

CPI INFLATION BREACHES 2% BUT LONGER TREND LOOKS BENIGN

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India's CPI inflation which moderated to 98-months low of 1.55% in July'25, exhibited slight uptick for Aug'25 at 2.07%, driven by rise in food & beverages inflation while core inflation increased to 4.16%. Both rural and urban CPI inflation have increased in Aug'2025, to 1.69% and 2.47%, compared to 1.18% and 2.10% in July respectively. As base effects turned to zero, the price momentum has contributed to the rise in headline inflation. The state-wise inflation indicate that out of 35-States/UTs, inflation in 26 States/UTs inflation is below 4%. There are only 2-states /UTs, namely Kerala and Lakshadweep, whose inflation is more than 6%.

Even as the national CPI inflation has settled close to the 2% mark, the current month's data shows wide regional variations in CPI print, from a negative 0.66% in Assam to 9.04% in Kerala. The Kerala case is clearly the most interesting outlier. The rural-urban breakup of inflation in the states shows that the rural inflation is at 10.05% and the urban inflation at 7.19%. The driving factor is the oil and fats component which is common for the entire combined CPI. However, in the case of Kerala the steep rise in coconut oil prices has driven the trend and local preference has dominated index momentum.

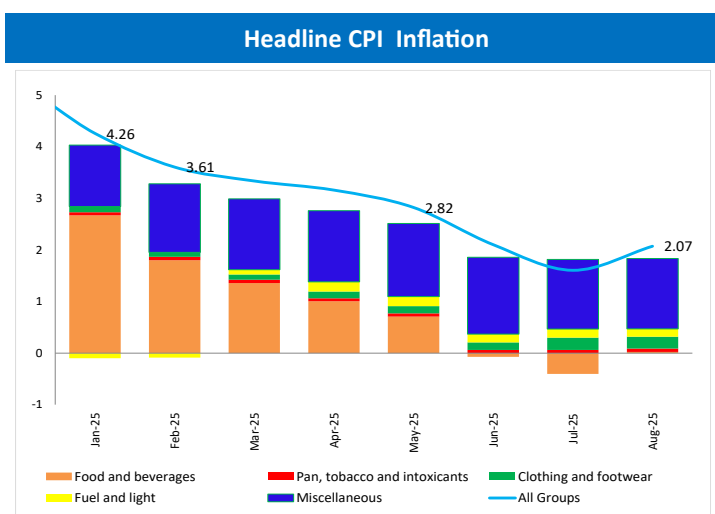
The torrential rainfall in most of the north-west states (India's largest kharif crop producers) is a matter of worry and may impact food inflation. All-India rainfall between August and September (till 11/09) was nearly 8.7% above normal, with sharp excesses reported in Punjab (+109%), Haryana (+66%), Rajasthan (+47%), Gujarat (+29%), and Jammu & Kashmir (+78%). Southern states, too, were hit, with Andhra Pradesh recording 34% higher rainfall and Telangana 58%.

Since the GST rate of essential items (around 295 items) has declined from 12% to 5%/NIL, the CPI inflation in this category may also come down by 25-30 bps in FY26 after considering a 60% pass through effect on food items. Apart from this, the rationalization of GST rates of services should also lead to another 40-45 bps reduction in CPI inflation on other goods and service items, considering a 50% pass through effect. Overall, we believe CPI inflation may be moderated in the range of 65-75 bps over FY26-27.

With August inflation print a tad higher than the 2% mark, a rate cut in October looks onerous. Even a rate cut in December looks a little difficult if growth numbers for Q1 and Q2 (estimates) are taken into consideration.

CPI INFLATION AT 2.07% IN AUGUST 2025

- ◆ India's CPI inflation which moderated to 98-month low of 1.55% in July'25 has exhibited a slight uptick for Aug'25 at 2.07%, due to rise in food & beverages inflation, which was negative in the last 2-months. Inflation on 'meat & fish' has increased to 1.48% in September, which was negative during Apr-July.
- ◆ Vegetable prices continued to stay in negative zone though inched up marginally in August to -15.92%. Pulse prices declined by -14.53% while spices prices also exhibited decline in August. Fruits inflation declined to 11.65% and Oil & fat CPI increased to 21.24%.
- ◆ India's core inflation increased again to 4.16%. Both rural and urban CPI inflation has increased in Aug'2025 to 1.69% and 2.47%, compared to 1.18% and 2.10% in July respectively.



Source: SBI Research

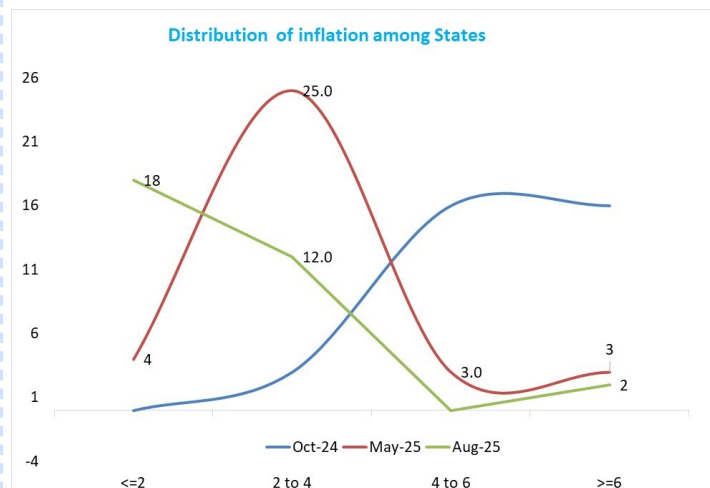
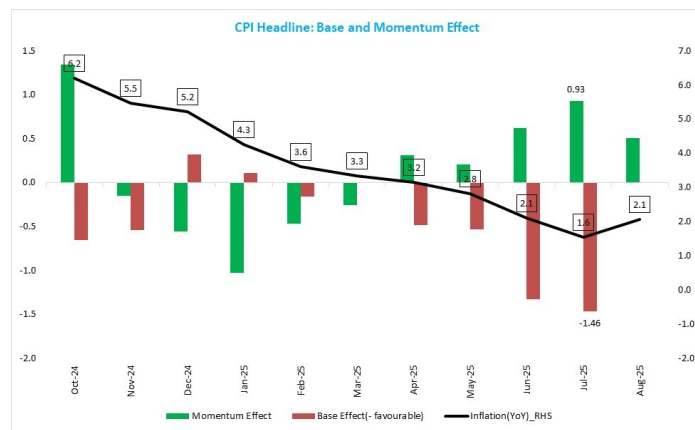
- ◆ As base effects turned zero, so the price momentum, has contributed to the rise in headline inflation.
- ◆ The state-wise inflation indicate that out of 35-States/UTs, 26 States/UTs inflation is below 4%. There are only 2-states /UTs, namely Kerala, Lakshadweep, whose inflation is more than 6%.

GST & INFLATION

- ◆ Since the GST rate of essential items (around 295 items) has declined from 12% to 5%/NIL, the CPI inflation in this category may also come down by 25-30 bps in FY26 after considering a 60% pass through effect on food items.
- ◆ Apart from this, the rationalization of GST rates of services also leads to another 40-45 bps reduction in CPI inflation on other goods and service items, considering a 50% pass through effect. Overall, we believe CPI inflation may be moderated in the range of 65-75 bps over FY26-27.

MONSOON, KHARIF SOWING AND FOOD INFLATION

- ◆ India's kharif sowing has covered 2.5% more area this season than last year, but weeks of torrential rainfall threaten to wash away those gains. All-India rainfall between August and September 11 was nearly 8.7% above normal, with sharp excesses reported in Punjab (+109%), Haryana (+66%), Rajasthan (+47%), Gujarat (+29%), and Jammu & Kashmir (+78%). Southern states, too, were hit, with Andhra Pradesh recording 34% higher rainfall and Telangana 58%.
- ◆ This development is worrying because these states are among India's largest kharif crop producers. Punjab and Haryana together contributed ~17% of rice output, while Rajasthan dominates coarse cereals and pulses. Telangana and Karnataka, which account for a tenth of India's rice and over a fifth of coarse cereals and pulses, are also under pressure.
- ◆ On a positive side, Uttar Pradesh, India's largest food grain producer, has so far avoided rainfall extremes, however, eastern states such as Bihar and Jharkhand remain vulnerable with erratic rains.
- ◆ Although no major impact on food inflation may be expected from this uneven distribution of rainfall yet still we expect some uptick in food inflation going forward.

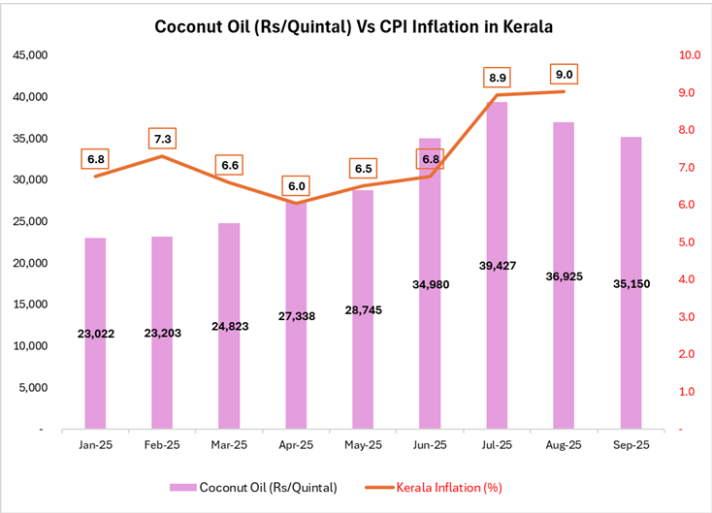


Rainfall % Deviation from normal			
State	Jun-25	Jul-25	Aug-Sep 25
Punjab	33.6	-10.2	108.7
Himachal Pradesh	41.1	1.8	89.0
Jammu and Kashmir	4.1	-7.2	78.1
Haryana	34.5	15.9	66.1
Telangana	-20.8	5.0	57.6
Rajasthan	132.7	76.4	46.7
Uttarakhand	34.4	-16.5	46.6
Andhra Pradesh	-25.0	-12.4	34.2
Gujarat	120.9	-10.9	29.2
Karnataka	9.9	12.9	17.0
Maharashtra	7.0	-0.9	13.7
Tamil Nadu	13.6	-31.0	12.8
Lakshadweep	-41.8	-6.3	6.8
Uttar Pradesh	11.6	-11.4	0.3
West Bengal	7.9	3.3	-2.0
Chhattisgarh	-16.8	29.0	-17.7
Madhya Pradesh	46.3	64.6	-17.7
Jharkhand	87.7	30.7	-17.9
Assam	-32.4	-46.1	-19.6
Bihar	-34.3	-41.3	-20.0
Odisha	22.9	7.9	-21.8
Kerala	-6.5	-13.0	-25.3
All India	8.9	4.9	8.7

Source: IMD; SBI Research

THE CURIOUS CASE OF KERALA'S GALLOPING INFLATION

- ◆ Even as the national CPI inflation has settled close to the 2% mark, the current month's data shows wide regional variations in CPI inflation. From a negative 0.66% in Assam to 9.04% in Kerala.
- ◆ The Kerala case is clearly the most interesting outlier. The rural-urban breakup of inflation in the states shows that the rural inflation is at 10.05% and the urban inflation at 7.19%.
- ◆ The driving factor is the oil and fats component which is common for the entire combined CPI. However, in the case of Kerala the steep rise in coconut oil prices has driven the trend and local preference has dominated index momentum coupled with impact of changing climate on coconut production which is also absorbed domestically within the state.
- ◆ Another factor is that the weight of personal care in CPI for Kerala is higher than other states which includes gold prices has also contributed to the build-up in state level CPI in Kerala.



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