

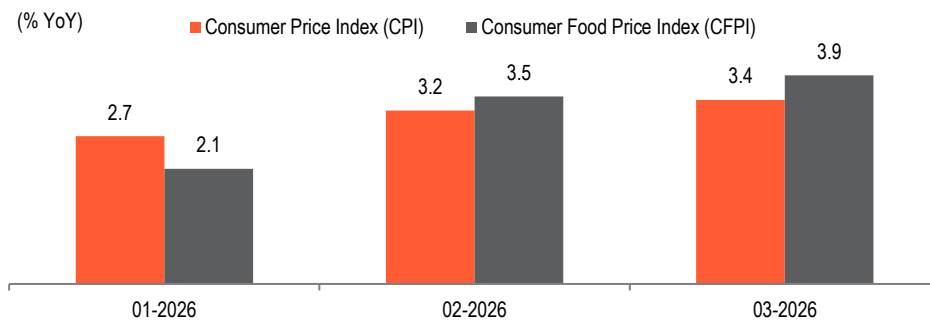
CPI showing upward bias in the new series

CPI inched up in Mar'26 albeit remaining below the 4% target level even this month. However, there has been clear build up of inflationary pressures especially on food inflation front. The High frequency price data also reflect the same, with visible stickiness in edible oil prices and some items of pulses. The fine print will provide further cues on the same. Our in-house BoB ECI is tracking higher at 1% in the first 12 days of Apr'26. Thus, we expect some pressure on food inflation since arrival statistics of major vegetable items have softened. International price of food items is also increasing, especially for edible oils. Also, since the war situation has not yet been under control, the second-round impact of pass through of higher energy prices to food inflation cannot be ruled out. Core inflation (core excl. food and fuel) is broadly stable at 3.4%. For core, we do not anticipate much upside risk as demand side pressure is largely contained.

Food inflation inching up

CPI shows some upward bias albeit below 4%: CPI inflation reading came in at 3.4% in Mar'26 compared to 3.2% in Feb'26, on YoY basis and below our estimate of 3.7%. There has been continuous upward bias in the new series. This month's print also shows the stickiness due to war related factors such as firming up of LPG prices and higher food prices globally. Food inflation print was at 3.9% in Mar'26, around 40bps higher compared to Feb'26 print of 3.5%. The fine print of food inflation is not yet available, but the likely jump may be due to higher Tomato inflation (36%, YoY, Mar'26). On the other hand, Potato and Onion are still recording sharp deflation. Pulses are also exhibiting some momentum as deflation of Arhar, Tur has been at a much slower pace (-9.6% in Mar'26, YoY compared to -16% in Feb'26, YoY). It is important to mention that the arrival statistics of Tomato, Onion and Potato (TOP) vegetables are also falling. As per UPAJ data, in Jan-Mar'26 quarter it declined by -36.6% compared to same period of previous year. Hence monitoring of prices for these TOP (Tomato, Onion, Potato) is required. The other buildup of food inflation may be on account of spillover effect due to higher food prices globally. We believe there has been jump in the edible oil component of CPI as global prices are on the higher side due to elevated international crude oil price. Thus, outlook on food inflation is tilted to the upside. The added risk of weather-related conditions through possible El Nino also persists.

Fig 1: Inflation inched up led by food



Source: CEIC, Bank of Baroda Research

Core inflation remained stable at 3.4%.

CPI excl. food and fuel was at 3.4%. Among major items, personal care, social protection and miscellaneous goods recorded a drop in inflation rate to 18.6% in Mar'26 compared to 19.7% in Feb'26, on YoY basis. This is on account of moderation in gold prices (World Bank data: -3.3%, MoM, Mar'26), platinum prices (World Bank data: -4.3%, MoM, Feb'26) and silver prices (World Bank data: -5%, MoM, Mar'26). The moderation in gold and precious metal prices was amidst a stickier dollar and downside risks of demand outlook in the near term. This will continue to cap any imminent pressure from pass through of manufacturing inflation to core, going forward.

Other major items such as transport (stable at 0% inflation rate, Mar'26, YoY), information and communication (tad higher at 0.3% in Mar'26, YoY, compared to 0.2%, Feb'26, YoY), education services (stable at 3.3%, YoY) and health (tad lower at 1.8% in Mar'26, YoY compared to 1.9% in Feb'26, YoY). On the other hand, war-related disruption in terms of LPG price hike and possible impact on menu costs was visible in restaurant and accommodation services (higher at 2.9% in Mar'26, YoY compared to 2.7% in Feb'26, YoY). Thus, monitoring is required regarding the evolution of prices, if the war situation is not under control and oil prices witness a persistent increase in the medium term. A lot hinges on the duration of the war.

Core inflation apart from volatility in gold prices does not pose much of a risk, as of now. The demand side pressure is likely to be contained amidst muted global demand. Transportation inflation needs monitoring albeit we haven't seen any pass through of higher international prices to consumers. But the question is how long? We expect core to trade in the 3.4-3.7% range in the coming months. However, Core excl. pan, tobacco, gold, silver and precious metals is expected to be in the range of 1.7-1.9%.

Housing and utility services and other fuels inflation reading was higher by 50bps at 2% in Mar'26, YoY compared to 1.5%, in Feb'26, on YoY basis. This is on account of the 7% MoM increase in LPG and Kerosene prices, in Mar'26 itself.

Table 1: War related disruptions in major subcomponent of CPI

	MoM, % Change	Feb'26, YoY	Mar'26, YoY	Reasons
Housing, Water, Electricity, Gas & Other Fuels	0.59	1.52	1.97	LPG price hike
Restaurants & Accommodation Services	0.36	2.72	2.88	LPG price hike
Personal Care, Social Protection & Misc	-0.3	19.7	18.6	Moderation in gold price

Source: CEIC, Bank of Baroda Research

Way forward: Headline CPI continued to be below RBI's 4% level. Food inflation is, however, gaining momentum in the new series. The arrival statistics of TOP (Tomato, Onion and Potato) also need to be observed carefully as they have fallen sharply during Jan-Mar'26 quarter. The gap between retail and wholesale prices for TOP vegetables (Tomato, Onion and Potato) is also falling, thus pass-through to retail prices is expected to be visible soon. International food prices are also rising. In the recent FAO report, the risks of edible oil price spike due to rising oil prices have been mentioned. Thus, monitoring is required for any upcoming adverse supply side shock.

The trajectory of Core inflation does not pose much of a risk as demand side pressure is expected to be largely capped.

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