

Consumer Price Index

What is CPI?

CPI is the measuring index of the changes in the price level of consumer goods and services bought out by households. Consumer Price Index is the estimated calculation in numerical values using the rates of the representative sample objects gathered periodically.

The Consumer Price index notes the changes in the prices at the consumer level. In contrast, the Wholesale Price Index, WPI, calculates price changes at the producer level. The WPI cannot note the price change in the service provided, but the CPI can capture this change.

Types of CPI

In India, four Consumer Price Index [CPI] numbers are calculated -

- **CPI for Industrial Workers (CPI-IW)**- The CPI-IW measures the price change in the fixed baskets of the consumed goods and services used by the workers of the Industries.
- **CPI for Urban Non-Manual Employees (CPI-UNME)**- The data is compiled by the National Statistical Office (previously called Central Statistic Office).
- **CPI for Agricultural Labourers (CPI-AL)**- The data is revised to calculate the minimum wages for the laborers in the agricultural sector living in different states.
- **CPI for Rural Labourers (CPI-RL)**- Labour Bureau compiles the CPI-AL.

The work of the Ministry of Statistics and Program Implementation is to collect CPI (UNME) data and compile it similarly; the work of the Labour Bureau in the Ministry of Labour is to collect the remaining three CPI data.

CPI Working Process

The Consumer Price Index, CPI, measures price changes by comparing the cost of a fixed set of commodities over time. The set is based on the expenses of a target population over a reference period. Since the set contains commodities of constant or identical quality and quantity, the index reflects only the pure price.

The price data of the goods and services is collected periodically, and the inflation levels in the economy is calculated by using the data collected from the CPI. This is further used to compute the cost of living. Not only this, but the Consumer Price Index also provides insights on how much a consumer can spend to be on par with the price change in an economy.

Advantages of Consumer Price Index [CPI]

Over the years, CPIs have been commonly used as a macroeconomic indicator of inflation and a tool by the Central Bank and the Government to monitor price stability and target inflation. Hence, Consumer Price Index is considered one of the key economic indicators.

The RBI and other agencies study CPI to interpret the price change of various commodities and keep a check on inflation. The Consumer Price Index is also useful for understanding the true value of salaries, wages, pensions, and the currency's purchasing power and regulating prices.

CPI Calculation

The CPI is calculated regarding a base year, which is used as a benchmark. Price Reference Year (Base Year) has been selected as the calendar year 2012. The price change pertains to that year. When the Consumer Price Index is calculated, the price of the set in 1 year is divided by the price of the market set of the base year; then, it is multiplied by 100.

Consumer Price Index Formula

$$\text{CPI} = (\text{Cost of the market basket in the year} / \text{Price of the market basket in the base year}) \times 100$$

The annual percentage change of CPI is also used to evaluate inflation. In India, the base years of the current series of CPI(RL), CPI(IW), and CPI(AL) are 1984-85, 1982 and 1986-87, respectively.

Consumer Price Index in India jumped to 166.10 points in February from 165.70 points in January 2022. CPI is calculated for a fixed set of items, including food, apparel, housing, electronics, transportation, medical care, education, etc.