

CPI INFLATION AT 99-MONTH LOW AT 1.5% IN SEP'25, AND AROUND HALF A PERCENTAGE POINT NEXT MONTH: BUT WILL IT STILL MOVE THE PIVOT FOR MINT STREET IN DEC MPC?

Issue No. 15, FY26

Date: 13 October 2025

India's CPI inflation moderated to 99-month low of 1.54% in Sep'25 due to decline in food & beverages inflation. Interestingly, the decline in inflation since Oct'24 has been driven by the food group, as its contribution declined from a large positive to negative between Oct'24 and Sep'25. **We expect average CPI inflation for FY26 to be now at 2.2%, much lower than 2.6% RBI forecast.**

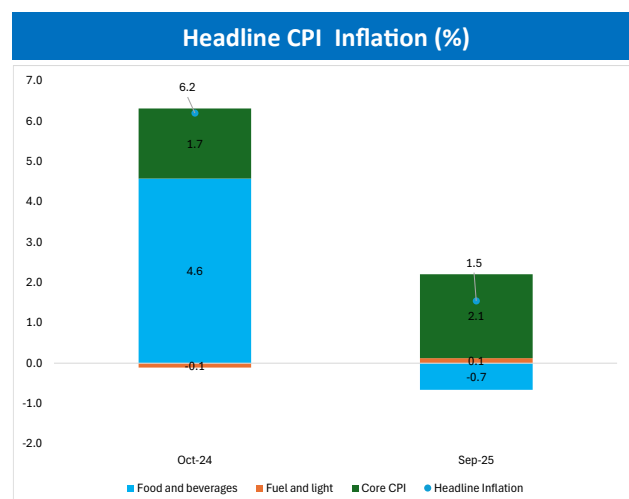
Item wise, vegetable prices continued to stay in negative zone while the deceleration in pulse prices continued and spices too exhibited decline in Sep'25. Additionally, fruits inflation declined (9.93%) and oil & fat CPI too declined (18.34%). On the other side, CPI inflation increased in case of personal care and effects owing to higher gold prices while housing CPI too witnessed a modest pick up in Sep'25. Further, the decline in food inflation for 11 consecutive months up to Sep'25, a first in the current CPI series, was the **largest both in terms of magnitude and duration** and marked by two distinct phases. During Nov'24-Apr'25, prices declined in absolute levels, which drove the overall decline in CPI headline inflation. Since May, although food prices recorded a modest seasonal pick-up, large favourable base effects offset the muted positive momentum to keep y-o-y inflation on a declining trajectory. **Core CPI excluding gold is running at 3.28%.**

Cereals was one of the major contributor to the fall in food inflation, as inflation in this category declined to 2.1% in Sep'25 (lowest since December 2021) from 6.8% a year ago. Record rice production (higher by 8.2% in 2024-25) and high buffer stocks (3.5x the norm as on Sep 16, 2025), contributed to the moderation in inflation. Wheat inflation softened from a recent high of 9.2% in Feb'25 to 3.7% in Sep'25, aided by record production (3.7% increase in 2024-25), as also comfortable buffer stocks (1.2x the norm as on Sep 16, 2025) and continued export restrictions. The increase in Kharif sowing mainly witnessed in rice, maize, urad and sugarcane should keep the prices of these products low in coming months though some disruptions may come through excess rainfalls seen in post monsoon period. Turning to inflation trajectory across regions, both urban and rural areas have been experiencing a sustained easing since Oct'24.

RBI, with its primary mandate of inflation targeting, runs the risk of missing the bull's eye if it remains fixated on market cacophony even when the deceleration in inflation has been way too evident and long term actuals, in general, seem quite detached from the figures released by the Central Bank in its own forecasters' assessment. It would be better to err on rate cut front (Type I error) than to err on the side of caution, languishing far behind the curve as markets seem to be quite uncertain about reading the Mint street's mind. We expect inflationary print to come around 0.45% next month and that makes a strong case for decisive actions. Being the collective voice of myriad sections of markets and people at large, we believe the MPC too would listen to the tunes that are changing in these interesting times. For the record, FY27 inflation print are decisively lower at 3.7% for now.

CPI INFLATION AT 1.5% IN SEPTEMBER 2025

- ◆ India's CPI inflation moderated to 99-month low of 1.54% in Sep'25 due to decline in food & beverages inflation. The decline in inflation since Oct'24 has been driven by the food group, as its contribution declined from a large positive to negative between Oct'24 and Sep'25.
- ◆ Vegetable prices continued to stay in negative zone at -21.38%, compared to -15.92% in August. The deceleration in pulse prices continued in Sep'25 (-15.32% compared to -14.53% in August) while spices prices too exhibited decline in Sep'25. Fruits inflation declined to 9.93% and oil & fat CPI declined to 18.34%.
- ◆ In Sep'25 CPI inflation increased in case of personal care and effects owing to higher gold prices. Meanwhile, housing CPI too witnessed a modest pick up in Sep'25.



Source: SBI Research

- ♦ The decline in food inflation for 11 consecutive months up to Sep'25, a first in the current CPI series, was the largest both in terms of magnitude and duration. This was marked by two distinct phases. During Nov'24-Apr'25, prices declined in absolute levels, which drove the overall decline in CPI headline inflation. Since May, although food prices recorded a seasonal pick-up, large favourable base effects offset the muted positive momentum to keep y-o-y inflation on a declining trajectory.

CEREALS INFLATION

- ♦ Cereals was one of the major contributor to the fall in food inflation, as inflation in this category declined to 2.1% in Sep'25 (lowest since December 2021) from 6.8% a year ago. Record rice production (higher by 8.2% in 2024-25) and high buffer stocks (3.5x the norm as on Sep 16, 2025), contributed to the moderation in inflation. Wheat inflation softened from a recent high of 9.2% in Feb'25 to 3.7% in Sep'25, aided by record production (3.7% increase in 2024-25), comfortable buffer stocks (1.2x the norm as on Sep 16, 2025) and continued export restrictions.
- ♦ The increase in Kharif sowing mainly witnessed in rice, maize, urad and sugarcane will keep the prices of these products low in coming months.

EXCLUSION-BASED MEASURES OF INFLATION

- ♦ Although core inflation during Apr-Sep 2025 was higher than a year ago, its volatility remained comparable to last year. Both the level and variability of core inflation, however, remained below those seen in the immediate post-COVID years. Other exclusion-based measures of underlying inflation, which exclude items such as petrol, diesel, gold and silver in addition to food and fuel recorded a similar trajectory. Inflation in CPI excluding food, fuel, petrol, diesel, gold and silver components eased to 3.3% in Sep'25, 127 bps below conventional core inflation.

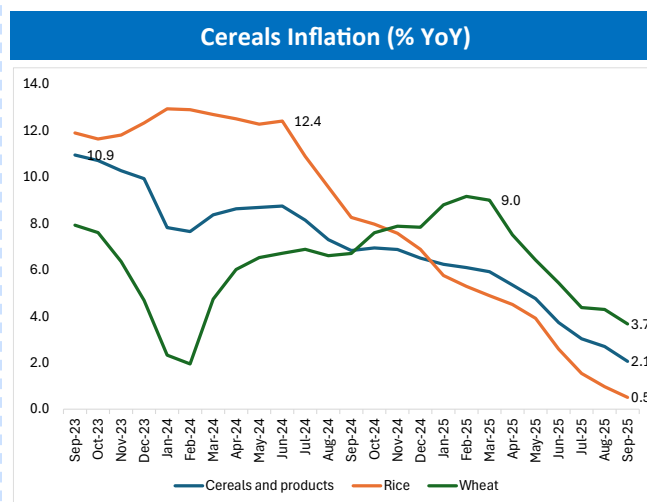
REGIONAL TRENDS IN INFLATION

- ♦ Turning to inflation trajectory across regions, both urban and rural areas have been experiencing a sustained easing since Oct'24. The higher weight of food in the rural CPI basket, coupled with a larger magnitude of decline in food inflation, resulted in rural inflation remaining below urban levels since Mar'25.
- ♦ There was a marked decline in the number of states witnessing high inflation during Apr-Sep 2025 as compared with the corresponding period of last year. 31 out of the 36 States/UTs recorded inflation below 4% during this period. One state, Kerala, where headline inflation has risen sharply in recent months as prices of coconut and coconut oil have increased meteorically.

	FY23	FY24	FY25	FY26
RBI's Feb MPC projection	4.5	5.3	4.5	4.2
RBI's Apr MPC projection	5.7	5.2	4.5	4.0
RBI's Jun MPC projection	6.7	5.1	4.5	3.7
RBI's Aug MPC projection	6.7	5.4	4.5	3.1
RBI's Oct MPC projection	6.7	5.4	4.5	2.6
RBI's Dec MPC projection	6.7	5.4	4.8	-
CPI actual	6.7	5.4	4.6	-
Change in first projection and actual	2.2	0.1	0.1	~-1.8

Major Episodes of Decline in Food Inflation		
Period	Cumulative Decline (Percentage points)	No. of Months
Nov-2024 to Sep-2025	-11.3	11
Dec-2013 to Feb-2014	-8.5	3
Nov-2020 to Jan-2021	-7.4	3
Aug-2014 to Nov-2014	-6.7	4
Aug-2016 to Jan-2017	-6.6	6

Source: RBI; SBI Research



Source: SBI Research

Exclusion-based Measures of Inflation (% y-o-y)				
Month	CPI excluding food and fuel (47.3)	CPI excluding food fuel petrol diesel (45.0)	CPI excluding food fuel petrol diesel gold silver (43.8)	CPI excluding food, fuel and Gold (46.2)
Aug-24	3.3	3.5	3.0	2.9
Sep-24	3.5	3.8	3.2	3.0
Oct-24	3.8	4.0	3.3	3.1
Nov-24	3.7	3.9	3.3	3.1
Dec-24	3.6	3.9	3.3	3.1
Jan-25	3.6	3.9	3.2	3.0
Feb-25	4.1	4.3	3.4	3.2
Mar-25	4.1	4.3	3.3	3.2
Apr-25	4.2	4.4	3.5	3.4
May-25	4.2	4.3	3.4	3.3
Jun-25	4.4	4.6	3.5	3.4
Jul-25	4.1	4.2	3.2	3.1
Aug-25	4.2	4.3	3.1	3.1
Sep-25	4.6	4.8	3.3	3.3

Source: RBI, NSO, SBI Research

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