

Highlights of Revision of Index Numbers of Wholesale Prices in India

- ✓ Changes are effected in the Wholesale Price Index (WPI) base, methodology, basket and weights almost in every decade in order that the index adequately reflects the current structure of the economy.
- ✓ In view of the well established criteria that, the **base year** for price indices should have the desired properties of being a normal year and a year for which reliable price and other required data available and the base year should be as recent as possible, 2004-05 was chosen as the base year for the new series of WPI.
- ✓ The concept of wholesale price has hitherto covered the general idea of capturing all transactions carried out in the domestic market. It was decided from now on to define the **universe of the WPI** as comprising as far as possible all transactions at *first point of bulk sale* in the domestic market. While computing the domestically traded value, only the direct export from the factories should be excluded. Similarly, import of goods which reach the factory directly (without being traded in the economy) should not be added to domestic production.
- ✓ The manufactured product basket in the 1993-94 series included all products with traded value of Rs 120 crore or above; this led to poor representation of products in some of the product groups. The new construction adopts a method where each product group in the manufactured basket gets represented by a number of items which together cover at least 80 per cent of the traded value at the group level. The New Series with 2004-05 as the base has 676 items in the **commodity basket**.
- ✓ There is no change in the **method of compilation** of the index in the revised series. It is calculated on the principle of weighted arithmetic mean, according to the Laspeyres' formula, which has a fixed base-year weighting diagram operative through the entire life span of the series. The Laspeyres' index measures the change in cost of purchasing the same basket of goods and services in the current period as was purchased in a specified base period; it uses the base period quantities as weights.
- ✓ Price relatives are calculated as the percentage ratios, which the current prices bear to those prevailing in the base period, i.e., by dividing the current price by the base period price and multiplying the quotient by 100. The commodity index is arrived at as the simple arithmetic average of the price relatives of all the varieties included under that commodity.
- ✓ The weighting diagram for the new WPI series has been derived on the basis of Gross Value of Output (GVO). The output values at current prices, wherever available at appropriate disaggregation, have been obtained from the National Accounts Statistics (NAS), 2007 and these have been reallocated and aggregated to conform to the structure of WPI basket.
- ✓ The **weights** which have been assigned on the basis of entire wholesale transactions in the economy are as follows:

Group	1970-71	1981-82	1993-94	2004-05
Primary Articles	41.667	32.295	22.025	20.118
<i>of which</i> Food Articles	29.799	17.386	15.402	14.337
Fuel and Power	8.459	10.663	14.226	14.910
Manufactured Products	49.874	57.042	63.749	64.972
<i>of which</i>				
Chemicals and Chemical Products	5.548	7.355	11.931	12.018
Basic Metals, Alloys and Metal Products	5.974	7.632	8.342	10.748
Food Products	13.322	10.143	11.538	9.974

- ✓ In order to maintain continuity in the time series data on WPI it is imperative to provide a **linking factor**, so that the new series may be compared with the outgoing one. The Office of the Economic Adviser has been using the arithmetic conversion method to link the various prices series. The linking factors for the three broad groups of commodities of WPI are as follows.

All commodities 1.873

Primary articles 1.881

Fuel & Power 2.802

Manufactured products 1.663

- ✓ The new series uses the **procurement prices of paddy and wheat**, which in a way represent the first point of sale in the price quotations for wheat and rice.
- ✓ **Crude petroleum** has now been shifted to the 'minerals' group.

For all details visit:

http://eaindustry.nic.in/wpi_200405out.htm

Summary by Surge Research Support
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