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Inflation crosses red line: Here's how your investments can beat it.

By Hiral Thanawala, ET Bureau (16th August 2016)

Prices of goods and services are rising faster than what the indices show. If you are saving for long-term goals, make sure your investments run ahead of inflation.

Months after the RBI defanged and tamed inflation, the monster is beginning to stir again. Consumer inflation rose to 6.07% in July due to higher food prices and analysts expect no respite in the coming months. Most readers may not get perturbed if prices rise by about 6% in a year. But this is only the headline inflation and misleading because it represents all consumers, including the vast lower middle class. "Middle- and upper-middle class consumers experience a significantly higher inflation than what the index indicates," says Debopam Chaudhuri, Chief Economist, ZyFin Research.

The index itself does not truly reflect the expenditure of the average middle- and upper-middle class urban family. For example, education has less than 6% weightage in the index even though almost 10-12% of the expenses of urban Indian families go towards this vital head. "Middle-class households spend certainly more than 6% on education. The CPI does not capture the expenses incurred on tuition and coaching," says Vivek Kulkarni, Managing Director of rating agency Brickwork Ratings. Also, the index puts the rise in education inflation in the past one year at 4.31% whereas the fees in public schools and other ancillary expenses are going up by nearly 8-10% every year. Higher education costs are rising at an even faster clip of 10-12%.

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