

CPI showing impact of higher food and fuel prices

CPI inched up in May'26 bearing the impact of higher food and fuel inflation. The May'26 petrol, diesel and cylinder price hike was reflected in higher inflation in the transport component of CPI and in the inflation of restaurant and accommodation services component. Food inflation rose to 4.8% and core inflation is also heading the 4%-mark, with likely narrowing of the gap between core and food inflation in the near term. The inching up of core is still attributable to some degree of volatility in precious metals. Excl. gold silver and precious metals, core has inched up a tad to 2.2% in May'26 from 2.1% in Apr'26. Going forward, we believe that upside risks to core will intensify as firms might pass through some degree of higher input costs to consumers amidst stable demand conditions.

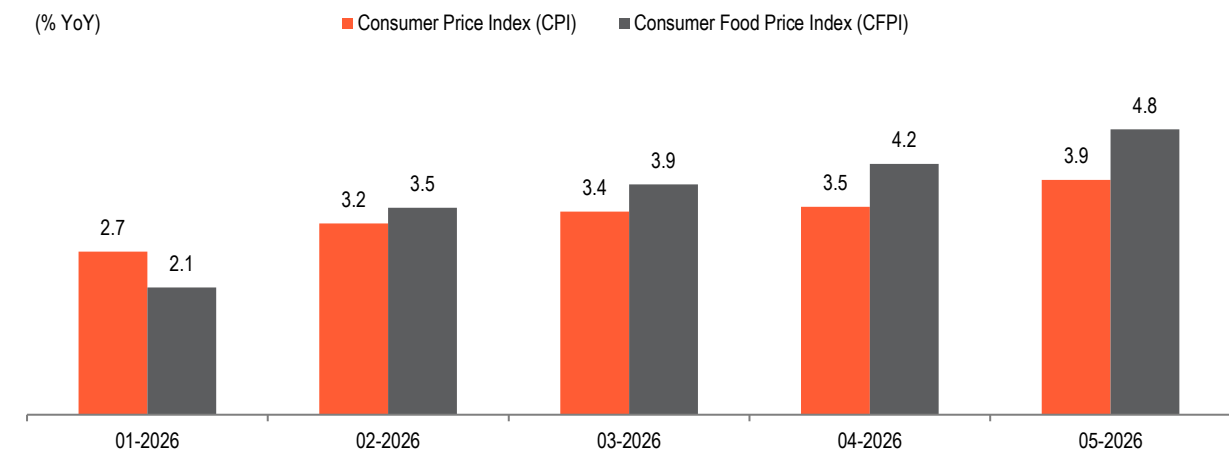
The risks on food inflation is also likely to intensify in the coming days. As per WMO El Niño/La Niña Update there is "80% likelihood of an El Niño event during June–August 2026. Probabilities for this to continue until at least November are near or above 90%. However, till now the reservoir level is more than normal storage (11 Jun), the arrivals statistics of vegetables are also satisfactory. Only coming days will tell us whether the supply conditions are sufficient from any incipient shock from food and fuel on inflation or not?

What has driven CPI in May'26: CPI inflation reading came in at 3.9% in May'26 compared to 3.5% in Apr'26, on YoY basis and below our estimate of 4.1%. The major upward momentum in CPI was visible from Transport component due to the May'26 petrol diesel price hike in phases. It is to be noted that petrol and diesel in transport component of CPI have 4.8% weightage in the basket. Transport component went up to 1.8% in May'26 compared to 0% in Apr'26. On a sequential basis it rose by 1.9% in May'26 compared to 0.1% in Apr'26. Apart from this restaurants and accommodation services are rising for the third straight month in a row. Inflation inched up sharply to 5.7% in May'26 compared to 4.2% in Apr'26. This component is showing the impact of commercial cylinder price hike. The personal care and effect component has also risen to 18.5% in May'26 compared to 17.7% albeit a -2.8% decline in international gold prices (WORLD Bank data). However, international silver prices has risen by similar 2.8%, so that must have negated the influence on the overall index. It is to be noted that gold has weightage of 0.62% in the overall basket of CPI and silver has a weight of 0.31%. The fine print of other personal care items might have shown momentum of pass through of higher input costs by firms.

Food inflation showed upside pressure: Food inflation rose to 4.8% in May'26 compared to 4.2% in Apr'26. The fine print of food inflation shows that vegetable and pulses inflation inched up to 4.3% in May'26 compared to 2.3% in Apr'26. It is to be noted that Tomato inflation is rising at a steeper pace in the past few episodes-since Jan'26 (48.4%, YoY, in May'26 compared to 35.3% in Apr'26). Edible oil prices are also considerably higher at 9.5% in May'26 compared to 9.2% in Apr'26 (albeit some moderation in international prices). Apart from this, readymade food, cereals (international prices are also higher), fruit and nut, milk, among others all are witnessing increase in inflation. For food inflation, the spillover of higher fuel cost and likely increase in freight cost might feed into further high inflation in the near term. Hence the second-round pass-through needs to be closely monitored, especially when weather-related risks are elevated this year.

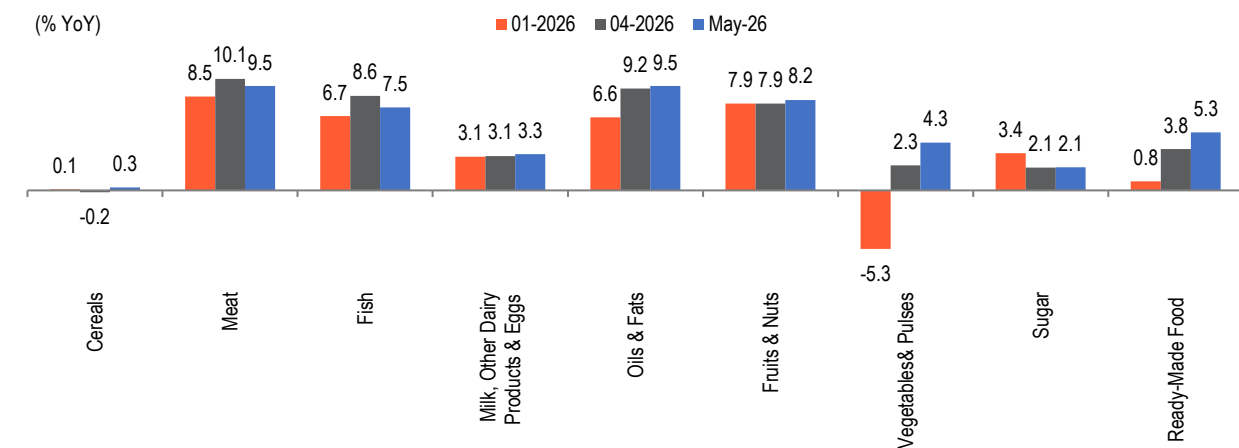
Globally food prices showed mixed signals. As per FAO data, cereal prices are showing stickiness, while edible oil prices have softened in May'26, which is a comfort. As per UPAJ data, the domestic arrival statistics of TOP (Tomato, Onion and Potato) have shown a 5.6% sequential jump in May'26 over Apr'26. The probability of heatwave continuing has also reduced as can be seen from IMD's outlook for the next two weeks. Thus, supply dynamics is yet remaining in favour with reservoir levels also above normal storage. The key risk persists from El Nino conditions. As per WMO El Niño/La Niña Update there is "80% likelihood of an El Niño event during June–August 2026. Probabilities for this to continue until at least November are near or above 90%" (Source: <https://wmo.int/news/media-centre/wmo-prepare-el-nino>). Thus, the risks for food inflation are tilted to the upside.

Fig 1: Inflation inched up led by food



Source: CEIC, Bank of Baroda Research

Fig 2: Vegetable and edible oils pose key risk



Source: CEIC, Bank of Baroda Research

Core inflation higher at 3.9%.

CPI excl. food and fuel was higher at 3.9%. Core excluding pan and tobacco is at 3.8%. Core excl. gold, silver and precious metals is at 2.2% in May'26.

Within core, the main driver has been the transportation component due to the fuel price hike. Restaurant and accommodation services are also pushing up core inflation considerably higher. Apart

from this, clothing & footwear has inched up to 3% in May'26 from 2.8% in Apr'26, on YoY basis. On a sequential basis as well, it went up by 0.5% in May'26. Thus, demand is holding ground. Even household equipment and routine household maintenance of CPI went up to 1.9% in May'26 from 1.6% in Apr'26.

Core inflation saw some momentum in its demand side component this month. Thus, underlying demand pressure needs to be watched. Transportation inflation needs further monitoring as more petrol and diesel price hike might be incoming, if peace deal does not arrive sooner.

We expect core to trade in the 4.7-4.9% range in FY27.

Way forward: Headline CPI is still a tad below the 4% mark. However, the incipient upside risks are clearly visible in both food and fuel inflation. Core is also not insulated from any underlying demand side pressure. Firms are yet to pass through higher input cost to consumers. Hence coming months will be crucial. We believe that the gap between headline CPI and core to reduce in the near term.

Our estimate for CPI is to settle between 5.2-5.5% in FY27 with core in the range of 4.7%-4.9%.

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com