Need for reform in CPI basket

Why in news?

The items in the CPI basket and the weights assigned to them should not remain unchanged as it conceals the actual inflation picture.

What is Consumer Price Index (CPI)?

- CPI is a comprehensive measure used for estimation of price changes in a basket of goods and services representative of consumption expenditure in an economy.
- Inflation is measured using CPI.
- The percentage change in this index over a period of time gives the amount of inflation over that specific period.
- The National Statistical Office (NSO) under Ministry of Statistics and Programme Implementation (MoSPI) releases Consumer Price Index (CPI) in India with the base year 2012.



What is Household Consumption Expenditure Survey (CES) data?

- The Household Consumption Expenditure Survey (CES) is a recurring survey taken every five years by the government's National Sample Survey Office (NSSO).
- The data from the Household CES is used to shift the weights for CPI.
- Currently, the Ministry of Statistics and Programme Implementation (MoSPI) is in the midst of the CES.
- The first round of CES is slated to conclude in July 2023 and the second round a year later, in July 2024.
- **Effects of CES data absence -** Inability to determine the population under the poverty line accurately.
- Inability to track inflation effectively.

What are the issues with the present CPI?

- CPI is used in accurately measuring the cost of living and economic well-being.
- The real consumption basket of a common Indian is fluid and continually evolving, mirroring the shifts in societal needs, preferences, and economic conditions.
- **Archaic parameters -** Tracking items that no longer hold the same relevance in our consumption patterns.
- According to Engel's Law, as the economy grows, the proportion of income spent on food decreases.
- **Higher food weightage -** In the current CPI (base year 2012), weightage of food and beverages is still 45.86 (46.2 in 2001).

- Over-reliance on food inflation today distinguishes Indian inflation from many other developed countries.



- **Modified consumption pattern -** The high weight of cereals (9.67) in the current CPI highlights two critical issues.
- With economic development of a country, there should be a paradigm shift in dietary habits of its people.
- The Pradhan Mantri Garib Kalyan Yojana has substantially reduced cereal expenditure for a large segment of the populace.
- This modifying consumption patterns further led to reducing the relative expenditure on cereals.
- **Dependence on TOP -** Tomatoes, onions and potatoes have a considerably higher impact on inflation. It should be lower.
- **Technical lag -** In a rapidly evolving digital economy, our data collection and inflation estimation methods must adapt and evolve in tandem.

What are the challenges?

- CPI and inflation should accurately reflect the realities of modern-day consumption and living.
- An up-to-date consumption expenditure data is required to effectively reflect the evolution of consumption patterns in our inflation metrics.
- Efficient data processing should be given non-negotiable priority.
- Early collection and processing of data and integrated usage of technological advancements.

Reference

1. The Hindu - How the CPI basket conceals the inflation picture

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