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## Inflation at 6-mth high on onions

### TIMES NEWS NETWORK

New Delhi: The rate of inflation accelerated to a sixmonth high in August on the back of spiralling onion prices, posing yet another challenge for RBI ahead of the monetary policy review as it struggles to tame volatility in the foreign exchange market.

Data released on Monday showed the wholesale price index (WPI) rose an annual 6.1% in August, higher than previous month's 5.79%. The inflation rate in August 2012 stood at 8.01%. Food inflation, which has remained as a pressure point for the past three years, rose sharply during August to a three-year high of 18.18% due to a spurt in prices of onions. Onion prices rose 245% year-on-year in August. Vegetables prices soared 77.18% year-on-year, while cereal prices shot up an annual 14.35% in August. Egg, meat and fish prices remained stubborn, rising an annual 18.86% during the month. The government also revised upwards the data for June to 5.16% from the previously reported 4.86%. High food prices have remained a policy challenge for the embattled government for the past three years. So far, there has been no clear road map to tackle stubborn food prices.

Economists said WPI accelerated in August against expectations for a stabilization. They said they expect RBI to hold rates when it reviews policy later this week given the risks which still exist due to the volatility in rupee. The central bank will also watch the US Fed meeting on September 18 which will have an influence on its stance in the weeks ahead.

The sharp slide of the rupee against the dollar in the past few weeks also had an impact in the upward push by making imports costlier.

"Inflation is accelerating and this may continue in the coming months as the weaker rupee pushes up the price of imported goods. WPI inflation may hold in the 6% to 7% range for the remainder of the year," Glenn Levine, senior economist at Moody's Analytics said in a note.

**WPI, CPI divergence seen in food inflation**

Mumbai/Delhi: Has the government's statistical office erred with data collection relating to food prices, either by chance or design, for calculating the two inflation indices, Consumer Price Index (CPI) and Wholesale Price Index (WPI) for August?

Else how can someone explain the fact that while food prices as shown in WPI for August exhibit a higher rate of inflation now than a year ago, food inflation as measured by the CPI, also for the month of August, is lower this year?

Normally, you would not expect much of a difference between food inflation numbers calculated from the CPI and WPI. The government does not think so, although the huge discrepancy raises several questions in the mind of the economists, including if there are policy implications for the same. "I don't think so," said Pronob Sen, chairman, Statistical Commission, when asked whether there was any error in calculating the food inflation numbers under the two different indices.

Data released on Monday showed that food inflation based on WPI spiked from 9.3% last August to 18.2% on an annualized basis, while the food inflation figure for CPI for August, which was released last week, showed a decline from 12% to 11% over the same period.

One of the plausible explanations could be that the data used in CPI was collected by the government from shops where the prices of food products were artificially controlled to paint a better picture for consumer inflation. "If the price data that was taken was actually from shops where the prices were controlled, that would not accurately reflect the rise in food prices," said an economist.

Sen said the divergence in the food inflation data in the two indices was largely due to two factors. The first of these is the fact that the CPI does include data from PDS (public distribution system) shops. "In WPI, when you take cereals, only the market price is reflected, while in CPI cereals prices are calculated taking into account the weighted average price between the market price and public distribution system price. The PDS price is constant so it tends to pull down the CPI food inflation," Sen said.

Economists also pointed out that if the data is true and food prices at the retail level rose more slowly in August than at the wholesale level, then the government's longstanding theory that the current spate of inflation was mainly because of supply side bottleneck also falls flat. Sen pointed out that the CPI is calculated on prices at the retail level whereas WPI is done using prices at the mandi level. He said retail mark-ups may sometimes be lower, which reflects in lower retail inflation than in the WPI.

In its report on the economy, SBI too pointed out this interesting trend. "What is perplexing is that CPI edged down in August 2013, which in normal circumstances should have increased, given the preponderance of weightage of food items," wrote Soumya Kanti Ghosh, chief economic advisor, SBI. "This trend of WPI higher than CPI in respect of food items is intriguing and is a trend against normal price behavior and needs to be examined more carefully, as it may have some important policy ramifications," Ghosh noted.

PERENNIAL PROBLEM						
	Mar	Apr	May	Jun	Jul	Aug
Food Articles	8.63	6.08	8.25	10.27	11.91	18.18
Cereals	17.86	15.52	15.95	17.87	17.66	14.35
Rice	17.56	17.09	18.48	20.43	21.15	20.13
Wheat	19.35	13.55	12.37	13.94	13.42	7.60
Pulses	10.84	10.52	5.95	1.59	-7.39	-14.40
Vegetables	-1.68	-8.88	5.21	17.36	46.59	77.81
Potato	15.80	-0.63	1.28	-8.38	-6.45	-15.13
Onion	110.74	90.83	94.28	114.76	144.94	244.62
Fruits	5.67	0.56	0.67	0.86	-4.80	8.17
Milk	4.42	4.04	4.46	4.08	2.35	5.63
Egg, Meat & Fish	11.42	10.44	11.38	12.48	10.94	18.86
OVERALL	5.65	4.77	4.58	5.16	5.79	6.10

Fig in %

