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Draft Report - Working Group on WPI Revision

What is the issue?

- The draft technical report of the working group on revision of current series of WPI 2011-12 to new series 2017-18 is out, seeking comments.
- Revisions of the base year for Wholesale Price Index (WPI) are welcome, but creation of a producer price index should also be expedited.

What are the highlights of the draft report?

- Changing the base year for the WPI from 2011-12 to 2017-18 is required.
- This is key to reflect the structural changes in the economy, including demonetisation and GST.
- The working group has made a comprehensive evaluation of the changing consumption patterns of wholesale products and has expanded the basket.
- The number of items in the manufactured products index has increased from 564 in the current index to 1,026.
- The number of primary articles index has increased from 117 to 131 and fuel and power index from 16 to 19.
- The weight of primary articles in the new series is higher.
- This is mainly due to higher food prices in the period considered.
- Share of fuel prices has moved lower to 11.24% from 13.15%.
- This is due to the lower crude oil prices in that period.
- Manufactured products continue to have the largest share at 63.93% in the new index.
- Using the average consumption of 3 years from 2015-16 to 2017-18 is a good way to smoothen the short-term volatility in prices.
- [But average of 5 years instead of 3 years could have been considered.]
- **Business Services Price Index** (BSPI) - The report recommends having a BSPI.
- Merging BSPI with the WPI will help capture the inflation in services more accurately.
- The report suggests six price indices as separate indices and a combined BSPI.

- The separate indices are BSPI-Banking, BSPI-Insurance, BSPI-Securities, BSPI-Telecom, BSPI-Air Transport and BSPI-Railways.
- This index can be used by National Accounts Division, MOSPI, as a deflator in national accounts.

How suitable is WPI?

- The WPI was the primary inflation gauge prior to 2014.
- But since then, the consumer price index (CPI) has become the key data point used to formulate monetary policy.
- So, the focus on WPI has reduced over the years.
- The WPI is now mainly used as a deflator for nominal macroeconomic aggregates such as GDP and IIP.
- It is also used to determine escalation clause in infrastructure projects, revision of toll rates, tariff setting in ports, electricity and so on.
- The WPI has a mix of primary commodities and manufactured products as its constituents.
- This renders it unsuitable as a measure of producer price inflation.

What is the need now?

- There is a need for disseminating a Producer Price index (PPI), work on which is in progress.
- The PPI selects constituents based on supply use and avoids double counting.
- It will thus be a better measure of the inflationary pressure on businesses.
- The sub-group to facilitate smooth transition from WPI to PPI needs to expedite the process.
- A clutter of items that also find a presence in the CPI should be avoided.

Source: BusinessLine

Quick Fact

CPI and WPI

- Both CPI (Consumer Price Index) and WPI measure the inflationary trends i.e. movement of price signals within the broader economy.
- WPI tracks year-on-year wholesale inflation at the producer or factory gate level / purchase of bulk inputs by traders.
- CPI, on the other hand, tracks changes in price levels at the shop end.
- It is thus reflective of the inflation experienced at the level of consumers.
- The two indices differ in the manner in which weightages are assigned.

- This applies to food, fuel and manufactured items as well as their sub-segments.
- E.g. weightage of food in CPI is far higher (46%) than in WPI (24%).
- Also, WPI does not capture changes in the prices of services but CPI does.

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