Economists forecast stability in new index, see lower core inflation

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INDIA'S FIRST CONSUMER price inflation reading under the new 2024 base year series printed at 2.75% year-on-year.

Economists have highlighted smoother inflation and muted volatility despite sharp food and jewellery price swings.

The most consequential change is the sharp reduction in the weight of food and beverages — from 42.62% in the 2012 series to 36.75% in the new one.

The impact was visible in January: food inflation rose to about 2.1%, driven by items such as tomatoes and coconut oil, yet headline inflation stayed subdued because food now exerts less influence.

Bank of Baroda chief economist Madan Sabnavis noted that this adjustment matters because food prices are historically volatile and "have brought large shifts in the inflation numbers in the past," adding that "this noise element gets reduced in the new index."

Radhika Rao, senior economist at DBS Bank, Singapore noted a few unknowns in the revised series, especially the impact of methodological changes on the headline. "The revised inflation series carried a modest upside bias compared to the older base, with firmer food likely to have offset by a more subdued read on core inflation," she said.

ICRA Chief Economist Aditi Nayar observed that the dip in food's weighting meant the headline print was "slightly higher than our estimate... as per the old series," while changes within the food basket — such as lower weights for vegetables and pulses — could "reduce the peaks and troughs for the headline print" going forward.

Precious metals remained apace under the new series as well. "We don't expect the refreshed inflation trend to meaningfully influence policy decisions in the near term, with an extended rate pause likely, supported by a positive cyclical upswing and confidence effects stemming from the successful conclusion of the US-India trade negotiations", Rao said.

India Ratings economist Paras Jasrai highlighted that rural rent inflation in January was about 3.2%, higher than urban's 1.9%, underscoring how expanded coverage can subtly shift aggregate readings. Rao added that including rural housing could exert "modest downside pressure" on overall inflation over time.

The new series uses a uniform short-index formula for elementary indices and arithmetic means at higher aggregation levels, aligning compilation methods across categories. Missing prices will now be imputed for all items — including seasonal goods — and weights will no longer be redistributed when prices are unavailable. These technical changes aim to improve consistency and reduce distortions that could arise from patchy data.

Sujan Hajra of Anand Rathi said the print indicates "a firming in price momentum compared with the unusually soft readings seen toward the end of 2025," when food deflation had suppressed inflation. Still, he stressed that inflation remains comfortably below the Reserve Bank of India's target midpoint, suggesting price pressures are contained.

Despite the sweeping statistical changes, economists broadly agree that the new series will not immediately alter the monetary policy trajectory. Madhavi Arora of Emkay Global anticipates "an extended rate pause" supported by cyclical growth and improved sentiment. Jasrai likewise sees inflation staying within the central bank's tolerance band, even if it edges higher as base effects fade.

**MADAN SABNAVIS,**
CHIEF ECONOMIST, BANK OF BARODA

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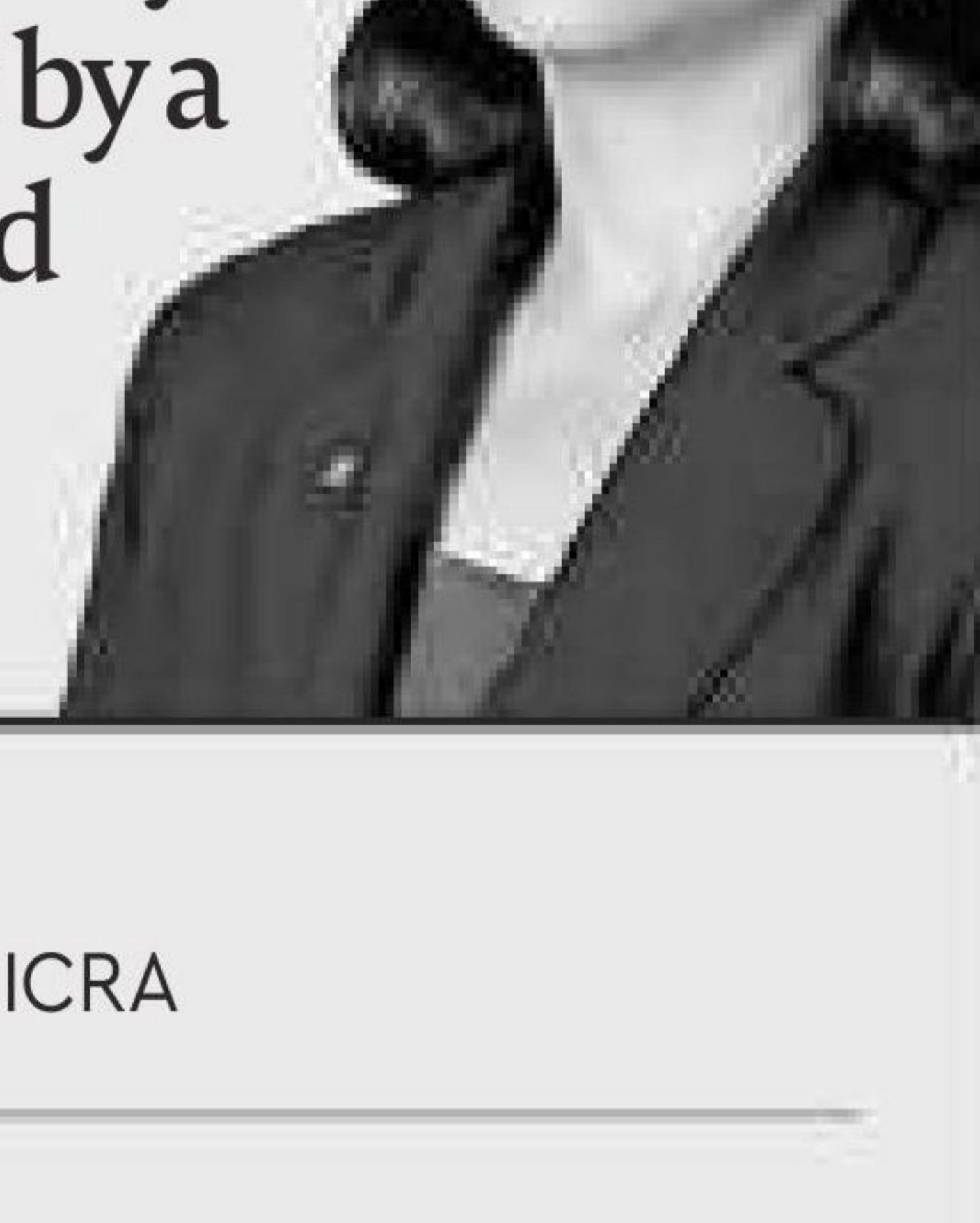
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