Fixing price indices

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The new CPI for industrial workers highlights the need for revision in CPI combined a revision of the Consumer Price Index for Industrial Workers was long overdue; it had not been recast for more than a decade, rendering it out of sync with changing consumption habits. Changing the base year for the index to 2016 from 2001 and adjusting the weights of the constituents of the index is, therefore, welcome. The dearness allowance of government employees and the workers in industrial sectors can be accurately computed. With the coverage of the index being widened to 88 centres, 317 markets and the number of items being increased to 463 against 392 in the old series, the new index will be more representative.

But the moot point is — if the consumption pattern has altered significantly, as reflected in the CPI-IW, shouldn’t the government hasten to revise the combined CPI (rural and urban) too? There is no doubt — except perhaps in a serious economic crisis — that the proportion of income allocated to food and beverages in household budgets is falling rapidly while a greater share is being allocated to expenses such as housing, healthcare, education and entertainment. The weight for the food category in CPI-IW is down from 46.2 per cent when the base year was 2001 to 39.17 per cent in 2016. The five percentage points revision will ensure that the index does not exaggerate volatility in food prices. On the other hand, the weight for the miscellaneous group has increased 7 percentage points to 30.31 in the revised CPI-IW index. The CPI combined index is however computed with far higher weight for food at 45.86 per cent. This is despite the rural population too registering a fall in the proportion of food in their consumption basket.

The weight for the miscellaneous group in CPI combined is low at 28.32 per cent. If the weight for food was lowered in the CPI inflation, it may lower the inflation somewhat, though the higher weight to core inflation can offset the impact. However, the revision in inflation indices is not taking place in a timely manner. The current weights of the CPI are based on the Consumer Expenditure Survey conducted in 2011-12. While the Centre did conduct the CES in 2017-18, which could have been used to recast the combined CPI, it was not accepted or made public as it revealed that monthly per capita expenditure fell 3.7 per cent between FY12 and FY18. With the next CES scheduled in FY21 and FY22, revision in the combined CPI numbers is likely to be delayed. With the CPI being used as the basis for the central bank’s policy decisions, such tardiness in revising the index is unacceptable. Both IMF and ILO have guidelines on constructing inflation indices and the periodicity with which they need to be updated. These rules need to be followed to ensure reliable data and timely revisions.

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