



KAMARAJ IAS ACADEMY
Only IAS Academy by Grandson of "Perunthalsivam Kamarajar"

CPI-Consumer Price Index

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Why in news?

Inflation in **India's consumer prices** cooled dramatically from 5.1% in June to an almost five-year low of 3.54% in July.

This is mostly attributed to the **base effect of the previous year** July data when retail inflation stood at 7.4% and the food index was up 11.5%.

CPI-Consumer Price Index:

It measures price changes from the perspective of a retail buyer. It is **released by the National Statistical Office (NSO)**.

The CPI calculates the difference in the price of commodities and services such as food, medical care, education, electronics etc, which Indian consumers buy for use.

The CPI has several sub-groups including food and beverages, fuel and light, housing and clothing, bedding and footwear.

Four types of CPI are as follows:

1CPI for Industrial Workers (IW).

2CPI for Agricultural Labourer (AL).

3CPI for Rural Labourer (RL).

4CPI (Rural/Urban/Combined).

Of these, the **first three are compiled by the Labour Bureau in the Ministry of Labour and Employment. Fourth is compiled by the NSO** in the Ministry of Statistics and Programme Implementation.

Base Year for CPI is 2012.

The Ministry of Labour and Employment released the **new series of Consumer Price Index for Industrial Worker (CPI-IW) with base year 2016.**

The Monetary Policy Committee (MPC) uses CPI data to control inflation. In April 2014, the **Reserve Bank of India (RBI)** had adopted the CPI as its key measure of inflation.

Base Effect in Inflation:

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The base effect occurs when the **rate of inflation is influenced by the level of prices in the base year** against which current prices are compared. It can cause inflation rates to appear higher or lower depending on how the base year's prices compare to the current year's prices.