Retail inflation hits 21-month high in Sept on higher food prices

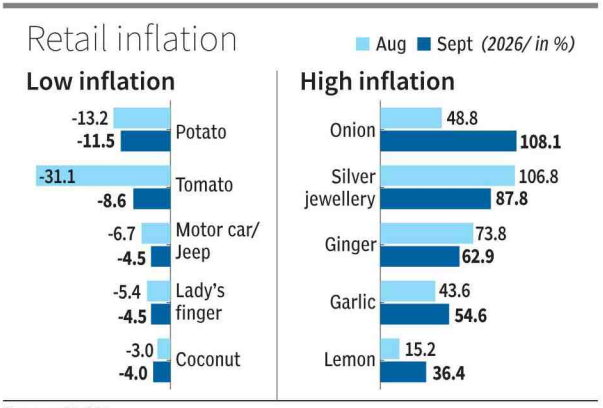
WORRISOME. Low base, costlier fuel push inflation to 5.54% — close to the RBI's 6% ceiling

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Retail inflation rose to a 21-month high of 5.54 per cent in September, as a low base a year ago amplified the impact of rising food prices, signalling that price pressures are strengthening beyond a statistical rebound.

Inflation, measured by the Consumer Price Index (CPI), rose from 4.83 per cent in August and 1.54 per cent in September 2025, bringing it close to the upper end of the Reserve Bank of India's 2-6 per cent target band.

Economists warn that rising food prices and broader price pressures could push inflation closer to, or above, the 6 per cent ceiling in the coming months, raising the prospect of further repo rate hikes by the Monetary Policy Committee (MPC).



Sources: MoSPI

PRICE PRESSURES

The increase extended beyond food, with price pressures broadening across consumption categories.

"About 11 to 12 sub-groups recorded higher inflation in September, indicating generalisation of inflation," said Devendra Pant, Chief Economist at India Ratings & Research.

Pant noted that inflation had been rising since November 2025, with September marking the fourth consecutive month of inflation above 4 per cent.

Sujan Hajra, Chief Economist at Anand Rathi Group, said the low base had amplified headline inflation, but the sequential rise in food prices suggested that the increase was not entirely base-driven.

FUEL IMPACT

"Food inflation continued to quicken, driven by a broader set of sub-segments amid below-normal rainfall, imported price pressures and derivative fuel impacts," said Radhika Rao, Senior Economist at DBS Bank.

She expects the combination of a low base and higher food, fuel and services inflation to push headline inflation closer to 6 per cent in the fourth quarter of 2026.

FURTHER RATE HIKES

With inflation nearing the upper end of the RBI's target band, economists expect the central bank to remain alert to the risk of a further breach.

Upasna Bhardwaj, Chief Economist at Kotak Mahindra Bank, expects inflation to exceed 6 per cent in the coming months as adverse base effects and food-price shocks play out.

She considers the RBI's revised inflation estimates realistic.

"We expect an additional 50 bps repo rate hike, with upside risks likely if geopolitical risks do not subside," she said.

Rajeev Sharan, Head of Research at Brickwork Ratings, said the September reading reinforced the RBI's hawkish turn following its 25-basis-point rate hike in October.

Markets, he added, were pricing in another increase in December.

HOUSEHOLD BUDGETS

"Sticky food inflation alongside rising rates could strain household budgets and retail-loan servicing," Sharan said, adding that contained core inflation would moderate the broader risks.