12 January 2026

# EcoScope
The Economy Observer

## Dec'25 CPI hits a three-month high

- India's CPI inflation increased to 1.3% YoY in Dec'25 from 0.7% in Nov'25, as the favorable base effect waned and core inflation was the highest in 28 months. However, it remained below the 2% mark for the fourth consecutive month.
- The uptick in core inflation was primarily driven by a surge in gold prices. Notably, CPI excluding gold remained low at 2.6% YoY in Dec'25 vs. 2.7% in Nov'25.
- Imported inflation increased to a 40-month high in Dec'25.
- With the December print, 3QFY26 CPI averaged 0.8%, marginally higher than the RBI's estimate of 0.6%. For FY26TD, CPI inflation averaged 1.7%, sharply lower than 4.9% over the same period last year.
- Our calculations suggest that 78.4% of the CPI basket recorded inflation below 4% in Dec'25, compared to 81% in Nov'25. Meanwhile, the share of the basket witnessing inflation in the 4–5% range increased to around 11%, up from 8.5% in Nov'25, indicating a modest broadening of price pressures even as headline inflation remains well contained.
- Food inflation remained in the negative territory (-2.7% vs. -3.9% in Nov'25). Within the food basket, cereals, vegetables, and pulses declined. On the other hand, the protein basket, including eggs and meat & fish, registered a pickup.
- Urban inflation rose to 2% in Dec'25 (1.4% in Nov'25), while rural inflation edged up to 0.8% (0.1% in Nov'25).
- The favorable base effects that drove sub-1% prints in Oct–Nov'25 have likely turned. We expect inflation to pick up in the coming months, with 4QFY26 averaging ~2.8%. For FY26, inflation is expected to average around 2%. December is likely the last print under the 2011–12 base. From next month, CPI will shift to a 2023–24 base with revised weights. This transition could influence our FY27 CPI projection (currently 4.0%).
- With the inflation trajectory remaining comfortable, the RBI has room to deliver an additional 25bp rate cut in the upcoming policy review.

**Exhibit 1: CPI increased to a three-month high in Dec'25**

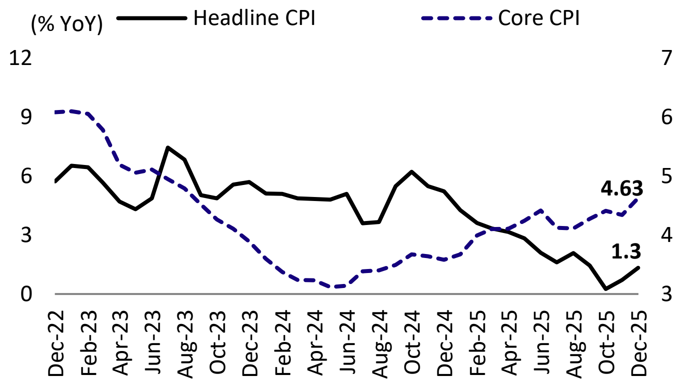
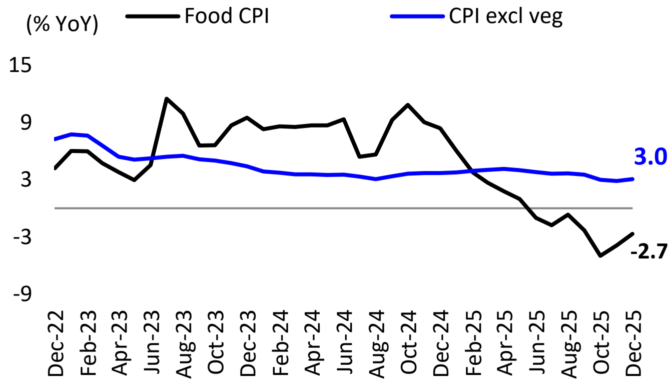



**Exhibit 2: Food CPI remained in the deflationary zone**




Source: CEIC, MOFSL

**Exhibit 3: Imported inflation rose to a 40-month high**

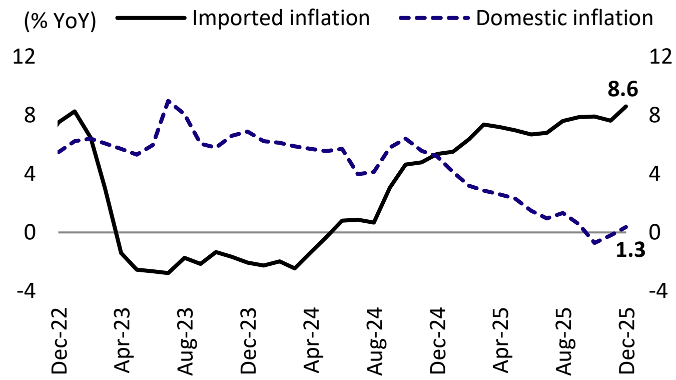
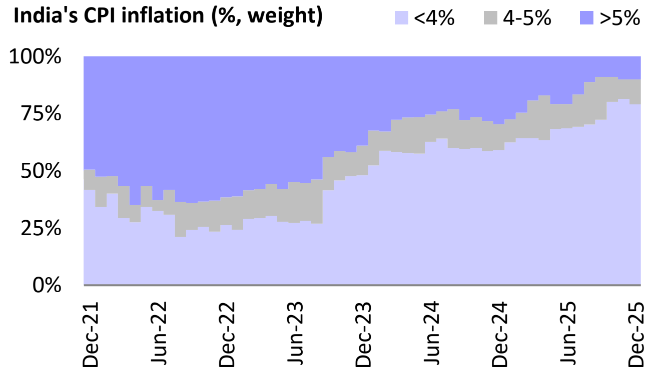



**Exhibit 4: 78% of the CPI basket recorded inflation below 4%**




Source: CEIC, MOFSL

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## CPI details

- **Food inflation remained in the deflationary zone:** Food inflation remained in the negative territory (-2.7% vs. -3.9% in Nov'25). Within the food basket, cereals, vegetables, and pulses declined. On the other hand, the protein basket, including eggs and meat & fish, registered a pickup.
- **Core inflation at a 28-month high:** Core inflation came in at a 28-month high of 4.6% in Dec’25, compared to 4.3% in Nov’25. This was majorly driven by higher gold prices that registered a sequential growth of 6% MoM. On the other hand, price pressures in segments that witnessed GST rate cuts, including clothing & footwear, household goods & services, recreation & amusement, and transport & communication, remained contained. Importantly, core CPI excluding gold remained low at 2.6% vs 2.7% in Nov’25.
- **Outlook:** The favorable base effects that drove sub-1% prints in Oct-Nov'25 have likely turned. We expect inflation to pick up in the coming months, with 4QFY26 averaging ~2.8%. For FY26, inflation is expected to average around 2%. December is likely the last print under the 2011-12 base. From next month, CPI will shift to a 2023-24 base with revised weights. This transition could influence our FY27 CPI projection (currently 4.0%). With the inflation trajectory remaining comfortable, the RBI has room to deliver an additional 25bp rate cut in the upcoming policy review.

**Exhibit 5: CPI and its components**

| | FY24 | FY25 | FY25# | FY26# | Dec-24 | Oct-25 | Nov-25 | Dec-25 |
|---|---|---|---|---|---|---|---|---|
| **Overall CPI** | **5.4** | **4.2** | **4.9** | **1.7** | **5.2** | **0.3** | **0.7** | **1.3** |
| **Food and beverages** | **7.3** | **6.1** | **7.6** | **-0.8** | **7.7** | **-3.7** | **-2.8** | **-1.8** |
| Cereal and products | 10.3 | 6.5 | 7.6 | 2.5 | 6.5 | 0.9 | 0.1 | -0.4 |
| Pulses and products | 16.1 | 7.0 | 11.7 | -12.9 | 3.8 | -16.2 | -15.8 | -15.1 |
| Meat and fish | 3.1 | 3.8 | 5.2 | 1.1 | 5.3 | 1.7 | 2.5 | 5.1 |
| Milk and products | 6.0 | 2.6 | 2.9 | 2.7 | 2.8 | 2.4 | 2.5 | 2.6 |
| Fruits | 5.7 | 8.2 | 6.9 | 10.6 | 8.6 | 6.7 | 6.8 | 6.7 |
| Vegetables | 17.6 | 17.3 | 26.3 | -18.9 | 26.6 | -27.6 | -22.2 | -18.5 |
| **Pan, tobacco, and intoxicants** | **3.6** | **2.4** | **2.7** | **2.6** | **2.5** | **2.9** | **3.0** | **3.0** |
| **Fuel and light** | **0.4** | **-2.2** | **-3.1** | **2.4** | **-1.3** | **2.0** | **2.3** | **2.0** |
| **Housing** | **3.7** | **2.5** | **2.7** | **3.0** | **2.7** | **3.0** | **3.0** | **2.9** |
| **Clothing and footwear** | **4.3** | **2.5** | **2.7** | **2.2** | **2.7** | **1.7** | **1.5** | **1.4** |
| **Miscellaneous** | **4.3** | **3.8** | **3.9** | **5.4** | **4.2** | **5.7** | **5.6** | **6.2** |
| Transport and communication | 1.9 | 2.3 | 2.1 | 2.2 | 2.6 | 0.9 | 0.9 | 0.8 |
| **Core CPI** | **4.2** | **3.3** | **3.4** | **4.3** | **3.6** | **4.4** | **4.3** | **4.6** |

**Note: # Apr-Dec’25 data**

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|---|---|
| **Investment Rating** | **Expected return (over 12-month)** |
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| SELL | < - 10% |
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