

Jan'26 CPI rises above 2.5% threshold as expected under new base year

Fig.1. Jan'26 CPI numbers at a glance; % y/y

Jan'26 (2024=100)	New base	Our est on old base
Food & Beverages	2.11	-0.51
Fuel	0.35	1.94
Core	3.36	4.73
Headline	2.75	2.09

Fig.2. Segment wise CPI numbers; % y/y

Segments	CPI % y/y
CPI	2.75
Food & Beverages	2.11
Paan, Tobacco & Intoxicants	2.86
Clothing & Footwear	2.98
Housing, Water, Electricity, Gas & Other Fuels	1.53
Furnishings, HH Equipment & Routine HH Maintenance	1.45
Health	2.19
Transport	0.09
Information & Communication	0.16
Recreation, Sport & Culture	2.32
Education Services	3.35
Restaurants & Accommodation Services	2.87
Personal Care, Social Protection & Misc	19.02

Fig.3. Change in weights in new base year; %

Group	Base Year	
	2012	2024
Food and Beverages	45.86	36.75
Pan, Tobacco & Intoxicants	2.38	2.99
Clothing and footwear	6.53	6.38
Housing	10.07	12.30
Fuel and Light	6.84	5.36
Miscellaneous	28.32	36.22
Total	100.00	100.00

Source: CEIC, UBI Research

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➤ Consumer Price Index (CPI) inflation in Jan'26 (as per the new base year 2023-24) spiked as projected (pl refer our data preview report) to 2.75% (our projection was 2.59% on new base & 2.09% on old base) compared with 1.33% in December (old base year 2011-12), while crossing the 2.5% mark. More importantly, core CPI slipped to 3.36% (a big +ve surprise vs our est. of 4.73% under old base). This is primarily due to fall in weight of gold CPI to 0.62% from 1.1% even as core ex gold inflation inched up to a benign 2.86% showing "underlying inflation trends remain weak". That said, food CPI moved back into inflation zone at 2.11% (pls refer fig 1).

➤ The new base data is more comprehensive, given the re-alignment in weights as per latest household consumer expenditure survey (weight of food down to ~40% from ~46%), and enhanced market & product coverage (25% increase in markets including online, 25% increase in towns and 19%/25% rise in goods/services). Given the index data for new series for sub-group items is provided only from Jan'25, the YoY inflation number is available for only Jan 2026. This makes it crucial to check trends in inflation momentum which reveal the trends in food CPI MoM remain similar in new vs old base while core CPI shows sharp spike in Jan-26.

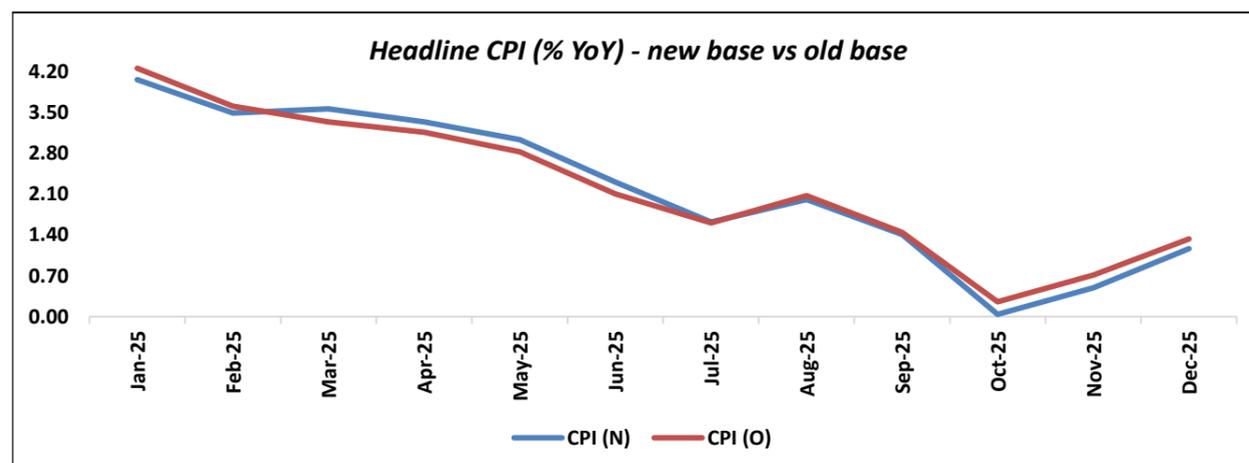
➤ The base revision has limited impact on near-term policy interpretation, as MPC may choose to closely watch for trends in coming trends with a deeper focus on inflation momentum and not just YoY levels. That said, we maintain our view of status quo on rates in the coming quarters (as signaled by RBI Governor in Feb'26 MPC) and liquidity will remain the key policy focus area.

New CPI index has opened a Pandora's box, given various surprises in underlying details. Hence, let's do a deep dive:

Key surprise factors

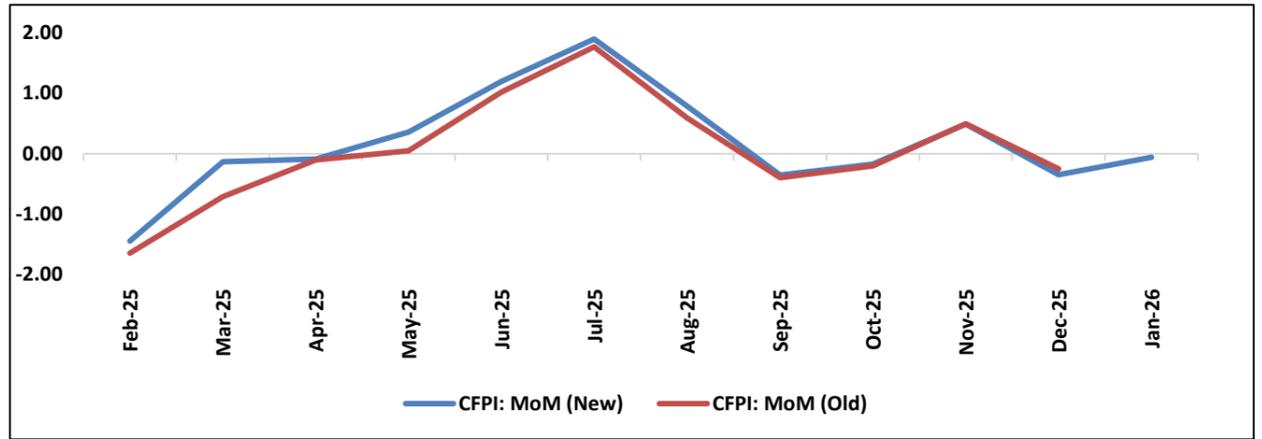
- Headline inflation mapping similar trend in new base vs old base addressing fears of a sharp 50bps spike in inflation levels**
 - Our estimate for the inflation number as per new base was 2.59% YoY and the number came in higher at 2.75% yet the extent of surprise here was limited (pl refer fig.1).
 - When we estimated inflation numbers from Jan-25 onwards (apart from assessing the back series from 2013), we find that the average inflation difference between new and old base is muted and interestingly, in Q3FY26, inflation in new base was "lower" by 20bps.
- Food inflation showed a spike back to inflation zone, a shift from deflation mode under old base**
 - Food CPI clocked 2.11% in Jan'26 versus our estimate of -0.51% as per old base
 - High inflation in segments like tomato (64.8% YoY), coconut (47.2%) and coconut oil (40.4%) also contributed to inflation spike.
 - An analysis of underlying sub-segments for Jan-26 as per new base versus our estimate using old series showed sharpest surprise in veggies and pulses (deflation almost halved to -5.3%) and cereals (CPI back to inflation zone from deflation).
 - This is primarily due to base year change, given that food CPI MoM has been showing almost similar trend in both new and old series (pl refer fig.5).
- Core inflation showed a dip to 3.4% vis-a-vis our estimate of 4.7% as per old series**
 - This was most watched metric within revised CPI series and it surprised with a sharp drop in YoY inflation trends.
 - An analysis of underlying sub-segments for Jan-26 as per new series versus our estimate using old series showed sharpest drop in personal care sub-segment (which includes gold) even as other sub-segments were also showing a lower bias (surprisingly in health as well, a key pain point for common masses) even as it is higher than expected in clothing and recreation.
 - With methodology change in calculation of housing CPI (via first time inclusion of rural housing & exclusion of employer-provided dwellings), inflation eased sharply to 2.05% (vs ~2.9% clocked under old base in Q3-FY26).
 - From a policy perspective, given that inflation momentum gains predominance, there is a wide gap between core CPI & core ex-gold (MoM) as per new and old series (pl refer fig.6). More importantly, during Jan-26, core CPI shows a pickup to 0.6% (this is higher than our est. of 0.4% as per old series).

Fig. 4: Headline CPI trends under new base dismissed fears of ~50bps threshold shift in inflation levels



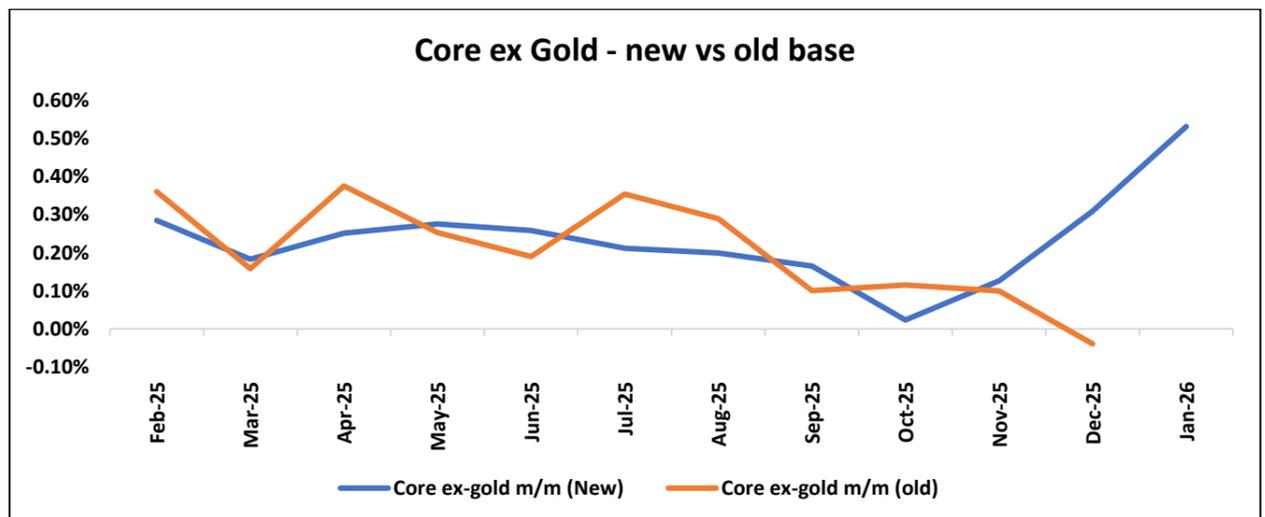
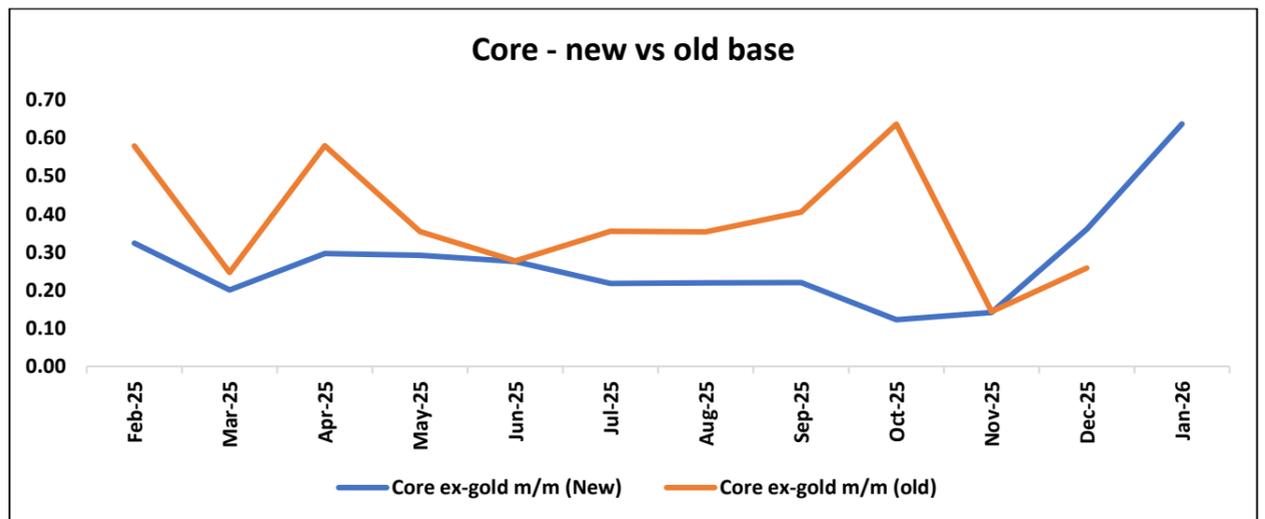
Source: CEIC, UBI Research

Fig.5. Sequential food inflation shows similar trends under both new and old base; %m/m



Source: CEIC, UBI Research

Fig.6. Core and Core ex-gold momentum has seen a sharp spike in Jan'26; %y/y



Source: CEIC & UBI Research

Fig.7. Wide gap in specific sub segments in old and new series; %y/y

Group	CPI % y/y		
	Dec'25 (old base)	Jan'26 (new base)	change
Personal Care, Social Protection & Misc	28.07	19.0	-9.05
Health	3.43	2.2	-1.24
Housing, Water, Electricity, Gas & Other Fuels	2.50	1.5	-0.97
Transport & Communication	0.76	0.1	-0.65
Furnishings, HH Equipment & Routine HH Maintenance	1.91	1.5	-0.46
Paan, Tobacco & Intoxicants	2.96	3	-0.10
Education Services	3.32	3.4	0.03
Recreation, Sport & Culture	1.17	2.3	1.15
Clothing & Footwear	1.39	3.0	1.59
Restaurants & Accommodation Services	NA	2.9	
Food & Beverages	-1.85	2	3.96

Source: CEIC, Mospi & UBI Research

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