78 industrially important centers spread across the country. This index series till 2005 was based on 1982=100. A new series on base: 2001=100 has been released w.e.f. January, 2006 in respect of 78 important centers in which workers belonging to 7 sectors viz. factories, Mines, Plantations, Railways, Public Motor Transport Undertakings, Electricity Generating and Distributing Establishments and Ports & Docks. The data on Consumer Expenditure have been obtained from an ad-hoc survey " Family Income and Expenditure Survey" conducted during September 1999 to August 2000 in respect of 78 selected centers by the NSSO

on behalf of Labour Bureau. The survey was conducted over a period of 12 months in each selected centre. These 78 centres were selected on the basis of their industrial importance in the country and distributed among different states in proportion to the Industrial employment in the State subject to a maximum allotment of 5 centers per state per sector. On the basis of the results thrown up by the survey, the weighing diagrams have been derived in respect of 78 constituent's centers and All -India. The indices are compiled by using price data collected on monthly basis and house rent survey data on half yearly basis. The CPI (IW), numbers at centre and all India levels are released every month (the last working day of the following months).

39.9.3 The consumption pattern of the working class population undergoes change over a period of time and therefore Labour Bureau has proposed to revise the base year of the existing CPI-IW series 2001=100 to a more recent base year preferably, 2013-2014=100. In line with the recommendations of Index Review Committee (IRC), the possibilities of extending the scope of the new series to two more additional sectors i.e. Handloom and Construction sectors are being considered. However, Labour Bureau expects an increase in the number of centres from existing 78 centres to around 88-95 centres approximately. Consequently, the total number of family budget enquiry schedules and house rent schedules to be canvassed would increase to 70,000 schedules approximately.

39.10 Agricultural and Rural Labourers (Base Year 1986-87=100): Consumer Price Index Numbers for Agricultural and Rural labourers are compiled on the basis of the weights derived from consumer expenditure data collected during NSS th 38 round in 1983 and the prices are collected by NSSO(FOD) on monthly basis. The CPIAL/ RL is compiled for 20 States. The index of each State covers 85 to 106 items, from a fixed sample 600 villages spread over 66 zones. Consumer Price Index Numbers for Agricultural and Rural Labourers is released on the 20th day of the succeeding month and is updated on the same day in the Website (http://www.labourbureau.nic.in).

References :
- Measures of Inflation in India : Issues & perspectives , Speech by Shri Deepak Mohanty, Executive Director, Reserve Bank of India, at the Conference of (IARNIW) at the Centre for Development Studies (CDS), Thiruvananthapuram, January 9, 2010
- Working Paper on Price trends in the Indian Economy – Sh S K Goyal , Institute for Studies in Industrial Development.
- **Indian Inflation Puzzle** :Acceptance Speech by Deepak Mohanty, Executive Director, Reserve Bank of India, in the function of Late Dr. Ramchandra Parnerkar Outstanding Economics Award 2013 at Mumbai on January 31, 2013 (Section in italics has been taken from the speech)
- Economic Survey 2011-12 & 2012-13
- WPI Manual , Office of economic Adviser , Ministry of Commerce & Industry
- World Economic Outlook, 2013, Transitions & Tensions , International Monetary Fund

Comparison of WPI between the Old Series (1993- 94) and the New Series (2004- 05)