Retail inflation rises to 4.45% in July

PRICE SPIKE. Food inflation remains high at 5.52% and will continue to show a rising trend, say experts

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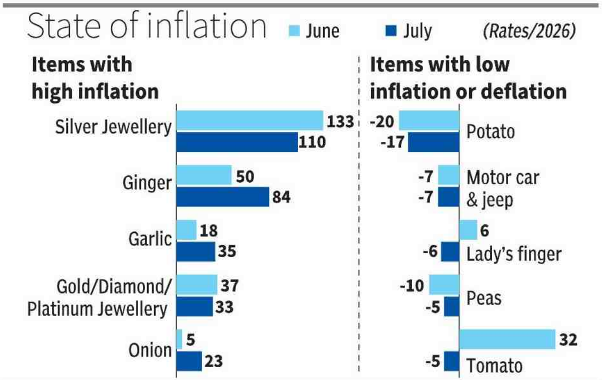
Driven by higher prices of kitchen staples such as onions, ginger and garlic, the CPI-based retail inflation rose to 4.45 per cent in July from 4.38 per cent in June, according to Statistics Ministry data released on Wednesday.

Economists expect headline inflation to continue climbing in the coming months. The July print is the highest in 19 months.



Source: MoSPI

FOOD INFLATION

Higher food inflation was a key reason for the headline number moving up. Food inflation remains high at 5.5 per cent and will continue to show a rising trend.

"There is a difference, however, in price movements of goods depending on the crop size. Prices of potatoes and tomatoes are down due to higher production, while onion prices are up due to lower production," said Madan Sabnavis, Chief Economist with Bank of Baroda. Further, the war impact on prices can be seen from higher inflation for restaurants and food services, where higher fuel prices have made units increase prices.

"The southern States continue to witness higher CPI inflation. Andhra Pradesh, Telangana, Tamil Nadu and Karnataka were among the four highest inflation rate States, with Madhya Pradesh also being in this group. This can be attributed to higher demand factor as well as higher logistics cost and local levies," Sabnavis added.

However, despite the West Asia crisis, the print is still contained.

"Inflationary pressures in India remain broadly contained despite elevated wholesale price inflation driven by a weaker rupee and higher energy costs. This stands in contrast to several major economies, including the US, where inflation continues to remain well above central bank comfort levels," said Debopam Chaudhuri, Chief Economist, Piramal Group. Also, the relatively benign inflation outlook should provide the RBI with additional room to maintain the policy rate at its October meeting.

CORE INFLATION

Meanwhile, core inflation (headline inflation minus food and fuel inflation) remained stable. According to Rajeev Sharan, Head of Research at Brickwork Ratings, core inflation is estimated near 4 per cent, kept elevated by gold and silver prices amid geopolitical risk aversion and firm crude-linked transport costs.

"For Q2FY27 (July-September), we expect headline inflation to average around 4.5-4.7 per cent, with a mild uptick likely in September as base effects turn less favourable," Sharan said, adding that going forward, food will remain the key swing factor amid uneven monsoon and El Nino-related uncertainty."

RBI FORECAST

Megha Arora, Director at India Ratings & Research, feels that stable core inflation, which has remained at 3.9 per cent since May, suggests the absence of demand push to inflation and may undershoot the RBI's forecast of 4.3 per cent in FY27.

"Ind-Ra believes the headline inflation is likely to remain stable around 4.5 per cent in August 2026, but remain within the RBI's upper tolerance band of 6 per cent. Persistent upside risks are posed by geopolitical tensions and El Nino weather pattern, though some improvement in the latter could be visible in the August print," she said.

Arora added that crude price volatility is expected to continue, with oil likely to hover around 80-85/bbl in the coming weeks.