Economy | Macro-Cap

Prices that make the story whole: Why is RBI turning dovish?

Manufacturing inflation doubled in three months, and the RBI did not blink

WPI manufacturing inflation doubled in three months, from 4.8% in March to 7.5% in June. But the headline number hides that out of 22 NIC subgroups (957 sub-series), only five are running double-digit year-on-year gains. The rest of the index, which is over half the basket, has barely moved. If we strip out gold, silver, and oil, there is no broad-based price pressure visible (exactly what the RBI governor mentioned!).

The current inflation shock is primarily cost-driven, not demand-driven. Higher crude oil prices and the rally in industrial metals have pushed up input costs across chemicals, textiles, rubber & plastics, basic metals, and allied sectors. However, most consumer-facing industries have largely absorbed these higher input costs instead of passing them on to retail prices.

Capex-related industries are the notable exception. Sectors such as electrical equipment, transformers, machine tools, railways, and aerospace components continue to record sustained price increases, reflecting strong investment demand rather than merely higher input costs. This reinforces the ongoing infrastructure and capital expenditure cycle.

This is why the RBI has paused in three meetings, keeping the repo rate unchanged at 5.25%. Inflation exists but is concentrated, which buys room to hold rather than tighten. While overall the stance is positive for consumption through the credit channel, the rate-sensitive sectors such as auto, realty, consumer durables, and NBFCs are likely to benefit more.

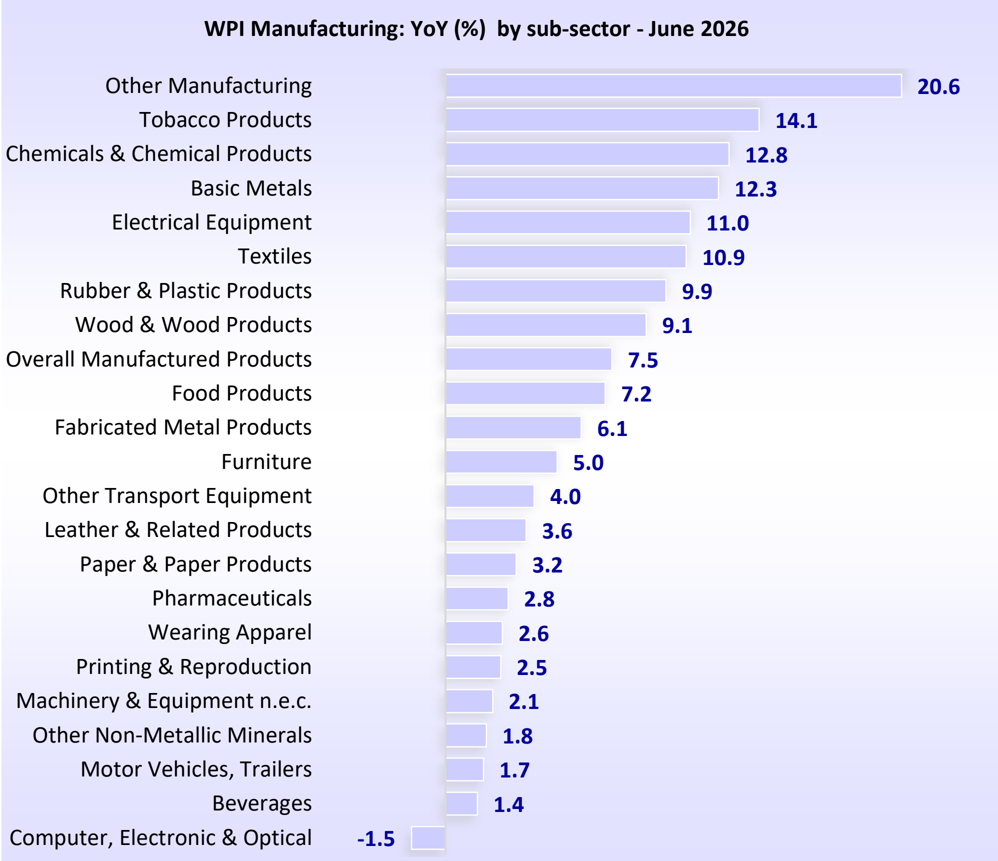
We expect the RBI to remain on hold through CY26; the window for policy tightening is likely to open next year (El Niño impact, manufacturing cost passthrough, high credit growth feeding into inflation, and global interest rate hike cycle). The RBI is expected to deliver a cumulative 75–100bp rate hike depending on data, implemented through calibrated 25bp increases at successive MPC meetings.

Price gains are concentrated in the following five sectors:

- **Basic metals, at 12.3% YoY in Jun'26, is the largest sector after food, with a weight of 8.4%. However, the MoM print turned negative, down 1%. Whether July confirms a plateau or the start of a reversal will matter.**
- **Chemicals picked up sharply over the last three months (13% YoY in Q1FY27). This sector is a part of the value chain for many specialty chemicals and cable insulation.**
- **Textiles and rubber & plastics are the two groups still accelerating. Textiles has one of the steepest increases outside chemicals and basic metals. Rubber & plastics posted the fastest single-month gain in June, up 1.1% MoM. Both point to cotton, synthetic-fiber, and crude-linked input costs working through the chain, with a lag.**
- **Electrical equipment increased by 11% YoY, its sixth consecutive month of gains. This looks like sustained demand pull rather than an input spike, which explains the capital-goods and data center capex story.**

Radhika Piplani – Research Analyst (Radhika.Piplani@motilaloswal.com)
Tanisha Ladha– Research Analyst (Tanisha.Ladha@MotilalOswal.com)

Exhibit 1: WPI manufacturing inflation by sub-sector (% YoY)



Source: CEIC, MOSL Research

Key findings:

Inflation remains contained despite rising input costs

Despite a sharp rise in WPI manufacturing inflation, the data suggests that input cost pressures have not yet translated into broad-based consumer inflation. Most manufacturers continue to absorb higher petrochemical and metal costs rather than passing them on through higher selling prices, keeping core inflation relatively benign. This is consistent with the RBI's assessment that the current inflation episode remains concentrated in a few commodity-linked sectors and is not yet broad-based. As long as cost pressures remain confined to producers and do not spill over into core inflation, the RBI has room to maintain its policy pause and delay monetary tightening.

Corporate margins under pressure, consumption remains supported

One of the most striking observations from the data is that manufacturers have largely absorbed higher input costs instead of passing them on to consumers. Petrochemical- and metal-intensive industries such as tyres, apparel, leather footwear, appliances, and automobiles have witnessed rising production costs, but retail prices have remained relatively stable. This suggests that competitive pressures and moderate demand conditions are limiting pricing power. While this is positive for household purchasing power and supports private consumption, particularly in discretionary segments, it also implies that corporate margins are likely to remain under pressure if elevated input costs persist.

Capex emerges as the strongest growth engine

Unlike consumer-facing sectors, capital goods industries continue to exhibit sustained pricing power, reflecting robust underlying demand rather than commodity-led inflation. Consistent price increases across fiber-optic cables, grid transformers, industrial machine tools, electrical equipment, railways, and aerospace components indicate that India's infrastructure, power transmission, manufacturing, and data center investment cycle remains firmly intact. The persistence of these gains over several months reinforces our view that the ongoing capex cycle is structural and is likely to remain an important driver of economic growth.

Producer inflation could become consumer inflation with a lag

The current manufacturing inflation shock remains largely confined to upstream industries and has not yet translated into broad-based consumer inflation, allowing the RBI to remain on hold. Although crude oil prices have moderated following the easing of geopolitical tensions, input costs across petrochemical- and metal-intensive industries remain significantly higher than at the beginning of the year. So far, manufacturers have largely absorbed these higher costs, limiting the pass-through to retail prices and keeping core inflation benign. However, if input costs remain elevated, bank credit continues to expand at around 18% YoY, and domestic demand remains resilient, firms may eventually regain pricing power and begin passing higher production costs on to consumers. Such a delayed pass-through could broaden inflationary pressures, lift core CPI inflation, and strengthen the case for the RBI to begin policy normalization in FY28.

Details:

Textiles: Three micro-themes running simultaneously

- Textiles posted 10.9% YoY growth in June and 9.4% YoY in Q1FY27, led by petrochemical-linked inputs. Polyester viscose blended yarn (17%), Viscose rayon & dacron yarn (14.7%), and polyester spun yarn (10.2%) are pushing inflation higher.
- Jute prices are high too, but that is due to raw jute acreage falling from a normal 6.6 lakh hectares to about 5.56 lakh hectares in the 2025-26 Kharif season, as farmers shifted to maize after years of jute prices sitting below MSP. Raw jute itself went from a trough of INR4,700 per quintal to an all-time high of INR17,750-18,000 by late Mar'26, which is why Textiles is looking at the steepest QoQ acceleration. The government permitted HDPE and plastic substitution for food grain packaging under the Jute Packaging Materials Act because mills could not physically source raw material at the mandated price. This is a domestic agricultural supply shock, and it can reverse once the new crop comes.
- Cotton prices are elevated too, consistent with the cotton MSP hike.
- **Apparel is not passing any of this through yet.** Wearing apparel overall is up just 2.6% YoY, despite the yarn and fabric inputs being higher by 2-6x. **Garment makers are absorbing input inflation rather than passing it into wholesale prices**, which is unlikely to hold if jute and cotton costs stay elevated through the rest of the year.

Leather: Leather shoes deflating; athleisure isn't

Leather carries the smallest weight of the sectors in this note, up 3.6% YoY in June. Leather shoes are up just 0.4% YoY. However, every synthetic and technical-content item is picking up, like water footwear, which is up 14.2% YoY; footwear with textile uppers is up 10.6%; and leather-cum-rubber/plastic sandals are up 8%.

Wood: A resin story

Wood prices are up 9.1% YoY in Jun'26, but due to the engineered panel segment and not raw sawn wood, timber, or wooden planks. Particle Board is up 20.5% YoY, Veneered Particle Board is up 11.8%, and Plywood Board is up 8.4%. The engineered segment is bonded with resins, a petrochemical derivative.

Chemicals: Petro-linked chemical compounds pick up; bio-based declines

- Chemicals are up 12.9% YoY, led primarily by **Sulphuric Acid**, up 136% YoY in June and 41.6% in Q1 FY27. Sulphuric acid is an industrial input used across fertilizers, battery manufacturing, metal pickling, and dyes, and it's recovered as a byproduct of crude oil refining and metal smelting. It's through this channel that Rubber & Plastics, Textiles' synthetic yarns, and Wood's resin-bonded panels were picking up.
- Urea, the price-controlled fertilizer, is up just 1.1% YoY, while market-priced Mixed Fertilizer (NP) is up 43.2%, Ammonium Nitrate 37.3%, Ammonium Sulphate 32.4%, DAP 12.6%.
- Margin compression shows up in consumer-facing chemicals too, the same as in apparel and leather shoes. Soap is up just 4.2% in Jun'26, Shampoo 1.2%, Non-Medicated Toothpaste 0.9%, and Cosmetics & Perfumery is down 5.9%, even as the inputs feeding all of them are increasing. Branded, consumer-facing chemical products are absorbing the input shock rather than passing it through.
- **This suggests that even if WPI inflation runs high, CPI inflation is unlikely to see the same petrochemical cost pass-through to consumers.**

Pharma: Policy sets the price, not crude

- Pharma inflation is up 2.8% YoY in Jun'26. Several formulations posted 0% MoM and QoQ moves for several months running, possibly on account of India's Drug Price Control Order, under which the National Pharmaceutical Pricing Authority caps what manufacturers can charge on essential medicines, regardless of what's happening to input costs or global markets.
- The one exception is Salicylic Acid & its Salts (used in aspirin and topical preparations), up 16.8% YoY in Jun'26, the largest gainer in the sector.
- Some complex biologics and specialty inputs have declined sharply, plausibly on global API oversupply in a few segments or competitive pricing.

Rubber and Plastics: Packaging passes it through, tyres absorb it

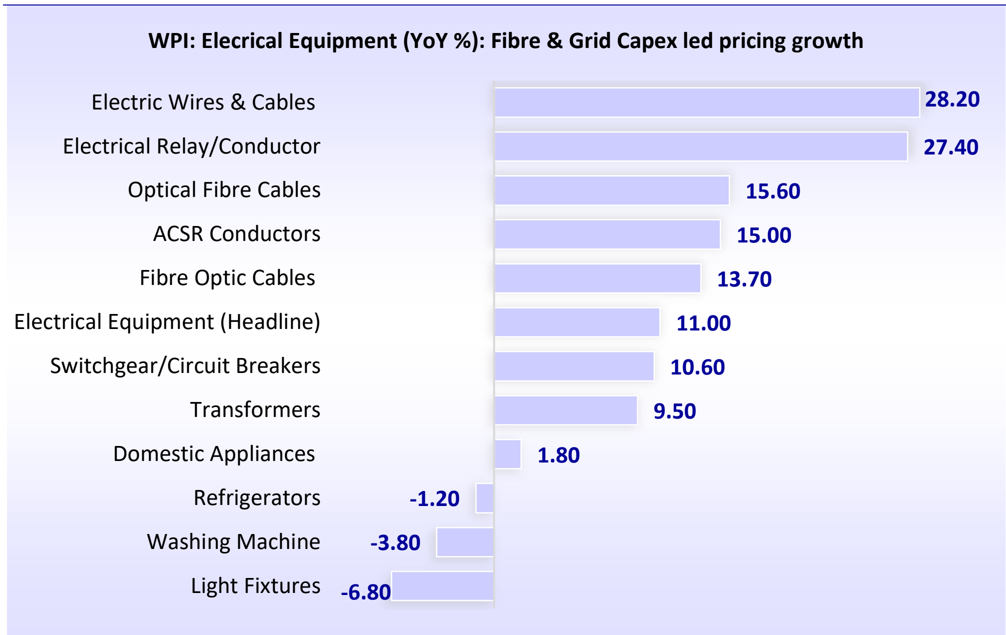
- Rubber and Plastics prices are up 9.9% YoY in Jun'26. Packaging plastics are passing higher input costs as they are direct price-takers from the chemicals that go into them.
- On the other hand, tyre prices are lower. Car Tyres (-0.3% YoY), Truck & Bus Tyres (-0.6%), and Tyres for Light Motor Vehicles (-0.6%) are all flat to negative, despite their two principal inputs, synthetic rubber and carbon black, increasing.

Electrical equipment: Data center-led price increase

- Electrical Equipment increased by 11% YoY in Jun'26. The gains have been from the past six consecutive months, implying it's a demand-pull rather than an input-shock.
- Optical Fiber Cables are up 15.6% YoY in Jun'26, and Fiber Optic Cables are up 13.7% (telecom, data-center-led growth).

- Electric Wires & Cables are up 28.2% YoY in Jun'26. Electrical Relay/Conductor is up 27.4%, and ACSR Conductors (aluminum-steel cable used in power transmission lines) are up 15%, tracking the copper and aluminum commodity cycle. Transformers (9.5%), Switchgear and Circuit Breakers (10.6%), and Parts of Electricity Distribution Apparatus (10.7%) point to grid and transmission capex.
- **Consumer-facing domestic appliances are, once again, absorbing costs rather than passing them through. Domestic appliances overall are up just 1.8% YoY in Jun'26, with Washing Machines declining 3.8% and Refrigerators dipping 1.2%, despite copper windings and wiring being core inputs to both**.

Exhibit 2: WPI: Electrical equipment fiber and grid capex-led pricing growth, % YoY



Source: CEIC, MOSL Research

Non-Metallic Minerals: Cement flat due to oversupply; glass prices up

- Other Non-Metallic Mineral Products prices rose by 1.84% YoY in June. Cement, the biggest weight within non-metallic minerals, is either flat or slightly negative. This is likely on account of intense competition among few large producers and excess capacity.
- Glass is where the prices have picked up. Blank Glass is up 18.8% YoY in Jun'26 alongside Marble Slab (10.7%) and Ceramic Tiles (9.1%), the main construction and decor-linked items. Separately, insulators, the porcelain and ceramic components used in power transmission, are up 12.5%, lining up closely with Electrical Equipment's 11.0% YoY (power, data center capex).

Basic Metals: Non-ferrous and precious metals lead the increase

- Basic Metals is up 12.31% YoY in Jun'26, but the June MoM print just turned negative.
- **Basic Iron & Steel, the sub-group within basic metals, is up only 6.4% YoY. But non-ferrous and precious metals are increasing fast.** Brass Tubes & Pipes (60.9% YoY), Gold Ore & Gold-Based Products (49.8%), Non-Alloyed Electrolytic Aluminum Plates (46.4%), Non-Alloyed Zinc (38.6%), Aluminum Semi-Finished Products (33.7%), Copper Wire Bars (30.7%), Copper Cathodes (29.2%). This is on account of a rally in global commodities and precious metals. **Gold prices**

rose due to safe-haven demand, and base metals on global supply and electrification demand.

- But most of the aluminum subsectors declined MoM, whether it's the bars, rods, disks or circles. This is because even oil prices retraced in June.

Fabricated Metals: Zinc and copper lead the growth

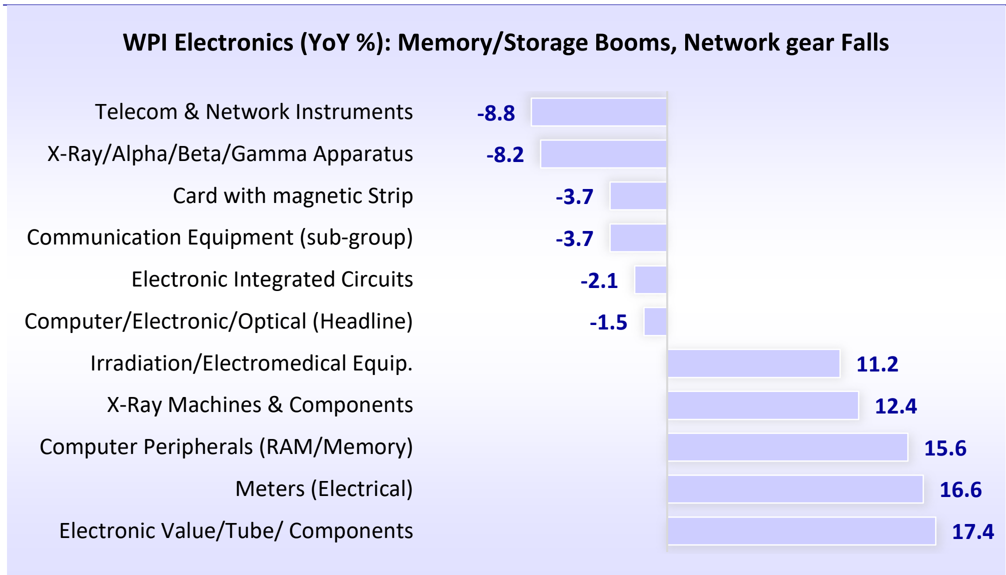
- Fabricated Metal Products, except Machinery & Equipment grew 6.1% YoY. Copper Bars, Rods & Wire Rods is up 21.3% YoY in Jun'26 (tracking closely with Copper Cathodes' 29.2% within Basic Metals). Galvanized sheet (Steel Coated with Zinc/Aluminum) is up 20.4% YoY with a 10.8% jump in the last quarter alone, and the driver is the zinc coating. The whole Treatment & Coating of Metals sub-group is up 18.3% YoY. Aluminum Utensils (11.7 per cent) and doors/Windows/Frames incorporating aluminum (10.7%) are also high.
- Weapons & Ammunition is down 3.3% YoY, likely due to government pricing.

Electronics: Memory booms, network gear dips

Computer, Electronic & Optical Products is down 1.53% YoY.

- **What's rising:** Computer Peripherals, which includes RAM and storage, is up 15.6% YoY (global memory-chip price surge, data center demand). Meters is the other notable riser, and it connects back to the copper price increase. X-Ray Machines (12.4%) and broader Irradiation/Electromedical Equipment (11.3%) are also seen rising.
- **What isn't:** Communication Equipment overall is down 3.7% in Jun'26. Within it, Telecommunication & Network Instruments, like routers, switches, and network hubs, are down 8.8% YoY. Cards with Magnetic Strip, down 3.7%, is a small but structurally declining category. The demand for magnetic-stripe cards keeps shrinking as chip-and-contactless payment technology displaces it, **a technology-substitution story rather than a price one.**

Exhibit 3: WPI Electronics (YoY %): Memory/Storage booms, network gear dips

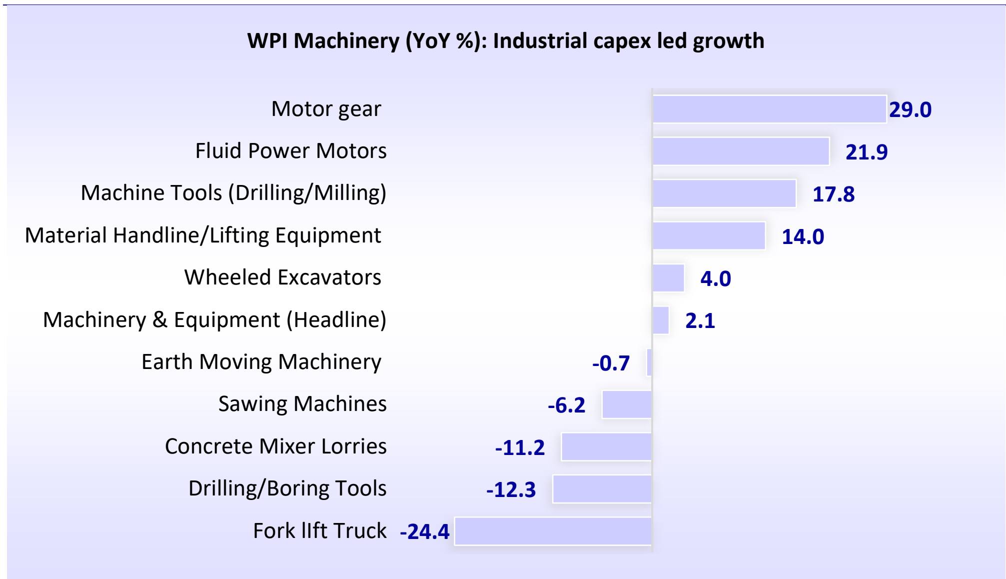


Source: CEIC, MOSL Research

Machinery: Construction equipment confirms the cement story, industrial capex doesn't

- Machinery & Equipment is up 2.1% YoY in Jun'26. Construction-linked machinery demand is soft. Concrete Mixer Lorries are down 11.2% YoY, Drilling or Boring Tools down 12.3%, Earth Moving Machinery down 0.7%.
- **Industrial and manufacturing capex categories** such as Fluid Power Motors (21.9% YoY), Machine Tools for Turning, Drilling, and Milling (17.8%), and Material Handling, Lifting & Hoisting Equipment (14.0%) are picking up.

Exhibit 4: WPI Machinery (YoY %): Industrial capex led growth

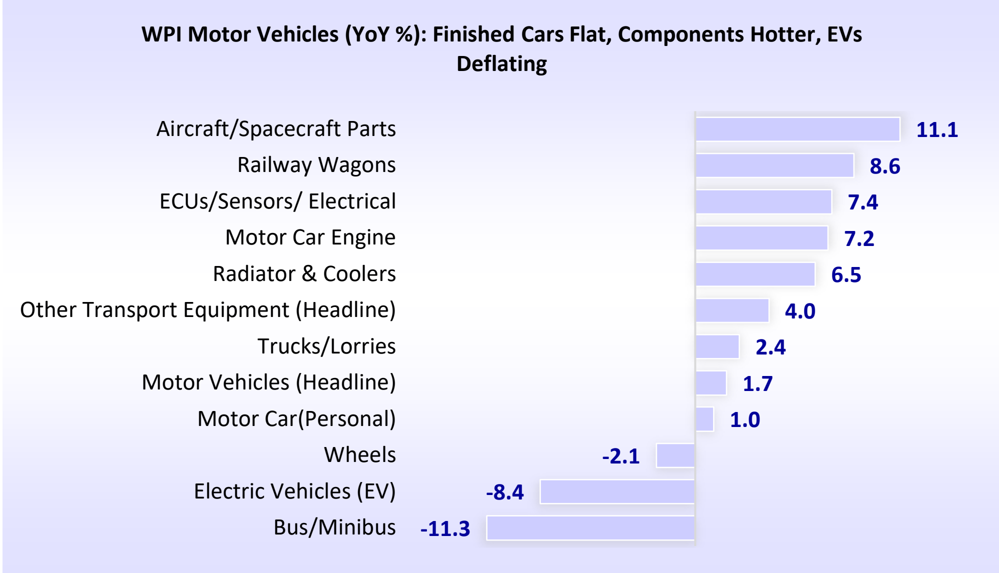


Source: CEIC, MOSL Research

Motor Vehicles: Finished cars absorb costs, EVs are genuinely deflating

- Motor Vehicles, Trailers & Semi-Trailers is up 1.7% YoY in Jun'26, and Other Transport Equipment is up 4% YoY.
- **Finished vehicle prices are not rising much. But the component prices are rising.** Motor Car is up just 0.97% YoY and Trucks/Lorries 2.36%, while the inputs are rising fast. Electronic Control Units, Sensors & Electrical Components up 7.36%, tracking the semiconductor and electronics cost pressure. Motor Car Engine up 7.25%, and Radiator & Coolers up 6.45%, tracking the aluminum commodity cycle.
- Electric Vehicles are down 8.36%YoY. EVs still consume copper, aluminum, and largely the same input chain as combustion vehicles, yet finished EV prices are falling. This is on account of technology-and-competition deflation.
- Within Other Transport Equipment, prices of Parts of Aircraft & Spacecraft (11.1%), Railway Wagons (8.6%), and Passenger Coaches (4.2%) are all seen rising (Aerospace and Rail capex).

Exhibit 5: WPI Motor Vehicles (YoY %): Finished Cars Flat, Components Hotter, EVs Deflating



Source: CEIC, MOSL Research

Furniture: Plastic prices lead the increase

Furniture computes to 5.03% YoY. Plastic Furniture, up 10.7% due to a rise in petrochemical prices and resin. Metal furniture increased by 5% and wooden furniture by 1-2%.

Other Manufacturing: Precious metal led increase

- Other Manufacturing computes to 20.55% YoY. It comprises silver, Gold, and precious stones.
- **Silver is up 88.46% YoY**. **Gold Biscuits/Coins/Ornaments is up 32.8%, Precious Metal Jewelry is up 25.1**%. Silver's outsized move likely reflects its smaller, more volatile market combined with overlapping industrial demand from solar and electronics manufacturing and investment flows.
- **Cut & Polished Diamond is down 10.8% YoY**. Diamonds have faced a global glut driven by lab-grown diamond competition and soft demand from China.

Outlook

- The one genuine strength in the data analysis is capex. Fiber-optic cable, grid transformers, industrial machine tools, and rail and aerospace components are all climbing steadily, as seen through six months of consistent price increases. This cements the data centers, grid build-out, and industrial capacity. This appears to be durable demand rather than a commodity spike.
- Gold and silver are driving the headline. The biggest shock for India has been the petrol-linked price increases. This is clearly visible through Chemicals, Textiles' synthetic fibers, Rubber & Plastics' packaging, Wood's resin panels, and the aluminum smelters inside Basic Metals. Petrochemical-heavy products got expensive. But consumer-facing ones didn't.
- Electric Vehicles are the exception. Prices are falling even as their inputs rise, because competition is beating cost pressure outright.
- **Key Takeaway:** Manufacturers are eating the cost instead of passing it on. It is seen in tyres, apparel, leather shoes, appliances, and cars. Prices have barely moved in regulated markets like Urea, pharma, defense production, and cement.

What this means for the RBI

- The RBI has room to stay on hold. Three consecutive pauses, repo rate at 5.25%, Neutral stance. The MPC in the last policy highlighted that greater clarity is needed on the path and composition of inflation before taking any policy action. While inflation is projected to remain above 5% over the next three quarters (at 5.9% in 3QFY27, 5.5% in 4QFY27, and 5.3% in 1QFY28) but the MPC is focused on whether the current food- and fuel-driven inflation spills over into broader price pressures and pushes up core inflation (core inflation is expected at 4.3% in FY27 in the Aug'26 policy, lower from 4.7% in the Jun'26 policy).
- Accordingly, while we expect the RBI to remain on hold through CY26, the window for policy tightening is likely to open next year. We expect the RBI to deliver a cumulative 75–100bp rate hike depending on data, implemented through calibrated 25bp increases at successive MPC meetings.
- While overall it is positive for consumption through the credit channel, the rate-sensitive sectors such as Auto, Realty, Consumer Durables, and NBFCs are likely to benefit more.

Exhibit 6: RBI lowered its FY27 inflation forecast to 5% in the Aug'26 policy from 5.1% in the Jun'26 policy

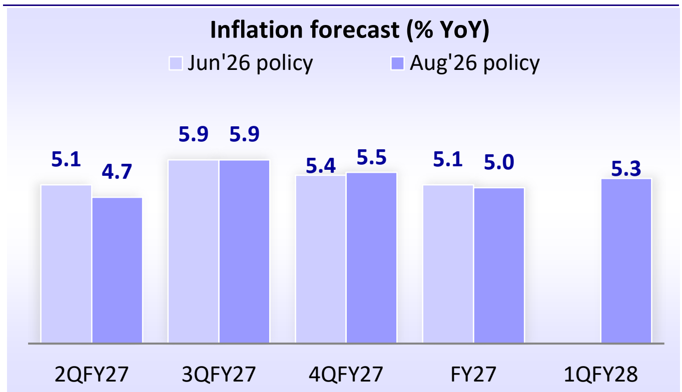
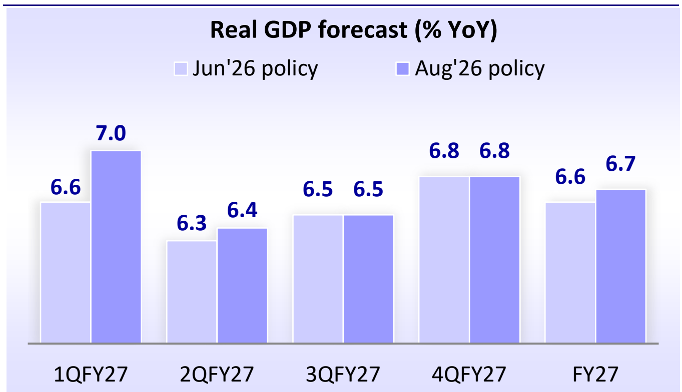


Exhibit 7: RBI increased its FY27 real GDP forecast to 6.7% in the Aug'26 policy from 6.6% in the Jun'26 policy



Source: RBI, MOFSL

Exhibit 8: Repo rate was unchanged at 5.25% in the Aug'26 policy

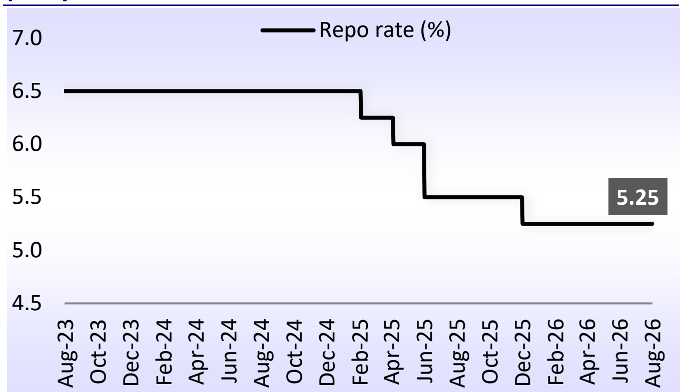
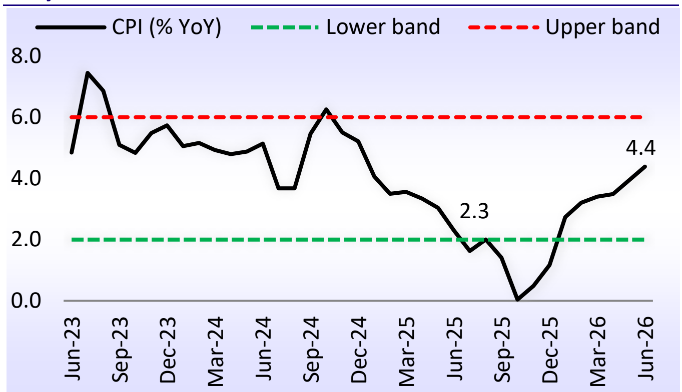


Exhibit 9: Inflation increased to 4.4% in Jun'26 from 3.9% in May'26



Source: RBI, MOFSL

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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