

## Transition from WPI to PPI

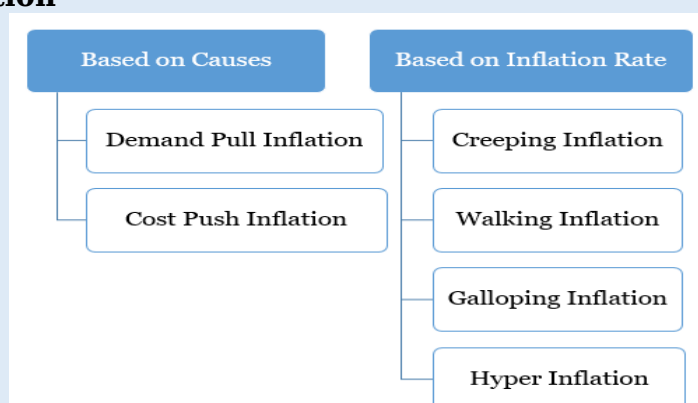
### Why in news?

The Department for Promotion of Industry and Internal Trade (DPIIT) in consultation with the Ministry of Statistics is close to finalise a model to launch a PPI in India that may eventually replace the WPI.

### How inflation is measured in India?

#### Inflation

- **Inflation** - It refers to *consistent increase in the general prices* of goods and services.
- **Inflation rate** - It is a metric used to gauge how fast the general prices rise over a defined period, often a year.
- **Disinflation** - It is *decrease in rate of inflation*, whereby prices *continue to increase but at a slower rate*.
- **Types of inflation**



- **Impact of inflation** - Over time, the purchasing power of money diminishes as the cost of living rises.
- This can impact consumers, businesses, and the overall economic landscape.
- **Deflation** - It is a *sustained decrease in the general price level* of goods and services.

- **Calculation** - Authorities in India *use price indices* to determine the change of rates of commodities and services, thus the inflation or deflation is calculated.
  - **For example**, if the rate of rice a year ago was Rs 20 a kilo and currently it is Rs 22 a kilo, the inflation in the rice prices would be at 10%.
- **Assigning weightage** - While calculating inflation, the weight of a product is considered higher if consumers expend larger share of their income on that product.
  - **For example**, *household expenditure is higher on food and fuel* than postcards or shaving creams, hence given more weights while calculating the inflation.
- **Evolution of measurement** - In India, generally, two kinds of indices are used to measure inflation—Wholesale Price Index (WPI) and Consumer Price Index (CPI).
- **Before 2014** - RBI had given more weightage to *WPI as the key measure of inflation* for all policy purposes.

- The WPI was calculated by the Ministry of Commerce and Industry shows the combined prices of a *representative basket of wholesale goods*.
- It is *primarily used as a GDP deflator*.
- **After 2014** - Based on the Ujit Patel committee recommendations, RBI had adopted *CPI (combined) as a key measure of inflation*.
- CPI considers the weighted average value of a basket consisting of 299 items.

	CPI	WPI
<b>Definition</b>	Measures changes in the price level of a basket of <i>consumer goods and services purchased by households</i> .	Measures changes in the <i>price of goods at the wholesale level</i> , before they reach the consumer.
<b>Base Year</b>	2012	2011-12
<b>Frequency</b>	Monthly	Weekly and monthly
<b>Components</b>	Food, beverages, housing, clothing, health, education, etc.	Primary articles, fuel and power, manufactured products.
<b>Reflects</b>	<i>Cost of living and inflation</i> experienced by consumers.	<i>Inflation at the wholesale level</i> , affecting business costs.
<b>Measuring agency</b>	Central Statistics Office (CSO)	Office of Economic Adviser, Ministry of Commerce and Industry

The lowest inflation rate, technically deflation, was recorded in May 1976 at (-) 11.31%. On the other hand, highest inflation rate observed was 34.68% in September 1974.

### Why India needs a transition from WPI to PPI?

**BN Goldar Committee** is a 13 member committee to devise an all new barometer called Produce Price Index instead of Wholesale Price Index

- **PPI** - Producer Price Index (PPI) measures the *average change in the selling prices received by producers* for their goods and services.
- It is calculated based on the prices of goods and services at various stages of production.
- It *excludes indirect taxes* from calculation and thus can avoid any tax fluctuations.

	WPI	PPI
<b>Scope</b>	Domestic and International goods	Only domestically produced goods
<b>Coverage</b>	Only on goods	Both goods and services
<b>Purpose</b>	It looks at wholesale prices	It emphasizes on production costs
<b>Tax fluctuations</b>	Yes	No
<b>Multiple Counting Bias</b>	Yes	No

- **Need of PPI** - Unlike WPI, it *includes services* along with goods and captures price changes from the *perspective of producers, offering a supply-side inflation measure*.
- **Better targeting** -It leads to *more targeted monetary and fiscal policies* and also aids in understanding inflation transmission from production to consumption.
- **Global comparability** - It will *align India's inflation measurement standards with international practices*.
- It facilitates better comparison with global economies, aiding in economic analysis and decision-making.
- **Improved economic analysis** - It enhances the understanding of *industry-specific inflation trends* and also assists businesses in pricing strategies, contract adjustments, and financial planning.
- **Enhanced transparency** - It *promotes transparency* in the pricing mechanisms and cost structures of industries.

### What are the challenges in transition to PPI in India?

*India have taken the International Monetary Fund's advice on the methodology to devise PPI model and the National Statistical Commission (NSC) is examining a working group report on the roadmap for introducing PPI in India.*

- **Difficulty in data collection** - Gathering detailed data from diverse industries and services is complex and resource-intensive.
- **Lack of infrastructure** - Establishing and maintaining IT systems for comprehensive data reporting requires significant investment.
- **Lack of expertise** - Training personnel for accurate data collection and analysis is challenging due to lack of expertise.
- **Structural issues** - Bureaucratic hurdles and lack of cooperation can slow down the transition process.
- **Stakeholder resistance** - Businesses and industries may resist the transition due to increased reporting requirements and potential cost implications.

### What lies ahead?

- **Enhance data collection** - Implement reliable and accurate data collection systems using advanced technology.
- **Standardize protocols** - Develop and enforce uniform data collection and reporting standards across sectors.
- **Upgrade infrastructure** - Invest in IT infrastructure and provide training to improve data management and analysis.
- **Broaden sectoral coverage** - Expand efforts to include informal and small-scale industries, ensuring comprehensive data representation.
- **Reform policies** - Create supportive policies and align regulations to facilitate the PPI transition.
- **Increase awareness and training** - Conduct training and awareness programs for stakeholders on PPI benefits and implementation.

- **Pilot and phased implementation** - Start with pilot projects and adopt a phased approach for gradual and effective PPI rollout.

## References

1. [The Financial Express | Producer Price Index](#)
2. [Business Standard | Producer Price Index in India](#)
3. [Investopedia | Inflation](#)

