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IN RETAIL INFLATION OVERSTATED: GDP DEFLATOR CONSUMER PRICE INDEX - (2015-16)

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ABSTRACT

"Indian GDP is low, because deflator is underestimated, while the real indicator of inflation in the economy the consumer price- Index (CPI), is rising at around & percent. The main contention is that the GDP deflator is flawed because of it's he any reliance on the whole sale price – Index (WPI). This questioning of the GDP deflator was started by the RBI in their September 2015 monetary policy report on India, the IMF regurgitates the RBI conclusion."

The CPI inflation in India, correctly measured, is running at 3.8 percent rate rather than the official 4.9 percent rate. The CPI is based on price surveys conducted every month.

There is no problem with the CPI data on prices but it has gat the expenditure weights wrong. There weights are obtained from the national sample survey of consumer expenditures, 2011-12 unfortunately the NSS surveys have strangely and mysteriously been under estimating the average per capita consumption for three decades now

There is no question that the 2011-12, NSS- based consumption weights are flawed our purpose there is to assess whether the CPI is measuring actual inflation correctly. But this solutes only of one half of the GDP deflator. The GDP deflator is measuring inflation correctly will be addressed in a subsequent article-the financial and insurance services (zero in CPI and **7.2** percent in NA). After adjustment, consumer price-Index based inflation in 2015-16 was **3.8** percent a full point below the official estimate of **4.9** percent

Now, the question is CPI over standing inflation? Yes, latest statical data by CSO (central statical organization)

Fiscal years (April to May)				
	(2012-13)	(2013-14)	(2014-15)	(2015-16)
CPI (Official)	9.9	9.4	5.9	4.9
CPII (CPI Prices, NA-weighs)	9.2	8.6	5.8	4
CPIF (CPII with financial services)	8	7.9	5.4	3.8
Difference of CPI and CPII	0.7	0.8	0.1	0.9
Difference of CPI and CPIF	1.9	1.5	0.5	1.1

Inflation data are reported for three different consumer price-series – the official CPI as calculate by CSO, the first CPI adjusted measure of CPII (NA weights and CPI prices and zero weight for financial services), and the second CPI adjusted reassure CPIF (CPII along with 7.2 percent weight for financial services), Price data for financial services are peroxide via the banking service Index, available on the office of Economic Advisor website comparing with the first adjusted measure CPII, CPI overstates inflation by a large 0.9 percentages points in 2015-16. In three of the last four years, and both in high and lour inflation times, the CPI has exceeded inflation (CPII) to the order of 0.8 percentage points.

The difference in inflation estimates are not small, If the adjusted CPI estimates do reflect the underlying reality of consumer inflation, then the results have strong implication for the RBI policy (are Indian repo rates too high ?) and GDP growth (are we underestimating the GDP deflator inflation ?)

Conclusions:

so you get the picture: Indian GDP debate has now shifted to whether the GDP deflator is accurate or not for more than a year now, there has been deep questioning about the reliability of the Indian GDP data after the "new" estimates were presented in January 2015. The GDP price Index (also called the deflator) is understating inflation. Since the real GDP growth is the difference between the nominal growth and the deflator (inflation), the intended outcome of the investigation is the same, that is, the GDP growth in India is overstated.

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