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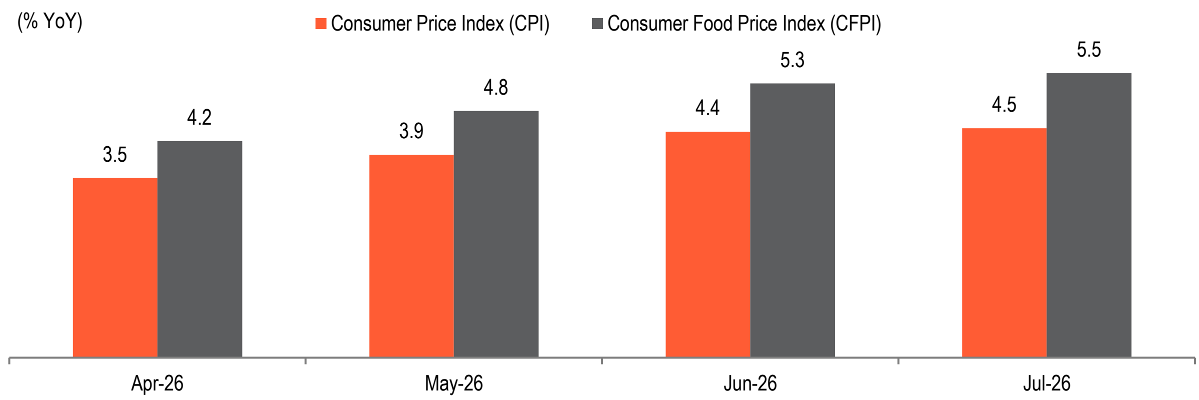
CPI inches up again

Headline CPI inched up to 4.5% in Jul'26 from 4.4% in Jun'26. This was led by a further acceleration in food inflation. Within food, prices of onion, garlic and ginger showed significant upward momentum. Core inflation remained stable at 3.9%, suggesting that price pressure so far have remained contained. Going ahead, the outlook on food inflation remains dependent on the rainfall activity. South-West monsoon has remained erratic, even as rainfall activity has picked up pace. The distribution of rainfall too has been uneven. This will have a bearing on food inflation outlook. As per latest available data, kharif sowing is 1.8% lower than last year. However, sowing of key crops such as rice and pulses has been much lower, which will need to be monitored going ahead. Core inflation has continued to be sticky, but can inch up due to second-round effects and continued uncertainty over the war situation. We expect CPI inflation to average about 5-5.2% in FY27. This will however hinge on the evolving El-Nino conditions.

CPI rises to a 20-month high: India's headline retail inflation inched up to 4.5% in Jul'26 (BoB estimate: 4.5%), quickening from 4.4% in Jun'26. Incidentally, CPI inflation has been trending upwards for the last 7 months and is now at a 20-month high. Sequentially, inflation in the food and restaurant and accommodation services category showed the maximum upward momentum. Food inflation inched up to 5.5% in Jul'26 from 5.3% in Jun'26. Within food, there was a significant 22.5% jump in onion prices in Jul'26 (+4.7% in Jun'26), which can explain a part of the increase. Garlic and ginger prices too noted double-digit inflation rates. Within food, cereals prices increased by 1.7% in Jul'26 after increasing by 0.9% in Jun'26. On the other hand, tomato prices showed significant correction and declined by 4.6% in Jul'26 after increasing by 31.9% in Jun'26. Significant price pressure was also visible in meats category with prices increasing by 15.3% in Jul'26 after increasing by 9.7% in Jun'26. On the other hand, inflation in oil and fats and fruits and nuts category eased on a sequential basis.

Fig 1: Inflation inched up led by food



Source: CEIC, Bank of Baroda Research

Core inflation was at 4%:

Core inflation (ex. food and fuels) remained steady at 3.9% in Jul'26. Within core, the main driver has been the transportation component. A key segment which has continued to show an upward trend is transport inflation. In Jul'26, inflation in the transport category increased to 4.4% compared with 4.3%

in Jun’26. At the same time, inflation in the restaurant and accommodation services category picked up to 7.7% in Jul’26, compared with 6.9% in Jun’26. Inflation in education services too inched up to 3.6% in Jul’26 from 3.3% in Jun’26. On the other hand, inflation in personal care and effects decelerated further to 14.8% in Jul’26 compared with 16.7% in Jun’26, largely reflecting the impact of lower global prices of gold and silver. Demand driven components of core such as household equipment & routine maintenance inched up to 2.4% in Jul’26 from 2.2% in Jun’26. Similarly, price pressures are also building up in the furnishings, HH equipment & routine HH maintenance category.

Housing, Water, Electricity, Gas & Other Fuels rose to 2.2% in Jul’26 from 2.0% in May’26, even as LPG prices were steady in Jul’26.

Way forward: With the Jul’26 print, CPI inflation has now stayed above RBI’s 4% target for 2 consecutive months. The outlook for inflation is tilted to the upside largely due to elevated food prices. Rainfall under the South-West monsoon currently stands at 11% below LPA. Kharif acreage too has been lower, specifically for crucial crops such as rice and pulses. Already, some upward pressure on prices is visible. At the same time, it will also be crucial to watch the trend in prices of key vegetables such as onion, tomato and potato which can be impacted by rainfall. Core inflation though stable, can face upside risks due to second-round impact. The uncertainty related to the West Asia crisis and supply chain disruptions can keep global commodity prices elevated which can push up core inflation. On the positive side, lower prices of precious metals will provide some room. Overall, we estimate CPI inflation in the range of 5.0-5.2% in FY27.

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