

Wholesale Price Index

[UPSC Notes]

What is the Wholesale Price Index?

The wholesale price index is also known as WPI, measures the changes in the wholesale prices in India. The manufacturers and the wholesalers pay the prices based on the market demand. The wholesale price index tracks the price change in commodities at the main stages before it reaches the retailers.

In terms of compilation and releasing of this index, the office of the economic advisor is considered the nodal office. RBI used to refer to WPI to make most of its policy decisions before 2014. However, it was used correctly for the calculation of inflation.

The aim of the WPI is to-

- To monitor the shifts in prices that show the demand and supply of manufacturing products in the industry.
- To help assess all the major and minor conditions related to the wholesale prices in the Indian economy.

The wholesale price index is the starting point for determining the growth of the goods' prices until it reaches the consumer. The office of economic advisors of the Ministry of Commerce publishes the index. There are three main categories of goods covered by the index, which are-

1. Manufactured goods (Chemicals, Apparels, Textiles)
2. Primary Products (Food and Non-Food articles)
3. Fuel and Power (Gasoline, Petrol, LPG).

History of Wholesale Price Index

Lahore sale price index does not have a big history, but the first edition of the wholesale price index was issued in 1942, having the base year 1939. The wholesale price index has been changed with the base year from 1952-53, 1961-62, 1970-71, 1981-82, 1993-93, and 2004-05. The WPI's current base year running is 2011-12, and it is the sixth revision in the history of the base year of a wholesale price index.

Components of WPI Wholesale Price Index

There are three sections of WPI. They are primary articles, manufactured goods, and fuel and power.

1. The primary articles include food particles, minerals, and vegetables.
2. The fuel and power include energy-related products like LPG, Petrol, Diesel, CNG, etc., and

3. The manufactured goods include those manufactured in industries like processed sugar, textile manufacturing, etc.

Importance of Wholesale Price Index

The wholesale transaction inflation estimates are provided for the entire economy of the country.

- The government can intervene anytime in between to control inflation, especially in vital goods, before the retail price increases.
- It is additionally used for deflating the nominal productions whose values are generally high frequency.
- In commercial contracts, the wholesale price index is used for indexing.
- A macro indicator like the wholesale price index is used by global investors to make decisions related to Investments.
- As a part of forming trade and fiscal policies, the government also uses the wholesale price index based on inflation estimates.
- The wholesale price index is also used as a tool to deliver the building work, raw materials, and machinery to escalate the clauses.
- Most businesses use the provisions of price adjustment in their long-term sales and purchase agreement to deal with the prices in an effective manner.
- Government banks, industries, and business circles use the wholesale price index to capture the price movements in a comprehensive manner.
- Wholesale price index movements are often correlated with monetary and fiscal policy changes.
- The movement of the wholesale price index also influences the formation of trade policies, fiscal policies, and other economic policies.

Wholesale Price Index in India

The inflation rate is generally calculated using the wholesale price index and consumer price index. The Ministry of Commerce and industry use the wholesale price index to calculate the inflation rates in India.

The consumer price index measures the prices for a basket of consumer goods and services like medical care, food, and transportation. There was inflation of 34.68% in September 1974, which was the highest inflation recorded in the history of India. The lowest inflation rate recorded in India was 11.31% in May 1976.

Base Year of Wholesale Price Index (WPI)

From 2004-05 to 2011-12, the wholesale price index base year was updated in May 2017. Several key features have been added to WPI with the base 2011-12-

- There are now 697 items in the basket which have been raised from 676.
- A new wholesale price index definition excludes the taxes. It is done to eliminate fiscal policy's impact by aligning the new WPI series with the producer price index. It aligns with International practices too.

- Statistically robust geometric means are used in the wholesale price index 2004-05 series instead of arithmetic means.
- Using the wholesale price index - food index, it is clearly visible how food commodity prices are changing at the producer level.
- There are two food price indices in India that could be used to monitor food inflation more effectively. The wholesale price index and consumer price index are the two food indices.

Consumer Price Index

- In India, the consumer price index is the index that helps to measure the retail inflation rates.
- In the economy, there were four consumer price indices that cover different socio-economic groups in society.
- Among the four indexes, the consumer price index for industrial workers, agriculture workers, rural laborers, and urban non-manual employees was the highest following.
- The New CPI series is now used all over the states in India as well as separately for rural-urban localities and both combined too.
- The publication of consumer price indices is made by the central statistics office and the ministry of statistics and program implementation.

Difference between WPI and CPI

It is crucial to understand the difference between WPI and CPI for a better understanding of these economic terms.

Parameters	WPI	CPI
Meaning	It is the change in the prices of wholesale products, that are sold in bulk.	It is the change in the prices that the customer pays to the retailers.
Publisher of Index	It is published by the Ministry of Commerce and Industry.	The National Statistical Office publishes it- Ministry of Statistics and Program Implementation and Labour Bureau.
Base Year for CPI and WPI	2011-12	2012
Frequency	The primary articles, energy products, and power are published weekly, and the overall index is published monthly.	Published on the 14th date of every month.

Source	The weights of the WPI item are based on the production values.	The weights of the CPI item are based on the daily household expenditures.
Measurement	It is measured at the first stage of the transaction.	It is measured at the final stage of the transaction.
Price Paid	Price is paid by the wholesale dealers and manufacturers.	The customers pay the price.
The number of Items	697 items includes the primary article, fuel, and manufactured products.	448 items in rural areas and 460 items in urban areas.
Weightage of Item	The food group accounts for about 24.4% of total weight.	The food group weighs about 39.06%.
Service Status	No services are included in WPI.	Housing, education, and medical care services are included in CPI.
Commodities	minerals, basic metals, types of machinery, and manufacturing.	Education, communications, housing, recreation, transportation, and beverages.