

## VI. PRICE SITUATION

*The Wholesale Price Index (WPI) inflation, after remaining significantly subdued during the first half of the year, increased at a faster pace in the second half and reached 9.9 per cent by February 2010, and remained almost unchanged at the same high level in March 2010. The Wholesale Price Index, though, exhibited secular increases throughout the year, indicating sustained momentum in inflation. Decline in agricultural production caused by deficient South-West monsoon as well as increases in international price of crude oil largely conditioned the inflation path. Indications of generalisation of inflation became increasingly evident starting from November 2009. Inflation in non-food manufactured products increased from (-)0.4 per cent in November 2009 to 4.7 per cent in March 2010. Alongside increasing generalisation of the inflation process, demand side pressures from certain quarters also became visible. Consumer price inflation moderated in February 2010 although it still remains high in double digits. With recovery in growth gaining momentum, the Reserve Banks' policy emphasis has shifted to anchoring inflation expectations.*

VI.1 Inflationary conditions in India during 2009-10 were marked by two distinct phases. During the first half of 2009-10, the year-on-year WPI inflation remained significantly low (negative during June-August 2009) on account of the high base of sharp increases in prices recorded a year ago. This period, however, was characterised by a significant build-up of inflationary momentum, largely on account of the partial pass-through of increases in international prices. During the second half of the year, increasing food prices, on account of unfavourable agricultural supply conditions caused by the deficient South-West monsoon coupled with the waning of base effect led to sharp increase in inflation and the headline WPI inflation reached 9.9 per cent (y-o-y) in February 2010. Increase in international oil prices, and the resultant upward revision in POL prices also contributed to the inflation process during the course of the year. The recent increases in manufactured non-food products inflation signal how an inflation

process triggered by supply side pressures could get generalised over time. The primary factor behind the rising headline inflation, *i.e.*, food price inflation, however, has started to moderate since December 2009, largely reflecting seasonal pattern, though it still remains elevated. Moreover, inflation as per Consumer Price Indices (CPIs), which have a higher relative weight for food articles, though declined marginally in February 2010, still remain high.

### Global Inflation

VI.2 Most advanced economies witnessed very low or negative headline inflation during the first half of 2009-10. This was mainly on account of the contraction in demand associated with the recession as well the impact of sharp decline in international commodity prices. The emerging economies also experienced significant decline in inflation, mostly due to decline in commodity prices and lower demand pressures on account of moderation

in growth. During the second half of 2009-10, inflation in major economies increased from sub zero/low levels, mainly reflecting the waning impact of the base (commodity prices had declined sharply during the second half of 2008-09 leading to decline in prices then in most countries). Some part of the recent increase in inflation across the globe could also be attributed to the rebound in commodity prices ahead of global recovery as well as gradual pick-up in demand as the economies work their way out of recession.

VI.3 Except Japan, most economies registered positive, though subdued CPI inflation by November 2009 (Chart VI.1). Year-on-year consumer price inflation in OECD countries, which was negative during the period June-September 2009, increased to 1.9 per cent in February 2010. Core inflation (excluding food and energy) in OECD countries, after declining since September 2008, has remained stable at around 1.5 per cent since June 2009, indicating the limited pressure on inflation from the demand side.

VI.4 During the first half of 2009-10, there were concerns over a possible deflationary spiral created by the negative inflation in the US, Japan and the Euro area. Those concerns abated with the recent increases in CPI inflation of major economies and stabilising core inflation. In the advanced economies, headline inflation is expected to pick up from 0.1 per cent in 2009 to 1.3 per cent in 2010, as rebound in energy prices could more than offset slowing labour costs. In emerging and developing economies, inflation is expected to increase from 5.2 per cent in 2009 to 6.2 per cent in 2010, as some of these economies may face growing upward pressures from limited economic slack and domestic liquidity effects of increased capital flows. In the emerging economies, inflationary pressures have remained subdued during 2009-10, *albeit*, with some firming up during the last quarter, except in India and Russia (Table VI.1).

VI.5 Monetary policy stance of most central banks in the advanced economies during 2009-10 was conditioned by concerns

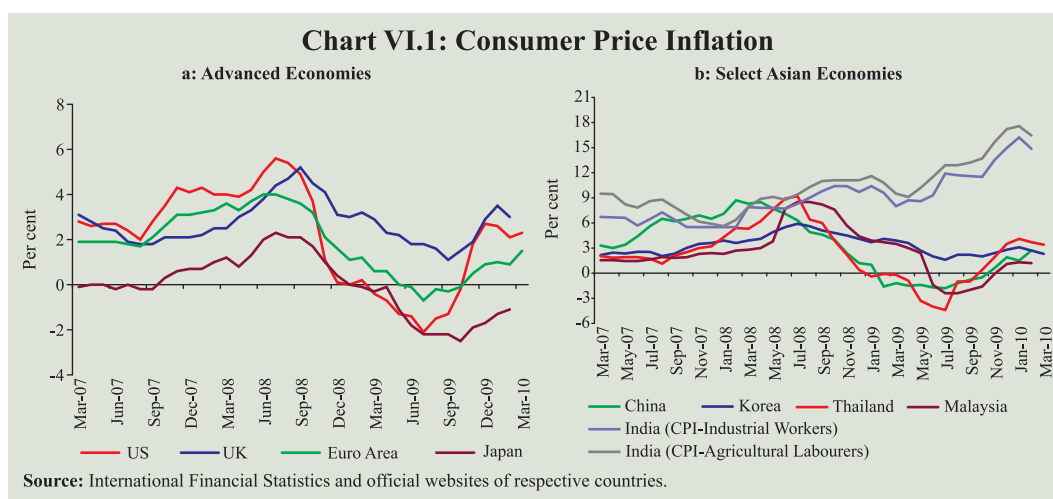


Table VI.1: Global Inflation Indicators

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(Per cent)								
Country/ Region	Key Policy Rate	Policy Rate (As on Apr. 16, 2010)		Changes in Policy Rates (basis points)			CPI Inflation (y-o-y)	
				Sept 08 - Mar 09	Apr 09 - Aug 09	Sep 09 - Apr 10	Mar. 2009	Mar. 2010
1	2	3		4	5	6	7	8
<b>Developed Economies</b>								
Australia	Cash Rate	4.25	(Apr.7, 2010)	(-) 400	(-)25	125	3.7 <sup>^</sup>	2.1 <sup>^</sup>
Canada	Overnight Rate	0.25	(Apr.21,2009)	(-) 250	(-) 25	0	1.4*	1.6*
Euro area	Interest Rate on Main Refinancing Operations	1.00	(May 13,2009)	(-) 275	(-) 50	0	0.6	1.4
Japan	Uncollateralised Overnight Call Rate	0.10	(Dec.19,2008)	(-) 40	0	0	-0.1*	-1.1*
UK	Official Bank Rate	0.50	(Mar. 5,2009)	(-) 450	0	0	3.2*	3.0*
US	Federal Funds Rate	0.00 to 0.25	(Dec.16,2008)	(-) 200	0	0	-0.4	2.3
<b>Developing Economies</b>								
Brazil	Selic Rate	8.75	(July 22, 2009)	(-) 250	(-) 250	0	5.6	5.2
India	Reverse Repo Rate	3.50	(Mar.19, 2010)	(-) 250	(-)25	25	9.6*	14.9*
	Repo Rate	5.00	(Mar 19, 2010)	(-) 400	(-) 25	25		
China	Benchmark 1-year	5.31	(Dec 23, 2008)	(-) 216	0	0	-1.2	2.4
	Lending Rate			(-300)	0	(100)		
Indonesia	BI Rate	6.50	(Aug. 5, 2009)	(-) 150	(-) 125	0	7.9	3.4
Israel	Key Rate	1.50	(Apr. 1, 2010)	(-) 350	(-)25	100	3.3*	3.6*
Korea	Base Rate	2.00	(Feb. 12, 2009)	(-) 325	0	0	3.9	2.3
Philippines	Reverse Repo Rate	4.00	(Jul. 9, 2009)	(-) 125	(-)75	0	6.4	4.4
Russia	Refinancing Rate	8.25	(Mar 29, 2010)	100	(-)225	(-)250	14.0	6.4
South Africa	Repo Rate	6.50	(Mar. 26, 2010)	(-) 200	(-)250	(-) 50	8.6*	5.7*
Thailand	1-day Repurchase Rate	1.25	(Apr. 8, 2009)	(-) 225	(-) 25	0	-0.2	3.4

<sup>^</sup>: Q4.      \*: February.

**Note** : 1. For India, data on inflation pertain to CPI for Industrial Workers.  
2. Figures in parentheses in column (3) indicate the dates when the policy rates were last revised.  
3. Figures in parentheses in column (4) indicate the variation in the cash reserve ratio during the period.

**Source**: International Monetary Fund, websites of respective central banks.

over the recession and the subsequent fragile recovery, and policy rates accordingly were left unchanged at near zero levels. During the second half of the year inflationary pressures started to emerge in some economies, particularly those that witnessed faster than expected recovery and gradual closing of the output gap, which led to exit from easy monetary policy. The Reserve Bank of Australia and Bank of Israel have increased their policy rates by 125 and 100 basis points, respectively, since

September 2009 on the back of signs of economic recovery and improvement in indicators of confidence (Table VI.1). Peoples Bank of China also raised the reserve requirement ratio by 50 basis points each in January and February 2010.

### Global Commodity Prices

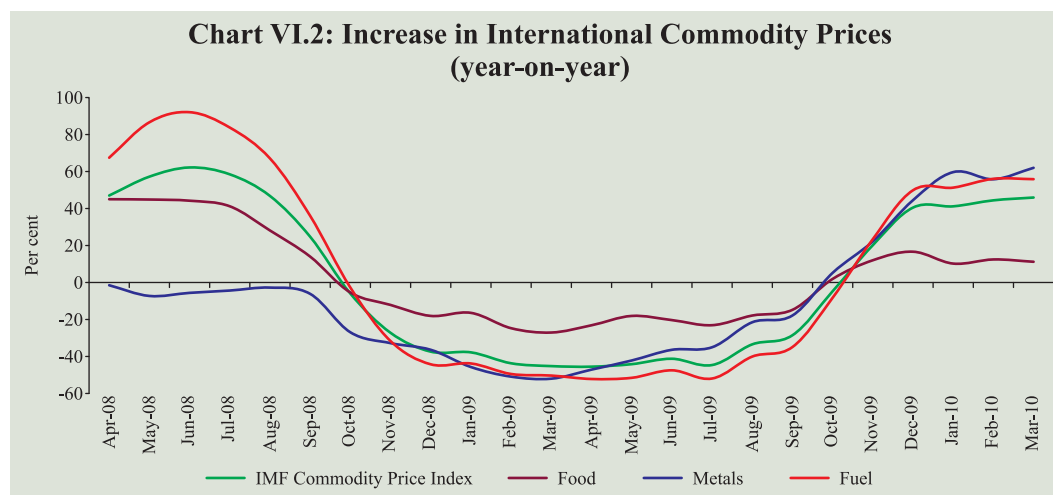
VI.6 International commodity prices, which declined sharply during June-December 2008, gradually firmed up in 2009-10. Commodity price rebound ahead

**Table VI.2: International Commodity Prices**

Commodity	Unit	Market Price (2004)	Index (2004=100)											Variation (Per cent)	
			2005	2006	2007	2008	2009-10						Mar.09 over Jun.08	Mar.10 over Mar.09	
			Mar.	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
<b>Energy</b>															
Coal	\$/mt	53	90	93	124	240	115	135	128	157	183	178	178	-61.8	54.7
Crude oil	\$/bbl	38	142	170	188	257	124	183	181	198	204	198	210	-64.5	70.0
<b>Non-Energy Commodities</b>															
Palm oil	\$/mt	471	90	101	165	201	127	154	143	168	168	169	177	-50.7	39.1
Soybean oil	\$/mt	616	88	97	143	204	118	145	137	152	150	148	149	-52.7	25.9
Soybeans	\$/mt	307	90	88	125	171	124	164	140	147	142	132	133	-39.1	7.7
Rice	\$/mt	238	120	128	137	274	247	242	218	249	239	225	212	-22.3	-14.2
Wheat	\$/mt	157	97	122	163	208	147	164	122	131	128	124	122	-33.7	-17.3
Maize	\$/mt	112	88	109	146	200	147	161	135	147	150	145	142	-42.7	-3.4
Sugar	c/kg	16	138	206	141	178	187	229	322	322	369	354	264	10.5	41.4
Cotton A Index	c/kg	137	89	93	102	115	83	99	103	123	125	129	138	-33.2	66.5
Aluminium	\$/mt	1716	111	150	154	150	78	92	107	127	130	119	129	-54.8	65.1
Copper	\$/mt	2866	128	235	248	243	131	175	216	244	258	239	260	-54.6	99.0
Gold	\$/toz	409	109	148	170	213	226	231	244	277	273	268	272	3.9	20.4
Silver	c/toz	669	110	173	200	224	196	219	246	264	265	237	256	-23.0	30.8
Steel cold-rolled coil sheet	\$/mt	607	121	114	107	159	148	115	115	115	115	115	128	-18.2	-13.9
Steel hot-rolled coil sheet	\$/mt	503	126	119	109	176	159	119	119	119	119	119	134	-20.0	-15.6
Tin	c/kg	851	87	103	171	217	125	176	175	183	208	192	206	-52.0	64.4
Zinc	c/kg	105	132	313	309	179	116	149	180	227	232	206	217	-35.8	87.0

\$: US dollar.      c: US cent.      bbl: Barrel      mt: metric tonne      kg: Kilogram      toz: troy oz.  
**Source:** Based on World Bank's actual commodity price data. The year 2004 has been taken as the base to exhibit price trends over the relevant period.

of global recovery has been driven by the resultant tighter demand conditions in expectations of recovery in growth and relation to supply (Table VI.2, Chart VI.2).



VI.7 Crude oil prices increased by about 70 per cent (year-on-year) in March 2010. According to the International Energy Agency (IEA) estimates, stronger global economic growth during 2010 may increase oil consumption by 1.7 million barrels per day. While this could suggest possible firming of crude oil prices, availability of ample surplus capacity may dampen any significant pressure on oil prices.

VI.8 The increase in metal prices was led by the improvement in global economic prospects as well as supply cutbacks in response to the prolonged decline in price. International food prices have been increasing gradually (except in July 2009). The FAO Food Price Index, a measure of the monthly change in international prices of a food basket composed of cereals, oilseeds, dairy, meat and sugar increased significantly up to January 2010. The major driver of this increase was sugar, the production of which was affected in the two major sugar producers, *i.e.*, India and Brazil. The FAO Food Price Index, however, declined by 6.8 per cent during January-March 2010 as sugar and cereals price indices declined by 29 per cent and 7 per cent, respectively.

VI.9 The impact of increases in international commodity prices on domestic prices to an extent was modulated by the movements in exchange rate. As the exchange rate appreciated during the course of the year, the exchange rate pass-through effects helped in moderating the impact of higher international commodity prices on domestic inflation.

### **Inflation Conditions in India**

VI.10 The global trends in commodity prices and domestic demand-supply

balance pointed towards less pressure on prices during 2009-10 at the time of the Annual Policy Statement (APS) of the Reserve Bank for the year 2009-10 (April 2009) and accordingly the APS projected WPI inflation at around 4.0 per cent by end-March 2010. The APS reduced the policy rates further by 25 basis points to support the revival of economic growth as economic growth had declined well below its potential level on account of the impact of the crisis along with significant moderation in price pressures (Table VI.3).

VI.11 The First Quarter Review (FQR) of Monetary Policy 2009-10 (July 2009) had highlighted that despite headline inflation turning negative, commensurate decline in inflationary expectations had not materialised. As the uncertain monsoon outlook increased the inflation risks, the FQR revised the end-March 2010 WPI inflation projection upward to 5.0 per cent. The Second Quarter Review (SQR) of Monetary Policy 2009-10 (October 2009) noted that the upside risk from deficient monsoon rainfall materialised and the baseline projection for WPI inflation at end-March 2010, therefore, was revised upwards to 6.5 per cent with an upside bias. The SQR noted that indications of consolidating recovery warranted a shift in policy stance from 'managing the crisis' to 'managing the recovery'. The SQR also indicated the Reserve Bank's commitment to a calibrated 'exit' from the expansionary monetary policy stance without hampering recovery process while anchoring inflation expectations and announced closure of some special liquidity support measures that had largely remained unutilised and restored the statutory liquidity ratio (SLR) of scheduled commercial banks to its pre-crisis level (25 per cent). It signalled the first phase of exit.

Table VI.3: Movements in Key Policy Rates in India

(Per cent)					
Effective since	Reverse Repo Rate	Repo Rate	Cash Reserve Ratio	WPI Inflation	CPI (IW) Inflation
1	2	3	4	5	6
April 26, 2008	6.00	7.75	7.75 (+0.25)	8.3	7.8
May 10, 2008	6.00	7.75	8.00 (+0.25)	8.6	7.8
May 24, 2008	6.00	7.75	8.25 (+0.25)	8.9	7.8
June 12, 2008	6.00	8.00 (+0.25)	8.25	11.7	7.7
June 25, 2008	6.00	8.50 (+0.50)	8.25	11.9	7.7
July 5, 2008	6.00	8.50	8.50 (+0.25)	12.2	8.3
July 19, 2008	6.00	8.50	8.75 (+0.25)	12.5	8.3
July 30, 2008	6.00	9.00 (+0.50)	8.75	12.5	8.3
August 30, 2008	6.00	9.00	9.00 (+0.25)	12.4	9.0
October 11, 2008	6.00	9.00	6.50 (-2.50)	11.3	10.4
October 20, 2008	6.00	8.00 (-1.00)	6.50	10.8	10.4
October 25, 2008	6.00	8.00	6.00 (-0.50)	10.7	10.4
November 3, 2008	6.00	7.50 (-0.50)	6.00	8.7	10.4
November 8, 2008	6.00	7.50	5.50 (-0.50)	8.7	10.4
December 8, 2008	5.00 (-1.00)	6.50 (-1.00)	5.50	6.6	9.7
January 5, 2009	4.00 (-1.00)	5.50 (-1.00)	5.50	5.3	10.4
January 17, 2009	4.00	5.50	5.00 (-0.50)	4.9	10.4
March 4, 2009	3.50(-0.50)	5.00(-0.50)	5.00	0.9	8.0
April 21, 2009	3.25 (-0.25)	4.75(-0.25)	5.00	1.6	8.7
February 13, 2010	3.25	4.75	5.50(+0.50)	9.9	14.9
February 27, 2010	3.25	4.75	5.75(+0.25)	9.9	14.9
March 19, 2010	3.50(+0.25)	5.00(+0.25)	5.75	9.9	–

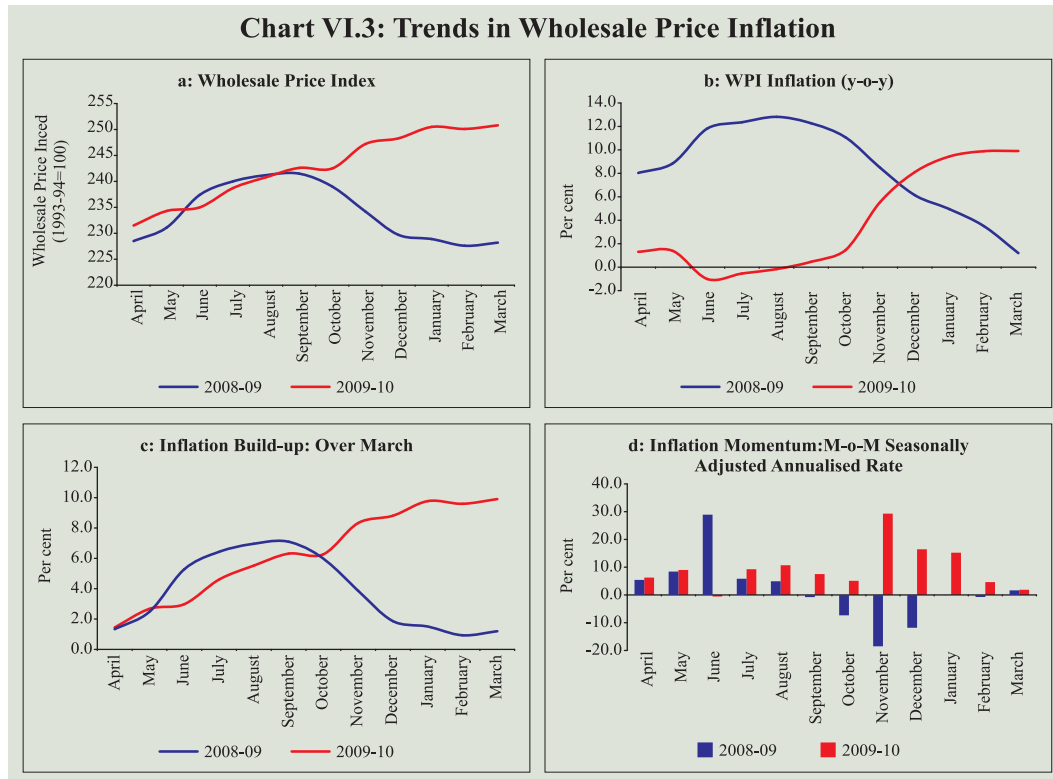
**Note:** 1. Reverse repo indicates absorption of liquidity and repo signifies injection of liquidity.  
2. Figures in parentheses indicate change in policy rates.

VI.12 The Third Quarter Review (TQR) of Monetary Policy 2009-10 (January 2010) raised the baseline projection for WPI inflation for March 2010 to 8.5 per cent on account of further strengthening of supply side pressures and emerging risks of such pressures spilling over on to a wider inflationary process. As part of the calibrated exit strategy, the CRR of scheduled banks was increased by 75 basis points from 5.0 per cent to 5.75 per cent of NDTL in two stages. Further, as WPI inflation increased and reached 9.9 per cent (y-o-y) in February 2010 amidst signs of generalisation of inflation, the Reserve Bank raised the repo and reverse repo rates under the LAF by 25 basis points each on March 19, 2010, balancing the needs of

supporting recovery while anchoring inflation expectations.

#### *Wholesale Price Inflation*

VI.13 During the first half of 2009-10, the year-on-year WPI inflation remained moderate during April-May 2009 and subsequently turned negative during June-August 2009 on account of the strong base effect of the significant increase in administered prices of petroleum products in June 2008 (Chart VI.3a and b). The base effect of sharp increases in prices during the first half of 2008-09 waned during the second half as WPI had declined during the period September 2008-February 2009 (Chart VI.3a). The secular build up in price

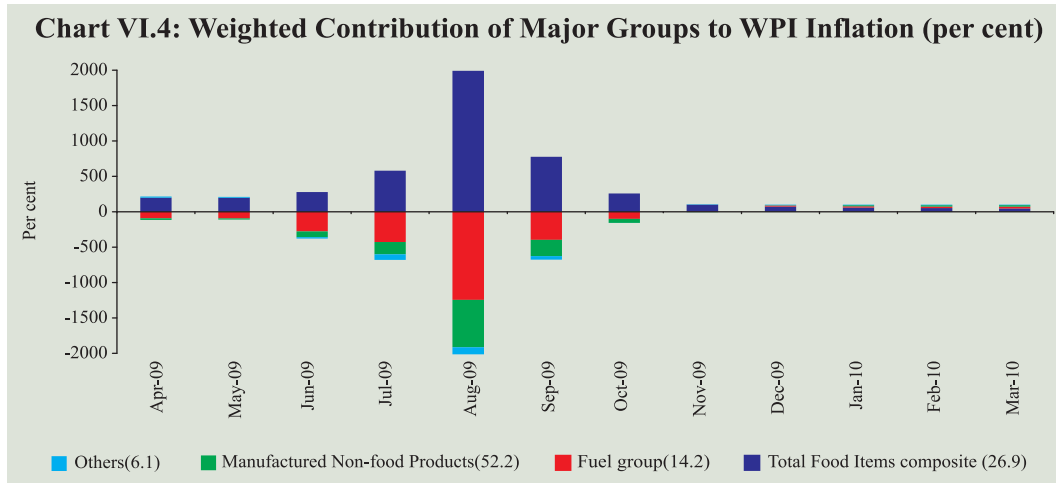


pressures, however, was visible throughout the year and WPI inflation increased significantly to 9.9 per cent by March 2010. The financial year build up of inflation exhibited secular uptrend during the year which was corroborated by the positive inflation momentum during all the months of 2009-10 (except June 2009) (Chart VI.3c and d).

VI.14 Though the WPI inflation remained moderate/negative during the first half of 2009-10, contrasting trends among the major sub-groups were visible during that period in terms of weighted contribution to the headline inflation. Since the rate of inflation in each month was different, the weighted contribution based analysis needs to be seen from the standpoint of making an assessment about the extent of variability

resulting from different components of the WPI. Food inflation was significantly high during this period, which meant that food group (both primary food articles and manufactured food products) had a disproportionately larger contribution to inflation. On the other hand, fuel group exhibited large negative inflation, which pulled down the overall inflation low during the first half of the year (Chart VI.4 and Chart VI.5). In the second half of the year, inflation contribution came from all the major groups as positive contribution was visible from all the categories, indicating generalisation of inflation.

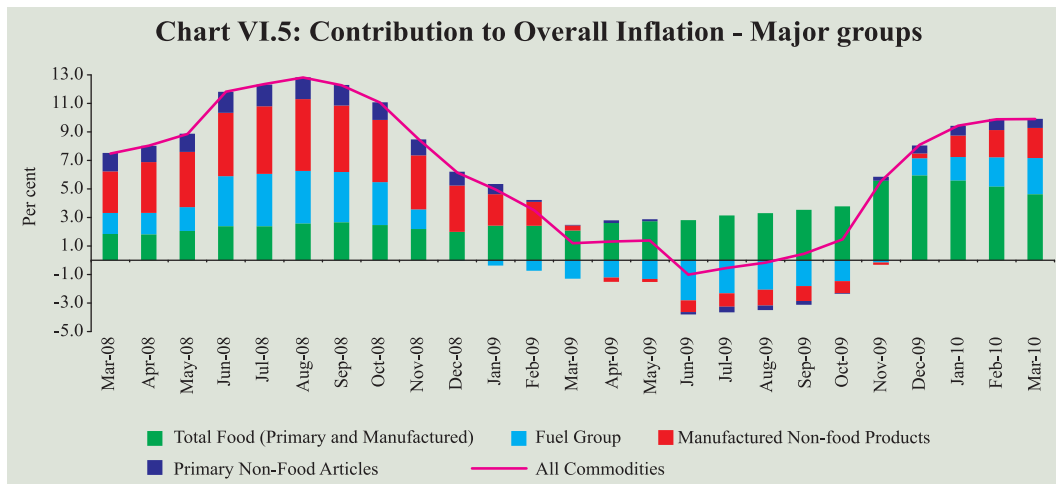
VI.15 In terms of contribution to overall inflation by the major groups, the contribution of the fuel group, which was significantly negative since January 2009,



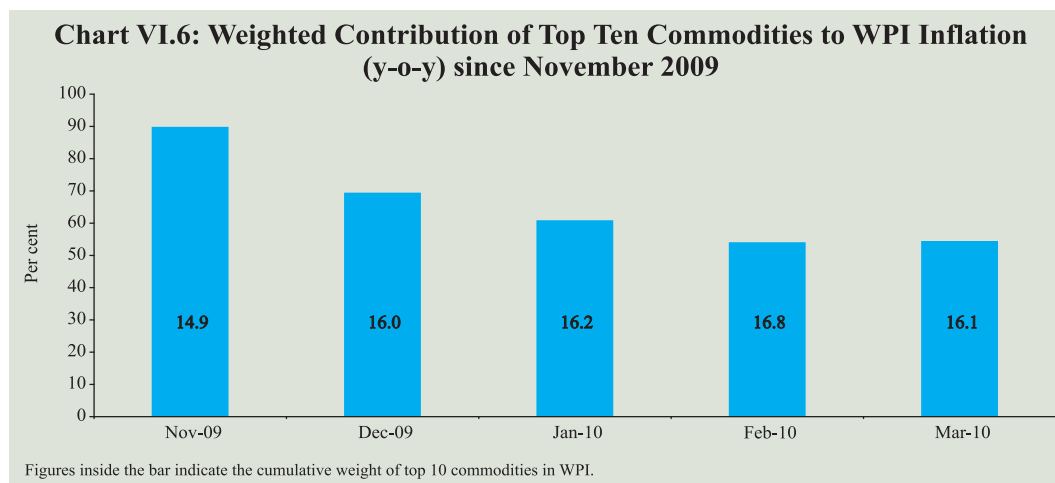
showed a reversal of trend in recent months (Chart VI.5). The contribution of non-food manufactured products group, which declined during the receding phase of inflation and turned negative during April-November 2009, has also started to increase in recent months. Food articles and products, as a group continue to drive the overall WPI inflation, though its contribution has declined since December 2009.

VI.16 The supply constraints on account of the shortfall in agricultural production

and increasing international crude prices were the major drivers of inflation in India uptill November 2009. The emergence of inflationary pressures, thus, was led by increases in prices of a few commodities and inflation remained concentrated in a few commodities. Since then, the inflation has become increasingly generalised as more number of commodities have started to exhibit significant pick-up in inflation. This is manifested in the declining share of top ten contributors to inflation since November 2009. The cumulative weight





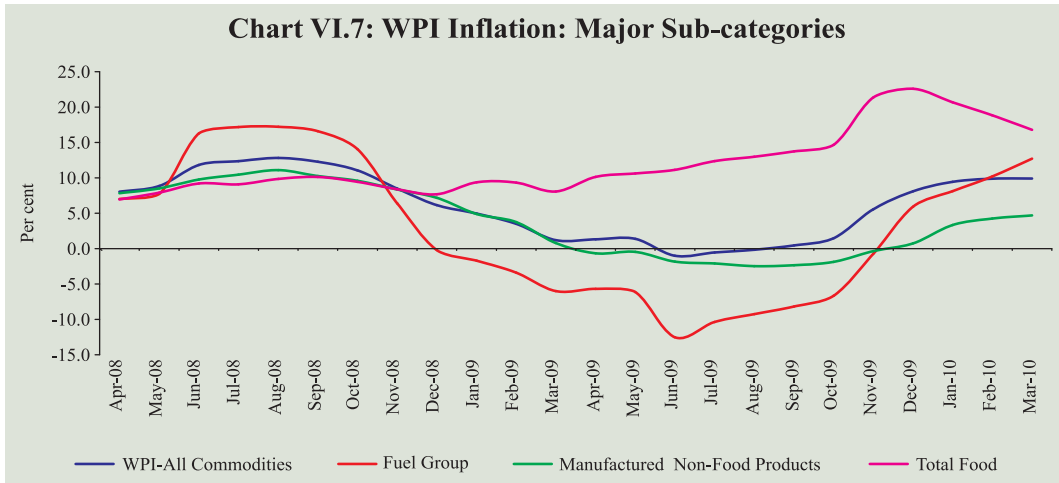


of the top ten contributors to inflation have also increased indicating that commodities with relatively higher weights have emerged as the drivers of inflation (Chart VI.6).

VI.17 When the inflation process tends to get generalised, the transmission from segmented pressures in certain items to the general inflation takes place with a lag, and during this period, containing inflation expectations becomes critical to enhance the effectiveness of monetary policy actions to reign in inflationary pressures. It can be expected that price pressure originating from inflation in fuel group may entail much greater risk to generalisation of inflation with more immediate impact as fuel enter as an intermediate input in most manufacturing products. Pressure from food price shocks on generalised inflation, on the other hand, may be gradual. This, to an extent, has been corroborated by the movements in manufactured non-food products inflation, which moved up significantly in recent months alongside increase in fuel inflation, while food inflation moderated in recent months (Chart VI.7).

VI.18 The y-o-y WPI inflation excluding food and fuel consistently remained below the headline inflation during 2009-10. The trend of non-food non-fuel inflation, however, was mostly in sync with the headline inflation. Inflation in essential commodities group increased sharply during 2009-10, largely driven by food items' price increases. Essential commodity inflation shows signs of moderation since January 2010 in line with the moderation in food prices (Chart VI.8a).

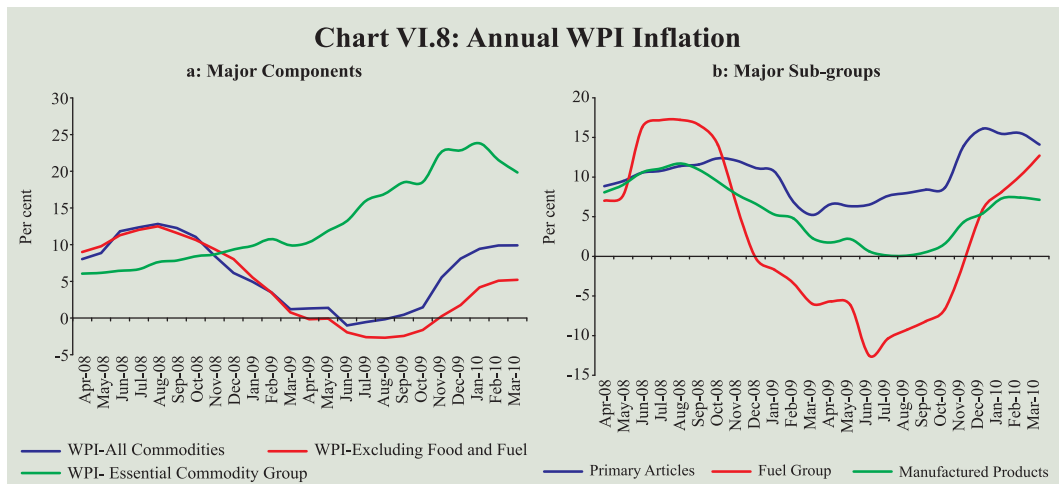
VI.19 The increases in prices of food articles and food products have contributed 47 per cent of the build-up in WPI inflation during 2009-10. The upward revision of prices of petrol and diesel (effective July 2, 2009) and increase in prices of freely priced products under the fuel group in line with hardening of international crude oil prices further contributed to the increase in inflation during the year. Increases in administered prices of coal, reversal of excise and customs duty on petrol and diesel also partly contributed to the increase in inflation. Thus, the WPI inflation was

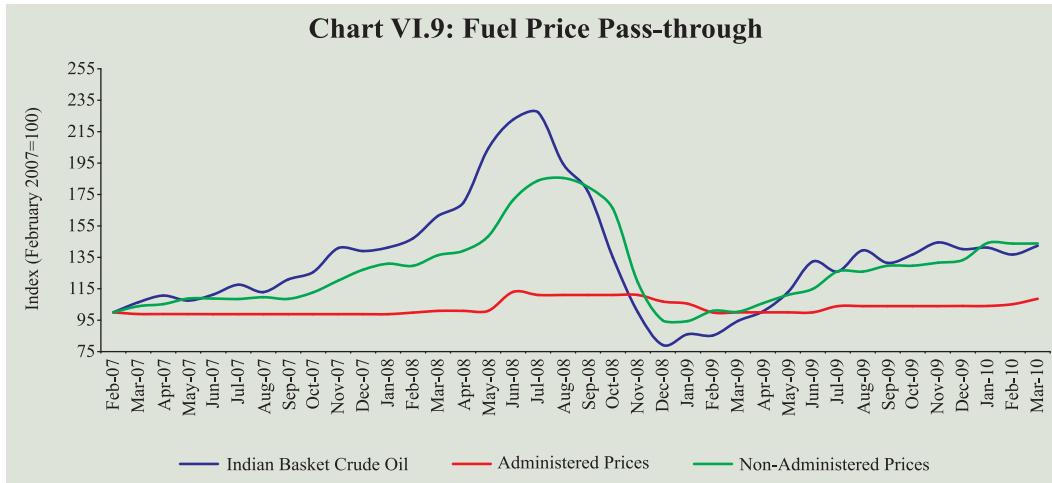


above the Reserve Bank’s projection of 8.5 per cent by March 2010.

VI.20 Amongst the major groups, primary articles inflation, y-o-y, remained in single digit up to October 2009 and increased significantly thereafter, mainly on account of food prices, which registered high double-digit increase (Chart VI.8b). Some softening of inflation in primary articles is visible in recent months reflecting the seasonal moderation in prices of food articles and the impact of arrival of fresh crops in the market.

VI.21 Year-on-year fuel group inflation, remained significantly negative during December 2008-November 2009 on account of the lower international crude oil prices compared to the very high levels in 2008. Fuel inflation turned positive in December 2009 reflecting the base effect of downward revision of administered prices in December 2008. The hikes in administered prices of petrol and diesel effective from July 2, 2009 and the reversal of customs and excise duty concessions given on petroleum products in the Union

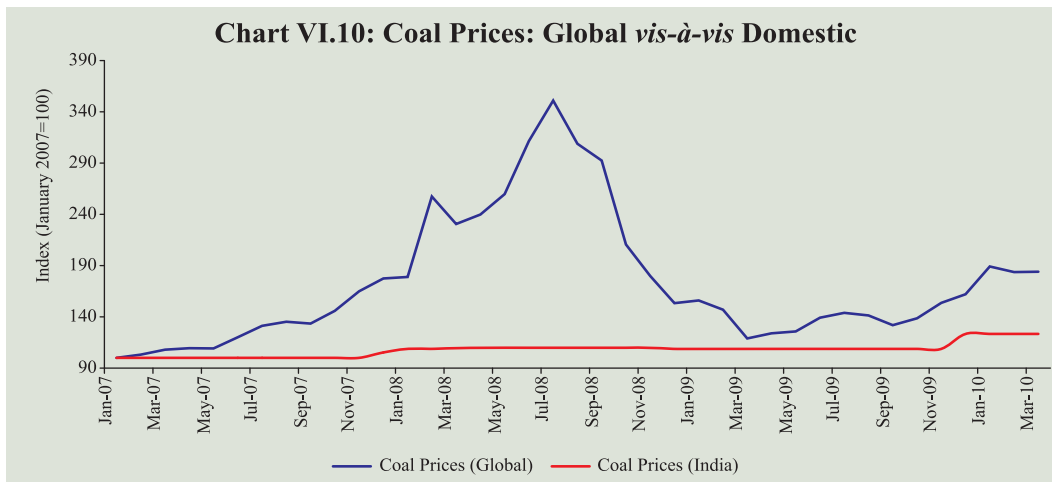




Budget for 2010-11, as part of the fiscal exit, led to increases in administered prices of petroleum products. Freely priced products under the minerals oil group followed the trends in international crude prices and gradually increased during the year (Chart VI.9). It is also to be noted that international oil prices remaining at current levels would imply a significant gap in the administered prices of petroleum products in relation to the price of Indian basket crude oil (converted to rupees at respective monthly average exchange rates), which

would significantly increase the under-recoveries of oil marketing companies.

VI.22 Among the other major items in fuel group, coal prices were raised in January 2010 as global prices increased substantially (Chart VI.10). Increase in domestic coal prices, however, remain significantly lower than international prices. Electricity prices inflation remained moderate during the year. Recent increases in oil and coal prices may, over time, spillover to electricity prices.



VI.23 Manufactured products inflation, y-o-y, declined during the first half of 2009-10 mainly reflecting the significant negative inflation in metals. Manufactured products inflation, however, increased from 0.1 per cent in August 2009 to 7.1 per cent in March 2010 mainly driven by the manufactured food products, led by sugar (Table VI.4). The non-food manufacturing inflation, which was

**Table VI.4: Wholesale Price Inflation in India  
(Year-on-Year)**

(Per cent)					
Commodity	Weight	2008-09 (March)		2009-10 (March)	
		Inflation	C*	Inflation	C*
1	2	3	4	5	6
<b>All Commodities</b>	<b>100.0</b>	<b>1.2</b>	<b>1.2</b>	<b>9.9</b>	<b>9.9</b>
<b>1. Primary Articles</b>	<b>22.0</b>	<b>5.2</b>	<b>1.2</b>	<b>14.1</b>	<b>3.4</b>
<i>Food Articles</i>	15.4	7.5	1.2	16.7	2.7
i. Rice	2.4	16.7	0.4	8.0	0.2
ii. Wheat	1.4	4.6	0.1	14.4	0.2
iii. Pulses	0.6	10.8	0.1	31.4	0.2
iv. Vegetables	1.5	-5.3	-0.1	1.6	0.0
v. Fruits	1.5	7.5	0.1	12.0	0.2
vi. Milk	4.4	7.4	0.3	17.6	0.8
vii. Eggs, Fish and Meat	2.2	3.5	0.1	31.0	0.7
<i>Non-Food Articles</i>	6.1	-0.9	-0.1	12.8	0.8
i. Raw Cotton	1.4	1.9	0.0	17.5	0.2
ii. Oilseeds	2.7	-3.1	-0.1	9.8	0.3
iii. Sugarcane	1.3	0.0	0.0	2.3	0.0
<i>Minerals</i>	0.5	7.2	0.1	-9.6	-0.1
<b>2. Fuel, Power, Light and Lubricants</b>	<b>14.2</b>	<b>-6.0</b>	<b>-1.3</b>	<b>12.7</b>	<b>2.5</b>
i. Coal Mining	1.8	-0.7	0.0	13.5	0.3
ii. Minerals Oil	7.0	-8.6	-1.1	17.0	2.0
iii. Electricity	5.5	-2.6	-0.2	4.7	0.3
<b>3. Manufactured Products</b>	<b>63.7</b>	<b>2.3</b>	<b>1.3</b>	<b>7.1</b>	<b>4.0</b>
i. Food Products	11.5	8.9	0.9	17.0	1.9
<i>of which: Sugar</i>	3.6	22.7	0.5	48.8	1.4
Edible Oils	2.8	-8.9	-0.2	-1.6	0.0
ii. Cotton Textiles	4.2	13.4	0.4	13.9	0.4
iii. Man Made Fibres	4.4	-1.3	0.0	2.2	0.0
iv. Chemicals and Products	11.9	2.2	0.2	8.1	0.9
<i>of which: Fertilisers</i>	3.7	5.4	0.2	-4.4	-0.1
v. Non-Metallic Mineral Products	2.5	2.2	0.1	0.5	0.0
<i>of which: Cement</i>	1.7	2.0	0.0	-3.2	-0.1
vi. Basic Metals, Alloys and Metal Products	8.3	-9.4	-1.0	1.1	0.1
<i>of which: Iron and Steel</i>	3.6	-14.6	-0.8	1.9	0.1
vii. Machinery and Machine Tools	8.4	2.6	0.2	3.2	0.2
<i>of which: Electrical Machinery</i>	5.0	1.1	0.0	2.9	0.1
viii. Transport Equipment and Parts	4.3	2.8	0.1	0.5	0.0
<i>Memo:</i>					
<b>Food Items (Composite)</b>	<b>26.9</b>	<b>8.1</b>	<b>2.1</b>	<b>16.8</b>	<b>4.6</b>
<b>Manufactured Non-food Products</b>	<b>52.2</b>	<b>0.8</b>	<b>0.4</b>	<b>4.7</b>	<b>2.1</b>
<b>WPI Excluding Food</b>	<b>73.1</b>	<b>-1.2</b>	<b>-0.9</b>	<b>7.3</b>	<b>5.3</b>
<b>WPI Excluding Fuel</b>	<b>85.8</b>	<b>3.2</b>	<b>2.5</b>	<b>9.2</b>	<b>7.4</b>
<b>Essential Commodities</b>	<b>17.6</b>	<b>9.9</b>	<b>1.6</b>	<b>19.8</b>	<b>3.6</b>

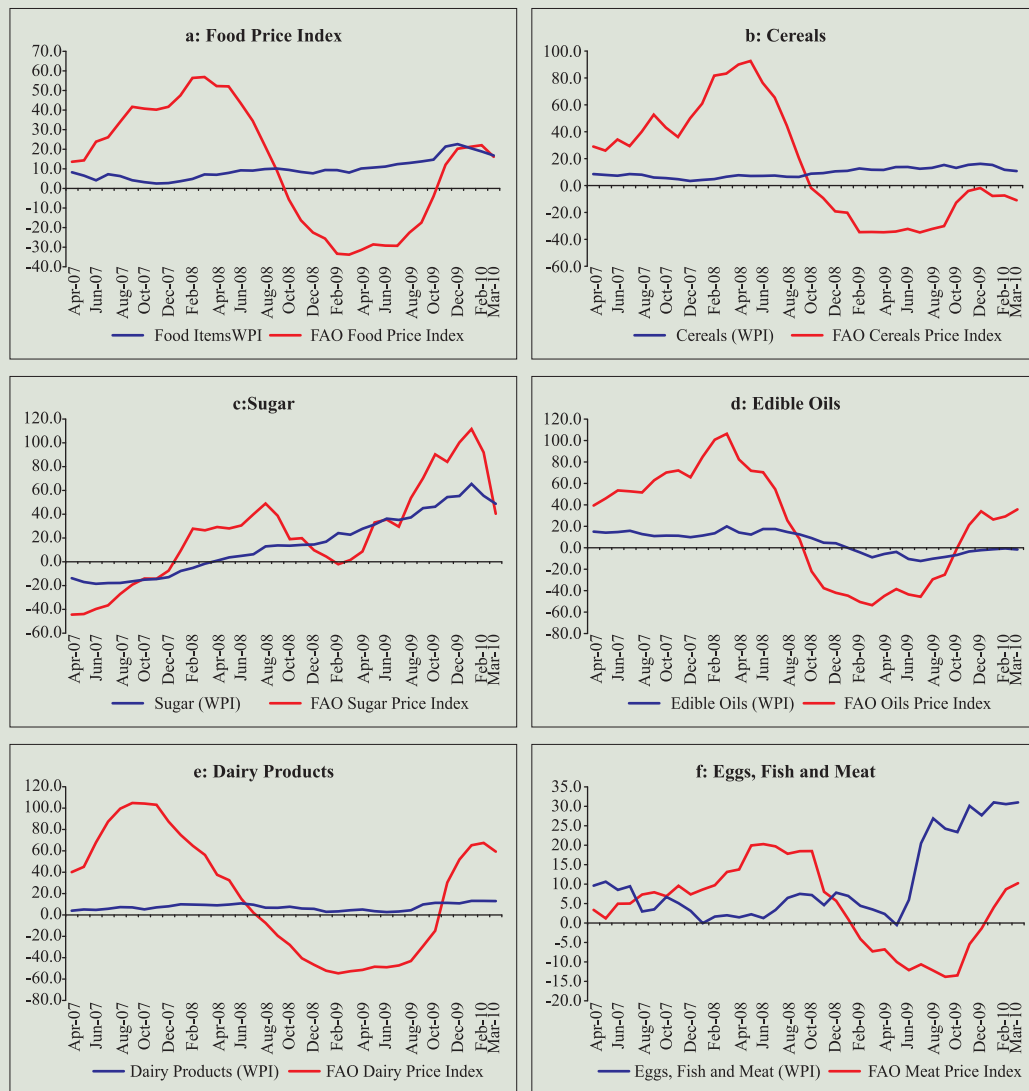
\*: Contribution to inflation

negative up to November 2009, has changed course since then and increased significantly to 4.7 per cent in March 2010.

VI.24 Though the current inflation in food articles in India is quite significant, it needs to be noted that the international food prices

have been much volatile in the recent past as compared to the domestic prices. Imports as an option to check price rise in India may not be fully effective as global inflation in food has already caught up with the high levels in India (Chart VI.11, Table VI.5).

**Chart VI.11: Trends in Food Inflation: Global *vis-à-vis* Domestic (year-on-year, per cent)**



Source: FAO Food Price Database and Office of Economic Adviser Ministry of Commerce and Industry

Table VI.5: Key Commodity Prices - Global <i>vis-à-vis</i> Domestic		
(Per cent)		
Item	Annual Inflation (y-o-y, March 2010)	
	Global	India
1	2	3
1. Rice	-14.2	8.0
2. Wheat	-17.3	14.4
3. Raw Cotton	66.5	17.5
4. Oilseeds	7.7	9.8
5. Iron Ore	-28.2	-15.5
6. Coal mining	54.7	13.5
7. Minerals Oil	70.0	17.0
8. Edible Oils	39.1	-1.6
9. Oil Cakes	-4.4	7.0
10. Sugar	41.4	48.8
11. Non-ferrous metals *	62.0	3.3
12. Iron and Steel	-13.8	1.9

# : Global oilseeds and edible oils prices are represented by soybeans and palm oil, respectively.

\* : Represented by IMF metals price index, which covers copper, aluminium, iron ore, tin, nickel, zinc, lead and uranium.

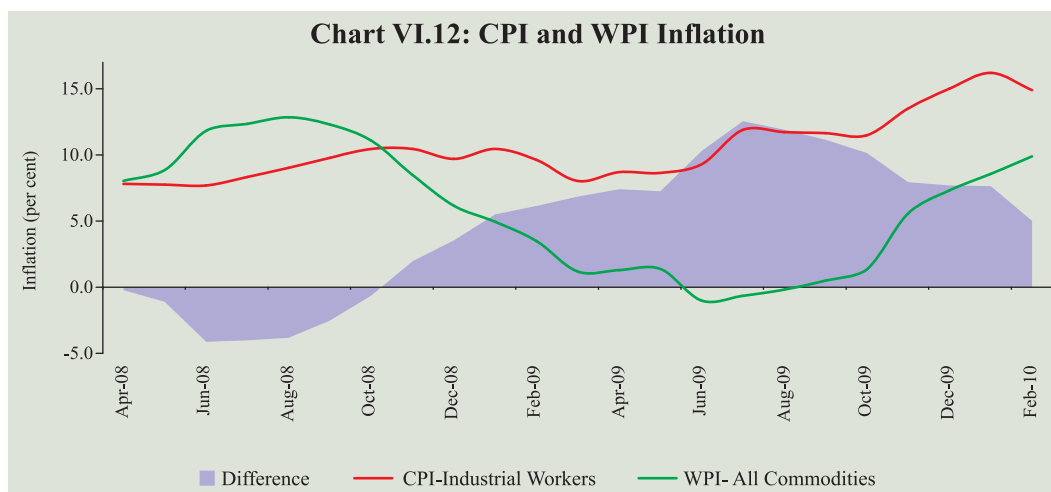
**Note:** Global price increases are based on the World Bank and IMF primary commodity prices data and WPI for India.

### Consumer Price Inflation

VI.25 The divergence between WPI and CPI inflation increased during the first half of 2009-10 as WPI inflation declined and

became negative while CPI inflation continued to increase. During the second half of the year, even though both CPI (up to January 2010) and WPI inflation increased, the increase in WPI inflation was much faster than CPI inflation. This led to some narrowing down of the gap between and WPI and CPI inflation in recent months (Table VI.6 and Chart VI.12).

VI.26 Overall, while the inflation process continues to be dominated by supply factors, there is increasing evidence of generalisation as well as pick-up in demand in certain areas, which could be expected to continue with added momentum, going forward. Strong revival in import growth, major turnaround in corporate sales, gradual increase in capacity utilisation and recent trends in demand for credit from the private sector point to the emerging demand side risks to inflation. Though food prices have started to show seasonal moderation, the level still remains high. Fuel group inflation has accelerated significantly, reflecting higher prices of freely priced fuel products, upward



Price Situation

**Table VI.6: Consumer Price Inflation - Major Groups**

(Year-on-year variation in per cent)												
CPI Measure	Weight	Mar-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Jan-10	Feb-10
1	2	3	4	5	6	7	8	9	10	11	12	13
<b>CPI-IW (Base: 2001=100)</b>												
<b>General</b>	<b>100.0</b>	<b>6.7</b>	<b>7.9</b>	<b>7.7</b>	<b>9.8</b>	<b>9.7</b>	<b>8.0</b>	<b>9.3</b>	<b>11.6</b>	<b>15.0</b>	<b>16.2</b>	<b>14.9</b>
Food Group	46.2	12.2	9.3	10.5	13.1	13.1	10.6	12.2	13.5	21.3	19.2	17.3
Pan, Supari <i>etc.</i>	2.3	4.4	10.9	7.1	7.8	8.5	8.3	8.1	8.0	8.6	8.5	9.2
Fuel and Light	6.4	3.2	4.6	8.4	9.1	9.7	7.4	1.4	4.2	3.4	3.4	3.4
Housing	15.3	4.1	4.7	4.7	3.8	3.8	6.0	6.0	22.1	22.1	33.1	33.1
Clothing, Bedding <i>etc.</i>	6.6	3.7	2.6	2.5	2.5	4.2	5.0	4.1	4.1	4.1	4.9	4.8
Miscellaneous	23.3	3.3	6.3	6.2	7.6	8.3	7.4	6.6	5.7	4.2	4.1	4.8
<b>CPI-UNME (Base: 1984-85=100)</b>												
<b>General</b>	<b>100.0</b>	<b>7.6</b>	<b>6.0</b>	<b>7.3</b>	<b>9.5</b>	<b>9.8</b>	<b>9.3</b>	<b>9.6</b>	<b>12.4</b>	<b>15.5</b>	<b>16.9</b>	–
Food Group	47.1	10.9	7.8	9.6	13.2	13.4	12.2	13.6	14.4	21.4	20.3	–
Fuel and Light	5.5	6.4	4.6	5.3	6.2	7.7	5.9	1.3	4.2	3.5	3.5	–
Housing	16.4	5.6	4.0	3.8	3.5	3.5	5.8	6.0	22.0	22.0	33.2	–
Clothing, Bedding <i>etc.</i>	7.0	3.6	4.3	3.4	3.1	2.7	3.3	4.2	4.1	4.1	4.7	–
Miscellaneous	24.0	4.4	4.8	6.6	8.4	9.3	8.6	7.3	6.0	4.6	4.4	–
<b>CPI-AL (Base: 1986-87=100)</b>												
<b>General</b>	<b>100.0</b>	<b>9.5</b>	<b>7.9</b>	<b>8.8</b>	<b>11.0</b>	<b>11.1</b>	<b>9.5</b>	<b>11.5</b>	<b>13.2</b>	<b>17.2</b>	<b>17.6</b>	<b>16.5</b>
Food Group	69.2	11.8	8.5	9.6	12.0	11.9	9.7	12.4	14.6	20.2	20.6	19.0
Pan, Supari <i>etc.</i>	3.8	5.7	10.4	11.2	12.8	13.7	15.3	14.2	15.5	14.6	14.2	14.6
Fuel and Light	8.4	6.9	8.0	8.9	10.2	11.3	11.5	11.0	12.0	14.3	15.1	15.1
Clothing, Bedding <i>etc.</i>	7.0	3.5	1.8	3.1	6.0	7.0	7.4	8.3	8.1	8.2	8.4	8.9
Miscellaneous	11.7	6.8	6.1	6.5	7.1	7.0	6.5	6.1	7.1	7.0	7.2	7.4
<b>CPI-RL (Base: 1986-87=100)</b>												
<b>General</b>	<b>100.0</b>	<b>9.2</b>	<b>7.6</b>	<b>8.7</b>	<b>11.0</b>	<b>11.1</b>	<b>9.7</b>	<b>11.3</b>	<b>13.0</b>	<b>17.0</b>	<b>17.4</b>	<b>16.5</b>
Food Group	66.8	11.5	8.2	9.6	12.0	11.9	10.0	12.4	14.6	20.4	20.8	19.3
Pan, Supari <i>etc.</i>	3.7	5.7	10.6	10.9	12.5	13.4	15.0	14.1	15.4	14.4	13.9	14.8
Fuel and Light	7.9	6.9	8.0	8.9	10.5	11.3	11.5	11.0	12.0	14.1	15.1	15.1
Clothing, Bedding <i>etc.</i>	9.8	3.1	2.8	4.1	6.5	7.3	8.2	8.8	9.5	10.3	10.0	10.1
Miscellaneous	11.9	6.3	6.2	6.8	7.4	7.5	6.7	6.2	6.9	6.6	6.8	7.0
<i>Memo:</i>												
WPI Inflation		6.6	7.5	11.8	12.3	6.1	1.2	-1.0	0.5	8.1	9.4	9.9
GDP Deflator based Inflation*		5.5	4.9	8.8	11.6	8.7	7.9	0.9	0.8	5.6	–	–

\*: Data for March pertain to full year.

IW : Industrial Workers. UNME : Urban Non-Manual Employees. AL : Agricultural Labourers. RL : Rural Labourers.

revision in coal prices, and reversal in excise and customs duties that led to corresponding increases in POL product prices, besides the impact of low base. Pressure on the inflation process to get generalised has, therefore, been persistent. Non-food manufacturing products inflation rose from (-)0.4 in

November 2009 to 4.7 per cent in March 2010 suggesting more generalisation of the inflation process. Given inflation persistence, high generalised inflation, if not contained, could aggravate inflation expectations and impede the ongoing recovery.