12 Mar 2026

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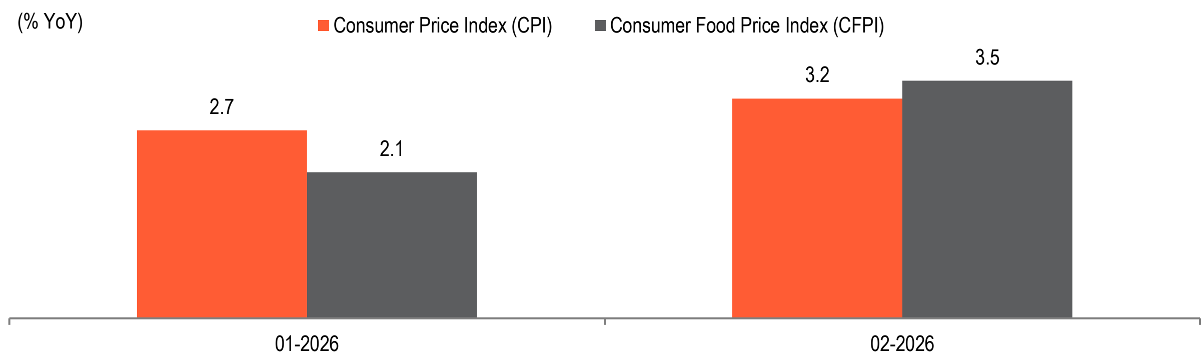
CPI showing some momentum led by food

CPI inched up in Feb'26 albeit remaining below the 4% target level even this month. However, some buildup of inflation is seen especially on food inflation front. The fine print will provide further cues on the same. However, we feel there has been a pick in vegetable inflation as visible in the high frequency retail price data. Our in-house BoB ECI has risen by 0.7% in the first 11 days of Mar'26. Thus, we expect some pressure on food inflation since arrival statistics of major vegetable items have moderated. International price of food items is also increasing, especially for edible oils. Under the current scenario, any rise in intermediate input through supply chain disruption may impinge on food inflation. Core inflation (core excl. food and fuel) is broadly stable at 3.4%. However, sequential buildup of prices is seen for majority of the broad categories of core inflation. For transportation we do not expect passthrough of higher international prices to retail petrol and diesel price as of now. However, the impact of retail LPG cylinder price increase to utility services component of CPI cannot be ruled out in the near term.

Food inflation inching up

CPI still below RBI's 4% target: CPI inflation reading came in at 3.2% in Feb'26, on YoY basis, in line with our estimate of 3.3%. This month's headline number is higher than Jan'26 print of 2.7%. This was led by higher food inflation of 3.5% in Feb'26 compared to 2.1% in Jan'26. The inflation rate of Potato (-18.5% in Feb'26 compared to -29% in Feb'26), Garlic (-31.1% in Feb'26 compared to -53% in Jan'26) is slowly retreating its deflation territory. Even for pulses such as Tur deflation trend is at a slower pace of -16% in Feb'26 compared to -24.9% in Jan'26, on YoY basis. It is important to mention that the arrival statistics of Tomato, Onion and Potato (TOP) vegetables are also falling. In Feb'26, it fell by -31.2% compared to same period of previous year (UPAJ data). Thus, the buildup of food inflation needs to be carefully monitored.

Fig 1: Inflation inched up led by food



Source: CEIC, Bank of Baroda Research

Core inflation categories driven by gold price volatility.

CPI excl. food and fuel was stable at 3.4%. Among major items, personal care, social protection and miscellaneous goods recorded a significantly higher inflation rate of 19.7% in Feb'26 compared to 19%

in Jan’26, on YoY basis. This is on account of increase in gold prices (World Bank data: 73.4%, YoY, Feb ’26), platinum prices (World Bank data: 118.5%, YoY, Feb’26) and silver prices (World Bank data: 154.9%, YoY, Feb’26). This is albeit reduction in the weight of gold, silver and other ornaments in the new series. The volatility of metal prices will continue to pose some upside pressure to core inflation, going forward.

Other major items such as transport (0% inflation rate, Feb’26 compared to 0.1% in Jan’26, YoY), information and communication (inflation stable at 0.2%, Feb’26, YoY), education services (stable at 3.3%, YoY) and restaurant and accommodation services (lower at 2.7% in Feb’26 compared to 2.9% in Jan’26, YoY) have also remained below the 4% target level. However, monitoring is required regarding the evolution of prices, especially housing and utility services component because LPG Cylinder & Piped Natural Gas falls under this item of CPI. Importantly its weight in the new series is higher at 1.98%, than the earlier weight of 1.29%. Thus, even a ~6% increase (in line with recent announcement of LPG cylinder prices) can impact the headline CPI number by another 12bps in the medium term. Housing and utility services and other fuels inflation reading was stable at 1.5%, in Feb’26, on YoY basis.

The sequential momentum in price index was noticed for most of the sub-components of core inflation. It rose the most for personal care, social protection & misc. Apart from this, restaurants & accommodation Services, clothing, footwear, IT, recreation and furnishings, household equipment showed some increase. Core inflation especially needs to be monitored as some rise in intermediate input cost amidst geopolitical risks may pose upside risk in the near term.

Way forward: Headline CPI continued to be below RBI’s 4% level. Food inflation is however gaining pace in the new series. The arrivals of Potato and Tomato also need to be closely watched as they have fallen in Feb’26. International food prices are also rising. In the recent environment of heightened geopolitical risks, the pass-through to food inflation needs to be monitored in terms of any adverse supply side shock. International edible oil prices are firming up. Hence domestic prices need to be carefully considered. The difference between retail and wholesale price is also falling. Hence, we believe pressure on food inflation might increase in the coming months.

The trajectory of Core inflation also needs to be observed. Transportation inflation is likely to be contained as we do not see immediate risk of pass-through of higher international crude prices to consumers. However, LPG prices need to be closely watched, which might drive the utility component of CPI higher.

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