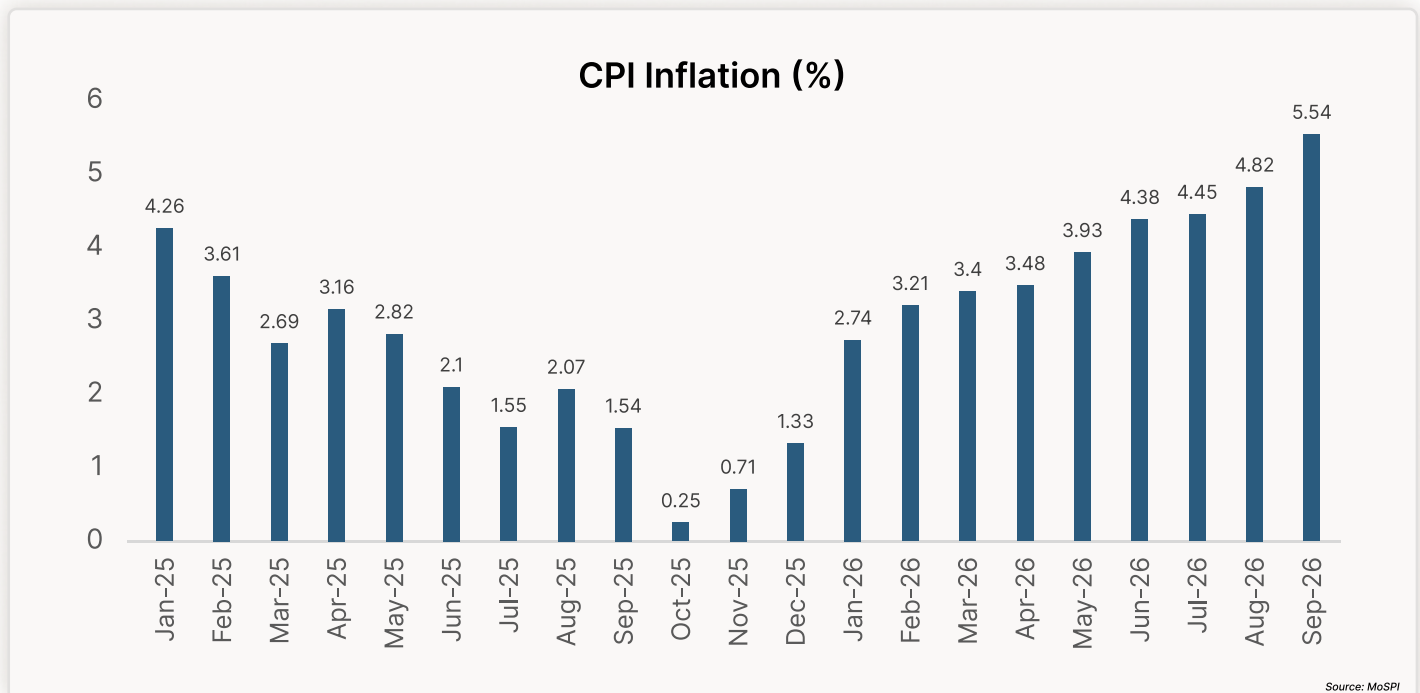


Inflation Crosses 5% as Food and Freight Pressures Build

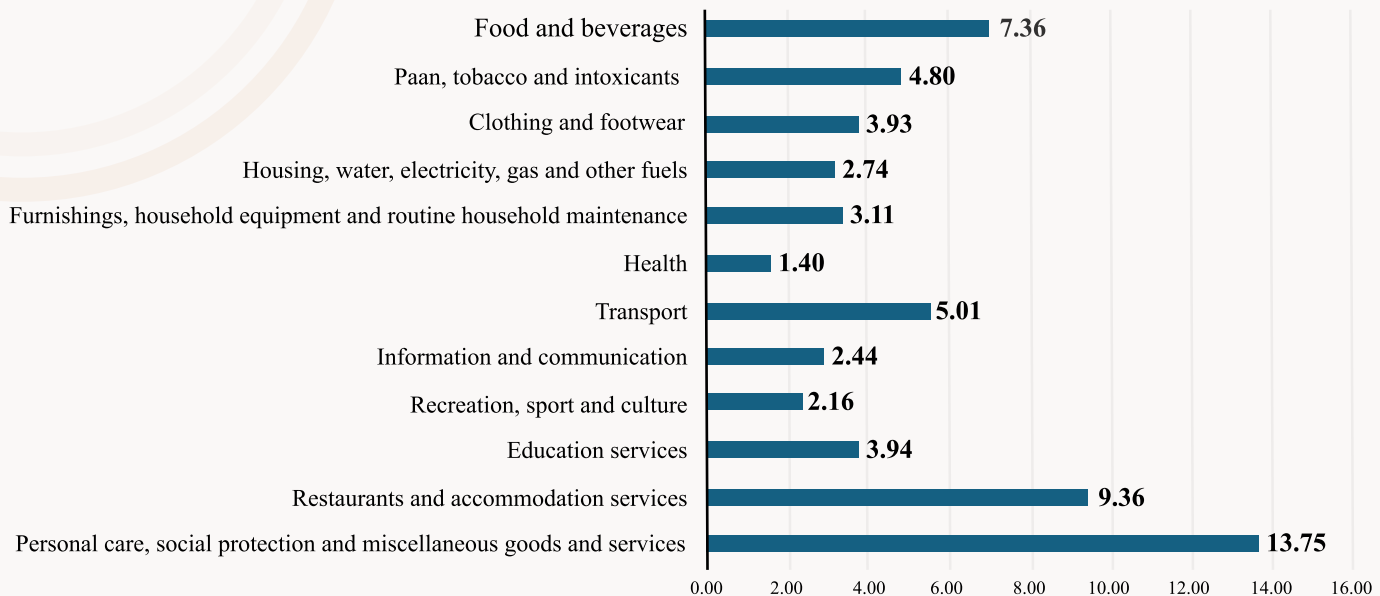
Inflation accelerated to **5.54% in September 2026**, rising **71 bps** from **4.83%** in August. The acceleration has become more pronounced since May, when inflation stood at 3.93%. The latest reading also marks the **first print above 5% in 2026** and the **fourth consecutive month above 4%**, pointing to a sustained build-up in price pressures, with the low base of late 2025 likely to keep year-on-year readings elevated in the coming months.



Food Is the Key Driver

The jump was led by food. The Consumer Food Price Index rose to **7.74% from 5.97%** in August, and Food and beverages stood at **7.36%**. Vegetables and spices did most of the damage: **onion inflation more than doubled to 108.09%** (48.78% in August), with ginger at **62.85%**, garlic at **54.62%** and lemon at **36.41%**. Potato (−11.50%) and tomato (−8.62%) remain in deflation and are cushioning the headline. The RBI has pointed to weather-related and supply-side pressures behind the food uptick.

National Level Division Wise Inflation Rate (%)



Source: MoSPI

Price Pressures Are Broadening, and Freight Costs Are Worth Watching

Price pressures remain broad across divisions. **“Personal care, social protection and miscellaneous goods and services” is still the steepest at 13.75.** The personal care group is only 2.22%, while silver jewellery is up 87.80%. **Restaurants and accommodation rose to 9.36% suggesting higher food costs are being passed on to consumers.** The more important signal is in transport. **“Transport services for goods” is at 14.73% and “Operation of personal transport equipment” at 7.46%, while passenger transport is only 3.75%.** That points to costs building up in freight and vehicle operation, in line with elevated fuel prices, rather than in what commuters pay.

Outlook

Headline inflation has moved decisively higher to 5.54%, the first reading above 5% this year. The July-September average of about 4.94% is in line with the RBI’s Q2 FY27 projection of 4.9%, but the RBI’s updated path of 6.0% in Q3 and 5.7% in Q4 implies inflation moving to the upper end of its 4% ±2% tolerance band in Q3 before moderating. The very low base of October-December 2025 should keep year-on-year prints elevated in the coming months.

The RBI has already acted, raising the repo rate by 25 bps to 5.50% on 7 October, its first hike since February 2023, and shifting to a calibrated tightening stance. At current inflation, the real policy rate is roughly zero, and it turns negative if inflation moves towards the 6.0% Q3 projection. Given this trajectory, we expect the RBI to deliver a further 25 bps hike in December, as part of a shallow tightening cycle, while staying data-dependent in its communication.