



- By Ankit Agrawal



# India's WPI Inflation Surges To Eight-Year High In March

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## WHAT HAS HAPPENED?

Wholesale-level inflation — measured by the WPI or the wholesale price index — shot up to 7.39% in March on a YoY basis.

This is the highest wholesale inflation rate since October 2012, and was driven largely by higher prices of crude oil and a surge in price levels of food items such as pulses and fruits.

The surge in March was also aided by a low base in the corresponding month of 2020.



The **data released by** the Ministry of Commerce and Industry on Thursday.

On a month-on-month basis, the **index rose 1.6% in March 2021** compared to February 2021.

The **prices of crude oil, petroleum products and basic metal** were substantially higher in March 2021 as **compared to a year ago**.

**This fed into prices of manufactured goods**, which rose 7.34% compared to a year ago — the highest reading in the series.

# WPI Inflation Surges In March

Manufactured Products Inflation Rose To 7.34% in March 2021 (In % Y-o-Y)

— All commodities — Manufactured products





# WPI CONSTITUENT

While the **Consumer Price Index**-based retail inflation — the **more widely tracked** policy tool — looks at the price at which the **consumer buys goods**,

The **WPI tracks** prices at the **wholesale, or factory gate/mandi** levels.

Between the wholesale price and the retail price, the **difference essentially** is the former only tracks **basic prices devoid of transportation cost, taxes and the retail margin** etc.

And that **WPI** pertains to only goods, not services.

## DIFFERENT CATEGORIES

The wholesale price index is **measured by changes happening in three broad sectors** –


Primary articles, fuel and power and manufactured products.

**22.62%**

**13.15%**

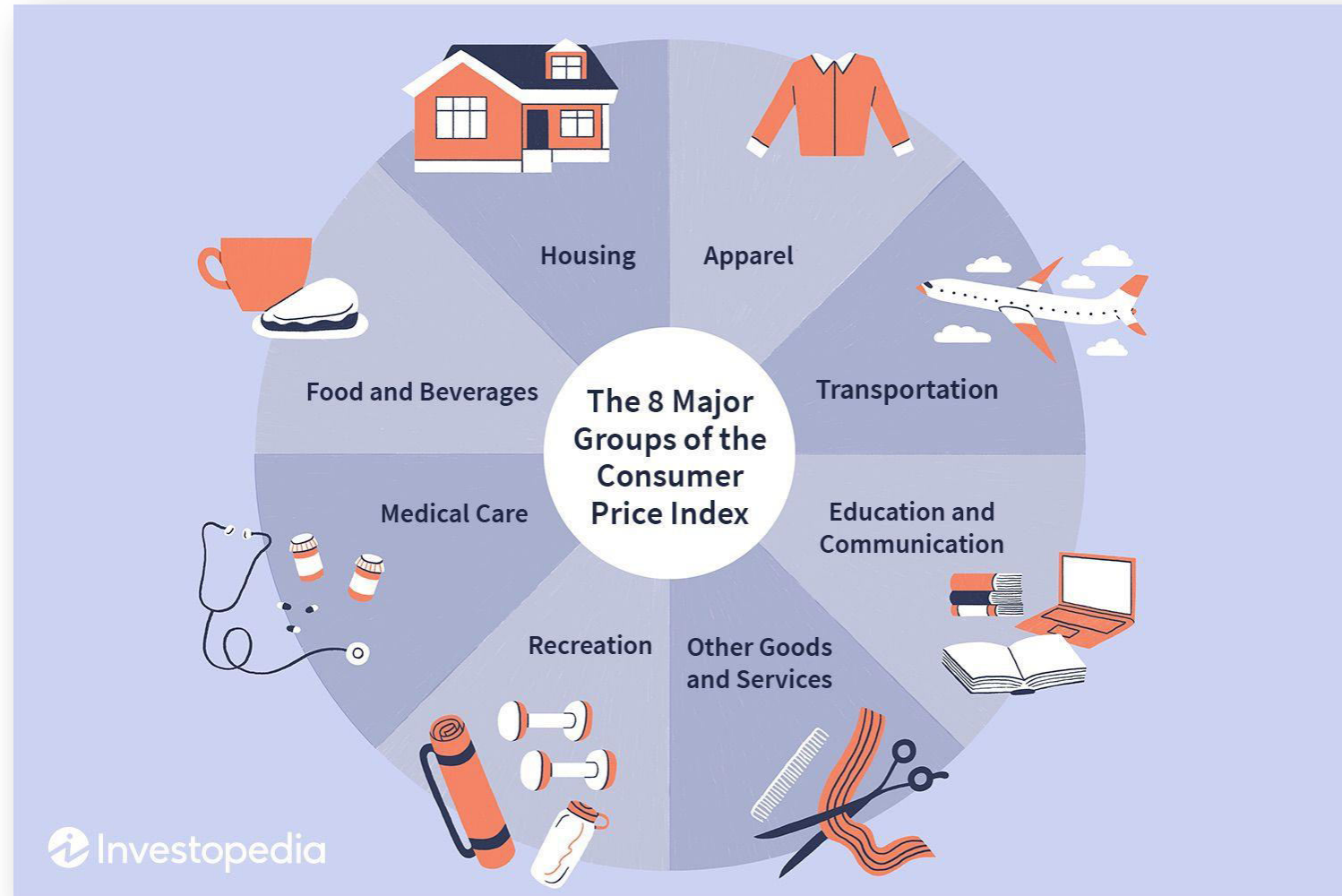
**64.23%**

WPI (%)		
2019	MAY	APRIL
Food Articles	6.99	7.37
Fuel & Power	0.98	3.84
Manufactured Products	1.28	1.72



The CPI product categorisation is sharper-

Food and beverages, pan, tobacco and intoxicants, clothing and footwear, housing, fuel and light and a miscellaneous category.



## RELEVANCE OF THIS DATA

The WPI data comes right after the retail (CPI) inflation scaled a four-month peak of 5.52% in March.

In recent years, the WPI and CPI have shown a degree of dissonance, given that the WPI has a higher weight of manufactured goods and the CPI has a greater constitution of food items.

The convergence of sorts in March is a warning sign, given that a higher print of both indices portends an economic phenomenon of too much money chasing too few goods and services.



Also, there are concerns that the higher inflation on the wholesale side could eventually spill over to the retail level in the following months, especially if the new lockdowns and restrictions hit supply chains.

Although WPI numbers are not the RBI's main metric for the purpose of setting monetary policy, the sharp spike in March could dissuade the MPC from looking at rate cuts well into the future,

Even as yet another economic disruption looms large due to the Covid caseload surge.

	<u>WPI</u>	<u>CPI</u>
<b><u>Released By</u></b>	Office of Economic Advisor (Ministry of Commerce & Industry)	Central Statistics Office (Ministry of Statistics and Programme Implementation)
<b><u>Measures</u></b>	Goods only	Both Goods & Services
<b><u>Items covered</u></b>	697	448(Rural Basket) 460 (Urban Basket)
<b><u>Base year</u></b>	2011-12	2012

**Q. Inflationary gap said to exist when?**

- A)  $\text{Real GDP} > \text{Potential GDP}$
- B)  $\text{Real GDP} < \text{Potential GDP}$
- C)  $\text{Real GDP} = \text{Potential GDP}$
- D)  $\text{Unemployment rate} > \text{natural rate of unemployment}$



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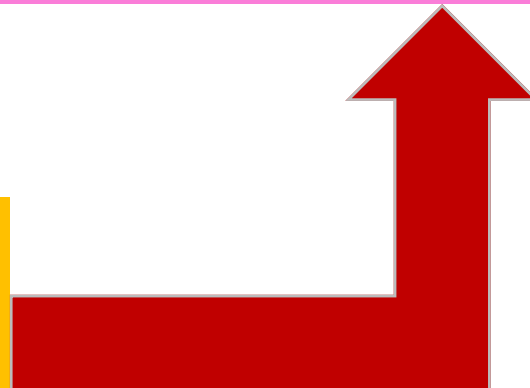
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