

## Wholesale and Retail Inflation Rates

### What is the issue?

- The Wholesale Price Index (WPI) inflation for October, 2019 has touched a 40-month low while the Retail inflation, a 16-month high.
- The measurement of Inflation in India is done by Wholesale Price Index (WPI) and Consumer Price Index (CPI) or Retail Inflation.

### What are WPI and CPI?

- Wholesale Price Index (WPI) tracks inflation at the producer level.
- All transactions at the first point of bulk sale in the domestic market are included.
- Consumer Price Index (CPI) tracks Retail Inflation.
- CPI measures price changes from the perspective of a retail buyer.

### What does the data reveal?

- The official data showed that the WPI inflation in the country for October, 2019 grew by just 0.16%. In October 2018, it grew by 5.5%.
- The rate of wholesale inflation has been falling steadily.
- This deceleration in wholesale prices has happened despite a significant jump in wholesale food prices. WPI food inflation rose to 7.6%.
- The spike was essentially led by an almost 40% surge in vegetable prices and a 17% surge in the price of pulses.
- Increases in prices of spices and cereals, too, contributed to increasing wholesale food inflation.
- But what continued to pull down overall wholesale inflation number was the continued “deflation” (i.e., prices falling from one month to the next) in manufactured goods.

### How does the WPI inflation trend compare with CPI inflation trend?

- The WPI inflation for October, 2019 has touched a 40-month low.
- The CPI or retail inflation has touched a 16-month high.
- This essentially means that while prices are falling or growing at a marginal rate at the wholesale level.
- But, the trend reverses at the retail consumer level, where prices are growing at a faster clip every successive month.

## Why does this happen?

- At one level, it makes no sense why prices would fall or grow at a marginal level at the wholesale level while rising at the retail level.
- But one must consider a couple of issues.
- One is the way this information is reaching us i.e., the WPI and CPI indices.
- Some part of the difference between the wholesale and retail inflation trends is explained by the way these indices are made.
- For instance, food articles have a much higher weight **over 45% in CPI**. Their weight is **less than 30% in WPI**.
- So even a similar spike in prices will show up a much higher impact in the retail inflation index than the wholesale inflation index.
- Similarly, fuel and energy have a much higher weight in WPI inflation.
- Then there are other items such as “services” which have a weight of about 30% that can only be found in retail inflation.
- A spike in these prices obviously bumps up only the retail inflation while leaving the wholesale inflation unaffected.

## Has this happened before?

- Yes, it has. Between 2012 and 2015, there was a growing divergence between retail and wholesale inflation indices.
- By October 2015, wholesale inflation was negative i.e., actual prices were declining - while retail inflation was over 7%.
- While raging food inflation was a contributor, the spike in services such as education and medical facilities was the biggest reason for this divergence in 2015.

## How does this impact policymaking?

- To some extent, the difference between CPI and WPI inflation is not only understandable but also reasonable.
- After all, the two indices have been made to better understand how prices behave between the wholesale and retail levels.
- However, a growing divergence between the two creates a serious worry for all policymakers concerned.
- None more so than the central bankers.
- If the RBI looks at retail inflation (4.6%) and is expected to stay above the 4% mark till March 2020, it would be expected to raise interest rates and bring down inflation.
- But if the RBI were to look at WPI, it would then be expected to cut rates further and quite sharply to raise inflation.
- That's because such a low inflation rate - as the WPI is showing at present -

is essentially a reflection of a weakening economy.

**Source: The Indian Express**

