SBI RESEARCH

ECOWRAP

CPI INFLATION STILL BELOW 4% BUT EXPECTED TO PEAK IN OCTOBER; NO REPO RATE HIKE EXPECTED IN AUGUST AS OF NOW

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CPI inflation increased from 3.48% in April 2026 to 3.93% in May 2026, largely reflecting the pass-through of higher fuel prices and supply-side disruptions. The impact of increased petrol and diesel prices was clearly visible, with transport inflation rising by 176 bps to 1.8% in May, while a slight LPG shortage pushed restaurants and accommodation services inflation up by 154 bps to 5.7% from 4.2% in April. Inflation in the personal care division also increased by almost 80 bps, driven by a moderate rise in gold and silver prices. Core CPI (ex food/fuel) also increased slightly to 3.84% in May'26.

Inflation in imported items increased from 6.34% in April to 7.23% in May, while its weighted contribution to headline CPI rose by almost 100 bps to 2.43%, suggesting that exchange rate fluctuations and external supply-chain shocks are increasingly influencing domestic prices.

At the item level, silver jewellery contributed 56 bps to headline inflation followed by gold with a contribution of 30 bps, unchanged from the previous month. Global commodity prices, as reflected in the World Bank Pink Sheet, also showed stronger inflation in silver relative to gold. The contribution of petrol increased to 14 bps, while LPG shortages contributed to higher prices of cooked meat and cooked snacks.

Inflation pressures were more pronounced in rural areas, where inflation increased from 3.73% in April to 4.25% in May, compared with an increase from 3.16% to 3.53% in urban areas. State-level consumer inflation statistics highlight a broad regional disparity across the country. Inflation in Telangana continues to be the highest among all states since Jan'26 and now is at 6.15% in May 2026.

During the first 11 days of June, India received 27% below-normal rainfall, with rainfall deficits of 48% in the central region and 38% in the east and northern region. Continued weakness in monsoon progress could delay planting of summer-sown crops like rice, cotton, soybeans and pulses. Thus, while the overall inflation remains contained within the RBI range, going forward, the inflation outlook will depend significantly on geopolitical developments, global energy prices, exchange rate movements, spatial distribution of monsoon and the evolution of supply-chain conditions and hence we do not expect repo rate hike in August as of now.

CPI INFLATION (BASE: 2024) INCREASED TO 3.93% IN MAY'2025

- India's Consumer Price Index (CPI) inflation rose to 3.93% in May 2026, up from 3.48% in April 2026. The impact of increase in petrol/diesel prices and slight LPG shortage is clearly visible in May data. Transport inflation increased by whopping 176 bps to 1.8% in May as compared to April. Similarly, inflation in Restaurants and accommodation services (which largely depend on LPG) increased by 154 bps to 5.7% in May as compared to 4.2% in April. The moderate rise in gold and silver prices led to almost 80 bps increase in inflation rate in the personal care division.
- Core CPI (ex food/fuel) also increased slightly to 3.84% in May'26. Even as per new classification, i.e., Core inflation (ex food plus fuel household and transport) exhibited slight moderation and stood at 3.90% in May'26.

India's CPI Inflation (% YoY)

Division-wise	Feb-26	Mar-26	Apr-26	May-26	Chg (in bps)
Headline CPI Inflation	3.21	3.40	3.48	3.93	45
Food and beverages	3.4	3.7	4.0	4.5	52
Paan, tobacco and intoxicants	3.5	4.2	4.8	4.8	7
Clothing and footwear	2.8	2.8	2.8	3.0	17
Housing, water, electricity, gas and other fuels	1.5	2.0	1.7	1.7	3
Furnishings, household equipment and routine household maintenance	1.4	1.4	1.6	1.9	28
Health	1.9	1.8	1.6	1.5	-14
Transport	-0.1	0.0	0.0	1.8	176
Information and communication	0.2	0.3	0.5	0.3	-20
Recreation, sport and culture	2.2	2.3	2.1	2.0	-14
Education services	3.3	3.3	3.2	3.0	-16
Restaurants and accommodation services	2.7	2.9	4.2	5.7	154
Personal care, social protection and miscellaneous goods and services	19.7	18.7	17.7	18.5	80

Source: MOSPI

IMPORTED INFLATION AT 7.23% IN MAY

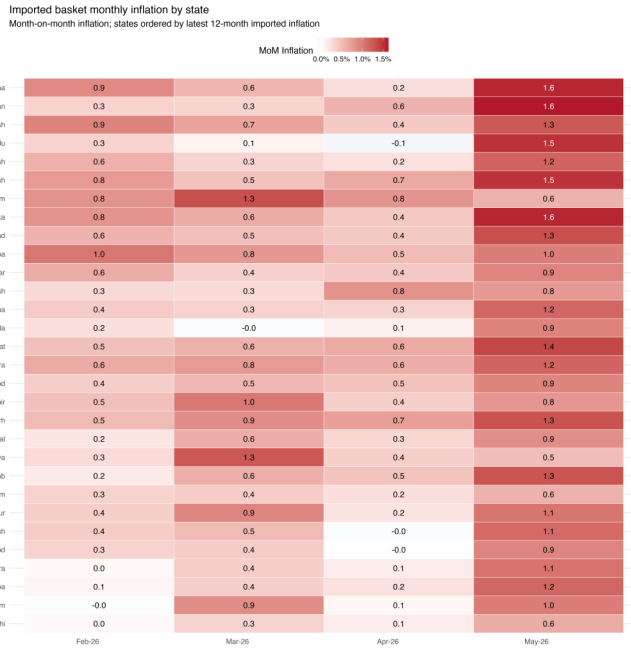
- The impact of exchange rate fluctuations and external shocks like supply chain disruptions are now creeping in the India's CPI. The imported inflation (weight: 21.84%) has increased significantly from 6.34% in Apr'26 as compared to 7.23% in May'26. The weighted contribution of imported inflation has almost increased by 100 bps to 2.43% in May'26.
- State-wise imported inflation reveals that in Telangana, it has reached 13% mark in May'26. In states like Rajasthan, Tamil Nadu and Andhra Pradesh it is hovering around 10%.
- State-wise month-on-month imported inflation trend indicates that it has increased in almost all states in May'26.

ITEM WISE INFLATION

- Item wise inflation shows maximum contribution from silver jewellery of 56 bps in May 2026, followed by gold 30 bps. Though gold's contribution has remained same as in April silver contribution has increased modestly from 52 bps in April. Global commodity prices as per World Bank pink sheet too show higher inflation in case of silver in May compared to gold.
- Petrol contribution to overall CPI inflation has also increased in May to 14 bps. LPG shortage also led to higher inflation in case of cooked meat and cooked snacks.
- Other items which contributed to higher inflation include refined oil, mustard oil, fish prawn, milk, chicken and meat/goat.

RURAL INFLATION IS HIGHER THAN URBAN INFLATION

- Both rural and urban areas witnessed rise in inflation. Rural inflation rose from 3.73% in Apr'26 to 4.25% in May'26, whereas urban inflation increased from 3.16% in Apr'26 to 3.53%in May'26.
- Inflationary pressures in both rural and urban India were primarily driven by Transport by 179 bps in rural and 173 bps in urban, followed by Restaurants and accommodation services with 164 bps in rural and 148 bps in urban.
- Food and Beverages remained another significant contributor to inflation, with rural inflation at 4.64% compared with 4.38% in urban areas, while Restaurants and Accommodation Services also witnessed notable inflation, especially in urban areas 5.99%.



India's CPI Inflation (% YoY)

Division-wise	RURAL			URBAN		
	Apr-26	May'26	Chg (in bps)	Apr-26	May'26	Chg (in bps)
Headline CPI Inflation	3.73	4.25	52	3.16	3.53	37
Food and beverages	4.10	4.64	54	3.88	4.38	50
Paan, tobacco and intoxicants	4.65	4.61	-4	5.02	5.35	33
Clothing and footwear	3.26	3.49	23	2.05	2.16	11
Housing, water, electricity, gas and other fuels	1.76	1.96	20	1.66	1.59	-7
Furnishings, household equipment and routine household maintenance	1.87	2.24	37	1.27	1.43	16
Health	1.56	1.44	-12	1.77	1.57	-20
Transport	0.02	1.81	179	-0.05	1.68	173
Information and communication	0.64	0.36	-28	0.33	0.21	-12
Recreation, sport and culture	2.39	2.24	-15	1.84	1.72	-12
Education services	2.92	2.77	-15	3.30	3.14	-16
Restaurants and accommodation services	3.83	5.47	164	4.51	5.99	148
Personal care, social protection and miscellaneous goods and services	18.50	19.52	102	16.55	17.07	52

Source: MOSPI

REGIONAL DISPARITY: TELANGANA INFLATION CONTINUES TO BE HIGHER

- State-level consumer inflation statistics highlight a broad regional disparity across the country. Out of the 36 States/UTs, there are 12-14 States/UTs where inflation is higher than all India level. Inflation in many of the major states, like, Karnataka, Tamil Nadu, MP, Rajasthan etc., continues to be higher than all India level of inflation.
- Inflation in Telangana continues to be the highest among all states since Jan'26 and now is at 6.15% in May 2026, which may be due to higher taxes on fuel, rise in rural wages and reliance on imported fresh produces.
- Among the major states, Andhra Pradesh, Assam, and Odisha have registered more than 2% increase in inflation during Jan-May'26, while All India level inflation increased only by 1.19%.
- However, the distribution of inflation among States/UTs highlights that majority of the state's inflation fall between 2-4% during Jan-May 2026.

Major State with Higher Inflation Compared to All India

YoY	Jan-26	Feb-26	Mar-26	Apr-26	May-26
Andhra Pradesh	2.82	3.45	4.05	4.20	4.90
Himachal Pradesh	2.93	2.95	3.05	3.68	3.05
Karnataka	2.99	3.33	3.95	4.00	4.59
Kerala	3.68	3.49	3.61	3.77	4.30
Madhya Pradesh	2.72	3.43	3.48	3.67	4.17
Maharashtra	2.58	3.06	3.43	3.12	3.35
Odisha	1.88	3.27	3.32	3.43	4.54
Rajasthan	3.18	3.54	3.64	3.77	4.17
Sikkim	3.04	3.64	4.27	4.16	4.23
Tamil Nadu	3.35	3.43	3.76	4.17	5.11
Telangana	4.92	5.02	5.84	5.81	6.15
Tripura	1.29	2.10	2.25	2.33	2.02
Uttar Pradesh	2.66	3.44	3.42	3.59	3.97
Uttarakhand	2.19	2.70	3.32	3.50	3.72
West Bengal	2.79	3.43	2.83	2.95	3.44
All India	**2.74**	**3.21**	**3.40**	**3.48**	**3.93**
Memo: All States/UTs					
No of States with Higher Inflation	12	14	12	12	13

Source: SBI Research, MOSPI

Distribution of States/UTs in different Inflation Range

Inflation Range (%)	Jan-26	Feb-26	Mar-26	Apr-26	May-26
0 to 2	11	7	5	3	1
2 to 4	23	27	27	27	24
4 to 6	2	2	4	6	10
Above 6	0	0	0	0	1
Total	36	36	36	36	36

Source: SBI Research, MOSPI

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Contact Details:
Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in,
gcea.erd@sbi.co.in
Phone:022-22742440
: kantisoumya