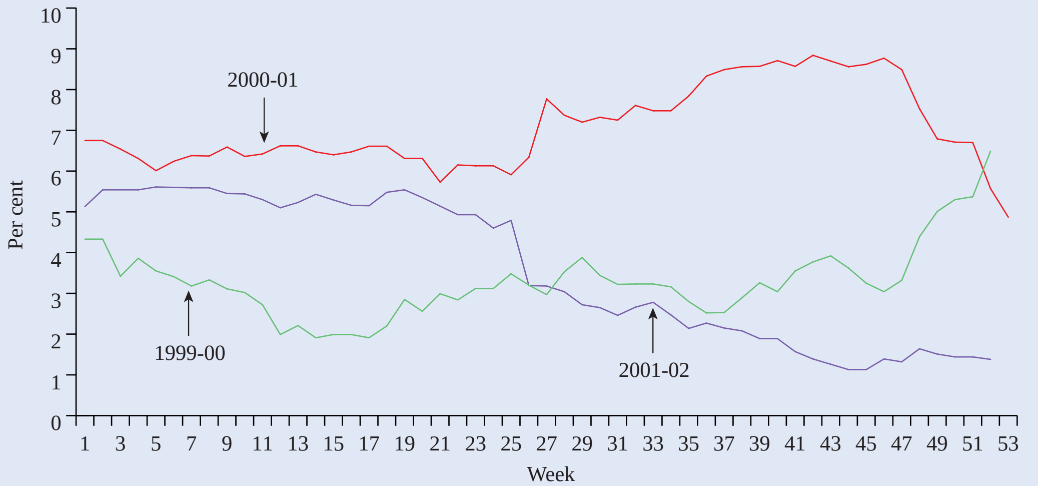
IV. Price Situation

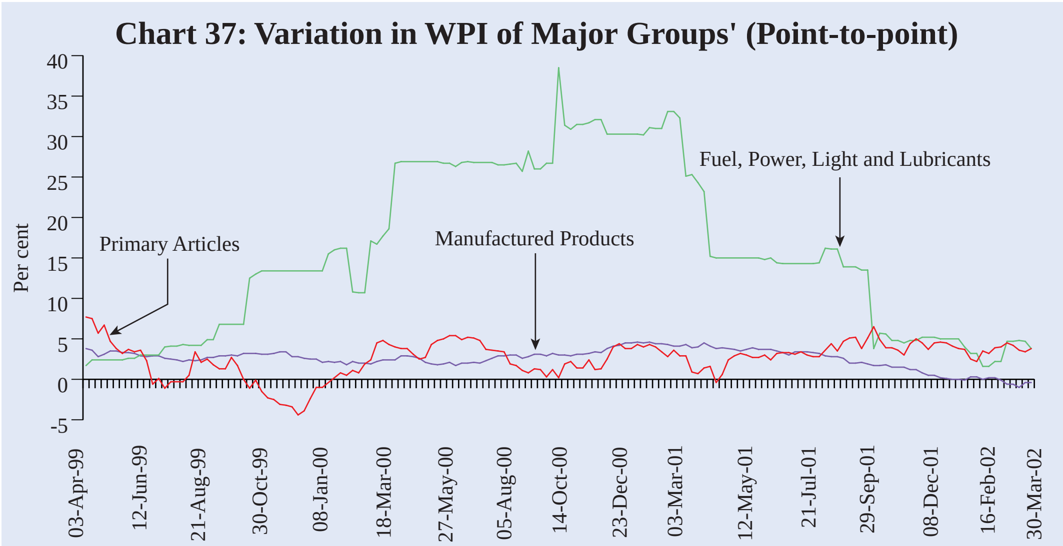
The annual rate of inflation, measured on the basis of point-to-point variations in the wholesale price index (WPI), fell from above 5.0 per cent up to August 2001 to touch a low of 1.1 per cent on February 2, 2002, before ending the financial year 2001-02 at 1.4 per cent as compared with 4.9 per cent at the end of the previous year (Chart 36). On an average basis, WPI inflation ebbed during the year and stood at 3.6 per cent during 2001-02. At the retail level, the rate of inflation, as indicated by the consumer price index for industrial workers (CPI-IW), stood at 4.1 per cent during February 2002, on an annual average basis, close to that of the previous year.

Chart 36: Annual Variations in WPI (Point-to-point)



Wholesale Price Inflation

On April 6, 2002, the annual point-to-point inflation rate was 1.3 per cent as compared with 5.1 per cent during the corresponding period of the previous year. An analysis of disaggregated data for the financial year 2001-02 indicates that, on a point-to-point basis, the annual fuel group inflation fell to 3.8 per cent in 2001-02 from 15.0 per cent during the previous year while 'manufacturing' inflation turned negative (-0.4 per cent) as against an increase of 3.8 per cent a year ago. The primary articles inflation accelerated to 3.8 per cent from a decline of 0.4 per cent during the same period (Chart 37).



Within the primary articles group, many commodities experienced moderation in inflation or even declines in prices; 'fruits and vegetables' were a notable exception with inflation increasing to 14.7 per cent in 2001-02 from a decline of 2.9 per cent a year ago. Within the fuel group, mineral oils inflation fell to 1.1 per cent from 17.0 per cent during the previous year, while that of electricity fell to 9.2 per cent from 11.5 per cent over the same period.

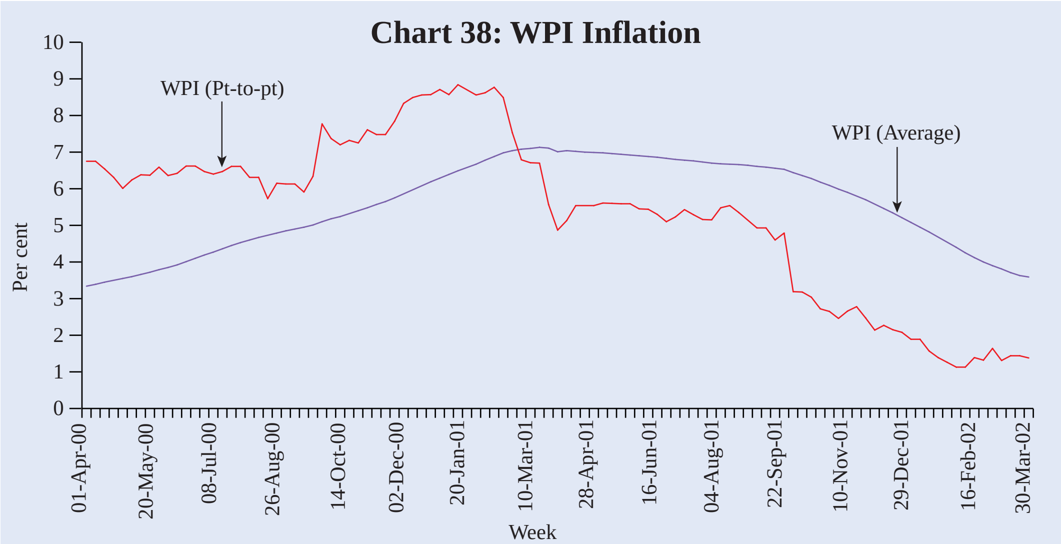
In terms of analysis of commodity-wise inflation within the manufactures category, cement, electrical machinery, cotton textiles and man-made textiles witnessed negative inflation, on a point-to-point basis, of 4.3 per cent, 1.1 per cent, 6.6 per cent and 6.5 per cent, respectively, during 2001-02 as against price rises of 20.3 per cent, 11.8 per cent, 6.3 per cent and 2.0 per cent, respectively, during 2000-01. Sugar, *khandsari* and *gur* also recorded negative inflation of 3.2 per cent during 2001-02 on the top of a negative inflation of 6.1 per cent during 2000-01. Other items in the manufacturing group which experienced deceleration in inflation were fertilizers, chemical and chemical products, transport equipments and parts, non-electrical machinery and iron and steel. On the other hand, edible oils experienced increase in the inflation rate to 12.8 per cent during 2001-02 from that of (-) 4.8 per cent during the previous year (Table 12).

Table 12: Commodity-wise WPI Inflation
(Point-to-point basis)

Commodity	Weight	Annual Variation						
		1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02P
1	2	3	4	5	6	7	8	9
All Commodities	**100.0**	**4.4**	**5.4**	**4.5**	**5.3**	**6.5**	**4.9**	**1.4**
I) Primary Articles	**22.0**	**3.1**	**9.2**	**4.6**	**7.6**	**4.00**	**-0.4**	**3.8**
i) Cereals	4.4	5.2	15.9	-4.7	22.7	4.7	-5.5	0.8
ii) Pulses	0.6	18.3	-1.3	5.2	0.1	10.7	7.1	-1.6
iii) Fruits & Vegetables	2.9	18.5	9.1	5.8	2.6	-0.7	-2.9	14.7
iv) Milk	4.4	2.7	6.4	7.0	8.1	15.8	0.4	2.8
v) Eggs, Fish and Meat	2.2	4.2	23.2	3.6	4.1	10.1	-2.1	9.1
vi) Condiments and Spices	0.7	22.1	-1.7	28.8	6.2	1.0	-13.8	2.5
viii) Fibres	1.5	-16.6	-3.0	18.2	-6.3	-3.6	7.4	-17.6
ix) Oilseeds	2.7	-4.7	4.4	3.7	4.9	-8.0	2.8	7.3
II) Fuel, Power, Light and Lubricants	**14.2**	**5.1**	**13.3**	**13.7**	**3.3**	**26.7**	**15.0**	**3.8**
i) Mineral Oils	7.00	0.2	20.8	13.5	-1.1	41.6	17.0	1.1
ii) Electricity	5.5	12.5	4.5	13.7	9.6	15.1	11.5	9.2
iii) Coal Mining	1.8	0.5	17.4	14.6	0.0	8.8	18.1	-1.6
III) Manufactured Products	**63.8**	**4.7**	**2.4**	**2.3**	**4.9**	**2.4**	**3.8**	**-0.4**
i) Sugar, *Khandsari* and Gur	3.9	3.7	11.2	6.3	14.6	2.9	-6.1	-3.2
ii) Edible Oils	2.8	-6.0	1.0	6.9	12.7	-17.9	-4.8	12.8
iii) Food Products	11.5	3.8	10.6	5.8	9.2	0.4	-3.7	0.5
iv) Cotton Textiles	4.2	-5.1	-2.0	4.5	1.2	-1.9	6.3	-6.6
v) Man-made Textiles	4.7	-1.4	-18.6	-2.7	-7.8	6.6	2.0	-6.5
vi) Chemicals & Chemical Products	11.9	6.6	4.9	0.7	11.0	5.5	4.0	1.3
vii) Fertilisers	3.7	7.1	4.9	0.0	4.0	8.7	3.4	1.8
viii) Urea-N-Content	2.2	0.0	10.3	0.0	9.0	12.8	1.8	1.3
ix) Cement	1.7	10.0	-6.9	-7.0	5.6	-0.7	20.3	-4.3
x) Iron and Steel	3.6	5.2	7.0	4.6	0.9	1.4	1.3	0.0
xi) Non-electrical Machinery	3.4	6.9	8.8	1.0	3.9	1.1	6.9	4.9
xii) Electrical Machinery	5.0	2.0	-1.4	-3.5	-1.3	-1.9	11.8	-1.1
xiii) Transport Equipment and parts	4.3	8.0	5.0	3.1	2.3	4.7	5.8	1.3

P Provisional.

Inflation, measured on the basis of variation in the average wholesale price index – an indicator of underlying inflation conditions – persistently declined during 2001-02 (Chart 38).

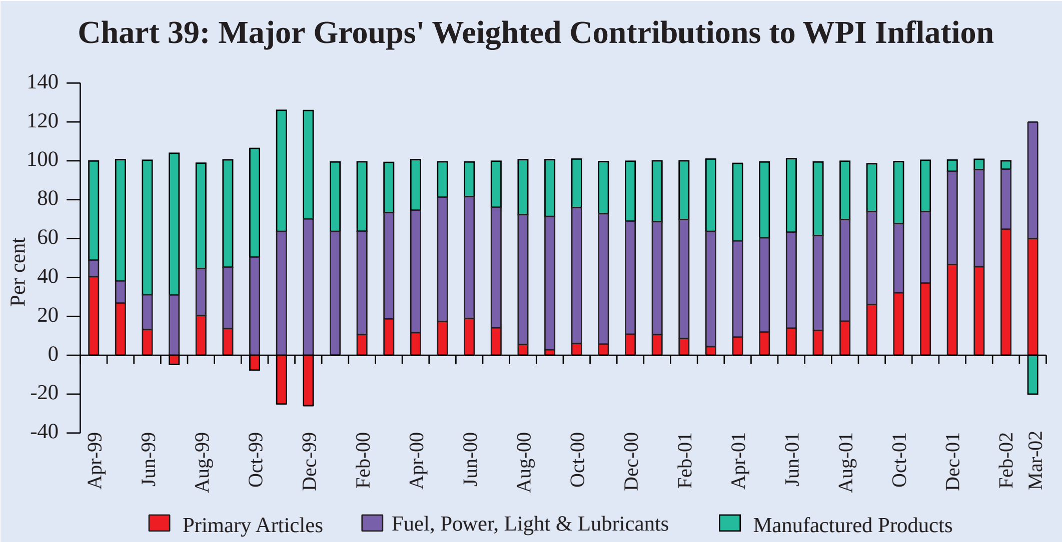


On an average basis, the WPI inflation rate was 3.6 per cent during 2001-02 as against 7.2 per cent during the previous year. The deceleration in the overall inflation was due to that of the fuel group and manufactured products groups which decelerated to 9.1 per cent and 1.8 per cent from 28.5 per cent and 3.3 per cent, respectively, during the previous year. The primary articles inflation, on the other hand, increased to 3.6 per cent from 2.9 per cent during the previous year. The weighted contribution of the fuel group in overall inflation decreased to 48.0 per cent from 63.1 per cent during the previous year; on the other hand, the contribution of the manufactured products groups increased marginally to 28.5 per cent from 27.6 per cent, while that of the primary articles group increased to 23.2 per cent from 9.7 per cent in the previous year (Chart 39).

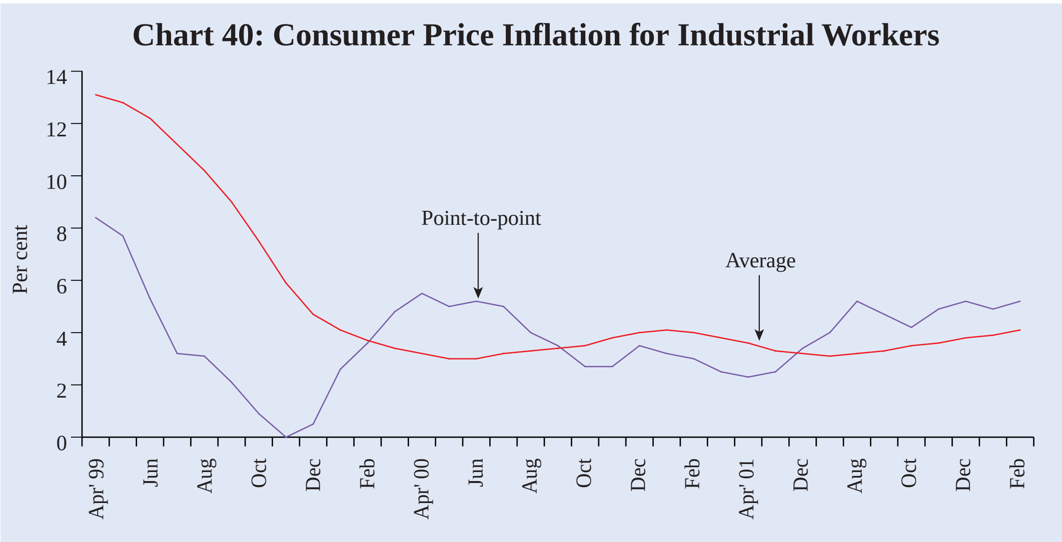
Consumer Price Inflation

At the retail level, consumer price inflation as measured by the annual variation in the consumer price index for industrial workers (CPI-IW), on a point-to-point basis, increased to 5.2 per cent in February 2002 from 3.0 per cent in February 2001. On an average basis, the annual CPI inflation rate at 4.1 per cent in February 2002 was almost the same as that of 4.0 per cent in February 2001 (Chart 40).

The average CPI-IW inflation at 4.1 per cent during 2001-02 (up to February) closely tracked the movements in the average WPI (4.0 per cent

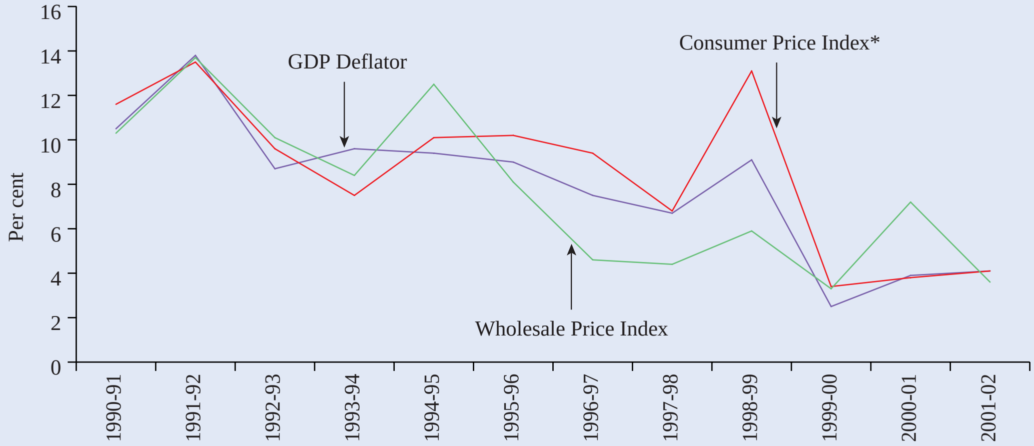


up to February). This is in contrast to the second half of the 1990s when CPI and WPI inflation often displayed divergent trends. During the first half of the 1990s, the three indicators of inflation - WPI, CPI and GDP deflator - indicated strong co-movement averaging 11.0 per cent, 10.5 per cent and 10.4 per cent, respectively. On the other hand, during the second half of the 1990s (1995-96 to 1999-2000), the WPI inflation fell significantly to an average of 5.3 per cent while the CPI inflation averaged 8.6 per cent, leading to a wedge between the two indicators.



The inflation rate based on GDP deflator averaged 7.0 per cent during 1995-2000 ruling between inflation rates reflected by the CPI and WPI. During 2000-01, the pattern was reversed as WPI inflation exceeded the inflation rate based on the CPI as well as the GDP deflator (Chart 41).

Chart 41: Movement in Alternative Indicators of Inflation @

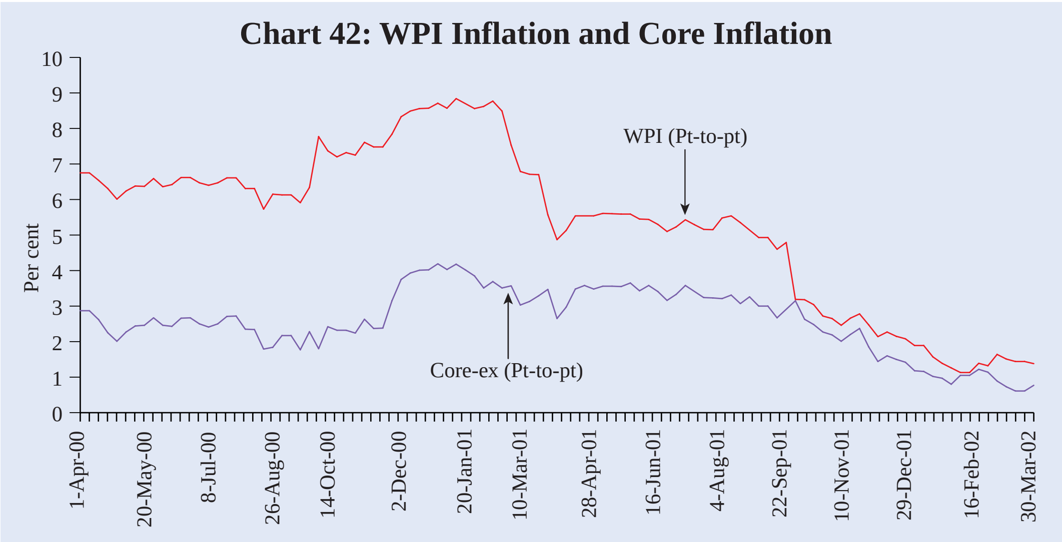


* Up to February, 2002. @ On an average basis.

Core Inflation

Headline measures of inflation are susceptible to exogenous influences like supply shocks/energy price shocks and may not fully reflect the changing/shifting domestic demand conditions. Since formulation of forward looking monetary policy requires a proper assessment of the future inflationary outlook, central banks in recent period have been focusing on various measures of inflation excluding such exogenous shocks. These measures of inflation, called core inflation, can be constructed using alternative methodologies.

In India, a measure of core inflation can be obtained by excluding the impact of price changes of items vulnerable to exogenous shocks whose prices are administered. Such administered items like fuel, mineral oils, electricity, coal mining and urea-N-content have a weightage of 16.4 per cent in the overall WPI. The inflation rate excluding such administered items remained below the headline point-to-point WPI inflation during the first half of 2001-02 on account of the base effects of price revisions in the administered prices of petroleum products effected during September 2000. In the second half of 2001-02, core inflation



converged to the headline WPI inflation path reflecting the correction in the base effect. The core inflation, as defined above, was 0.8 per cent during 2001-02, on a point-to-point basis, as against the corresponding headline rate of 1.4 per cent (Chart 42). The loss of information content in the construction of such core inflation measures and the relatively greater public acceptability of headline measures make the former useful only as indicators of underlying inflationary process in the medium-term under normal output conditions rather than as policy targets.