



Key Trends and Challenges in Retail Inflation

For Prelims: [Retail inflation](#), [Consumer Price Index \(CPI\)](#), [Food Inflation](#), [Consumer Food Price Index \(CFPI\)](#), [Kharif](#), [Rabi](#), [Core Inflation](#), [Rupee Depreciation](#), [Imported Inflation](#), [Foreign Investment](#), [National Statistical Office \(NSO\)](#), [Purchasing Power](#), [CPI for Industrial Workers \(CPI-IW\)](#), [CPI for Agricultural Laborers \(CPI-AL\)](#), [CPI for Rural Labourer \(CPI-RL\)](#), [CPI for Urban Non-Manual Employees \(CPI-UNME\)](#), [Food and Agriculture Organization](#).

For Mains: Easing of inflation and related concerns, Monetary policy and Inflation management.

Source: [BS](#)

Why in News?

Retail inflation, based on the [consumer price index \(CPI\)](#), fell to **5.22% in December 2024** from **5.48%** in November 2024, driven by **easing food inflation**.

- Retail inflation measures the **rate at which the prices of goods and services purchased by consumers rise over time**, reflecting changes in the cost of living.

What are the Reasons for Easing of Retail Inflation?

- **Low Food Inflation:** Food inflation, as measured by the [Consumer Food Price Index \(CFPI\)](#), fell to **8.39%** in December 2024 from **9.04%** in November 2024.
- **Positive Agricultural Output:** A strong **kharif harvest**, favorable **rabi sowing** conditions, and **sufficient reservoir levels** eased food inflation.
- **Decline in Fuel Prices:** Inflation in **fuel prices** remained in **contraction at -1.39%**, while for **transport (2.64%)** and **education (3.89%)** it remained unchanged, contributing to reduced overall inflationary pressures.
 - [Core inflation](#), which excludes volatile food and fuel items, fell to **3.5%** in December 2024.
- **Stability in Non-Food Categories:** Housing (2.71%), clothing and footwear (2.74%), and household goods (2.75%) inflation **remained stable with minor changes**.

What are the Concerns Related to Inflation?

- **Inflation Above RBI's Target:** **Seven states** recorded inflation above RBI's **6% threshold**, while **ten states** exceeded the **national average**.
 - **Chhattisgarh** reported the highest inflation at **7.63%**, followed by **Bihar (7.4%)** and **Odisha (7%)**, reflecting **localized inflation challenges**.
- **Imported Inflation:** [Rupee depreciation](#) increases the cost of **imported crude oil and global commodities**, raising **domestic prices** and making it **harder to control inflation**.
 - The reliance on imported commodities, such as [edible oils](#), exposes India to global price volatility.
 - A **weaker rupee** makes **imports more expensive** because more rupees are needed to

buy the same amount of foreign commodities.

- **High Global Interest Rates:** High global interest rates could **deter [foreign investment](#)** in India, impacting financial stability and worsening **currency depreciation**.
 - It could lead investors to **shift capital to countries like the US and Europe**, offering **higher yields**, which reduces foreign investment inflows into emerging markets like India.

What is the Consumer Price Index?

- **About:** CPI measures the **overall change** in consumer prices based on a **representative basket of goods and services** over time, with **2012** as the base year.
 - The basket of goods includes **food, clothing, transportation, medical care, electricity, education**, and more.
 - The CPI is published **monthly** by the **[National Statistical Office \(NSO\)](#)** under the **[Ministry of Statistics and Program Implementation \(MoSPI\)](#)**.
- **Objective:** CPI is used for targeting **price stability**, adjusting **dearness allowance**, and understanding **cost of living**, **[purchasing power](#)**, and the expensiveness of goods and services.
- **Calculation:** CPI is calculated by **dividing the cost of a fixed basket in the current year** by the cost in the base year, then multiplying by **100**.
- **Types:** There are **4 different types of CPI** measured.
 - **CPI for Industrial Workers (CPI-IW):** It tracks price changes in a fixed basket of goods and services used by **industrial workers** over time. The **Labour Bureau**, under the **Ministry of Labour and Employment**, compiles **[CPI-IW](#)**.
 - **CPI for Agricultural Laborers (CPI-AL):** The **Labour Bureau** compiles **[CPI-AL](#)** to assist in **revising minimum wages** for agricultural workers across different states.
 - **CPI for Rural Labourer (CPI-RL):** It measures changes in the retail prices of goods and services consumed by **agricultural and rural laborers**.
 - The **Labour Bureau** compiles **[CPI-RL](#)**.
 - **CPI for Urban Non-Manual Employees (CPI-UNME):** **[CPI-UNME](#)** is compiled by **NSO**. An urban non-manual employee **earns 50% or more** of their income from **non-manual work** in the urban non-agricultural sector.
- **Components:** The following are the **primary components** of CPI (along with their weightage).
 - **Food and Beverage (45.86%)**
 - **Housing (10.07%)**
 - **Fuel and Light (6.84%)**
 - Clothing and Footwear (6.53%)
 - Pan, tobacco, and intoxicants (2.38%)
 - Miscellaneous (28.32%)

Consumer Food Price Index

- **About:** **Consumer Food Price Index (CFPI)** is a measure of **change in retail prices of food products** consumed by a defined population group in a given area with reference to a base year.
 - The base year presently used is **2012**.
- **Releasing Body:** **NSO, MoSPI** started releasing CFPI for three categories i.e., **rural, urban and combined** separately on an **all India basis** with effect from **May, 2014**.
 - Like CPI, the CFPI is also calculated on a **monthly basis**.
- **Note:** **FAO Food Price Index:** Globally, **food price index** is being released by the **[Food and Agriculture Organization](#)** of the **[United Nations](#)** on a **monthly basis**.
- The basket of food commodities consists of the average of **5 commodity group** price indices (**Cereal, Vegetable Oil, Dairy, Meat and Sugar**) weighted with the average export shares of each of the groups for 2002-2004.

INFLATION AND RELATED TERMS

INFLATION

- Rise in goods/services prices; corresponding decline in purchasing power
- **Creeping Inflation:** Mild/moderate inflation where price level persistently rises over a period of time at a mild rate (single digit inflation rate)
- **Galloping Inflation:** Occurs when mild inflation is not checked/controlled (inflation in double/triple digits - 20/100/ 200% annually)
- **Hyperinflation:** Prices rise a million or even a trillion percent annually (witnessed by Germany in 1920s)

CORE INFLATION

- Change in costs of goods/services but **excluding those from food/energy sectors** (due to price volatility)

HEADLINE INFLATION

- **Headline Inflation** - Change in value of all goods in the basket (including food and energy)

Core = Headline - Food & fuel items

STAGFLATION

- When **Inflation, unemployment and economic stagnation/recession** occur simultaneously; **most difficult type of inflation** to manage
- Witnessed by developed countries in the **1970s (US, UK)** when world oil prices rose dramatically

DEFLATION

- **Reverse of inflation** - a sustained decline in price of goods/services
- Here, **annual inflation rate falls below 0%** resulting in an increase in the real value of money (Japan suffered for almost a decade in **1990s**)
- **Can worsen into recession/depression**; hence, more dangerous than inflation

DISINFLATION

- When inflation rate decelerates
- Implies that prices are rising (inflation is happening) but at a **slower rate** each passing month

Deflation is decline in prices, whereas disinflation is a decline in inflation rate



REFLATION

- Typically **follows deflation**
- Policymakers try to **stimulate economic activity by producing inflation** (more govt spending, reduced interest rates etc.)

SKREWFLATION

- **Skewness of inflation** among different sectors of the economy - **some sectors facing huge inflation while some none** and some even deflation

GREEDFLATION

- Where (corporate) **greed is fuelling inflation**; **companies increasing their prices beyond just covering costs** to maximise profits

SHRINKFLATION

- **Hidden form of inflation**; often leads to **customer frustration/dissatisfaction**
- Practice of **reducing the size of a product while maintaining its sticker price**



Monetary Policy Committee



Monetary Policy

- It is formed and managed by **Reserve Bank of India** to control a nation's overall money supply and achieve economic growth
- It is **different from Fiscal Policy** which is managed by the **Ministry of Finance** that measures the spending and taxation in Indian Economy

Monetary Policy Committee (MPC):

- **Ex-officio Chairperson:** RBI Governor
- **Objective:** To determine the policy rate required to achieve the inflation target ($4\pm 2\%$, Urjit Patel Committee)

- **Legal Framework:** Under Section 452B of the amended RBI Act, 1934, the Central Government is empowered to constitute a six-member Monetary Policy Committee (MPC)
 - The MPC is required to meet at least four times in a year. Each member of the MPC has one vote, and in the event of an equality of votes, the Governor has a second or casting vote.
- **Monetary Policy Report:** RBI once in every six months, releases Monetary Policy Report to explain the sources of inflation and the forecast of inflation for 6-18 months ahead



Conclusion

Retail inflation in India eased to 5.22% in December 2024, driven by reduced food inflation and stable non-food categories. However, concerns remain due to **localized inflation, rupee depreciation, and high global interest rates**, which may affect **domestic inflation control and foreign investment**.

Drishti Mains Question:

Analyze the role of the Consumer Price Index (CPI) in shaping monetary policy and its impact on the Indian economy.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. Consider the following statements: (2020)

1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).
2. The WPI does not capture changes in the prices of services, which CPI does.
3. Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 2 only
- (c) 3 only
- (d) 1, 2 and 3

Ans: (a)

Q. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do?(2020)

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

Select the correct answer using the code given below:

- (a) 1 and 2 only
- (b) 2 only
- (c) 1 and 3 only

(d) 1, 2 and 3

Ans: (b)

Mains

Q. Define potential GDP and explain its determinants. What are the factors that have been inhibiting India from realizing its potential GDP? **(2020)**

Q. Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments **(2019)**

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