

Revising the WPI

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Revising the WPI: A Step Towards More Accurate Inflation Measurement

Introduction

The **Central Government** has recently announced the formation of an **18-member expert panel** to revise the components of India's **Wholesale Price Index (WPI)**. This initiative is aimed at aligning the index with the significant structural changes in India's economy since its last update in 2011-12. The panel will also explore the possibility of transitioning to a **Producers' Price Index (PPI)**, a move that could provide more precise inflation measurement tools for economic planning.

What is Inflation?

Inflation refers to the general rise in the prices of goods and services, leading to a decrease in the purchasing power of money. Here's a clearer breakdown:

- **Inflation** occurs when prices increase **without a corresponding rise in income**, meaning you can buy fewer goods with the same amount of money.
- **Rising Inflation Rate:** A rise in inflation rate indicates that prices are increasing at a faster pace.

Example:

- **March:** 1% inflation
- **April:** 2% inflation
- **May:** 4% inflation
- **June:** 7% inflation

What is the Wholesale Price Index (WPI)?

The **Wholesale Price Index (WPI)** measures the changes in the prices of goods sold and traded in bulk by wholesalers to other businesses.

- **Scope:** Tracks only **goods** (not services).
- **Purpose:** Monitors **supply-demand dynamics** in **industries, manufacturing, and construction**.
- **Released:** Monthly by the **Economic Advisor** in the **Ministry of Commerce and Industry**.

The **rate of change** in WPI reflects the level of **wholesale inflation** in the economy.

How is WPI Calculated?

The WPI is calculated based on the wholesale prices of relevant commodities. Key details:

- **Number of Commodities: 697 items.**
- **Base Year: 2011-12 (revised to 2022-23).**

The selected commodities represent different sectors of the economy, providing a comprehensive picture of wholesale price trends.

Major Components of WPI

The WPI is divided into three major categories:

1. Primary Articles (22.62%):

- **Food Articles: Cereals, Paddy, Wheat, Pulses, Vegetables, Fruits, Milk, Meat & Fish, etc.**
- **Non-Food Articles: Oil Seeds, Minerals, Crude Petroleum.**

2. Fuel & Power (13.15%):

- Tracks prices of **Petrol, Diesel, LPG.**

3. Manufactured Goods (64.23%):

- Includes products like **Textiles, Apparels, Chemicals, Cement, Metals, and Manufactured Food Products like Sugar, Tobacco, Vegetable and Animal Oils.**

What are Headline and Core Inflation?

1. **Headline Inflation:**

- Measures price changes for **all items** in the basket, including **food and fuel.**

2. **Core Inflation:**

- Excludes **food and fuel** prices, providing a clearer view of underlying inflation trends.
- **Less volatile** than headline inflation due to the exclusion of fluctuating prices.

Relevance:

- **Headline inflation** is particularly significant in developing countries like **India**, where food and fuel account for **30-40%** of the basket.
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WPI vs. CPI

- **WPI (Wholesale Price Index):** Tracks wholesale prices across the economy.
 - **CPI (Consumer Price Index):** Measures the **prices** households pay for goods and services, reflecting the **cost of living**.
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Why Did the RBI Adopt CPI Over WPI?

On the recommendation of the **Urjit Patel Committee (2014)**, the **Reserve Bank of India (RBI)** shifted from WPI to CPI as its primary inflation measure. Here's why:

- **Focus:** CPI focuses on **consumer-level inflation**, while WPI tracks the broader economy's inflation.
 - CPI includes **services**, which are a crucial part of inflation affecting the common public.
 - The RBI uses CPI to **monitor inflation** more effectively and adjust **interest rates** accordingly.
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News Summary

In a significant move, the **Union Government** has formed an **18-member expert panel** to review the **Wholesale Price Index (WPI)** and consider shifting to a **Producers' Price Index (PPI)**. Key details:

- **Panel Leadership:** The panel will be led by **Ramesh Chand**, member of NITI Aayog.
- **Composition:** Includes officials from various ministries (**Statistics, Finance, Petroleum, Agriculture**), RBI representatives, and **private-sector economists**.
- **Objective:** To assess structural changes in the Indian economy since the **2011-12 base year** and possibly update the base year to **2022-23**.
- **Deadline:** The panel is expected to submit its final report by **June 30, 2026**.

Key Objectives of the Panel

- Improve the **reliability** of price indices to better reflect current economic conditions.
 - Address **statistical challenges** in transitioning from WPI to PPI.
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Significance of the Move

This initiative is crucial for several reasons:

1. **Global Alignment:** Transitioning to **PPI** will help align India's price measurement tools with **global standards**.
 2. **Enhanced Accuracy:** A shift to PPI could provide a more accurate reflection of **price trends at the producer level**, aiding policymakers and industries in more effective **economic planning**.
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Conclusion

The formation of the expert panel represents a significant step towards improving India's inflation measurement systems. By revising the **Wholesale Price Index (WPI)** and considering the **Producers' Price Index (PPI)**, the government aims to better reflect India's evolving economic landscape and ensure more accurate policy decisions. This move will undoubtedly enhance the country's ability to measure inflation and respond effectively to economic challenges in the future.

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