Inflation over 4% for fourth month

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India's inflation rose to a 23-month high of 5.54% in September, staying above the Reserve Bank of India's 4% midpoint target for a fourth consecutive month as higher food prices, elevated commodity costs and an unfavourable base effect fuelled price pressures.

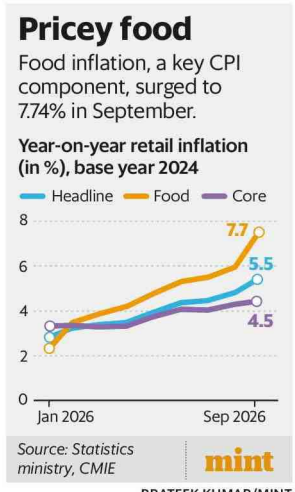
The consumer price index (CPI) rose 5.54% in September, according to provisional data released by the Ministry of Statistics and Programme Implementation on Monday. This compares with the 5.6% increase forecast by 19 economists in a Mint survey.

The reading reinforces concerns about inflation outlook after the RBI raised interest rates by 25 basis points last week and shifted its monetary policy stance to calibrated tightening.

Persistently high inflation, compounded by elevated crude oil prices and risks to economic growth from the conflict in West Asia, could further complicate the central bank's policy decisions.



Higher commodity costs and an unfavourable base effect raised price pressures. BLOOMBERG



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Food inflation, a key component of the CPI, stood at 7.74% in September, up from 5.97% in August, 5.52% in July, 5.32% in June, 4.78% in May and 4.20% in April.

Higher inflation threatens to dampen consumer demand and weigh on economic growth. RBI governor Sanjay Malhotra said last week that inflation and its outlook were not benign, adding that headline inflation was expected to average nearly 5.8% over the next three quarters.

"The sharp pickup reinforces the RBI's hawkish turn," said Rajeev Sharan, head of research, Brickwork Ratings. "From a credit-risk lens, sticky food inflation alongside rising rates could strain household budgets and retail-loan servicing."

In October, the RBI's Monetary Policy Committee (MPC) raised its inflation projection for FY27 to 5.2%, from 5% in August. It cited persistent supply-side pressures stemming from deficient south-west monsoon rainfall, El Niño conditions and volatility in international oil prices.

These factors could push headline inflation higher in the coming months, with inflation expected to peak in the December quarter of FY27.

The inflation "outlook for 2027 remains clouded by low reservoir levels, which could weigh on rabi output. Further, if energy prices stay elevated, their pass-through to broader prices will follow with a lag. Against this backdrop, we are penciling in another 50 bps of rate hikes by the RBI in this cycle," said Vikram Chhabra, Senior Economist, 360 ONE Asset.

Brent crude prices have risen 12-14% this month to above $103 a barrel amid heightened tensions in West Asia and concerns over shipments passing through the Strait of Hormuz. The increase has added to cost pressures in transport services, where inflation stood at 5.01% in September, against 4.6% in August.

Silver jewellery along with vegetables such as onion, ginger, garlic and lemon were among the items that recorded the strongest inflationary pressures, the data showed. Potato, tomato, lady finger, coconut and motor cars and jeeps were among the items with lowest all-India inflation.

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