12 January 2026

EcoScope
The Economy Observer

New CPI series poses upside risks to inflation

MoSPI has introduced the new CPI series today on 12th Feb'25 with base year 2024=100 to better reflect current consumption patterns, price structures, and the evolving nature of the Indian economy. The revision is anchored in the HCES 2023–24, capturing shifts driven by rising incomes, urbanization, services expansion, and digitalization.

What has changed in CPI 2024?

- The base year has been updated from 2012 to 2024
- Transition from 6 groups to 12 divisions under COICOP 2018
- The item basket expanded from 299 to 358 items (Goods items: 259 → 308, Services: 40 → 50)
- Rural house rent is included for the first time
- Greater representation of digital consumption (OTT subscriptions, telecom services)
- Greater weight to services and housing
- Price collection now spans 1,407 urban markets (including online) and 1,465 villages, with nearly 100% reporting in Jan'26
- New items added: streaming services, value-added dairy products, barley products, pen drives/external hard disks, attendants/babysitters, and exercise equipment.
- Items removed: VCR/DVD players, radios, tape recorders, second-hand clothing, audio-video cassettes, and coir products — signaling a shift toward a modern consumption basket.

Revised basket better captures changing consumption patterns

A sharp decline in the weight of food & beverage (from 45.86% to 36.75%), alongside a rise in miscellaneous (services-heavy) categories, indicates a structural pivot toward core inflation.

Within the food basket, lower weights for cereals, pulses, edible oils, and vegetables—combined with higher shares for milk and fruits—will reduce the historical volatility associated with food shocks, potentially smoothing headline inflation over the cycle.

Higher weights for transport, health, household services, and digital communication, along with the inclusion of e-commerce price collection and online subscription services, point toward a structurally more urbanized and services-oriented consumption profile. Meanwhile, the exclusion of free food grains under PDS improves the market-price signal embedded in the index.

The rural weight has increased to 55.4% (from 53.5%), while the urban share has declined to 44.6%, largely due to the introduction of a housing index for rural areas.

Jan'26 CPI data highlights

Provisional January data points to sticky core pressures

Headline inflation stood at 2.75% in Jan'26 compared to 1.3% in Dec'25 with the old base. Price pressures were notably stronger across core segments, with food inflation at 2.1% in Jan'26 vs. -2.1% in Dec'25. Personal care and miscellaneous services recorded nearly 19% inflation, emerging as the single largest contributor to price momentum despite a modest 5% weight. Similarly, education inflation remained elevated at 3.35%, while restaurants and accommodation services printed 2.9%, underscoring persistent services inflation.

Emerging cost pressures within transport

Although transport services for goods saw a sharp inflation of 7.5%, overall transport inflation remained subdued due to deflation in vehicle prices (around -4.5%).

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<u>Housing is likely to become a more important driver going forward.</u> Its weight has increased from 10.1% to 12.3%, with rural rent now incorporated for the first time. Even though current housing inflation is moderate, the higher weight raises its sensitivity in the headline index, particularly in a tightening rental cycle. Rural housing inflation has come in at 2.4%, which is higher than the combined housing inflation of 2%.

<u>Macro implications</u>

A lower food weight under the revised CPI is estimated to push inflation higher by approximately 60bp in FY26 and 30bp in FY27, primarily because the reduced dominance of food dampens the disinflationary impact of easing food prices. A structurally firmer inflation trajectory could, in turn, translate into an upside risk for nominal GDP (FY27 est: 11.5%), given the direct relationship between price levels and nominal growth. However, clearer implications for growth and macro aggregates will emerge once the government releases the new GDP series on 26 February, which is expected to provide better alignment with the updated inflation framework and offer greater clarity on the evolving macroeconomic outlook.

Expanded services coverage suggests inflation may become less volatile but more persistent.

Digital price capture and modern consumption items improve measurement accuracy.

For monetary policy, this shift is subtly hawkish. Even if headline inflation remains within target, the higher core share increases the likelihood that underlying inflation stays closer to the midpoint rather than undershooting it.

Further details on the revised CPI series are still awaited, as the MoSPI has currently released only limited back-series data covering headline CPI from January 2025 to January 2026. The absence of a longer historical series and granular breakdowns across sub-components constrains a comprehensive assessment of trend inflation and the full macro impact of the revised weights. Greater clarity on the inflation trajectory is expected once a more extended time series and detailed component-level data are made available.

Exhibit 1: Division-wise Inflation (% YoY)

Division Name	Rural	Urban	Combined
Food and beverages	2.0	2.4	2.1
Paan, tobacco, and intoxicants	2.7	3.2	2.9
Clothing and footwear	3.4	2.3	3.0
Housing, water, electricity, gas, and other fuels	1.3	1.7	1.5
Furnishings, household equipment, and routine household maintenance	1.6	1.3	1.5
Health	2.1	2.3	2.2
Transport	0.1	0.1	0.1
Information and communication	0.2	0.1	0.2
Recreation, sport, and culture	2.1	2.6	2.3
Education services	3.1	3.5	3.4
Restaurants and accommodation services	2.0	3.7	2.9
Personal care, social protection, and miscellaneous goods and services	19.6	18.3	19.0
All India	**2.7**	**2.8**	**2.8**

Exhibit 2: Division-wise CPI Weights (New Structure Comparison)

Division	Rural 2012	Rural 2024	Urban 2012	Urban 2024	Combined 2012	Combined 2024
Food and beverages	50.9	42.0	32.8	30.3	42.6	36.8
Paan, tobacco, and intoxicants	3.3	3.7	1.4	2.1	2.4	3.0
Clothing and footwear	7.4	7.1	5.6	5.5	6.5	6.4
Housing, water, electricity, gas, and other fuels	8.0	11.8	27.3	25.0	16.9	17.7
Furnishings, household equipment, and routine household maintenance	3.6	4.6	3.7	4.3	3.7	4.5
Health	6.8	6.8	4.8	5.3	5.9	6.1
Transport	5.6	8.6	7.1	9.0	6.4	8.8
Information and communication	2.8	3.6	3.9	3.6	3.3	3.6
Recreation, sport, and culture	1.5	1.4	1.6	1.7	1.5	1.5
Education Services	2.5	2.4	4.7	4.5	3.5	3.3
Restaurants and accommodation services	3.2	2.8	3.5	4.0	3.2	3.3
Personal care, social protection, and miscellaneous goods and services	4.4	5.2	3.6	4.9	4.0	5.0

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