Macroeconomics | First cut

Further up

March 2026

February inflation prints higher as food inflation continues to normalise

Inflation based on the revised Consumer Price Index (CPI) series, with 2024 as the base year, rose to 3.2% in February from 2.7% in January as food inflation further normalised even as fuel inflation remained benign and core inflation was unchanged. The rise in food inflation was driven primarily by vegetables, readymade food and other food products (spices in particular), fruits and nuts, and oils and fats.

Against the backdrop of the ongoing Middle East conflict, inflation in some categories will need close monitoring, as these could face first-round effects of higher global prices.

- Within the non-food category, fuel and transport inflation could be the first to face pressures from higher oil and gas prices and supply shocks
  - The recent Rs 60 increase in domestic liquefied petroleum gas (LPG) cylinder prices should push up LPG inflation from March vs 1.6% in February
  - Rising global fuel prices, if they persist longer, could also put upward pressure on the transportation category, particularly, petrol, diesel, compressed natural gas and airfare

As per the Reserve Bank of India's July 2025 Bulletin[1], a 10% increase in global crude prices could contemporaneously raise headline inflation by around 20 basis points.

- Among other non-food categories, precious metals inflation—which, in our base case, is expected to see a slow pick-up due to a high base—could see price pressures if the conflict intensifies, driving up safe-haven demand for gold

Overall, ~11% of the CPI basket appears relatively more vulnerable to the first-round effect of continued uncertainty in the Middle East and resulting supply disruptions (vegetable oils, fuels for cooking and transport, precious metals and stones). The weighted average inflation rate of this group is already high at ~10.0% in January and February, mainly driven by precious metals.

[1] *Sujata Kundu, Soumasree Tewari and Indranil Bhattacharyya, RBI Bulletin, July 2025, 'Revisiting the Oil Price and Inflation Nexus in India'*

In fiscal 2027, we expect CPI inflation to rise to 4.3% on average. While food prices are expected to remain benign, assuming a normal monsoon, food inflation is expected to continue to normalise from this fiscal's lows. We expect crude prices to average $75-80 per barrel, compared with an estimated ~$70 per barrel this fiscal. The expected heatwaves this summer, as well as the possibility of El Niño conditions coinciding with India's southwest monsoon season, also pose a risk to our base case of benign food prices and warrant monitoring.

Data highlights

- Headline retail inflation rose to 3.2% in February from 2.7% in January
- Meanwhile, food inflation increased to 3.5% from 2.1%
- Fuel[2] inflation stood at 0.1%, lower than 0.3%
- Core[3] inflation was broadly unchanged at 3.4%. Core ex-precious metals and stones[4] was also broadly steady at 1.9%

Food inflation normalising further

Food and beverages inflation stood at 3.4% in February, up from 2.1% recorded in January. Food inflation, too, was higher at 3.5% (vs 2.1%)

- Foodgrain inflation remained benign. Cereals and products saw deflation of 0.3% (vs 0.1% inflation in January), while pulses (excluding pulse products) saw narrowing deflation (-7.4% vs -11.9%). Within cereals, non-PDS rice (not distributed through the Public Distribution System) was broadly stable (-1.1% vs -1.0%), while deflation in non-PDS wheat widened (-2.7% vs -1.3%). Within non-PDS pulses, deflation narrowed in tur (-16.0% vs -24.9%) and moong (-1.3% vs -2.9%), while inflation in masur rose (2.1% vs 0.9%)
- Fresh vegetables and tubers saw hardening inflation (2.8% vs -3.5%). Among vegetables, inflation in tomato slowed (45.3% vs 64.6%) while deflation narrowed in both onion (-28.2% vs -29.3%) and potato (-18.5% vs -29.0%)
- Inflation picked up in fruits and nuts (8.6% vs 7.9%), meat (9.7% vs 8.5%), fish and seafood (7.0% vs 6.7%) and oils and fats (7.4% from 6.6%)
- Inflation in ready-made foods and other food products also increased significantly (2.1% vs 0.8%), driven by increased inflation in spices, herbs and seeds (2.2% vs 0.1%)

[2] Refers to the electricity, gas and fuel group
[3] CPI, excluding food and beverages, and electricity, gas and fuels
[4] Core excluding gold/ diamond/platinum jewellery; silver jewellery; jewels, pearls and precious stones; and other jewellery and ornaments

- Sugar, confectionery and desserts saw slowing inflation (2.7% vs 3.4%) driven by slowing inflation in sugar (3.0% vs 4.6%), while inflation in milk, other dairy products, and eggs stayed stable (3.1%)

Fuel inflation remains muted

Fuel inflation (electricity, gas and other fuels) stood lower at 0.1% in February versus 0.3% in January.

- Deflation in electricity stayed broadly unchanged at 2.4% while LPG and piped natural gas saw inflation ease a tad to 1.6% from 1.7% previously
- However, going forward, this segment is expected to see increased price pressures (LPG in particular) as mentioned above, especially given the increased weight of LPG and piped natural gas in the revised series

Core inflation unchanged

Core inflation was broadly unchanged at 3.40% in February.

- House rental inflation picked up slightly to 2.0% from 1.9% previously while inflation in furnishings, household equipment and routine household maintenance was broadly unchanged at 1.4%. Within the latter, major electric and other household appliances continued to see 1.1% deflation, owing to the impact of the goods and services tax (GST) rationalisation
- Clothing and footwear inflation printed at 2.8%, lower than 3.0%, previously
- The transport category recorded marginal deflation in February (-0.05%) vs 0.09% inflation previously. The purchase of vehicles category saw continued deflation (-4.7% vs -4.5%) driven by the GST rationalisation. Going forward, however, the transportation category is likely to see a pick-up in inflation as mentioned above, especially given the increased weight of petrol and diesel in the revised series
- Information and communication inflation was broadly steady at 0.2%. Televisions continued to see deflation (steady at -4.7%) owing to GST impact
- Inflation in health stood lower in February (1.9% vs 2.2%) while that in education services remained broadly unchanged (3.3%)
- Inflation in restaurant and accommodation services was a tad lower at 2.7% (vs 2.9%) while that in the recreation, sport and culture division stood at 2.2% (vs 2.3%)
- Personal care, social protection and miscellaneous saw the highest inflation rate of 19.7% (up from 19.0%) led by accelerating inflation in gold/ diamond/ platinum jewellery (48.2% vs 46.8%) as well as silver jewellery (160.8% vs 160.1%)

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