

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2480

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DETERMINATION OF CPI AND WPI

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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has taken note of the contradiction between the figures used for determination of Consumer Price Index (CPI) and Wholesale Price Index (WPI);

(b) if so, the details in this regard indicating the nature of the said contradiction along with the reasons therefor;

(c) the difference in the said indexes as per estimated inflation rate in the country during the last three years and the current year;

(d) whether the Government proposes to resolve the controversy and remove the confusion arising out of the contradictory figures and restructure the method of calculation of CPI and WPI to make it more rational; and

(e) if so, the details thereof along with the steps taken/proposed to be taken in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) to (c) A price index is an indicator of the average price movement over time of a fixed basket of goods and services. The composition of the basket of goods and services is made keeping in view the production/trading of goods and services in the economy in the Wholesale Price Index while it is based on the goods and services which are consumed by the consumers in case of CPI. The WPI captures the prices at the first level of trading while the CPI captures the prices at the final stage of marketing of the commodity. Similarly the weights assigned to different goods and services in the index capturing the general wholesale price-level would be based on the total traded value of the commodity in case of non-agricultural commodities and marketable surplus in case of agricultural commodities. The Consumer Price Index however assigns weights to the commodities based on the relative consumption expenditure on different commodities and services by the consumers. The base years in which the commodity baskets and the weighting diagrams are finalised are also different for the Wholesale Price Index vs Consumer Price Index. The Wholesale Price Index captures inflation at the overall economy level while Consumer Price Index captures the impact of price rise as felt by the consumers as a class. Thus, Wholesale Price Index and Consumer Price Index are aimed at capturing prices of different commodity baskets with different weighting diagram and at different stages of marketing. Hence the two series of price indices need not always move in tandem. There is no contradiction in the two price indices showing divergent trends at times. No purpose would be served in having two series of price indices if they show exactly the same trend.

The details of year-on year inflation rates based on Wholesale Price Index (WPI) and Consumer Price Indices (CPIs) for last three years and current year (April-July) is indicated below:

Indices	Base	2010-11	2011-12	2012-13	2013-14
Wholesale Price Index (WPI)	2004-05	9.56	8.94	7.35	5.00P
CPI for Industrial workers					
CPI (IW)	2001	10.45	8.39	10.44	10.66#
CPI for Rural Labourers					
CPI (RL)	1986-87	10.01	8.35	10.19	12.43#
CPI for Agricultural Labourers					
CPI (AL)	1986-87	10.00	8.19	10.03	12.62#
CPI for New Series					
	2010	NA	NA	10.21	9.55P

P: Provisional, # Average April to June 2013, NA: Not Available

The CPI (IW), CPI(RL) and CPI(AL) show that in India the price indices are being compiled to meet the requirements of specific sections of the population. Different sections of the population would be consuming different commodities and/or spending different percentage of their expenditure on different commodities and services which explain why these indices do not move as parallels.

(d) & (e) In view of the above the question does not arise. As per standard practice, all the price indices would be subjected to revision of commodity baskets and their weights based on the latest production/trade in the economy for WPI and relative consumption expenditure for CPI.