CPI Inflation

Food deflation-led low; Oct to see sub-1% CPI

Economic Update ▸ CPI Inflation ▸ **October 13, 2025**

Persisting food price deflation continues to dominate disinflationary trends, with September headline inflation at a 98-month low of 1.54%. However, core CPI rose to 4.7% (led by gold); also, core ex-gold saw a mild uptick. October inflation is currently tracking below 1% (0.4-0.5%), largely due to the GST rejig impact (and continued food price easing). Assuming >70% of the GST cuts will be passed-through, we see FY26E headline CPI at 2-2.2% (RBI: 2.6%), with core (ex-intoxicants) at 4%. With further downside to the RBI's FY26E CPI forecast, this could burnish the case for a December rate cut (and beyond). Amid consistent inflation undershoots vs estimates, we reassert that RBI's focus on the 1-year-ahead inflation seems misplaced. Macro resets in the form of consistent inflation undershoots and down-trending core inflation, followed by weaker sequential 2H demand and sub-8% nominal GDP growth in FY26E call for front-loaded rather than back-loaded policy support.

Headline inflation declines to multi-year low, as food price deflation intensifies

Headline CPI inflation declined to a 98-month low of 1.54% in Sep-25, in line with estimates (Emkay: 1.55%, prior: 2.07%). A favorable base effect and sequential easing in food prices (-0.5% MoM; -2.3% YoY) were the key drivers. Headline CPI rose 0.1% MoM (0.5% prior) – the lowest in six months. Within food, vegetable prices declined sequentially (-3% MoM; -21% YoY) for the first time since April, led by tomatoes (-22% MoM), while fruit prices also fell (-2% MoM; 10% YoY). Other significant movers include eggs (1% MoM) and meat & fish (1% MoM).

Core inflation moves higher as gold surges; ex-gold core also ticks up

However, core inflation (ex-intoxicants) rose to 4.7% (vs 4.3% prior), with monthly momentum rising to 0.7% MoM (vs 0.4% prior). Higher gold prices (8% MoM; 47% YoY) were once again the primary driver of this increase, with the Personal Care category resultantly seeing 3.5% MoM growth (vs 1% prior). Nevertheless, Core CPI ex-gold also saw a mild uptick, to 3.9% (vs 3.8% earlier), while monthly momentum stayed benign (0.2%). Housing (0.8% MoM) was the largest contributor here.

October CPI to be <1%, led by GST rejig; FY26E at 2-2.2%

Currently, October headline CPI is tracking at 0.4-0.5%, mainly due to the GST rejig impact, along with continued easing in most food categories (albeit there may be some upside risk here due to crop damage-led food price spikes). While actual 2Q CPI at 1.74% was only marginally lower than the RBI's forecast (1.8%), we envisage further downside risk of ~30-40bps to RBI's FY26 headline CPI forecast of 2.6% – after having been revised down for the fourth successive meeting in the October MPC. We estimate the impact of GST rationalization on headline CPI to be as high as 80-100bps on an annualized basis, depending on the price elasticity of demand of various products and pass-through to end-consumers. Nearly 85-90% of the net disinflation may come from core CPI, followed by F&B. Assuming ~70% of GST cuts would be passed on, we estimate FY26E headline CPI at 2-2.2%, with core CPI at 4%. FY27E could see headline CPI rising to ~4% (as the base effect turns unfavorable), while core CPI could remain below 4.5%.

Heavy disinflationary bias and slowing growth to restart the easing cycle

We note that the FY26E headline CPI ex-GST rejig is ~2.3%, thus implying downside for RBI's forecasts even before accounting for the GST impact. The RBI's FY26 headline CPI forecast of 2.6% hence carrying further downside risk could burnish the case for a December rate-cut (and beyond, depending on how tariff effects evolve). Given the repeated undershoots vs forecasts in FY26, we believe RBI focus on one-year-ahead expected inflation looks increasingly misplaced in a fast-changing environment. The macro resets in the form of consistent inflation undershoots and down-trending core inflation, followed by weaker sequential demand in 2HFY26 and <8% nominal GDP growth in FY26E call for frontloaded rather than back-loaded policy support. The timing and magnitude of rate cuts ahead will therefore be crucial.

Madhavi Arora
madhavi.arora@emkayglobal.com
+91-22-66121341

Harshal Patel
harshal.patel@emkayglobal.com
+91-22-66242434

Exhibit 1: Breakdown of CPI and its components

CPI YoY (%)	Wt	Sep-25	Aug-25	Jul-25	Jun-25	May-25	Sep-24
Food & Beverages	45.9	(1.4)	0.0	(0.8)	(0.2)	1.5	8.4
Pan, Tobacco & Intoxicants	2.4	2.7	2.5	2.4	2.4	2.4	2.5
Fuel & Light	6.8	2.0	2.3	2.7	2.6	2.8	(1.3)
Housing	10.1	4.0	3.1	3.2	3.2	3.2	2.7
Clothing, bedding, footwear	6.5	2.3	2.3	2.5	2.6	2.7	2.7
Miscellaneous	28.3	5.4	5.0	5.0	5.5	5.2	4.0
CPI	**100.0**	**1.5**	**2.1**	**1.6**	**2.1**	**2.8**	**5.5**
Core CPI (ex intoxicants)	**44.9**	**4.7**	**4.3**	**4.2**	**4.5**	**4.3**	**3.6**
CPI ex-vegetables	93.1	3.6	3.7	3.6	3.8	4.0	3.4

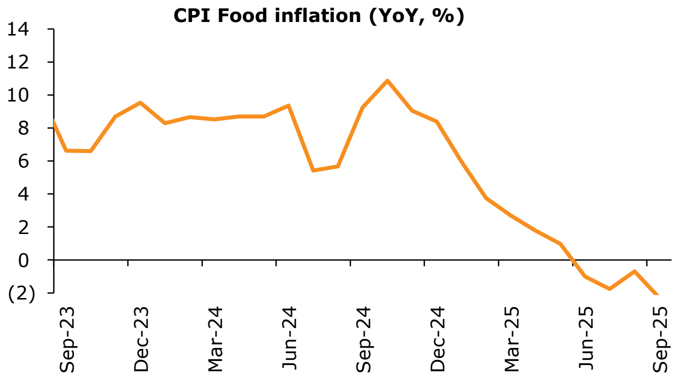
Source: CEIC, Emkay Research

Exhibit 2: Breakdown of food items in CPI

CPI Food (YoY, %)	Wt	Sep-25	Aug-25	Jul-25	Jun-25	May-25	Sep-24
Food	39.1	(2.3)	(0.6)	(1.8)	(1.0)	1.0	9.2
Cereals	9.7	2.1	2.7	3.0	3.7	4.8	6.8
Meat & Fish	3.6	2.1	1.5	(0.6)	(1.6)	(0.4)	2.6
Eggs	0.4	2.8	3.1	2.2	2.6	0.6	6.4
Milk & products	6.6	2.5	2.6	2.7	2.8	3.1	3.0
Oils & Fats	3.6	18.3	21.2	19.2	17.8	17.9	2.5
Fruits	2.9	9.9	11.7	14.5	12.6	12.7	7.6
Vegetables	6.0	(21.4)	(15.9)	(20.7)	(18.9)	(13.7)	36.0
Pulses	2.4	(15.3)	(14.5)	(13.8)	(11.8)	(8.2)	9.8
Sugar	1.4	4.0	3.7	3.3	3.5	4.2	3.5
Spices	2.5	(3.1)	(3.2)	(3.1)	(3.0)	(2.8)	(6.1)

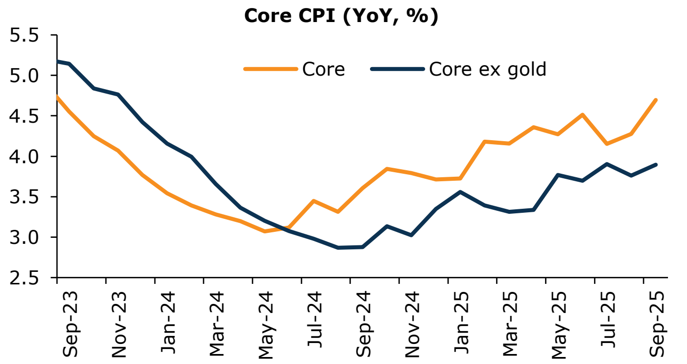
Source: CEIC, Emkay Research

Exhibit 3: Food price deflation intensified in Sep-25, led by vegetables, pulses, and spices



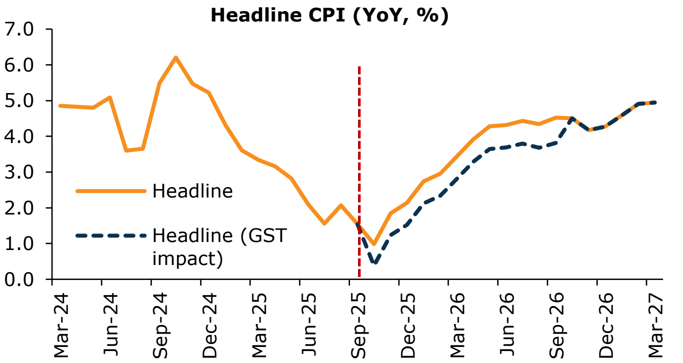
Source: CEIC, Emkay Research

Exhibit 4: Core CPI increase led by gold price surge, although ex-gold core CPI also ticked up



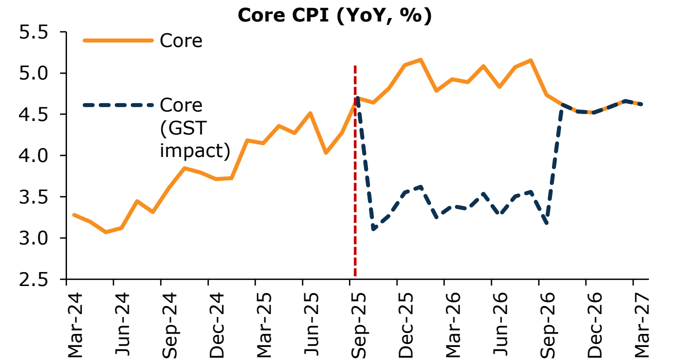
Source: CEIC, Emkay Research

Exhibit 5: The GST rejig impact will drive down headline CPI by ~60-70bps over the next 12 months…



Source: CEIC, Emkay Research estimates

Exhibit 6: …while core CPI could drop by ~120-150bps over the same period



Source: CEIC, Emkay Research estimates

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Emkay Global Financial Services Ltd.
CIN - L67120MH1995PLC084899
7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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SESHADRI KUMAR SEN

Digitally signed by SESHADRI KUMAR SEN
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