Inflation Data: August 2020

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Why in News

Recently, the **inflation data** for the month of August 2020 was released. The inflation data includes **retail inflation** and **wholesale inflation** data.

- The retail inflation is measured by the **Consumer Price Index (CPI).**
- The wholesale price-based inflation is measured by **Wholesale Price Index (WPI).**

Key Points

- **Retail Inflation:**
  - The retail inflation growth dipped to 6.69% in the month of August. It was at 6.73% in July 2020.
  - However, the retail inflation continued to grow beyond the **Reserve Bank of India's (RBI)** upper margin of 6%.
    - The Central government has mandated the RBI to keep inflation within the **range** of **4±2%.**
    - This inflation range (4% within a band of +/- 2%) was **recommended by the committee headed by Urjit Patel** in 2014.
  - The growth in retail inflation was **primarily due** to a rise in meat and fish prices that saw a 16.50% on-year rise in August.
  - The **Consumer Food Price Index (CFPI)** or the inflation in the food basket eased to 9.05% in the month of August. It was at 9.27% in July 2020.
- **Wholesale Inflation:**
  - The wholesale price-based inflation **rose to 0.16%** in August as food items and manufactured products turned costlier.

    The **WPI inflation was in the negative territory for four straight months —** April (-) 1.57%, May (-) 3.37%, June (-) 1.81% and July (-) 0.58%.
  - Inflation in food articles during August stood at 3.84%. However, **fuel and power inflation fell 9.68%** in August.

- **Implication:** The **difference between WPI (food) and CPI (food)** shows the **supply side issues** due to several lockdowns at regional level.

Inflation

- Inflation refers to the rise **in the prices of most goods and services** of daily or common use, such as food, clothing, housing, recreation, transport, consumer staples, etc.
- Inflation measures the average price change in a basket of commodities and services over time.
- Inflation is indicative of the **decrease in the purchasing power** of a unit of a country's currency. This could ultimately lead to a deceleration in economic growth.
- However, a **moderate level of inflation is required in the economy** to ensure that production is promoted.
- In India, inflation is primarily measured by two main indices — **WPI (Wholesale Price Index) and CPI (Consumer Price Index)** which measure wholesale and retail-level price changes, respectively.

Consumer Price Index

- It measures price changes from the **perspective of a retail buyer.** It is released by the **National Statistical Office (NSO).**
- The CPI calculates the difference in the price of commodities and services such as food, medical care, education, electronics etc, which Indian consumers buy for use.
- The CPI has several sub-groups including food and beverages, fuel and light, housing and clothing, bedding and footwear.
- Four types of CPI are as follows:
    - **CPI for Industrial Workers (IW).**
    - **CPI for Agricultural Labourer (AL).**
    - **CPI for Rural Labourer (RL).**
    - **CPI (Rural/Urban/Combined).**
    - Of these, the first three are compiled by the Labour Bureau in the **Ministry of Labour and Employment.** Fourth is compiled by the National Statistical Office (NSO) in the Ministry of Statistics and Programme Implementation.
- **Base Year** for CPI is **2012.**
- The **Monetary Policy Committee (MPC)** uses CPI data to control inflation.

Wholesale Price Index

- It measures the changes in the prices of goods sold and traded in bulk by wholesale businesses to other businesses.
- Published by the **Office of Economic Adviser, Ministry of Commerce and Industry.**
- It is the most widely used inflation indicator in India.

- Major **criticism** for this index is that the general public does not buy products at wholesale price.
- The **base year** of All-India WPI has been revised from 2004-05 to 2011-12 in 2017.

CPI vs. WPI

- WPI, tracks inflation at the producer level and CPI captures changes in prices levels at the consumer level.
- WPI does not capture changes in the prices of services, which CPI does.
- In April 2014, the RBI had adopted the CPI as its key measure of inflation.

Source: IE