India’s New CPI Series: Food Weight Cut, Housing Gains

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New CPI Series Latest News

- According to documents released by the Ministry of Statistics and Programme Implementation (MoSPI), India’s revised Consumer Price Index, with **2024 as the base year**, will significantly **lower** the weight of food and beverages from 45.86% to 36.75%.
- At the same time, **housing** will account for a **larger share** of the CPI basket. Along with improved methods to measure rent increases, this change is expected to push up measured housing inflation and place upward pressure on headline retail inflation.

Why Food’s High Weight in CPI Has Been a Concern

- Food items account for a large share of India’s Consumer Price Index (CPI), meaning sharp swings in food prices often dominate headline inflation, pushing it up or down irrespective of broader price trends.
- From June 2025, food inflation turned negative, with prices consistently lower than a year earlier.
- This sharply pulled down headline CPI inflation, which fell to an all-time low of 0.25% in October 2025, alongside record-low food inflation of –5.02%.

Impact of New CPI Weights on Inflation Readings

- According to experts, recalculating CPI with new weights but unchanged indices suggests:
- Overall CPI could be 20–30 basis points higher when food inflation is low.
- In periods of high food inflation, CPI could be 20–30 basis points lower than under the current series.

Why RBI Has Been Uneasy with the Current CPI

- For the Reserve Bank of India, the heavy food weight is problematic because the existing CPI is based on 2011–12 consumption patterns, making it outdated and less representative of today's economy.
- As per **Ernst Engel's economic theory**, the share of income spent on food declines as incomes rise. This trend is reflected in recent Indian data.
- The updated CPI basket draws on the MoSPI's 2023–24 Household Consumption Expenditure Survey (HCES):
    - Rural households: food share fell from 52.9% (2011–12) to 47.04% of monthly per capita consumption.
    - Urban households: food share declined from 42.62% to 39.68%.
- Falling food shares in household spending underline why reducing food's weight in the CPI is seen as necessary—to make inflation data more stable, current, and reflective of actual consumption patterns in India today.

Relief for RBI from Lower Food Weight in CPI

- The RBI influences inflation mainly by **managing demand** through interest rates.
- However, it has limited ability to address supply-side shocks in food prices, as rate changes cannot quickly alter the supply of vegetables, cereals, or other food items.
- In the past, episodes of high food inflation have kept headline inflation elevated, preventing the RBI from cutting interest rates even when underlying demand conditions were weak. This has **complicated** monetary policy decision-making.
- Against this backdrop, the **Economic Survey 2023–24** suggested exploring whether India's inflation targeting should focus on inflation **excluding food items**.
- The RBI opposed this idea.
    - Then Governor Shaktikanta Das said that while the central bank can look through temporary food inflation, it cannot ignore persistently high food inflation.

Current Inflation Targeting Framework

- By law, the RBI must target CPI inflation at 4%, within a tolerance band of 2–6%, under the Flexible Inflation Targeting (FIT) framework.
- This framework is currently under review, with the new target for the next five years, starting April, expected to be announced by March.
- Most economists expect the FIT framework to be retained in its current form, but changes in CPI composition—especially a lower food weight—could give the RBI greater operational comfort in managing inflation and interest rates.

New CPI Basket: What Is Changing

- **Timeline for the New CPI Series** – The broad weights of categories in the new CPI basket have been released ahead of the first inflation data under the new series, which will come out on February 12 for January. Detailed item-wise weights will be published before that.
- **Expanded Coverage: More Items in the Basket** – The new basket will include 358 items, up from 299 earlier—reflecting changes in consumption patterns.
- **Reclassification of Categories –** The MoSPI has reorganised CPI categories, making one-to-one comparisons (with earlier version) difficult. For example, education services now carry a 3.33% weight as a standalone category, whereas earlier education was a sub-group under "miscellaneous" with a 4.46% weight.
- **Linking Old and New CPI Series** – To ensure continuity, the expert group recommended releasing a linking factor between CPI 2012 and CPI 2024 for all-India, rural, and urban indices with the first CPI 2024 release.
- **Food Weight Falls; Housing Gains Prominence** – While food's weight declines in the new series—expected to reduce headline inflation volatility—housing's weight rises sharply from 10.07% to 17.66%.

Why Housing Weight Is Rising

- The increase is driven by:
  - Expanded coverage to include residential utilities (water, electricity, gas, other fuels).
  - Higher spending on rent, per the 2023–24 HCES:
  - Rural rent share rose to 0.56% (from 0.45% in 2011–12).
  - Urban rent share increased to 6.58% (from 6.24%).

Implications for Inflation

- Lower food weight should reduce volatility in headline CPI.
- However, the higher housing weight, combined with methodological changes—such as excluding employer-provided accommodation from rent measurement—could push housing inflation higher, adding upward pressure to overall inflation.

Source: IE | BS
