

Food providing desired comfort to CPI

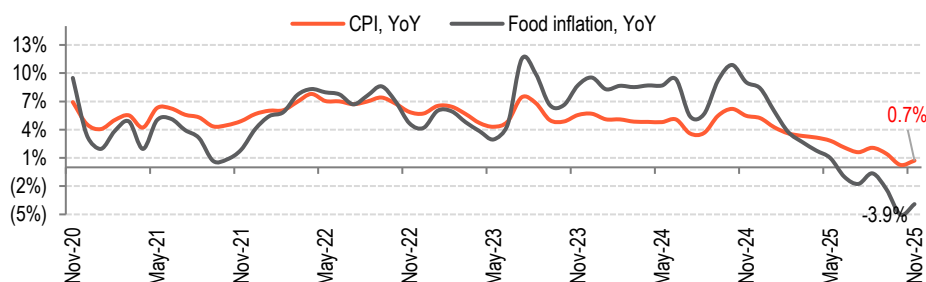
CPI got the sigh of relief in Nov'25 as well, broadly led by food. There is however some sequential build-up in food inflation led by vegetables. But this is not much of a concern as arrival statistics (UPAJ data) remain in favour. The harvesting months also have a seasonal downward impact on prices. On core inflation, excluding gold, inflation remained broadly contained. In fact, GST pass through is visible in majority of the items of household goods and services. Going forward, this is likely to keep a lid from any upside pressure emanating from a buoyant consumption demand in the current quarter. Our in-house BoB ECI is running at -2.8% in Dec'25 (first 11-days) and we expect CPI to settle at 0.4% in Q3, slightly lower than RBI's projection of 0.6%.

Food continued to support CPI

CPI continued to be below the lower band of RBI's target: CPI inflation reading came in at 0.7% in Nov'25 compared to 5.5% in Nov'24, on YoY basis (BoB est.: 0.9%). The below 2% headline print is despite slightly unfavourable base for the month. For the 3rd month in a row, CPI is running below 2%. This is led by food driven deflation at -3.9% in Nov'25, albeit at a slower pace compared to Oct'25. Among major items, sharp deflation is seen for vegetables (-22.2% in Nov'25) and pulses (-15.9%). This is led by better production statistics. Notably, 5 out of 10 broad items of food are still tracking below 4% inflation. For oils and fat, inflation is still elevated at 7.9% in Nov'25.

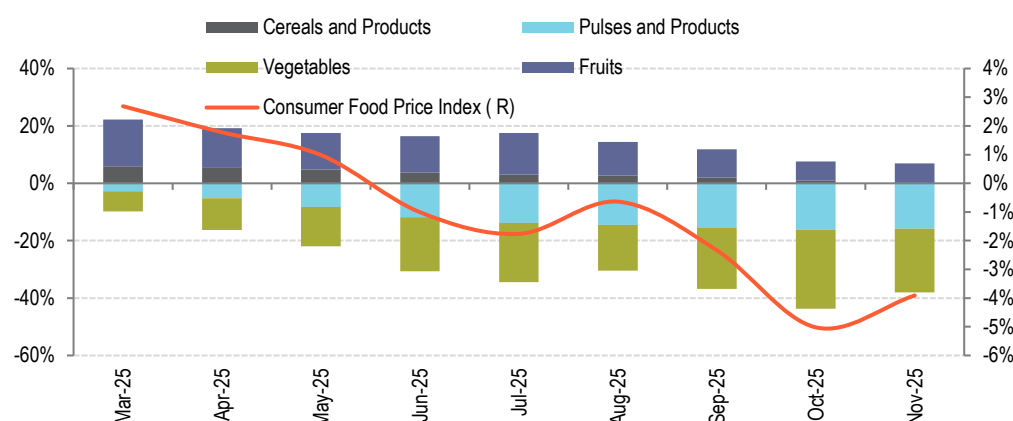
The sequential picture of food inflation showed some build up especially for vegetables. Even some usual seasonal push in prices were observed for Eggs. On a seasonally adjusted basis as well, consumer food price index has inched up by 0.5%, MoM, same as in the unadjusted series, signifying no significant seasonality in prices. Going forward, the outlook for food inflation does not seem to be much of a worry. For vegetables (Tomato, Onion and Potato), we have witnessed slight momentum in prices in Dec'25 with Tomato trajectory reversing its previous three months decline (+5.5% increase, YoY-first 11 days of Dec'25). However, on a cumulative basis, TOP is falling by -24.8% in Dec'25 (first 11-days), which will continue to drag down headline CPI print. The mandi arrival statistics (with Apr-Nov cumulative TOP arrivals going up by 22% compared to decline of -13.5% seen in the same period of previous year) of these items have also been comfortable, speaking of no immediate risk as Q4 coincides with the harvesting months, which generally goes with higher arrivals.

Figure 1: Food is providing the desired band of comfort to CPI



Source: CEIC, Bank of Baroda Research

Figure 2: ...Vegetables, pulses still in considerable deflation



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) is at 4.3%, on YoY basis. However, Core excl. Pan Tobacco and Gold on the other hand, is much lower at 2.6%. Volatility in international gold price (0.7% & 54.2%, MoM & YoY, respectively) has been a major driver for core inflation. It is to be mentioned that this month the increase in gold prices was much less compared to Oct'25. The GST driven fall in core inflation is also visible in household goods and services where major alignment to lower rates happened (**Annexure**). Other categories of core inflation such as health and education also showed some degree of loss of momentum. Personal care and effects are still elevated at 24% in Nov'25.

The sequential picture also mirrored the same trend. The lower GST rates pass through for clothing and footwear have kept it capped albeit front loading of festive demand. For household goods and services, the pass through is visible.

Going forward, gold-driven volatility would continue to keep core inflation in the 3.6-4% range. We cannot rule this out entirely since some risks of imported inflation also persist when INR is exhibiting volatile trend. This quarter is crucial as fine balancing of festival demand against GST driven capping of prices will be closely watched. However, we do not see any upside risk on account of the latter.

Fuel and Light inflation reading came in at 2.3% on YoY basis and some sequential momentum was witnessed as Kerosene prices inched up in Nov'25 albeit at a softer pace.

Way forward: Headline CPI continued to be in favour largely led by food driven deflation. However, going forward the pace of deflation is likely to soften. Some reversal in Tomato price trajectory is already happening. This does not pose any immediate concern as supply conditions remain favourable as visible in the mandi arrival data. On a cumulative basis, Tomato, Onion and Potato (TOP) trajectory is still falling at a sharp pace. On core inflation front, we expect the GST-driven shield to keep prices broadly contained despite front loading of festive demand.

Our in-house BoB ECI is running at -2.8% on YoY basis for the first 11 days of Dec'25. Our Q3 projection is running at 0.4% slightly lower than RBI's forecast of 0.6%. We believe the disinflationary spiral of food will continue to keep headline CPI below the lower bound of RBI's target for most part of this fiscal.

Annexure

Table 1: MoM% drop in prices of F&B due to GST

Food & Beverages (F&B)	Sep'25	Oct'25	Nov'25
Cereals & products			
Sewai, noodles	0.3	0.2	0.1
Bread (bakery)	0.4	0.0	0.1
Biscuits, chocolates, etc.	0.3	-0.5	-0.4
Milk and products			
Milk: condensed/ powder	0.3	0.0	0.3
Other milk products	0.1	0.3	0.4
Oils and fats			
Butter	-0.2	-1.5	-0.6
Vanaspati, margarine	-0.1	-0.5	0.1
Sauce, jam, jelly (gm)	0.4	-0.3	0.0
Ice-cream	0.0	0.5	0.0
Non-alcoholic beverages			
Mineral water (litre)	-0.1	-0.4	-0.8
Cold beverages: bottled/canned (l)	0.2	0.0	-0.1
Fruit juice and shake (litre)	0.2	0.0	-0.3
Other beverages: cocoa, chocolate,	0.0	-0.4	-0.7
Prepared meals, snacks, sweets, etc.			
Cooked meals purchased (no.)	0.3	0.2	0.0
Cooked snacks purchased	0.3	0.2	0.2
Prepared sweets, cake, pastry	0.2	0.3	0.1

Source: CEIC, Bank of Baroda Research

Table 2: MoM% drop in prices of core inflation due to GST

Core Inflation	Sep'25	Oct'25	Nov'25
Household goods and services (Only major products shown)			
Air conditioner, air cooler	-0.4	-2.3	-0.5
Sewing machine	-0.9	-1.9	0.5
Stove, gas burner	0.0	0.0	0.0
Stainless steel utensils	0.0	-0.1	0.3
Incense (agarbatti), room freshener	0.1	0.0	-0.1
Candle (no.)	0.1	0.0	-0.1
Medicine (non-institutional)	0.2	-0.3	0.0
Spectacles	0.0	-0.7	0.3
Education			
Books, journals: first hand	0.0	0.2	0.1
Stationery, photocopying charges	0.1	0.0	0.0

Core Inflation	Sep'25	Oct'25	Nov'25
Personal care and effects			
Toilet soap	0.2	-0.6	-0.6
Toothpaste, toothbrush, comb, etc.	0.2	-0.1	-0.2
Powder, snow, cream, lotion and perfume	0.2	0.1	0.1
Hair oil, shampoo, hair cream	0.7	0.4	0.3
Shaving cream, aftershave lotion	-0.1	-0.1	-0.1
Suitcase, trunk, box, handbag and other travel goods	0.1	-0.1	-0.3

Source: CEIC, Bank of Baroda Research

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