

Chapter 39 PRICES

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

39.1 Background: 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.

39.2 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).

Inflation Measures : Conceptual issues

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. 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.*

39.4 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.

39.5 *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.*

39.6 *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.*

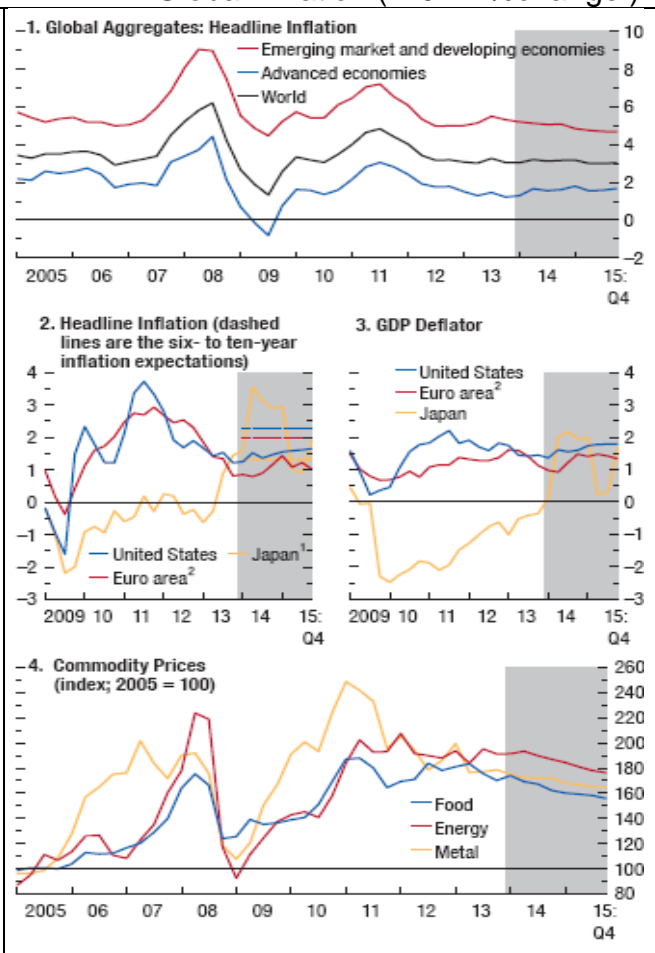
Historical Trends in Inflation :

Global inflation pressure is generally subdued. In the **euro area** and the **United States**, headline inflation is expected to remain below longer-term inflation expectations; In **Japan**, inflation started to increase with stronger growth and the depreciation of the yen during the past year or so. In 2014–15, it is projected to accelerate temporarily in response to increases in the consumption tax.

Consistent with slowing activity and stabilizing commodity prices, inflation has eased in **emerging market and developing economies** and is expected to decline from about 6 percent currently to about 5¼ percent by 2015

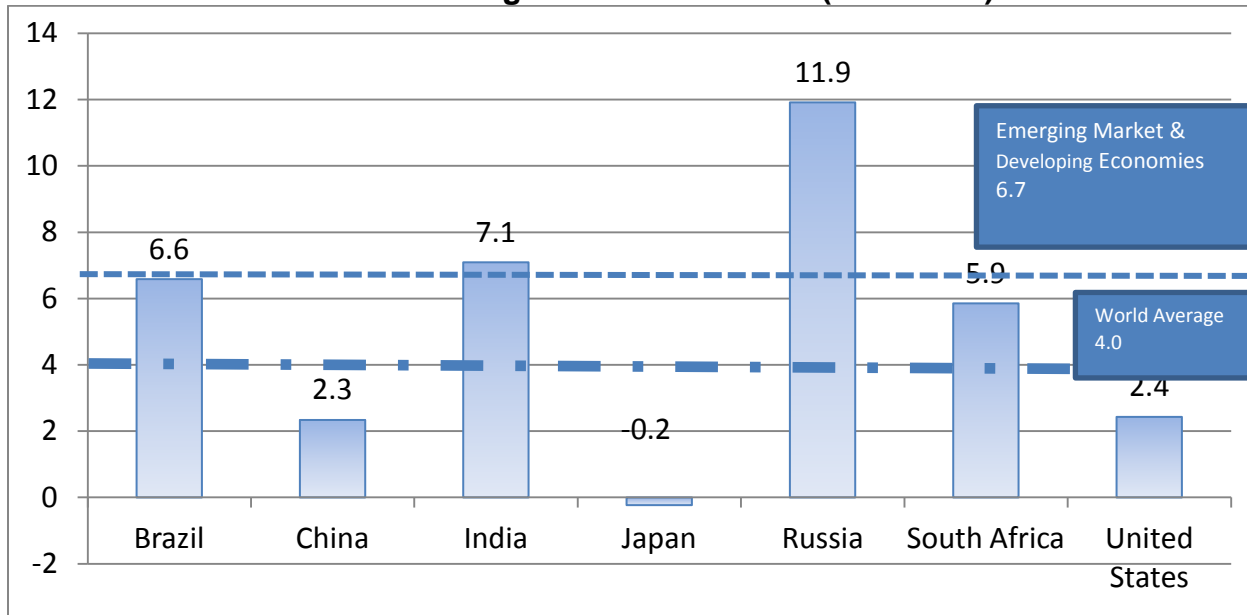
Overall, Inflation is generally projected to remain subdued in 2014–15 with continued sizable negative output gaps in advanced economies, weaker domestic demand in several emerging market economies, and falling commodity prices, specially fuels and food.

Global Inflation (Y-0-Y %change)



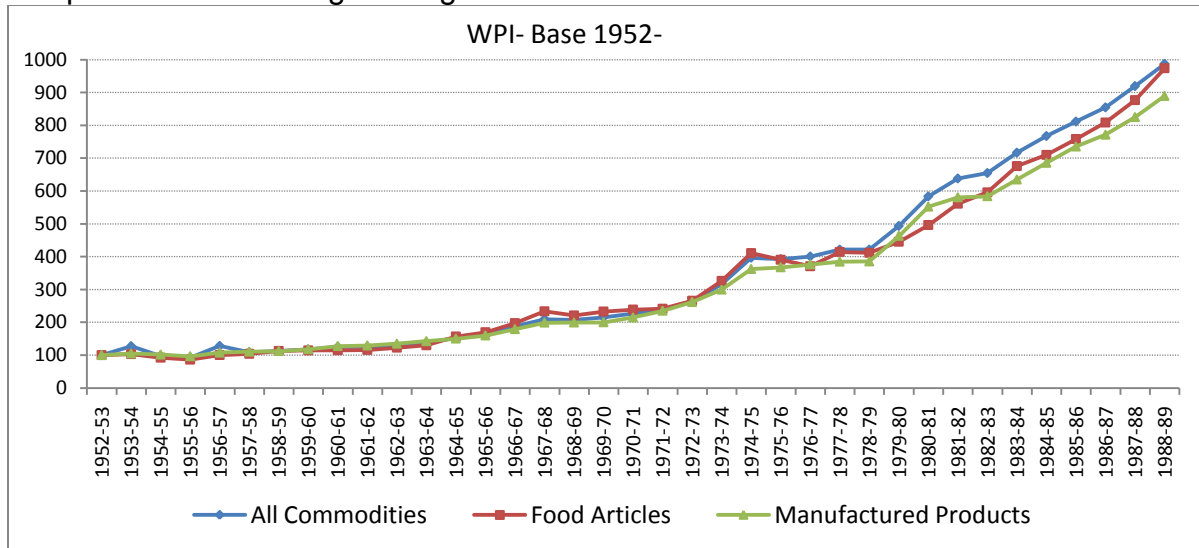
Source : World Economic Outlook, 2014, International Monetary Fund

Inflation - Average Consumer Prices (2000-2013)



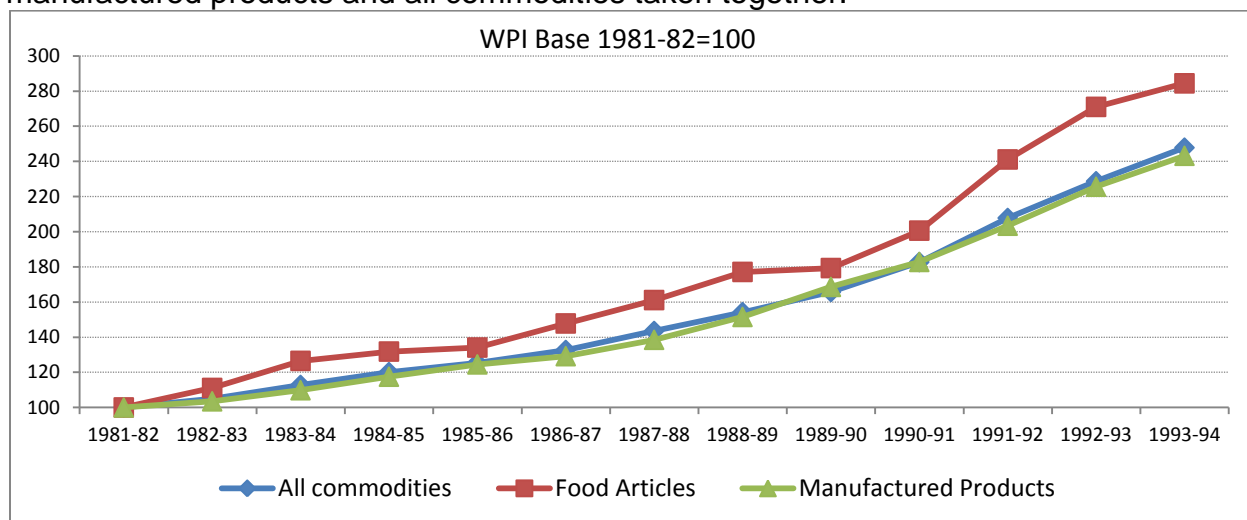
39.7 Comparison across emerging and developing economies (EDEs) and advanced economies indicates that inflationary pressure has been higher in the case of EDEs, higher than the world average. Amongst BRICS, only China has inflation below the world average and is placed close to US. In Japan, average consumer prices have fallen, against the mild or sharp increase witnessed in other countries.

39.8 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.



39.9 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.



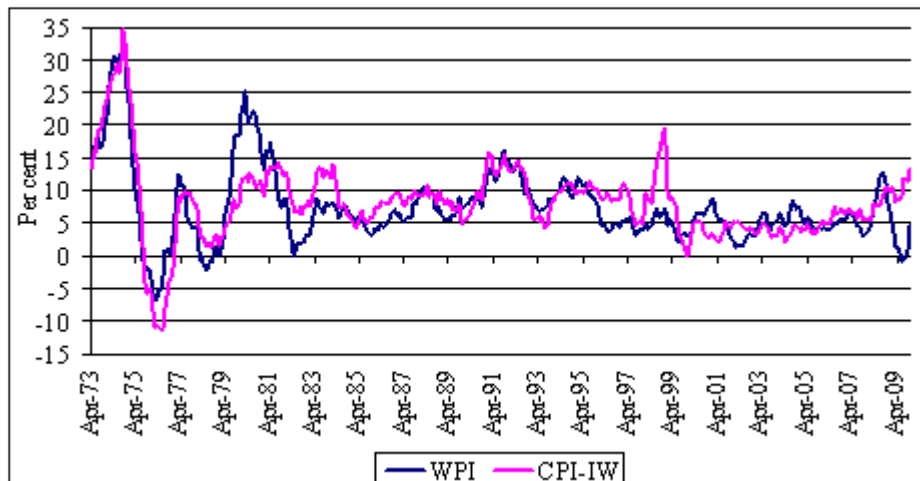
39.10 However, India is a moderate inflation country. For example, in the 62 years since 1950-51 average annual inflation rate as measured by changes in the wholesale price index (WPI) increased at a rate of 6.7 per cent per annum, which is not a very high rate considering that many countries, both developed 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.

Divergence Between WPI & CPI:

39.11 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.

39.12 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



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

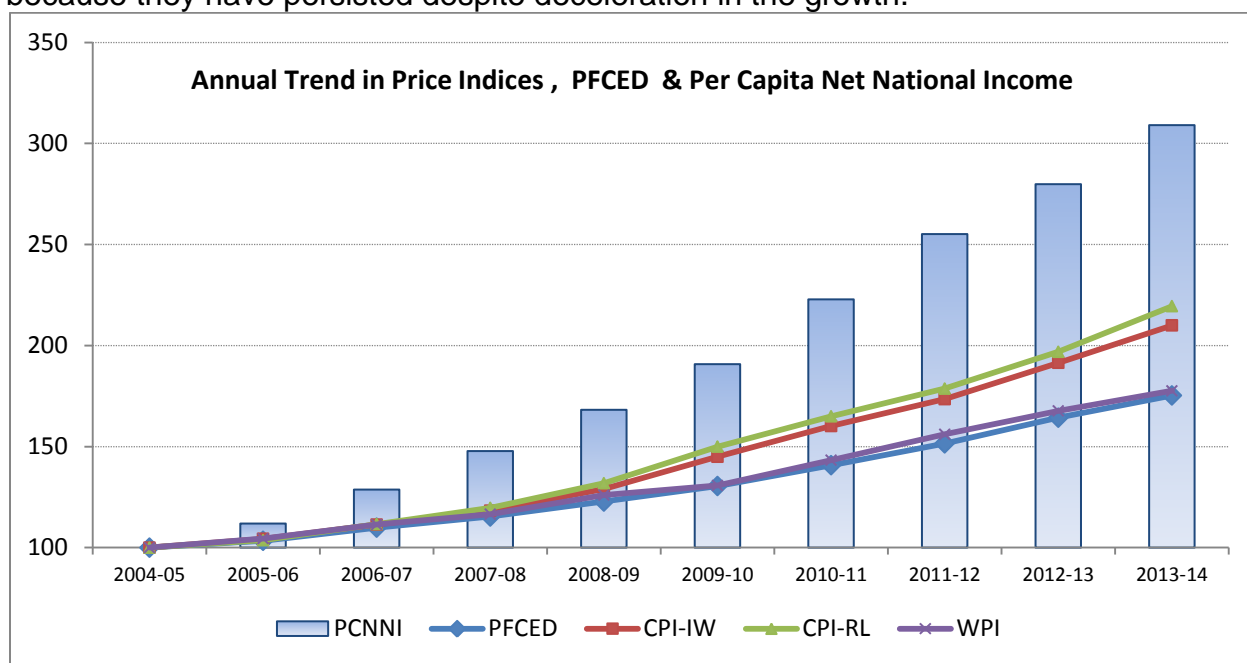
Average Annual Change in Percent

Decades	WPI	CPI-IW	GDP Deflator	PFCE Deflator
1971-72 to 1980-81	10.3	8.3	8.8	8.5
1981-82 to 1990-91	7.1	9.0	8.7	8.4
1991-92 to 2000-01	7.8	8.7	8.0	8.4
2001-02 to 2010-11	5.2*	5.3*	5.7	4.7
2011-12 to 2013-14	7.4	9.6	7.4	7.3
Long-term Trend 1971-72 to 2013-14	7.7*	8.0*	7.8	7.5

(*) the average is taken including data up to 2008-09

39.14 **Recent trends in Inflation:** Consumer price inflation, with higher weights on food, have been generally higher than the headline WPI inflation. However, private final consumption expenditure deflator (PFCE) 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.

39.15 In comparison with previous years, inflation showed signs of receding with average wholesale price index (WPI) inflation falling to a three-year low of 5.98 per cent during 2013-14. Consumer price inflation, though higher than the WPI, has also exhibited signs of moderation with CPI (new-series) inflation declining from 10.21 per cent during 2012-13 to about 9.49 per cent in 2013-14. Food inflation, however, remained stubbornly high during FY 2013-14. As inflation remained above the comfort level of the Reserve Bank of India (RBI), the tight monetary policy stance was maintained by the Central Bank. The depreciation of the rupee, following the taper indication by the Federal Open Market Committee (FOMC) in May 2013, also impacted the inflation situation. Recent inflationary pressures have become more troublesome because they have persisted despite deceleration in the growth.



39.16 **Factors affecting 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. 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. 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.

39.17 Wholesale Price Index (WPI): 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.

39.18 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 structure 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.**

39.19 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

39.20 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

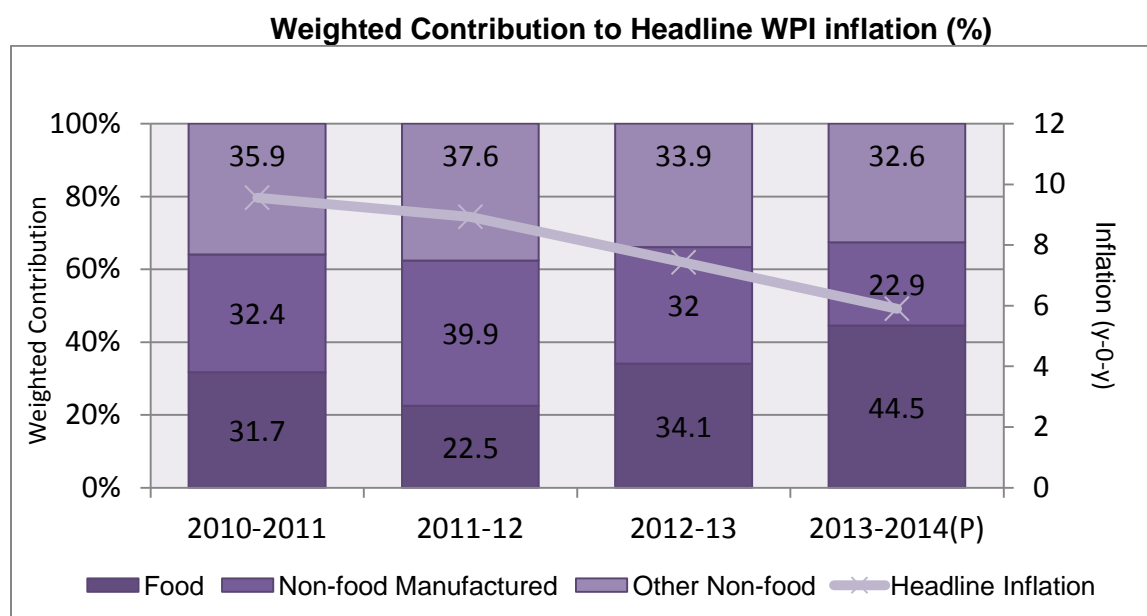
Change in Reporting of Inflation

39.21 At present the WPI for all commodities including manufactured products is released only on a monthly basis. However, until recently WPI for primary 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.

39.22 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.

39.23 Drivers of headline inflation : Inflation, as measured by the WPI, which reflects prices of tradeables, has remained above 7 since December 2009 till third quarter of 2012-13 but has moderated in 2013-14 to 5.98 per cent, falling from between 7 and 9 per cent over the previous two years. Food inflation has been particularly elevated during recent years, contributing to an average of one third of total inflation. In 2013-14 also, despite moderation in WPI, the largest contribution to headline WPI inflation has been from food and fuel. WPI food inflation has remained persistently high during 2013-14, reaching a peak of 11.95 per cent in Q3. This was led by high inflation in cereals, vegetables, and eggs, fish and meat (EFM). Spike in prices of fruits and vegetables was mainly owing to seasonal factors. Prices of EFM reflected higher rural and urban demand. Inflation in cereals was a product of rising rural wages and costs of cultivation. Of these, the sharpest correction took place in fruits and vegetable prices in Q4 of 2013-14, pulling overall food inflation down to 6.22 per cent in that quarter. However, the structural and policy-related factors causing inflation still need to be addressed. Fuel

inflation remained in double digits in the last three quarters, largely on account of movements in global crude prices, exchange rates, and revision in the administered prices. Electricity tariffs were revised, and raised, in several states and pass-through of both global crude prices, as well as rupee depreciation particularly after the taper announcement by the US Federal Reserve in May 2013 increased domestic prices of several sub-components such as high-speed diesel. Inflation in non-food manufactured (NFM) commodities, i.e core inflation, remained benign at around 2.5-3.5 per cent throughout the year on account of lower international prices and growth slowdown.



39.24 Consumer Price Index : (Rural/Urban/Combined) & Inflation :The Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation releases Consumer Price Indices on base 2010 = 100 for All India and States/UTs separately for rural, urban and combined every month since January 2011 and annual inflation rates from January 2012 onwards.

39.25 Inflation Trend from January, 2012 to November 2014 :All India annual inflation rates, on point to point basis (month of current year over same month of previous year), based on different types of Price Indices are given below

All India annual inflation rates (point to point) during Jan, 12 to November, 14

Month	CPI (Rural)	CPI (Urban)	CPI (Combined)	CPI(IW)	CPI(AL)	CPI(RL)	WPI
Jan-12	7.28	8.25	7.65	5.32	4.92	5.27	7.23
Feb-12	8.36	9.45	8.83	7.57	6.34	6.68	7.56
Mar-12	8.70	10.30	9.38	8.65	6.84	7.19	7.69
Apr-12	9.67	11.10	10.26	10.22	7.84	8.01	7.50
May-12	9.57	11.52	10.36	10.16	7.77	8.11	7.55

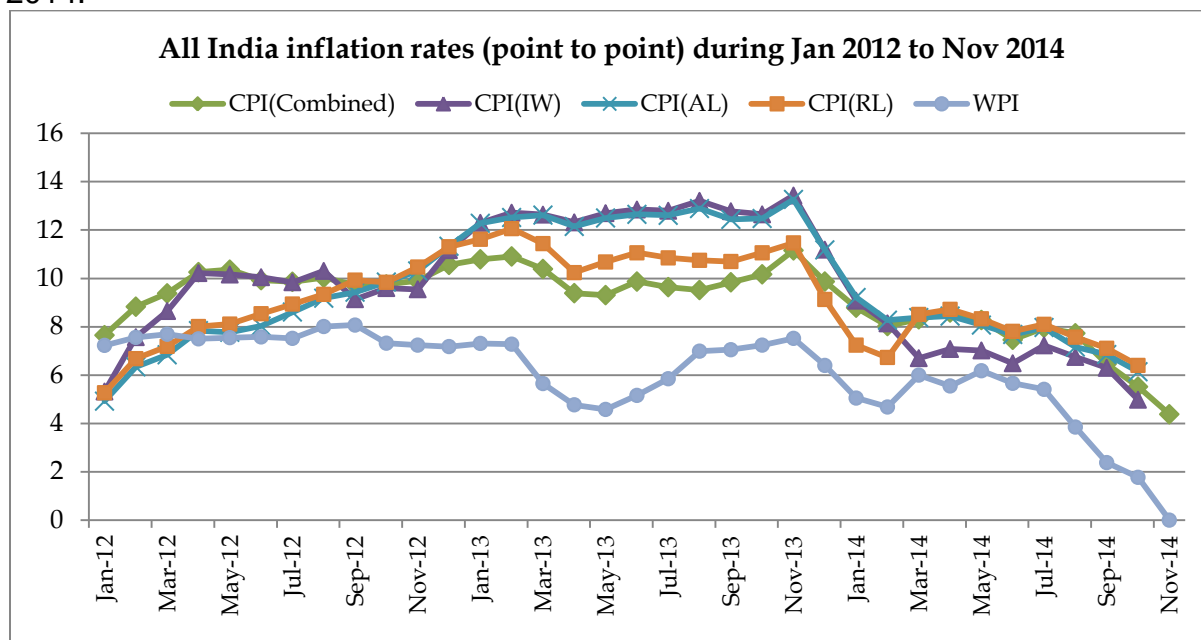
Month	CPI (Rural)	CPI (Urban)	CPI (Combined)	CPI(IW)	CPI(AL)	CPI(RL)	WPI
Jun-12	9.65	10.44	9.93	10.05	8.03	8.54	7.58
Jul-12	9.76	10.10	9.86	9.84	8.61	8.94	7.52
Aug-12	9.90	10.19	10.03	10.31	9.18	9.34	8.01
Sep-12	9.79	9.72	9.73	9.14	9.43	9.93	8.07
Oct-12	9.90	9.46	9.75	9.60	9.85	9.84	7.32
Nov-12	9.97	9.69	9.90	9.55	10.31	10.47	7.24
Dec-12	10.74	10.42	10.56	11.17	11.33	11.31	7.18
Jan-13	10.79	10.73	10.79	12.30	12.28	11.62	7.31
Feb-13	11.01	10.84	10.91	12.72	12.52	12.06	7.28
Mar-13	10.41	10.38	10.39	12.64	12.62	11.44	5.65
Apr-13	9.16	9.73	9.39	12.32	12.15	10.24	4.77
May-13	8.98	9.65	9.31	12.70	12.50	10.68	4.58
Jun-13	9.63	10.13	9.87	12.85	12.65	11.06	5.16
Jul-13	9.14	10.18	9.64	12.80	12.61	10.85	5.85
Aug-13	8.93	10.32	9.52	13.21	12.89	10.75	6.99
Sep-13	9.71	9.93	9.84	12.78	12.44	10.70	7.05
Oct-13	10.19	10.20	10.17	12.65	12.48	11.06	7.24
Nov-13	11.66	10.53	11.16	13.43	13.27	11.47	7.52
Dec-13	10.49	9.11	9.87	11.19	11.18	9.13	6.40
Jan-14	9.35	8.09	8.79	9.08	9.21	7.24	5.05
Feb-14	8.43	7.55	8.03	8.14	8.27	6.73	4.68
Mar-14	8.89	7.51	8.31	6.7	8.38	8.51	6.00
Apr-14	9.17	7.69	8.59	7.08	8.44	8.72	5.55
May-14	8.86	7.55	8.28	7.02	8.07	8.33	6.18
Jun-14	7.87	6.82	7.46	6.49	7.68	7.81	5.66
Jul-14	8.37	7.42	7.96	7.23	7.97	8.1	5.41
Aug-14	8.27	7.04	7.73	6.75	7.16	7.57	3.85
Sep-14	6.68	6.34	6.46	6.3	6.85	7.11	2.38
Oct-14	5.52	5.63	5.52	4.98	6.14	6.4	1.77
Nov-14*	4.09	4.69	4.38	NA	NA	NA	0.00

NA: Not available

*Inflation rates for the month are provisional

39.26 Inflation based on general Consumer Price Index (Combined) ranged from 4.38% to 11.16 % from January 2012 to November 2014, with minimum in the month of November 2014 and maximum inflation in November 2013. The rate of inflation increased gradually from 7.65 % in January 2012 to 10.26 % in April 2012, subsequently, it remained oscillating around 10.0 % till November 2012 (seven months). It registered sudden jump in December 2012 and reached to the level of 10.56% and remained in two digit level till March 2013 (10.39%). From April 2013 till September 2013, it was moving between 9.3% and 9.9% and crossed the boundary of single digit

again in October 2013, when it became 10.17%. After November 2013, the inflation has shown the declining trend and touched the level of 4.38% in the month of November 2014.



39.27 Similar trends, of rise and fall, were also observed in the inflation rates based on segment specific Consumer Price Indices, namely CPI (IW), CPI (AL) and CPI (RL), and Wholesale Price Index with some deviations. Inflation rates based on CPI (IW) was lower than that based on CPI (Combined) from January 2012 to April 2012. Thereafter, the rates based on both the indices were concurrent for seven months. In December 2012, CPI (IW) registered higher price rise as compared to CPI (Combined) and the gap between the rates based on these two indices increased in subsequent months, which range from 0.6 percentage point to 3.7 percentage point during December 2012 to December 2013. In the year 2014, this gap is started narrowing. It has ranged from 0.11 percentage point to 1.61 percentage point.

39.28 The inflation rate based on CPI (AL), which was below the rate of CPI (Combined) from January 2012 to October 2012, moved ahead of the latter rates. The CPI (AL) observed higher price rise as compared to CPI (Combined) during 2013. The gap minimized in the current year, i.e. 2014. CPI (RL) also behaved in a similar fashion.

39.29 The inflation rate based on WPI has been, on an average, lower than that based on CPI (Combined) by 3.0 percentage points during January 2012 to November 2014. The rate based on CPI (Combined) was higher than that of WPI by 2.1 percentage point (on an average) in 2012 whereas this gap increased to 3.7 percentage point (on an average) in 2013. In the year 2014 this gap is again widening. In the month of November 2014, CPI (Combined) has slipped to 4.38 % whereas WPI has shown zero inflation. Differences in inflation rates measured from WPI and CPI are due to differences in coverage of items, weighting pattern and different types of markets from where prices are collected. Looking at the category of food items, the difference between the inflation rates based on WPI and CPI (Combined) has generally been

below 3.0 percentage points during 2013, except for two months, namely, March and April 2013. Such gap is acceptable internationally due to additional agents between wholesale and retail markets.

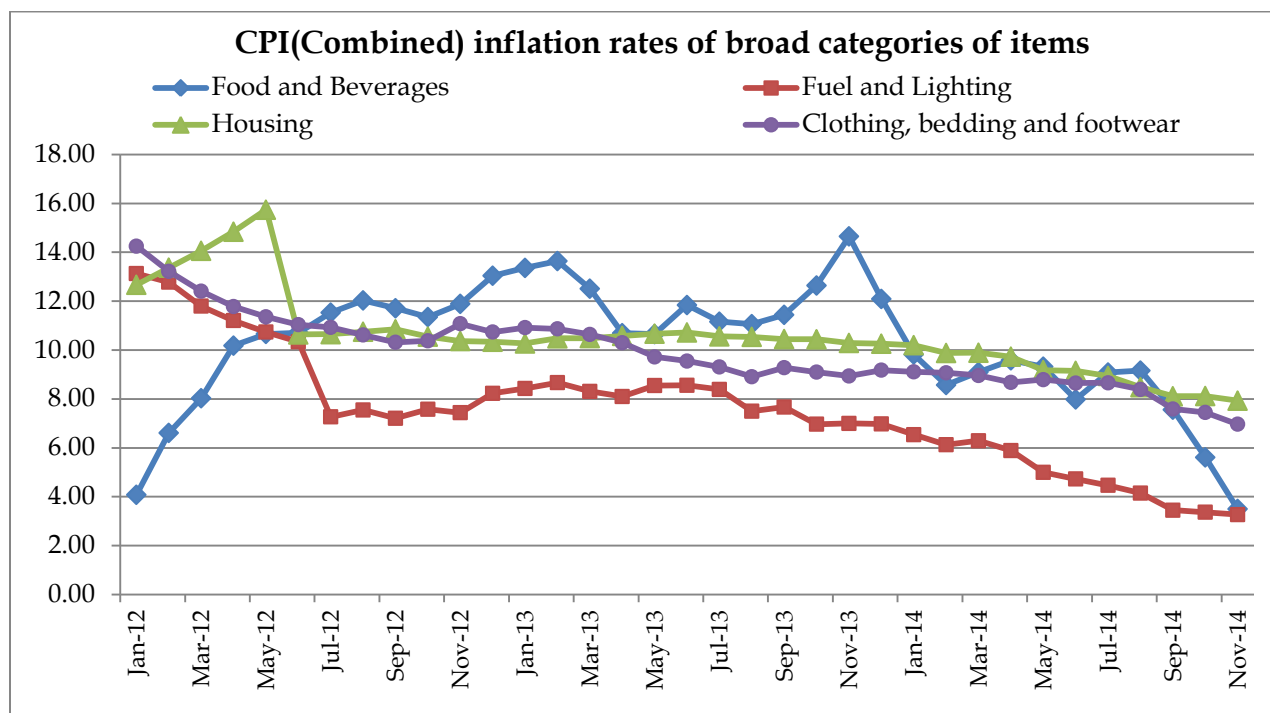
39.30 CPI – Inflation at the level of Broad Category of Items: CPI inflation rates, at the level of broad categories of items, are given below:

All India annual inflation rates (point to point), in respect of broad categories of items, during Jan, 12 to November, 14

Month	Food and Beverages			Fuel and Lighting			Housing	Clothing, bedding and footwear		
	Rural	Urban	Comb.	Rural	Urban	Comb.	Urban	Rural	Urban	Comb.
Jan-12	4.16	4.01	4.08	13.60	12.43	13.13	12.67	13.78	15.39	14.25
Feb-12	6.30	7.14	6.61	13.05	12.19	12.78	13.37	12.68	14.01	13.22
Mar-12	7.63	9.15	8.03	11.67	11.92	11.80	14.06	11.99	12.97	12.41
Apr-12	9.77	10.69	10.18	10.32	12.63	11.21	14.84	11.45	12.33	11.78
May-12	10.16	11.29	10.66	9.28	13.06	10.74	15.74	11.01	11.94	11.36
Jun-12	10.31	11.52	10.71	9.08	12.55	10.34	10.64	10.79	11.56	11.04
Jul-12	11.33	12.15	11.53	6.83	7.98	7.27	10.65	10.59	11.44	10.93
Aug-12	11.81	12.67	12.03	7.35	8.09	7.55	10.75	10.37	11.14	10.62
Sep-12	11.67	11.61	11.71	7.12	7.27	7.21	10.85	9.96	10.94	10.32
Oct-12	11.85	10.70	11.35	7.23	8.11	7.58	10.55	10.30	10.72	10.38
Nov-12	12.04	11.43	11.89	6.43	9.08	7.44	10.37	11.38	10.60	11.08
Dec-12	13.09	12.94	13.04	7.65	9.14	8.23	10.34	11.03	10.34	10.74
Jan-13	13.13	13.81	13.36	7.84	9.52	8.43	10.27	11.21	10.35	10.92
Feb-13	13.53	13.87	13.64	8.16	9.68	8.67	10.48	11.26	10.28	10.87
Mar-13	12.51	12.23	12.51	7.65	9.55	8.31	10.49	11.03	9.97	10.64
Apr-13	10.62	10.94	10.69	7.71	8.87	8.10	10.58	10.51	9.79	10.3
May-13	10.41	11.41	10.65	8.33	9.06	8.55	10.67	9.76	9.65	9.72
Jun-13	11.44	12.75	11.84	8.33	9.00	8.56	10.72	9.58	9.58	9.55
Jul-13	10.50	12.30	11.16	7.99	9.03	8.39	10.56	9.42	9.18	9.31
Aug-13	10.40	12.37	11.06	6.69	8.79	7.5	10.54	8.93	8.95	8.91
Sep-13	11.48	11.36	11.44	7.43	8.23	7.67	10.45	9.36	9.03	9.28
Oct-13	12.40	12.86	12.64	6.89	7.26	6.97	10.44	9.19	8.86	9.10
Nov-13	14.82	14.55	14.65	7.74	5.89	7.00	10.29	9.10	8.62	8.94
Dec-13	12.60	11.06	12.09	7.72	5.95	6.98	10.26	9.56	8.56	9.18
Jan-14	10.59	8.20	9.82	7.04	5.67	6.54	10.2	9.57	8.28	9.11
Feb-14	9.27	7.10	8.57	6.48	5.42	6.13	9.88	9.60	8.08	9.07
Mar-14	9.95	7.47	9.10	7.03	4.94	6.29	9.89	9.50	8.12	8.96
Apr-14	10.29	8.24	9.58	6.63	4.53	5.89	9.73	9.30	7.77	8.68
May-14	10.04	7.89	9.32	5.65	3.89	5.00	9.18	9.47	7.58	8.79
Jun-14	8.61	6.65	7.98	5.45	3.41	4.73	9.15	9.39	7.32	8.65
Jul-14	9.65	8.27	9.08	5.18	3.24	4.47	8.94	9.46	7.21	8.66
Aug-14	9.57	8.22	9.16	5.02	2.69	4.15	8.48	9.05	7.16	8.39

Month	Food and Beverages			Fuel and Lighting			Housing	Clothing, bedding and footwear		
	Rural	Urban	Comb.	Rural	Urban	Comb.	Urban	Rural	Urban	Comb.
Sep-14	7.67	7.47	7.56	4.00	2.46	3.45	8.11	8.07	6.75	7.59
Oct-14	5.73	5.45	5.61	3.91	2.46	3.37	8.12	8.14	6.21	7.45
Nov-14*	3.62	3.19	3.50	3.59	2.74	3.27	7.93	7.66	5.75	6.97

*Inflation rates for the month are provisional.



39.31 CPI (Combined) inflation rate in respect of 'Food & Beverages', which was at moderate level of 4.08% in January 2012, continuously increased every month till February 2013 and reached to the level of 13.64%, except for August and September 2012. Though, the rate started declining since March 2013 till September 2013, it remained at two digit level. The price rise shot up in November 2013 for this category and touched the peak of 14.65%. During current year, i.e. in 2014, the inflation rate of 'Food & Beverages' has touched to its' minimum level of 3.5% in the month of November 2014.

39.32 The 'Fuel and Light' category reflected opposite trend. The inflation rate, which was very high to the level of 13.13% in January 2012, declined every month till July 2012 and reached the level of 7.21%. Subsequently, there were marginal fluctuations but the rate remained varying between 6 to 8% till March 2014. After March 2014 it started declining and reduces to 3.27% in November 2014.

39.33 The behaviour of inflation rate in respect of 'Housing' has been similar to that of 'Fuel and Light'. During January 2012 to May 2012, the rate varied between 12.67% and 15.74%. Subsequently, a sharp decline was observed in June 2012, when it

reduced to the level of 10.64%. The inflation rate of 'Housing' remained hovering around 10.5% from June 2012 to January 2014. Since February 2014, it has reduced to single digit level.

39.34 In case of 'Clothing, Bedding & Footwear', continuous decline in the inflation rate has been observed during the period January 2012 to November 2014 with marginal fluctuations. The rate which was very high at the level of 14.25% in January 2012 has now come down to the level of 6.97 % in November 2014.

39.35 CPI – Inflation of Major States/UTs : Inflation rates based on CPI (Rural), CPI (Urban) and CPI (Combined) for major States, having population more than 50 lakh (as per 2011 Population Census), are given in Annexure. Other states have smaller sample size. The small sample size sometime affects robustness of the estimate. Therefore, the inflation rates for the remaining states have not been computed. States, namely, Delhi, Uttar Pradesh, Bihar, West Bengal, Jharkhand, Chhattisgarh, Madhya Pradesh, Andhra Pradesh (undivided), Karnataka and Tamil Nadu have generally registered inflation rates more than the All India average. Out of 35 months, since January 2012 to November 2014, inflation rates, in respect of these States, have been observed higher than the national average in more than 14 months.

39.36 Data Collection

(i) CPI (Rural) From each district, two villages were selected. However, in case of some States with higher population but lesser number of districts, additional villages have been selected. There are in total 1181 villages. These villages have been distributed more or less equally among the four weeks to take into account weekly variations in the prices. Number of items for price data collection identified through the market survey varies not only among States/UTs but also among the villages within the State/UT and it is around 225. Price data are collected from the selected shops in the villages every month by the Department of Posts.

(ii) CPI (Urban) All State/UT capitals and other cities, having population (as per 2001 Population Census) of more than 9 lakh, were purposively selected and other towns were randomly selected. Total number of selected towns across the country is 310. Allocation of markets and rented dwellings to the selected towns was done on the basis of 2001 population of the town.

39.37 Total number of selected markets is 1114 and these markets represent different geographical areas of the town and also popularity among different segments of the population (poor, middle and affluent) living in the town. These markets have been distributed more or less equally among the four weeks of the month to capture week to week variations. Number of items for price data collection identified through the market survey varies not only among States/UTs but also among the markets within the State/UT and it is around 250. Each selected market is visited every month for price data collection from shops/outlets.

39.38 As regards rent data collection, each of 6,684 sample rented dwellings is visited once in six months period (January—June, July- December) for canvassing the house rent schedule. Data collection in the urban areas is undertaken by the National Sample Survey Office.

Consumer Price Index Industrial Workers

39.39 **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.

39.40 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).

39.41 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.

Agricultural and Rural Labourers (Base Year 1986-87=100)

39.42 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 38 th 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>).

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