### Abstract

India has a rich history of compilation of price indices. Until 2011 the key price indices produced in India were wholesale price index (WPI) and sectoral consumer price indices that represented certain sections of working population. In absence of an all India consumer price index (CPI), WPI was the only available national level price index and was used extensively in monetary policy analysis and communication. The sectoral CPIs were used primarily for wage indexation. Starting 2011, to get an economy wide gauge of consumer price behavior, and following the recommendations of the National Statistical Commission, the Central Statistics Office, Government of India, started publishing rural, urban and all India CPI. With effect from January 2014, the Reserve Bank of India formally adopted the consumer price inflation as its headline measure for the purpose of monetary policy.

Historically the retail and wholesale price measures tended to move together, barring short horizons where they presented different pictures of price behavior. Of late, however, there has been considerable divergence in inflation rates between the CPIs and WPI leading to questions on the reasons for divergence and their policy implications. In this context, this paper, provides details on the method of construction of various retail and wholesale price indices, its influence on underlying inflation, and analyses the distributional properties of different measures of inflation. To explore the reasons why inflation measures under these indices differ, the paper, perhaps one of the first in India, deconstructs the observed difference in inflation into price, weight and scope effects based on the recently released disaggregate retail price data. The empirical assessment and quantification of the magnitudes of each of these effects show that multiple effects are at play in explaining the discrepancy between the indices. With a particular emphasis on the most recent period, the analysis reveals that both weight effects and scope effects played a crucial role in determining the level and duration of observed divergence between the retail and wholesale price inflation.