



Inflation Data: June 2021

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Why in News

Recently, the **Office of the Economic Adviser, Department for Promotion of Industry and Internal Trade** has released the **Wholesale Price Index (WPI)** for the month of June, 2021.

Key Points

- **Wholesale Price- Inflation:**

Inflation in wholesale prices **stayed high in June 2021 at 12.07%** following the record high of 12.94% in May 2021.

- **Reason:**

- The high rate of inflation in June 2021, is primarily due to **low base effect**.

Base effect: It is the effect that choosing a different reference point for a comparison between two data points can have on the result of the comparison.

- **Rise in prices** of mineral oils viz petrol, diesel, naphtha, furnace oil etc.
- Increased **costs of manufactured products** like basic metal, food products, chemical products etc as compared the corresponding month of the previous year.

Retail inflation based on the **Consumer Price Index (CPI)**, was at 6.26% in June 2021.

- **Implication:**

Wholesale Price- Inflation's potential to spill over into retail inflation (CPI inflation) levels **will inject 'uneasiness' in the monetary policy**.

Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.

Wholesale Price Index

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- 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.**

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 NSO in the Ministry of Statistics and Programme Implementation.
- **Base Year** for CPI in general is **2012.** However the base year for **CPI for Industrial Worker (CPI-IW) is 2016.**
- The **Monetary Policy Committee (MPC)** uses CPI data to control inflation (within range 4+/-2%). In April 2014, the **Reserve Bank of India (RBI)** had adopted the CPI as its key measure of inflation.

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.

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 & CPI** which measure wholesale and retail-level price changes, respectively.

Core Inflation

It is the **change in the costs of goods and services but does not include those from the food and energy sectors**. This measure of inflation excludes these items **because their prices are much more volatile**.

Core inflation = Headline inflation – (Food and Fuel) inflation.

Source:TH