

# Little respite from inflation

Price rise (inflation) has been chipping away at the pockets of Indians for a long time now. The sharp increases in food prices have hit rural areas the hardest.

### FOOD, FUEL AND POWER

Since January 2012, the overall price at the wholesale level, measured by the Wholesale Price Index (WPI), has consistently risen by more than 7 per cent over the same period last year. Worse, the wholesale prices of primary articles, of which food forms a major component, have grown much faster (more than 8.5 per cent on an average). Also, the rising cost of crude oil imports and the consequent hikes in the prices of essential transport fuels (petrol and diesel) and cooking fuels have translated into double-digit fuel and power inflation.

### CASCADE EFFECT

Compounding the pain for consumers is the fact that by the time the goods and services travel the chain from the wholesale to the retail level, there is a cascade effect and the price rise becomes much higher. On an average, inflation at the consumer level, measured by the Consumer Price Index (CPI), has been around 2 percentage points higher than the inflation at the wholesalers' level.

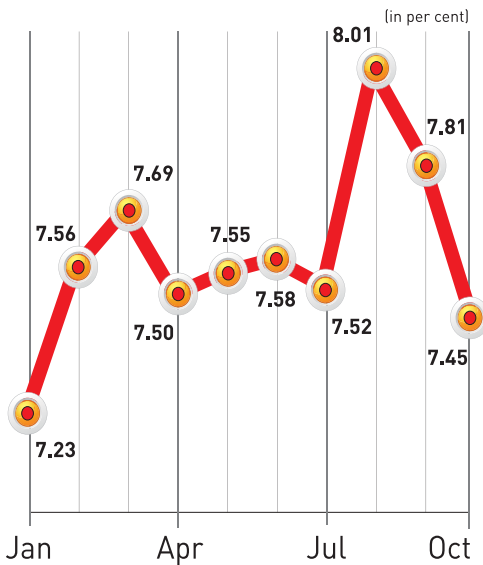
For instance, in October 2012, while the overall WPI-based inflation was 7.45 per cent, the CPI-based inflation was 9.75 per cent. And even at the consumer level, prices of food, beverages and tobacco have often risen faster than expenses on other heads such as fuel, housing and clothing.

High food inflation impacts consumers in Bharat (rural areas) more than their counterparts in India (urban areas). This is because rural India spends a larger portion (around 59 per cent) of its income on food than urban India (around 37 per cent).

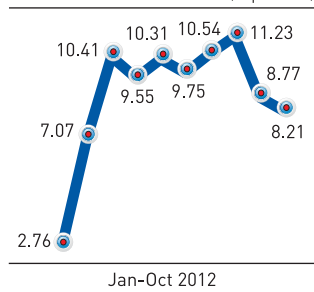
### WAGE RATES

Did wage rates in rural India keep pace with the rising costs? Data suggest that they did, for most agricultural and non-agri-

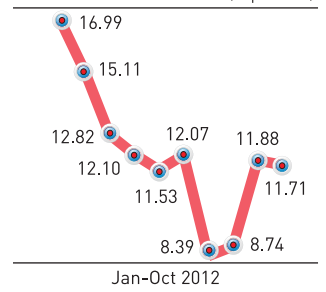
## WPI Inflation 2012



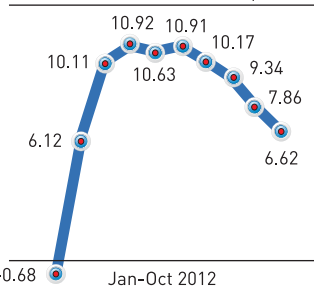
### Primary Articles (in per cent)



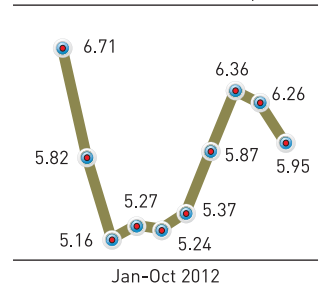
### Fuel & Power (in per cent)



### Food Articles (in per cent)



### Manufactured Products (in per cent)



Year-on-year: In comparison with the figure for the corresponding month the previous year; all data for October are provisional

Wholesale Price Index (WPI) is based on the price prevailing in the wholesale markets or the price at which bulk transactions are made. WPI takes into account the wholesale prices of 676 items. The base year for the present WPI index is 2004-05. The 100-point index is subdivided into three groups: primary articles (weight of 20.12), manufactured goods (64.97) and fuel and power (14.91). Food articles (14.34) form a part of primary articles.

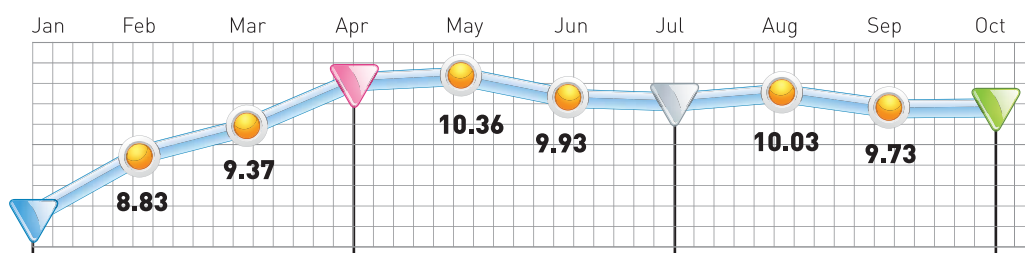
cultural occupations at an all-India level. Are the current daily wage rates sufficient for rural India to make ends meet? The daily wages at an all-India level of most worker categories (except herdsmen, who earned Rs.107.78 a day) in September 2012 were higher than the statutory minimum wage (Rs.115).

But consider this. Among the various occupations in rural India, a mason earned the highest daily wage (Rs.282.11). Even in the unlikely situation of his working all 30 days in a month, his

monthly earnings would have been just Rs.8,463. Is this good enough in a high-inflation scenario?

High inflation only compounds the rising distress of low-income households and accentuates income inequalities. On the monetary side, the Reserve Bank of India has used the interest rate weapon regularly to tackle rising inflation, but to little avail. The government has a bigger role in addressing supply-side issues.

## CPI inflation 2012 (rural and urban combined)



	Jan	Apr	Jul	Oct
<b>GENERAL INDEX</b>	<b>7.65</b>	<b>10.26</b>	<b>9.86</b>	<b>9.75</b>
<b>FOOD, BEVERAGES AND TOBACCO</b>	<b>4.55</b>	<b>10.15</b>	<b>11.59</b>	<b>11.40</b>
Cereals and products	2.69	3.84	6.45	11.82
Pulses and products	5.66	5.93	12.59	14.89
Oils and fats	13.47	17.71	17.46	17.92
Egg, fish and meat	10.45	10.04	11.02	12.18
Milk and products	16.53	14.85	12.08	10.06
Condiments and spices	11.74	4.58	1.91	2.35
Vegetables	-24.83	24.66	27.24	10.74
Fruits	10.62	2.69	9.15	5.09
Sugar, etc.	1.84	4.43	9.38	19.61
Non-alcoholic beverages	11.52	9.52	9.26	10.28
Prepared meals, etc.	10.39	9.41	8.95	9.22
Paan, tobacco and intoxicants	15.58	11.03	10.83	10.40
<b>FUEL AND LIGHT</b>	<b>13.13</b>	<b>11.21</b>	<b>7.27</b>	<b>7.58</b>
<b>HOUSING</b>	<b>12.67</b>	<b>14.84</b>	<b>10.65</b>	<b>10.55</b>
<b>CLOTHING, BEDDING AND FOOTWEAR</b>	<b>14.25</b>	<b>11.78</b>	<b>10.93</b>	<b>10.47</b>
<b>MISCELLANEOUS</b>	<b>8.93</b>	<b>8.22</b>	<b>7.53</b>	<b>6.97</b>

Year-on-year: In comparison with the figure for the corresponding month the previous year; all data for October are provisional (in per cent)

Consumer Price Index (CPI) consolidated is a combination of CPI (Urban) and CPI (Rural) based on the final prices of goods at the retail level. The base year for current CPI index is 2010. The annual CPI data measure retail prices for 200 items.

The main constituents are food, beverages and tobacco (weight 49.71); fuel and light (9.49); housing (9.77); clothing, bedding and footwear (4.73); and miscellaneous (26.31), which includes services such as medical care, education, recreation and transport.