

CPI still insulated

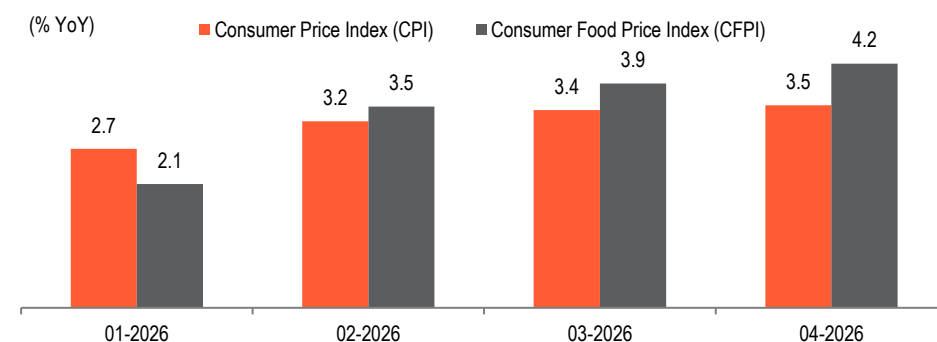
CPI inched up in Apr'26 albeit remaining below the 4% target level. There has been continuous buildup of inflationary pressures on food inflation front. Among food, vegetables and pulses, edible oils and protein-based items are driving inflation higher. Further, monitoring is required as weather related vagaries persist, in terms of heatwave conditions and expected El Nino. Hence food inflation trajectory needs to be monitored closely. Core inflation is largely capped, and lower gold prices are supporting the same. We do not see any immediate upside risks from core except the restaurant and hospitality component. Our in-house BoB ECI has picked up by another 1% in May'26 (first 11 days), thus we see inflationary risks tilted to the upside, unless the war situation resolves.

Food inflation inching up

CPI reading was still below 4%: CPI inflation reading came in at 3.5% in Apr'26 compared to 3.4% in Mar'26, on YoY basis and below our estimate of 4%. This month's print however did not show much extent of pass through of higher global prices, thus giving the comfort that we are still insulated at this point. Food inflation print came in higher at 4.2% in Apr'26 compared to 3.9% in Mar'26, around 30bps higher. The fine print of food inflation shows that Tomato inflation (35%, YoY, Apr'26) and some seasonal impact on vegetables such as cauliflower (25.6%) are causing higher vegetable inflation (vegetable and pulses inflation rose to 2.3% in Apr'26 compared to 1.7% in Mar'26). Protein-based items remained in double digit inflation (meat inflation at 10.1%, fish at 8.6%). Milk inflation also inched up to 3.1% in Apr'26 from 3% in Mar'26. Edible oil stickiness also persisted amidst supply side disruption and oils and fat component of inflation rose to 9.2% in Apr'26 from 6.6% in Mar'26.

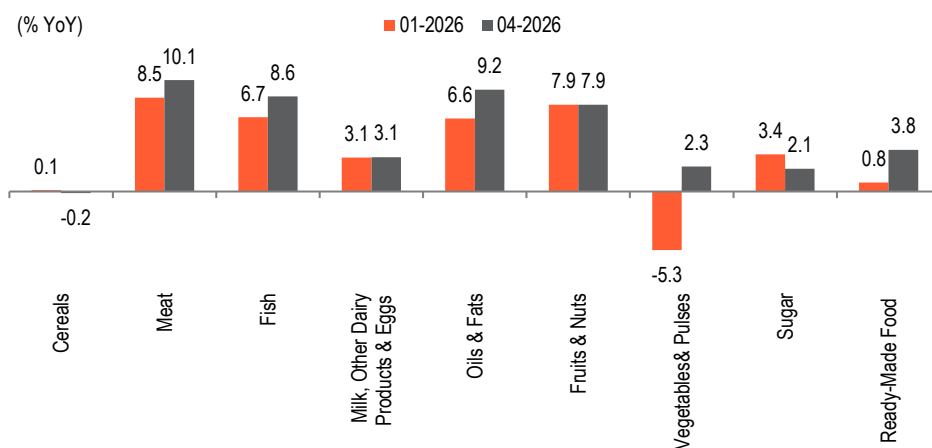
Globally as well, food prices are increasing from edible oils to cereals. The recent FAO report highlighted that vegetable oil prices are experiencing considerable upsurge driven by stronger demand. As per UPAJ data, arrival statistics of TOP (Tomato, Onion and Potato) have shown a -12.8% decline in Apr'26 over Apr'25. IMD has issued warnings of heatwave in May'26 over major TOP producing States such as East Coast States, Gujarat and Maharashtra. Thus, arrivals of TOP might be impacted in the coming months and some upside risks to inflation remain. However, some breather may be on account of strong deflation still visible in Potato and Onion prices. Hence weather-related vagaries coupled with expected El Nino conditions might impact food inflation. 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 remained stable at 3.4%.

CPI excl. food and fuel was at 3.4%. Core excluding pan and tobacco is even lower at 3.3%. Among major items, personal care, social protection and miscellaneous goods recorded a drop in inflation rate to 17.7% in Apr'26 compared to 18.6% in Mar'26, on YoY basis. This is on account of moderation in gold prices (World Bank data: -2.8%, MoM, Apr'26), and silver prices (World Bank data: -2.6%, MoM, Mar'26). Geopolitical tensions are acting on gold prices due to a stickier dollar. Since 27 Feb 2026 (start of the war), gold prices have fallen by 10.3% (till 11 May 2026) and DXY has risen by 0.4% during the same period. Thus, unless a peace proposal is in place, the same trend of moderation in gold prices is expected to continue. Further with policy hinting at curtailing gold buying, prices are likely to show some downward correction. Another comfort is metal prices which have been on the downside. This will continue to cap any imminent pressure from pass through of manufacturing inflation to core, going forward.

Other major items are rangebound such as education services (tad lower at 3.2% in Apr'26 compared to 3.3%, YoY), health (lower at 1.6% compared to 1.8% in Mar'26), transport (stable at 0% inflation rate, Mar'26, YoY) and information and communication (slightly higher at 0.5% in Apr'26, YoY, compared to 0.3%, Feb'26, YoY). On the other hand, war-related disruption in terms of likely impact on menu costs was visible in restaurant and accommodation services (higher at 4.2% in Mar'26, YoY compared to 2.9% in Feb'26, YoY). The coming month is expected to see further jump in this component amidst fresh hike in commercial LPG prices. Thus, monitoring is required regarding the evolution of prices, as the weightage of Restaurants & Accommodation Services is higher in the new series at 3.35%. A lot hinges on the duration of the war and how the pass-through of higher fuel prices on retail customers is going to advance in the coming days.

Core inflation, albeit being muted, saw some momentum in its demand side component. This month saw some pickup in furnishings, household Equipment & Routine household Maintenance, thus underlying demand pressure needs to be watched. Transportation inflation needs monitoring albeit we haven't seen any pass through of higher international prices to consumers. But how long will the status quo persist?

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 are expected to be in the range of 1.7-1.9%.

Table 1: War related disruptions in major subcomponent of CPI

	Feb'26, YoY	Mar'26, YoY	Apr'26, YoY	Reasons
Housing, Water, Electricity, Gas & Other Fuels	1.52	1.97	1.70	To be watched next month
Restaurants & Accommodation Services	2.72	2.88	4.20	Second round impact
Personal Care, Social Protection & Misc	19.7	18.6	17.67	Moderation in gold price

Source: CEIC, Bank of Baroda Research

Way forward: Headline CPI has comforted in these uncertain times by remaining below the 4% mark. Thus, India has been insulated on inflation front as fuel price passthrough to consumers, is till now regulated. But the question is how long. Hence, vigilance is required on this front. Globally food prices are showing upside risk from elevated energy cost. Thus, the pass through to domestic prices needs to be monitored closely, at a time when weather related vagaries is posing upside risk to inflation in FY27.

Our in-house BoB ECI is showing a pickup in May'26 (till 11 May) at 1%, YoY. Thus, watchfulness is required about the evolution of food inflation trajectory in FY27.

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

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