



Stay watchful: On October Inflation Data

The Hindu

Paper - III
(Indian Economy)

❖ Policymakers can ill-afford to drop their guard in the fight against inflation.

October's inflation data point to a welcome softening in price gains that should offer some succour to monetary policy authorities, who have been battling to rein in runaway inflation since the beginning of this year. Retail inflation, or price gains based on the Consumer Price Index, slowed to 6.77% last month, from September's 7.41%, aided by an appreciable deceleration in food price inflation.

Why the fall in inflation

The year-on-year inflation based on the Consumer Food Price Index eased by almost 160 basis points in October, to 7.01%, from the preceding month's 8.60%, helped by a "decline in prices of vegetables, fruits, pulses and oils and fats", the Government said. With the food and beverages sub-index representing almost 46% of the CPI's weight, the slowdown in food price gains understandably steered overall inflation lower even as price gains in three other essential categories, namely clothing and footwear, housing, and health, remained either little changed from September or quickened.

Wholesale price index also declined

Inflation at the wholesale prices level also continued to decelerate, with the headline reading easing into single digits for the first time in 19 months. A favourable base effect along with a distinct cool-

Inflation

Inflation refers to the continuous increase in the prices of goods and services used by people in daily life, such as food, clothing, housing, entertainment, and transportation, etc. Inflation in India is mainly measured by two main indices. One is the Wholesale Price Index and the other is the Consumer Price Index.

Wholesale Price Index (WPI)

- Wholesale Price Index (WPI) is used to measure the prices of goods at the wholesale level. In fact, the Wholesale Price Index measures the change in the prices of goods sold in bulk by traders in India.
- It is published by the Office of Economic Adviser, Ministry of Commerce and Industry.
- It is the most commonly used Inflation Indicator in India.
- This index is criticized because the general public does not buy products at wholesale prices. In the year 2017, the base year of WPI for India has been revised from 2004-05 to 2011-12.

ing in international prices of commodities including crude oil and steel amid gathering uncertainty in advanced economies was largely instrumental in tempering wholesale price gains.

Why policy makers need to be vigilant

Still, a closer look at sequential trends in retail inflation, especially in food items, flag the imperative for policymakers to remain watchful. While year-on-year inflation in vegetable prices slowed sharply to 7.77% last month, from September's breathless 18% pace, the month-on-month gains accelerated to a four-month high of 4.1% and point to concerns that the supply disruptions caused by unseasonal rains in vegetable-growing regions as well as logistical difficulties posed by monsoon flooding may continue to keep prices volatile, at least in the near term.

Government's effort and concern

Prices of staple cereals including rice and wheat also remain an object of concern, notwithstanding the Government's concerted efforts to cool volatility using export control measures. While inflation in the largest weight in the food basket ticked up to 12.1% in October, from the previous month's 11.5%, sequentially, price gains came in at 1%, moderating in pace from September.

Reports of paddy crops being submerged or affected by heavy rains in different parts of the country coupled with the shortages of wheat and flour that have pushed up their prices all signal more volatility ahead in cereal prices. With S&P Global's latest Business Outlook survey pointing to an intensification of wage pressures and producer pass-through of costs, authorities can ill-afford to drop their guard in the fight against inflation.

Consumer Price Index (CPI):

- CPI measures the change in prices based on retail trade and is released by the National Statistical Office (NSO). It calculates the difference in prices of goods and services such as food, medical care, education, electronics, etc., that Indian consumers buy for consumption.
- It has several sub-groups which include food and beverages, fuel and lighting, housing and clothing, bedding and footwear. The base year of CPI is 2011-12.

There are following four types of CPI:

1. CPI for Industrial Workers (IW)
 2. CPI for Agricultural Laborer (AL)
 3. CPI for Rural Laborer (RL)
 4. CPI (Rural/Urban/Combined)
- The data for the first three of these is compiled by the Labor Bureau of the Ministry of Labor and Employment, while the fourth type of CPI is compiled by the Central Statistics Organization under the Ministry of Statistics and Program Implementation. Statistical Organization-CSO) is compiled by.
 - The base year of consumer price index for industrial workers is 2016.
 - The base year of Consumer Price Index for Agricultural and Rural Laborers is 1986-87.
 - Monetary Policy Committee uses CPI data to control inflation (within range $4\pm 2\%$).

Difference between Wholesale Price Index and Consumer Price Index:

- WPI measures inflation at the producer level, while CPI measures the change in prices at the consumer level.
- WPI does not measure the change in prices of services, while CPI takes into account the changes in services as well.
- In WPI, more weightage is given to manufactured goods, whereas in CPI, more weightage is given to food items.

Expected Question

Que. Consider the following statements-

1. The base year of Consumer Price Index for Industrial Workers is 2016.
2. The base year of Consumer Price Index for Agricultural and Rural Laborers is 1986-87.
3. The base year of Wholesale Price Index (WPI) is 2011-12.

Which of the above is/are true?

- (a) 1 only (b) 2 only
(c) 3 only (d) all of the above

Answer : D

Mains Expected Question & Format

Que.: What do you understand by inflation? Elucidate the difference between Wholesale Price Index and Consumer Price Index and evaluate their effects.

Answer Format :

❖ **Introduction (30-40 words)**

Write about inflation.

❖ **Main Body (140-160 words)**

Writing the difference between WPI and CPI, also tell its effect.

❖ **Conclusion (40-50 words)**

Explain the measures to check inflation.

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC mains examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.