

New Consumer Price Index - Changes and Implications

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Consumer Price Index Latest News

- The Ministry of Statistics and Programme Implementation (MoSPI) has released a new India Consumer Price Index (CPI) series with 2024 as the base year, reporting retail inflation at 2.75% in January.

Understanding the Consumer Price Index in India

- The Consumer Price Index (CPI) is the primary measure of retail inflation in India.
- It tracks changes in the prices of goods and services consumed by households and is used by the Reserve Bank of India (RBI) to frame monetary policy under the inflation-targeting framework.
- CPI reflects the cost of living and directly affects interest rates, wages, pensions, and government welfare schemes.
- It is based on a “basket” of goods and services that represents typical household consumption patterns.
- Since consumption habits change over time due to income growth, technological shifts, and urbanisation, the CPI basket must be periodically revised.
- Without such revisions, the index may misrepresent actual inflation trends.

Key Features of the New CPI Series

- **Updated Base Year**

- The base year has been revised to **2024**. A base year acts as a reference point against which price changes are measured.
- Updating it ensures that inflation calculations reflect contemporary consumption patterns rather than outdated ones.

- **Revised Consumption Basket**

- The new CPI includes goods and services that households currently consume and excludes obsolete items.
- For example, older items such as CDs and DVDs have been replaced with modern electronics such as headphones, earphones, and Bluetooth devices.
- This reflects the digital transformation of Indian households and makes inflation measurement more realistic.

- **Retail Inflation in January**

- According to the new CPI series, retail inflation stood at 2.75% in January.
- However, direct comparison with previous months under the old CPI series is statistically inappropriate due to differences in basket composition and methodology.

The Apples-to-Oranges Problem

- One major issue raised by analysts is the comparability of inflation rates under the old and new series.
- Under the old CPI, December inflation was recorded at 1.33%. Comparing that figure directly with January's 2.75% under the new series would be misleading because:
 - Some goods have been added or removed.
 - Weightages assigned to categories have changed.
 - Data sources and price collection methods have been revised.
- This is similar to comparing two different baskets of goods; the underlying components differ, so inflation outcomes may vary even if price trends remain stable.

The Back-Series Debate

- To address comparability concerns, MoSPI has released a "back-series" of headline index numbers going back to 2013.
- However, experts caution that this back-series is largely mechanical. It applies linking factors to adjust old data, but does not reconstruct the old basket using new consumption patterns.
- For example, December 2025 inflation under the new series would be 1.17%, compared to 1.33% under the old series.
- Over 2025, the average inflation rate remains broadly similar at around 2.2% under both series.
- Yet, economists argue that a more detailed back-series requires deeper methodological work, especially given changes in:
 - Item inclusion and exclusion

- Market coverage
- Data collection processes

Changes in the Weight of Food, Gold and Silver

• Reduced Weight of Food

- Food items now carry a lower weight in the CPI basket compared to the previous series.
- This reflects rising incomes and diversification of household expenditure towards services and non-food items.
- A lower food weight could potentially reduce volatility in headline inflation, as food prices are typically more sensitive to monsoon conditions and supply shocks.

• Revised Weight of Gold and Silver

- In the old CPI, gold had a weight of 1.08% and silver 0.11%.
- In the new CPI, gold/diamond/platinum jewellery together account for 0.62%, while silver jewellery accounts for 0.31%.
- Although their combined weight remains important, gold's individual weight has reduced.
- Interestingly, global gold and silver prices saw sharp increases — gold inflation at 69% and silver at 97% during December 2025.
- If these were excluded, CPI inflation in December 2025 would have been just 0.26% instead of 1.33%.
- This shows how commodity price shocks can significantly influence headline inflation.

Implications for Monetary Policy

- The new CPI series has several policy implications:
 - **Improved Accuracy** – It better reflects actual household spending patterns.
 - **Reduced Food Volatility** – Lower food weight may stabilise headline inflation.
 - **Core Inflation Insight** – With changed weights, underlying (core) inflation trends may appear softer.
 - **Better Policy Calibration** – RBI decisions on repo rates can be more aligned with real consumption dynamics.
- However, transitional confusion and data interpretation challenges may persist until a detailed back-series is prepared.

Source: IE

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