Economy | Macro-Cap

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Input costs turn up the heat!

- **WPI inflation accelerated to 12.3% YoY in Oct'26 from 11.4% in Sep'26, marking the highest rate in the current series and reflecting a sharp escalation in energy and industrial commodity prices.** The increase was primarily driven by Fuel and Power inflation, which surged to 32.8% YoY in Oct'26 from 25.9% in Sep'26, alongside a further acceleration in Primary Articles inflation to 9.2% from 8.7%. In contrast, Manufactured Products inflation moderated marginally to 9.5% from 9.8%.
- **The most significant source of pressure was the sharp increase in crude petroleum and natural gas inflation, which accelerated to 70.8% YoY in Oct'26 from 57.3% in Sep'26.** Mineral oils inflation also increased to 45.6% from 40.0%, while electricity inflation stood at 8.1% compared with deflation of 0.4% in Sep'26. The simultaneous acceleration across petroleum products, crude oil, and electricity indicates that the energy shock is becoming increasingly broad-based. **Consequently, imported inflation surged to 19.2% YoY in Oct'26 from 17.8% YoY in Sep'26. Higher energy prices could raise transportation, logistics, and industrial production costs, increasing the risk of further pass-through into downstream goods and consumer prices.**
- **Primary Articles inflation increased to 9.2% YoY in Oct'26 from 8.7% in Sep'26, reflecting higher prices of non-food articles and minerals**. Inflation in non-food articles accelerated to 11.7% in Oct'26 from 10.3% in Sep'26, while mineral inflation increased to 12.6% from 9.5%. Food Articles inflation edged up to 8.3% in Oct'26 from 8.1% in Sep'26. **Meanwhile, WPI Food inflation remained broadly stable at 8.6% in Oct'26, as inflation in manufactured food products eased to 9.2% from 9.4% in Sep'26.**
- **Manufactured Products inflation moderated marginally to 9.5% YoY in Oct'26 from 9.8% in Sep'26**. However, underlying price pressures remained elevated across several industrial segments, such as basic metals (17.2% in Oct'26 vs. 17.0% in Sep'26), chemicals (17.5% in Oct'26 vs.16.7% in Sep'26), rubber and plastic products (13.9% from 13.5%), textiles (13.7% in Oct'26), and fabricated metal products (7.7% in Oct'26 vs. 7.5% in Sep'26). In contrast, inflation moderated in electrical equipment (10.4% vs. 11.9%), food products (9.2% vs. 9.4%), and motor vehicles (4.4% vs. 4.5%). **The persistence of high inflation in metals, chemicals, textiles, and rubber products is particularly significant given their importance as intermediate inputs across the manufacturing value chain.**
- The cumulative WPI inflation for Apr-Oct FY27 stood at 10.1% YoY, compared with deflation of 0.3% during the corresponding period of FY26. The acceleration was particularly pronounced in Fuel and Power, where cumulative inflation increased to 26.4% Apr-Oct FY27 from deflation of 3.6% in Apr-Oct FY26. Manufactured Products inflation accelerated to 8.4% from 1.5%, while Primary Articles inflation increased to 7.2% from deflation of 3.4%. Within manufacturing, chemicals (14.9%), basic metals (13.4%), textiles (11.8%), rubber and plastic products (11.4%), and electrical equipment (11.0%) recorded particularly high cumulative inflation.

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- **Agricultural terms of trade worsened in Oct'26, with the contraction widening to 4.9% from 2.4% in Sep'26.** While agricultural output price inflation remained broadly stable at 9.1% (vs. 8.7% in Sep'26), input price inflation accelerated sharply to 14.7% in Oct'26 (vs. 11.3% in Sep'26), indicating rising cost pressures and a squeeze on farm profitability. This could weigh on farm incomes and rural purchasing power, particularly if elevated fertilizer, fuel, and other input costs persist.
- **Output Producer Price Inflation (OPPI) accelerated to 12.1% YoY in Oct'26 vs. 11.4% in Sep'26**, indicating a broad-based increase in producer selling prices. Inflation increased in mining and quarrying (22.3% in Oct'26 vs. 21.3% in Sep'26), manufactured products (12.9% in Oct'26 vs. 12.6% in Sep'26), and agriculture, forestry, and fishing (8.7% in Oct'26 vs. 8.5% in Sep'26). Electricity prices also registered a sharp turnaround, with inflation rising to 8.2% in Oct'26 vs. -0.3% in Sep'26. **Output price inflation remained elevated across several key manufacturing industries in Oct'26, such as** basic metals, chemicals, textiles, rubber and plastic products, and coke and refined petroleum products. **Overall, the OPPI data indicates persistent selling-price pressures in commodity-intensive manufacturing segments, particularly petroleum products, basic metals, and chemicals, broadly mirroring the elevated price pressures captured in WPI.**
- **Input Producer Price Inflation (IPPI) for the manufacturing sector accelerated to 2.0% MoM in Oct'26 vs. 1.0% in Sep'26, indicating a further intensification of manufacturing input cost pressures.** The increase was led by a sharp 8.9% MoM rise in coke and refined petroleum products in Oct'26 vs. 1.0% in Sep'26. Input prices also increased in other manufacturing (3.2% in Oct'26 vs. -0.7% in Sep'26), machinery and equipment (2.1% in Oct'26 vs. -0.7% in Sep'26), pharma (1.9% in Oct'26 vs. 1.1% in Sep'26), rubber and plastic products (1.8% in Oct'26 vs. 1.5% in Sep'26), basic metals (1.4% in Oct'26 vs. 1.4% in Sep'26), and food products (1.0% in Oct'26 vs. 0.6% in Sep'26). Chemical input price inflation moderated to 1.0% in Oct'26 vs. 2.3% in Sep'26, while electrical equipment prices rose at a slower pace (0.7% in Oct'26 vs. 1.3% in Sep'26).

Outlook: Inflation risks remain skewed to the upside

- The October WPI and OPPI data indicate that inflationary pressures remain broad-based, with higher energy and commodity prices feeding into both producer input costs and selling prices. **The acceleration in manufacturing IPPI points to a renewed build-up in cost pressures, while the widening gap between agricultural output and input price inflation signals a further squeeze on farm profitability.** These pressures are also becoming visible in corporate earnings. 2QFY27 results indicate that raw material costs remain elevated as a share of sales, with downstream manufacturers and consumer-facing companies facing margin pressures due to incomplete cost pass-through. In contrast, commodity producers have benefited from higher realizations, highlighting the uneven impact of inflation across sectors.
- We estimate **FY27 nominal GDP growth at 13.5% and real GDP growth at 7.2%**, indicating that economic activity is likely to remain resilient despite mounting cost pressures. However, the key risk is that persistent producer price inflation could increasingly spill over into retail prices, particularly as headline CPI has

breached the RBI's upper tolerance threshold in Oct'26 at 6.1% YoY and core inflation has also shown signs of broadening. The RBI has already raised the repo rate by 25bp to 5.50% and shifted its stance to calibrated tightening. With inflation risks elevated and the possibility of second-round effects increasing, we expect a further **75bp of rate hikes over the December, February, and April policy meetings, in increments of 25bp each**, taking the cumulative rate hike cycle to 100bp.

- **The inflation outlook will remain contingent on global crude oil and commodity prices, exchange-rate movements, domestic food supply conditions, and the extent of corporate price pass-through**. While resilient growth provides the RBI with room to maintain a tighter monetary policy stance, higher borrowing costs alongside sustained input-cost pressures could eventually weigh on consumption, investment, and corporate profitability. The critical challenge will be to contain the persistence of inflation without materially undermining the growth momentum.

Exhibit 1: WPI grew 12.3% YoY in Oct'26 vs. 11.4% in Sep'26

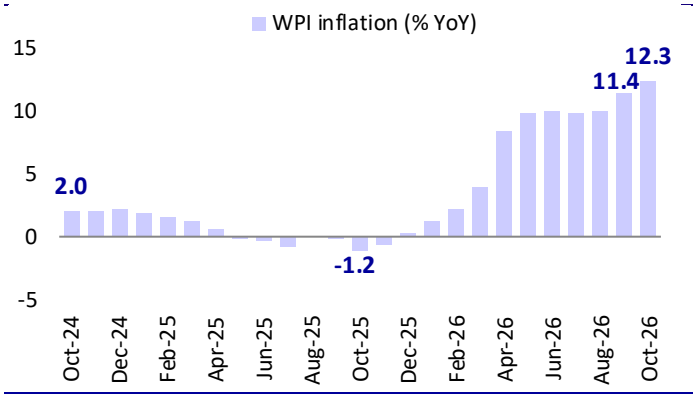


Exhibit 2: Fuel & power inflation grew 32.8% YoY in Oct'26

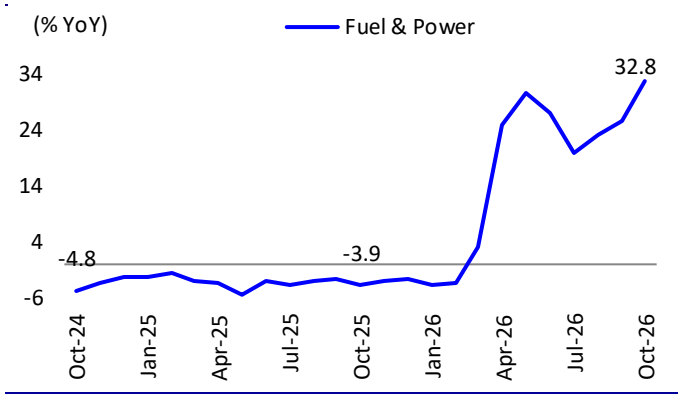


Exhibit 3: WPI less food grew 13.7% in Oct'26

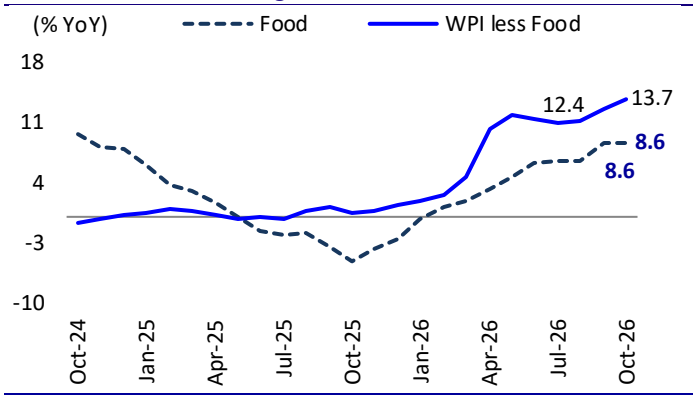


Exhibit 4: Manufacturing products' inflation moderated to 9.5% in Oct'26 from 9.8% in Sep'26

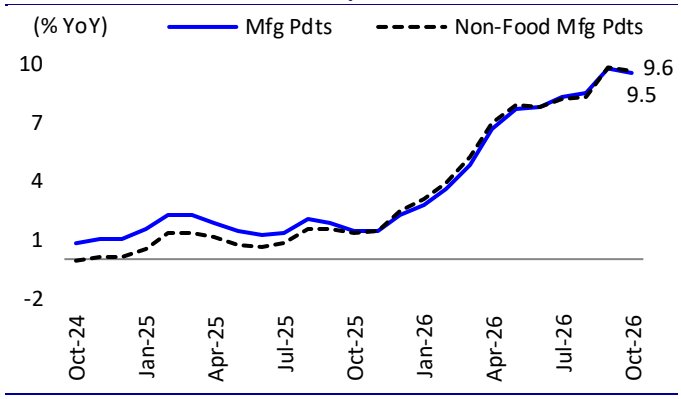
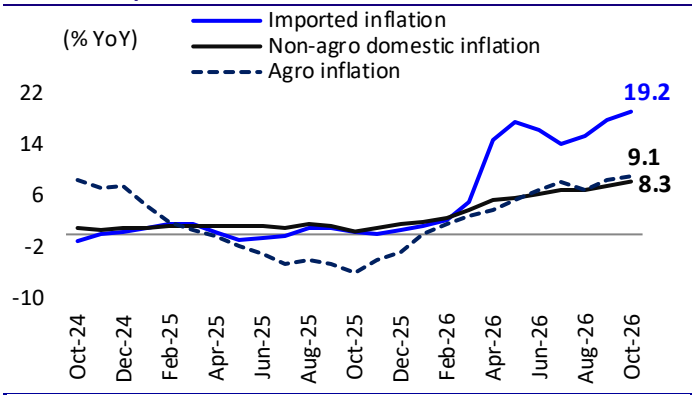
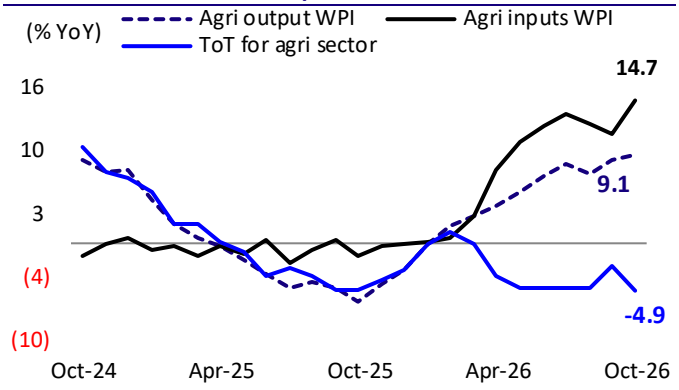


Exhibit 5: Imported inflation edged up to 19.2% in Oct'26 vs. 17.8% in Sep'26



*Constituting ~41.8% weightage in the WPI basket
**Constituting ~38.8% weightage in the WPI basket
@Constituting ~19.4% weightage in the WPI basket

Exhibit 6: Agri terms of trade contracted 4.9% in Oct'26 vs. a contraction of 2.4% in Sep'26



Source: Office of Economic Adviser, MOFSL

Details:

Fuel inflation accelerates to 32.8% YoY

- Inflation in the Fuel and Power category increased sharply to 32.8% YoY in Oct'26 from 25.9% in Sep'26, reflecting a significant intensification of energy-related price pressures.
  - **Crude petroleum and natural gas inflation accelerated to 70.8% from 57.3%,** representing the sharpest increase among the major fuel components.
  - **Mineral oils inflation increased to 45.6% from 40.0%,** indicating sustained pressure across petroleum-related products.
  - **Coal and lignite inflation rose to 10.5% from 9.3%,** suggesting that price pressures are also broadening across conventional energy sources.
  - **Electricity inflation turned positive at 8.1% in Oct'26 compared with deflation of 0.4% in Sep'26,** adding another source of pressure to the fuel and power basket.
- The rise in energy prices has implications beyond the direct contribution of fuel and power to WPI inflation. **Higher energy costs can increase transportation and logistics expenses, raise the cost of operating industrial facilities, and feed into the prices of energy-intensive intermediate goods.** The resulting pressure on production costs may be particularly significant for sectors with limited pricing power or high dependence on imported energy.
- **The outlook for fuel inflation remains sensitive to global crude oil prices and geopolitical developments.** If energy prices remain elevated, the risk of second-round effects through manufacturing costs and distribution expenses will increase. Conversely, a sustained moderation in global energy prices would help ease one of the principal sources of wholesale inflation.

Manufacturing inflation remains elevated despite marginal moderation

- Manufactured Products' inflation moderated marginally to 9.5% YoY in Oct'26 from 9.8% in Sep'26. However, the moderation in the headline number masks continued acceleration in several important industrial categories. Chemicals inflation increased to 17.5% in Oct'26 from 16.7% in Sep'26, while basic metals inflation rose to 17.2% from 17.0%. Rubber and plastic products inflation

accelerated to 13.9% from 13.5%, and fabricated metal products inflation increased to 7.7% from 7.5%.

- Inflation remained elevated in textiles at 13.7%, although it moderated marginally from 13.9% in Sep'26. Electrical equipment inflation eased to 10.4% from 11.9%, while food products inflation moderated to 9.2% from 9.4%. Inflation in motor vehicles also moderated marginally to 4.4% from 4.5%.
- The acceleration in basic metals and chemicals is particularly significant given their role as intermediate inputs across several manufacturing industries. Higher prices of these commodities can increase production costs for automobiles, machinery, construction materials, electrical equipment, and other downstream industries. The persistence of double-digit inflation across several intermediate goods categories raises the possibility of margin contraction or further price increases, depending on demand conditions and manufacturers' pricing power.
- On a cumulative basis, manufactured product inflation increased to 8.4% during Apr-Oct FY27 from 1.5% in the corresponding period of FY26. Price pressures intensified across chemicals (14.9% vs. -0.6%), basic metals (13.4% vs. -1.3%), textiles (11.8% vs. -0.3%), rubber and plastic products (11.4% vs. -0.1%), and electrical equipment (11.0% vs. 1.9%).

Exhibit 7: Manufacturing sectors: Apr-Oct FY27 (YoY %) vs Apr-Oct FY26 (YoY %)

Manufacturing Sector	Apr–Sep FY26 (%)	Apr–Sep FY27 (%)	Acceleration (pp)
Chemicals	-0.5	**14.9**	**15.4**
Basic Metals	-1.3	**13.4**	**14.7**
Electrical Equipment	1.8	**11.0**	**9.2**
Textiles	-0.3	**11.8**	**12.2**
Rubber & Plastics	-0.1	**11.5**	**11.6**
Wood Products	4.0	**7.0**	**2.9**
Food Products	4.4	**7.9**	**3.5**
Fabricated Metals	-0.1	**6.8**	**6.9**
Motor Vehicles	-0.3	**3.0**	**3.3**
Electronics	5.8	**0.3**	**-5.5**

Output producer prices remain elevated

- **OPPI, which broadly mirrors the WPI trend, accelerated to 12.1% YoY in Oct'26 from 11.4% in Sep'26, indicating a further increase in producer selling prices.** The acceleration was relatively broad-based, with inflation rising across agriculture, forestry and fishing (8.7% in Oct'26 vs. 8.5% in Sep'26), mining and quarrying (22.3% in Oct'26 vs. 21.3% in Sep'26) and manufactured products (12.9% in Oct'26 vs. 12.6% in Sep'26). Electricity prices also registered a sharp turnaround, with inflation increasing to 8.2% in Oct'26 from -0.3% in Sep'26. The broad-based increase suggests that higher commodity and energy costs are increasingly reflected in producer realizations.
- Within manufacturing, output price inflation remained elevated across several commodity-intensive industries. Inflation accelerated in coke and refined petroleum products (44.9% in Oct'26 vs. 39.6% in Sep'26), basic metals (18.2% in Oct'26 vs. 17.3% in Sep'26), chemicals (17.4% in Oct'26 vs. 16.7% in Sep'26), textiles (16.5% in Oct'26 vs. 16.1% in Sep'26), and rubber and plastic products (14.5% in Oct'26 vs. 14.1% in Sep'26).
- In contrast, inflation moderated in electrical equipment (7.6% in Oct'26 vs. 8.1% in Sep'26), computer, electronic and optical products (3.3% in Oct'26 vs. 4.0% in Sep'26), machinery and equipment (2.8% in Oct'26 vs. 2.9% in Sep'26), motor

vehicles (3.8% in Oct'26 vs. 4.2% in Sep'26), and other manufacturing (10.9% in Oct'26 vs. 13.3% in Sep'26). Food products' inflation was broadly stable (9.4% in Oct'26 vs. 9.5% in Sep'26).

- Overall, the OPPI data points to persistent selling-price pressures in commodity-intensive manufacturing segments, broadly consistent with the trends captured by WPI.

Exhibit 8: Output Producer Price Index (OPPI) – Major Groups (YoY %)

Major Group	Weight	Aug'26	Sep'26	Oct'26
All Commodities	**100.0**	**9.7**	**11.4**	**12.1**
Agriculture, Forestry & Fishing	22.2	6.5	8.5	8.7
Mining & Quarrying	3.4	15.1	21.3	22.3
Manufactured Products	69.9	11.1	12.6	12.9
Electricity	4.5	-1.2	-0.3	8.2

Exhibit 9: Key manufacturing industries – Output producer price inflation (YoY %)

Industry	Weight	Aug'26	Sep'26	Oct'26
Manufacture of Food Products	8.5	9.2	9.5	9.4
Manufacture of Textiles	4.4	14.1	16.1	16.5
Manufacture of Coke & Refined Petroleum Products	7.1	37.9	39.6	44.9
Manufacture of Chemicals & Chemical Products	5.7	14.3	16.7	17.4
Manufacture of Rubber & Plastic Products	2.6	11.5	14.1	14.5
Manufacture of Basic Metals	7.5	13.0	17.3	18.2
Manufacture of Electrical Equipment	3.8	7.3	8.1	7.6
Manufacture of Computer, Electronic & Optical Products	1.8	-3.6	4.0	3.3
Manufacture of Machinery & Equipment	2.5	2.4	2.9	2.8
Manufacture of Motor Vehicles	4.4	3.4	4.2	3.8
Other Manufacturing	6.8	12.6	13.3	10.9

Input producer prices rise 2% MoM in Sep'26, led by petroleum products

- **IPPI for the manufacturing sector accelerated to 2.0% MoM in Oct'26 from 1.0% in Sep'26, indicating a renewed intensification of manufacturing input cost pressures.** The increase was led by a sharp rise in coke and refined petroleum products (8.9% in Oct'26 vs. 1.0% in Sep'26). Input prices also increased in other manufacturing (3.2% in Oct'26 vs. -0.7% in Sep'26), machinery and equipment (2.1% in Oct'26 vs. -0.7% in Sep'26), pharmaceuticals

(1.9% in Oct'26 vs. 1.1% in Sep'26), rubber and plastic products (1.8% in Oct'26 vs. 1.5% in Sep'26), and basic metals (1.4% in Oct'26 vs. 1.4% in Sep'26).

- Food product input prices also rose at a faster pace (1.0% in Oct'26 vs. 0.6% in Sep'26). In contrast, input price inflation moderated in chemicals (1.0% in Oct'26 vs. 2.3% in Sep'26) and electrical equipment (0.7% in Oct'26 vs. 1.3% in Sep'26).
- The sharp increase in petroleum-related input costs is particularly noteworthy, given the widespread use of energy and petroleum derivatives across manufacturing supply chains. Higher costs of metals, chemicals, plastics and machinery-related inputs further indicate that cost pressures are not confined to a single industry. This could weigh on manufacturers' operating margins, particularly in sectors with limited pricing power or weak demand conditions. The extent of margin contraction will depend on the ability of companies to pass on higher input costs to consumers. The IPPI series remains a trial index, and its monthly movements should therefore be interpreted as an indication of emerging input-cost trends rather than a definitive measure of economy-wide input inflation.

Exhibit 10: Input Producer Price Index (IPPI): Major manufacturing sectors (MoM %)

Industry Group	Weight	Aug'26	Sep'26	Oct'26
Manufacturing Sector	**100.0**	**-0.4**	**1.0**	**2.0**
Manufacture of Food Products	14.8	1.0	0.6	1.0
Manufacture of Coke & Refined Petroleum Products	12.3	-6.8	1.0	8.9
Manufacture of Basic Metals	11.3	0.4	1.4	1.4
Manufacture of Chemicals & Chemical Products	8.0	0.8	2.3	1.0
Manufacture of Textiles	5.9	0.1	0.8	0.9
Manufacture of Machinery & Equipment n.e.c.	5.1	0.0	-0.7	2.1
Manufacture of Electrical Equipment	3.6	0.9	1.3	0.7
Manufacture of Rubber & Plastic Products	3.4	1.7	1.5	1.8
Manufacture of Computer, Electronic & Optical Products	2.2	-1.0	0.1	0.5
Manufacture of Basic Pharmaceutical Products	2.4	1.0	1.1	1.9
Other Manufacturing	3.8	-1.0	-0.7	3.2

Outlook: Inflation risks remain skewed to the upside

- The October WPI and OPPI data indicate that inflationary pressures remain broad-based, with higher energy and commodity prices feeding into both producer input costs and selling prices. **The acceleration in manufacturing IPPI points to a renewed build-up in cost pressures, while the widening gap between agricultural output and input price inflation signals a further squeeze**

on farm profitability. These pressures are also becoming visible in corporate earnings. 2QFY27 results indicate that raw material costs remain elevated as a share of sales, with downstream manufacturers and consumer-facing companies facing margin pressures due to incomplete cost pass-through. In contrast, commodity producers have benefited from higher realizations, highlighting the uneven impact of inflation across sectors.

- **We estimate FY27 nominal GDP growth at 13.5% and real GDP growth at 7.2%**, indicating that economic activity is likely to remain resilient despite mounting cost pressures. **However, the key risk is that persistent producer price inflation could increasingly spill over into retail prices, particularly as headline CPI has breached the RBI's upper tolerance threshold in Oct'26 at 6.1% YoY and core inflation has also shown signs of broadening**. The RBI has already raised the repo rate by 25bp to 5.50% and shifted its stance to calibrated tightening. With inflation risks elevated and the possibility of second-round effects increasing, we expect a further **75bp of rate hikes over the December, February, and April policy meetings, in increments of 25bp each, taking the cumulative rate hike cycle to 100bp.**
- The inflation outlook will remain contingent on global crude oil and commodity prices, exchange-rate movements, domestic food supply conditions, and the extent of corporate price pass-through. While resilient growth provides the RBI with room to maintain a tighter monetary policy stance, higher borrowing costs alongside sustained input-cost pressures could eventually weigh on consumption, investment, and corporate profitability. The critical challenge will be to contain the persistence of inflation without materially undermining the growth momentum.

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UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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