2. Revising Consumer Price Index- Economy

India to cut food weighting in CPI in new inflation series

The Ministry of Statistics and Programme Implementation (MoSPI) is undertaking a significant overhaul of the Consumer Price Index (CPI) to better align economic data with the modern spending habits of Indian households.

Key Changes in the New CPI Series

The revision moves away from an outdated 2012 framework to a more representative 2024 model.

Base Year Shift- The base year is being updated from 2012 to 2024.

Expansion of the Basket- The number of items tracked will increase from 299 to 358.

Modernization of Items

1. Additions- Smartphones, OTT subscriptions, and international airfare.
2. Deletions- Obsolete technology such as VCRs and audio cassettes.

Digital Integration- For the first time, twelve "Online Markets" have been established in major cities to track price fluctuations directly from e-commerce platforms.

Housing and Rent-

1. The index will cover rural housing rents for the first time.
2. Employer-provided housing is excluded to prevent data distortion.

Framework Alignment- The CPI is moving from 6 to 12 distinct Divisions, ensuring full compliance with the UN COICOP 2018 (Classification of Individual Consumption According to Purpose) framework.

Shift in Expenditure Weightage

The new series reflects a major structural shift in the Indian economy, where households are spending less on basic food and more on services and lifestyle.

Category	**Old Weight (2012)**	**New Weight (2024)**	**Key Reason for Change**
Food and Beverages	45.86%	~36.75%	Rising incomes lead to a lower percentage of total spend on food (Engel's Law).
Transport & Communication	8.59%	12.41%	Higher mobility and increased digital/telecom spending.
Housing, Water, Electricity, Gas	16.91%	17.66%	Urbanization and increased utility costs.
Rural Sector Share	53.52%	55.4%	Increased importance of rural consumption in the combined index.

Note on PDS- Free food grains received through welfare schemes like PMGKAY are now assigned zero weight in the basket to reflect actual out-of-pocket expenditure.

Significance of the Revision

This update has profound implications for how inflation is perceived and managed in India.

Lower Volatility- Reducing the weight of food makes the "Headline Inflation" less sensitive to erratic monsoon patterns or sudden spikes in vegetable prices.

Accuracy in Living Costs- By including rural rent and excluding employer-provided housing, the index provides a more realistic view of housing inflation.

Reflecting Modernity- The inclusion of digital services (OTT, smartphones) acknowledges the transition toward a service-based consumption economy.

Global Comparability- Aligning with UN COICOP standards allow Indian economic data to be easily compared with international benchmarks.

4. Fundamentals of the Consumer Price Index (CPI)

The CPI serves as a composite indicator measuring short-term changes in retail prices for a representative consumption basket.

Publishing Agencies-

1. NSO (National Statistical Office)- Publishes CPI-Rural, CPI-Urban, and CPI-Combined.
2. Labour Bureau- Publishes specialized indices for wage indexation- CPI-Industrial Workers (IW), CPI-Agricultural Labourers (AL), and CPI-Rural Labourers (RL).

Calculation Methodology- It utilizes the Modified Laspeyres Formula, which compares current prices against base-year prices using fixed expenditure weights.

Frequency of Data-

1. Released monthly.
2. Prices for perishable items (vegetables, etc.) are collected weekly.
3. Non-perishables and services are collected monthly.

The Policy Anchor- CPI-Combined is the official inflation indicator used by the RBI under the Flexible Inflation Targeting (FIT) framework mandated by the RBI Act, 1934.

Source- https://economictimes.indiatimes.com/news/economy/indicators/india-to-cut-food-weighting-in-cpi-in-new-inflation-series/articleshow/127777878.cms