Choice
Institutional Equities

Inflation Pulse

AUGUST 2026

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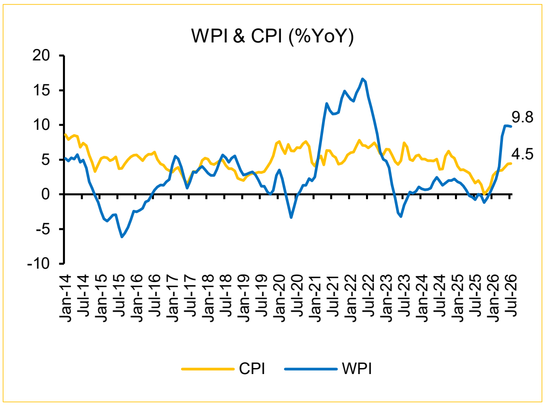
Price Pressures Broaden as Second-Round Effects Emerge

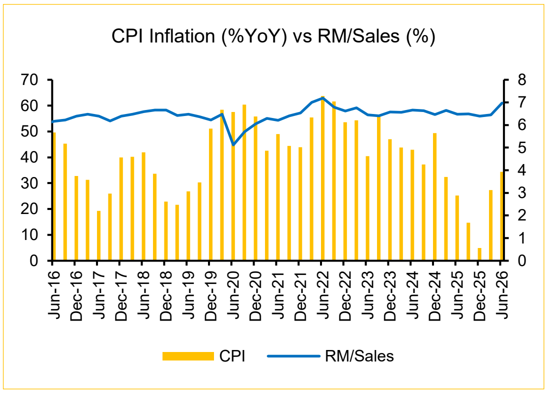
August 14, 2026

CPI rises modestly by 6bps to 4.45% YoY from Jun'26, while slight moderation in WPI by 11bps to 9.78% in Jul'26



Source: CMIE, Choice Institutional Equities

RM/Sales for Non-Finance Companies surges, pushing CPI inflation higher



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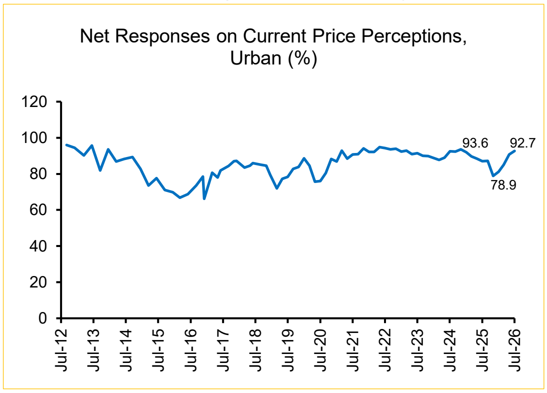
Increasing number of respondents recorded a rise in prices at 92.7%, much higher compared to a year back



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Key Highlights -

- ***Headline CPI rose to 4.4% in July 2026, up 6 bps from June and sharply higher than 1.6% a year ago; the disinflation phase has clearly reversed.***
- ***FMCG price hikes have only begun to bite, as just 30% of raw material cost increases have been passed through so far, with another 2–5% hike flagged for the current quarter.***
- ***Real incomes are under strain, especially in rural areas where income perception worsened to -8.7% from -2.2% in November 2025.***
- ***Households expect prices to keep rising, creating a self-reinforcing inflation feedback loop.***
- ***Risks are tilted above the RBI's 5.9% peak forecast and we see FY27 inflation at 5.2--5.6%, with volatile crude and weak monsoon dispersion as key upside risks.***

Headline CPI inflation edged up to 4.44% YoY in July 2026, a modest rise of 6 bps from June 2026 and a substantial increase from 1.6% YoY in July 2025. Rural inflation rose by 10 bps to 4.84%, outpacing the 3-bps increase in urban inflation to 3.96% and continues to substantially exceed urban levels. Meanwhile, wholesale inflation (WPI) moderated slightly by 11 bps to 9.78% in July 2026.

What's Driving the Pressure

- **Persistently rising food inflation** at 5.5% YoY in July 2026 from 2.1% in Jan 2026. Protein segments, such as Meat (15.3%) and milk (4.8%) have risen significantly. This reflects a price hike of INR 2/litre undertaken by both, Amul and Mother Dairy, across India in May. Additionally, from mid-August, major cooperative and private dairies again increased milk prices by Rs 2/litre. This would further drive protein inflation higher as fuel, packaging and procurement cost remain elevated.
- **Hikes undertaken by FMCG companies reflect in the readymade food inflation -** Inflation in the ready-made food segment has been rising persistently and reached an all-time high of 9% YoY in July 2026 in the new series. This is due to the price hikes taken by the FMCG companies in Q1, as input cost pressure from global commodity shocks and domestic fuel hikes feed through.
- **Commercial LPG cut may provide some support to inflation in the restaurant and hotel services** - Inflation in the restaurant and accommodation services has also edged upwards to an all-time high of 7.7% YoY in July 2026 due to elevated LPG prices and food inflation. However, the recent reduction in commercial LPG prices in July and August by approx. INR 390/cylinder will provide some breathing room, going forward.
- **Transport inflation continued to inch upwards** to 4.4% vs no growth in January 2026, reflecting the cumulative effect of elevated fuel and vehicle prices.
- Moderation in wholesale inflation (WPI) was driven by slowing down of inflation in petroleum & natural gas and minerals. However, the downside was limited by surging wholesale inflation in segments, such as manufactured products, electricity and broader non-food articles. This indicates that second-round effects of higher commodity prices are beginning to appear more broadly.

Households Brace up for Higher Prices

In the recent RBI's Consumer Confidence Survey (Rural & Urban), both highlight that households are expecting prices to go up, going forward. Net responses (people expecting prices to increase minus people expecting prices to decrease) on current price perception for rural areas have been rising since November 2025: 90.5% in July 2026 from 87.4% in November 2025. Similarly, the net responses on current price perception in urban areas have been rising since November 2025: 92.7% in July 2026 from 78.9% in November 2025. This perception of rising prices is working as a feedback loop for rising inflation.

Real Incomes under Strain

This is having an impact on wages, especially in rural areas. Net responses on current income perception for rural areas worsened to -8.7% in July 2026 from -2.2% in November 2025. In urban areas, this remains in positive territory at 1.9% but has remained low since January 2024. Therefore, rising inflation would squeeze real income, reducing the disposable income of households.

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FMCG Price Hikes set to Feed Through

From the market standpoint, in the recent Q1 results, the FMCG companies have highlighted margin pressure concerns on the back of rising input cost due to commodity inflation and geopolitical uncertainty, along with weather-related risks. This has prompted leading FMCG makers to implement calibrated price hikes. The sector undertook an average hike of around 2–5% in Q1 and is going for shrinkflation by reducing grammage or selective pricing actions to protect margins. Additionally, until now, only 30% of the rise in RM cost has been passed through by taking price hikes, which is reflected in the margin pressure and there lies significant scope for undertaking further price hikes. Several firms are inclined to undertake a further 2–5% price hike in the current quarter, thereby furthering headline inflation. Overall, consumer staples are benefiting from price hikes, but input costs are squeezing margins.

Outlook: Risks Tilted above RBI's Forecast

In the recent MPC, RBI forecast inflation to peak in 3Q at 5.9% and is expected to slow down, thereafter. Given the scenario where crude persistently remains volatile and the rainfall dispersion and intensity remain weak, CPI inflation may surpass RBI's forecast. Therefore, we continue to project inflation for FY27 to be around 5.2%–5.6%.

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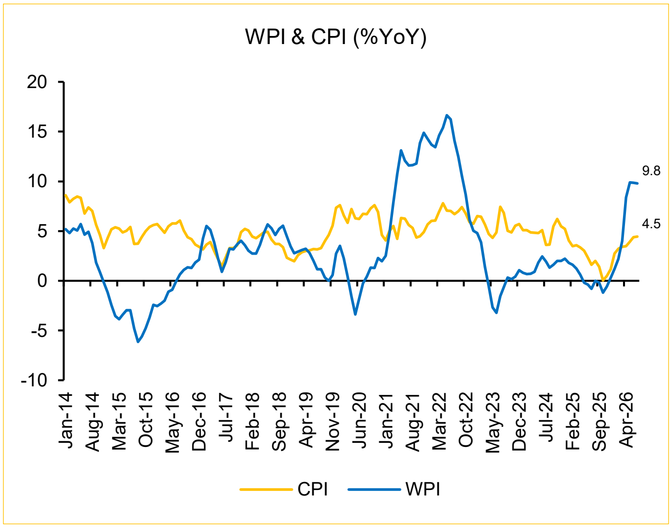

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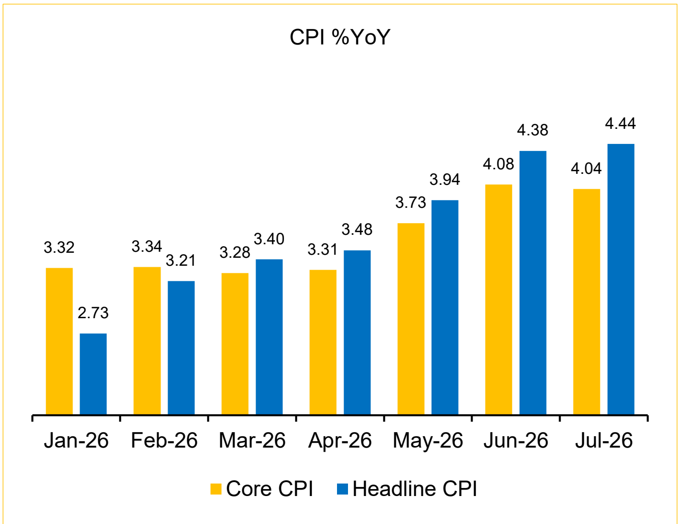
Slight moderation in core inflation because of base effect and slight uptick in headline CPI inflation



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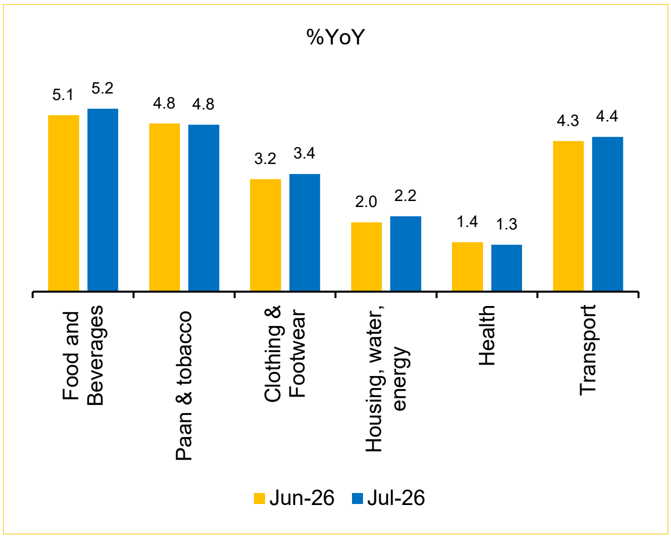
Food & Beverage inflation and transport inflation keep headline inflation elevated



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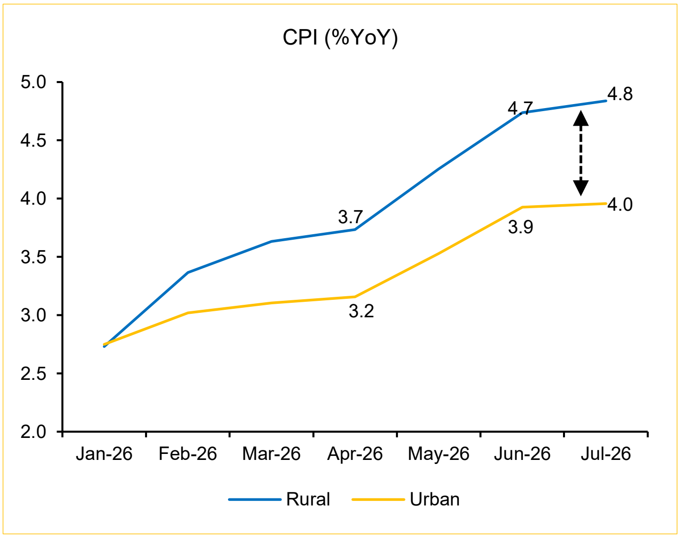
Gap between rural and urban inflation continues to widen



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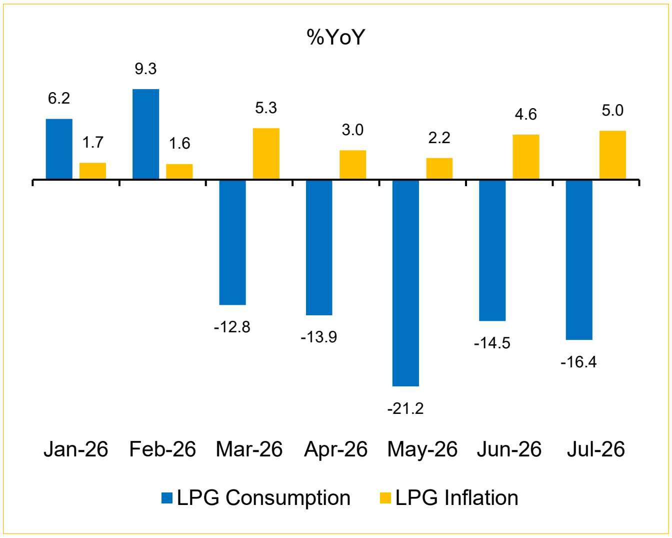
Price effect drives LPG market as consumption continues to contract amid limited relief in LPG prices



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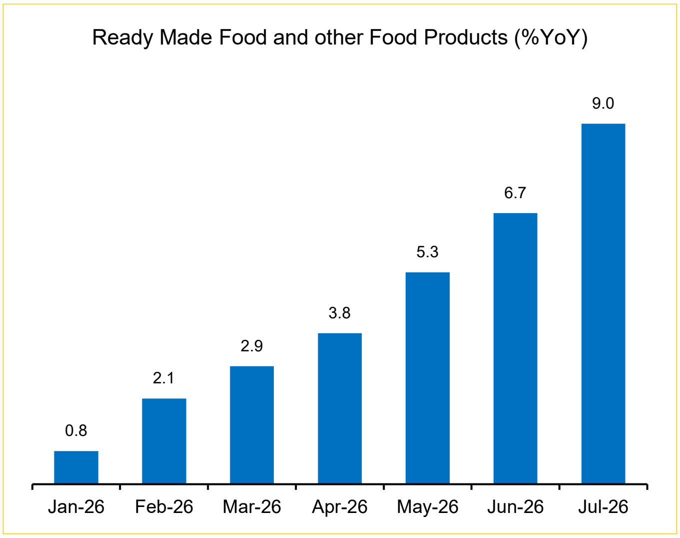
Inflation in ready-made food products surges, supporting the pricing power of FMCG sector



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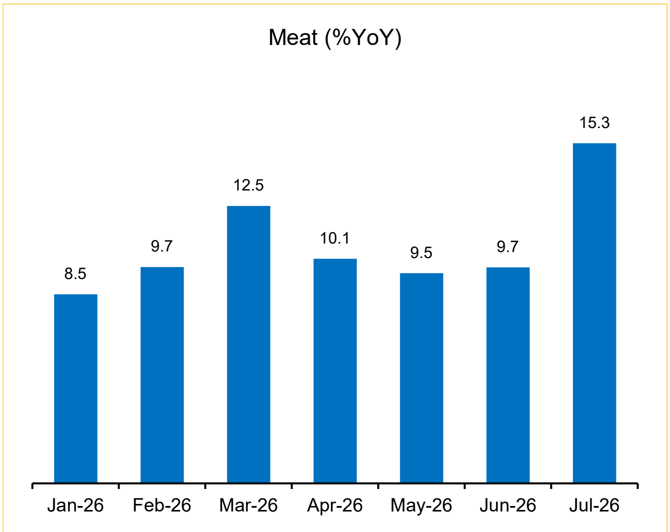
Surge in protein inflation: Meat inflation jumps to double digit amid rising dairy inflation as milk price goes up



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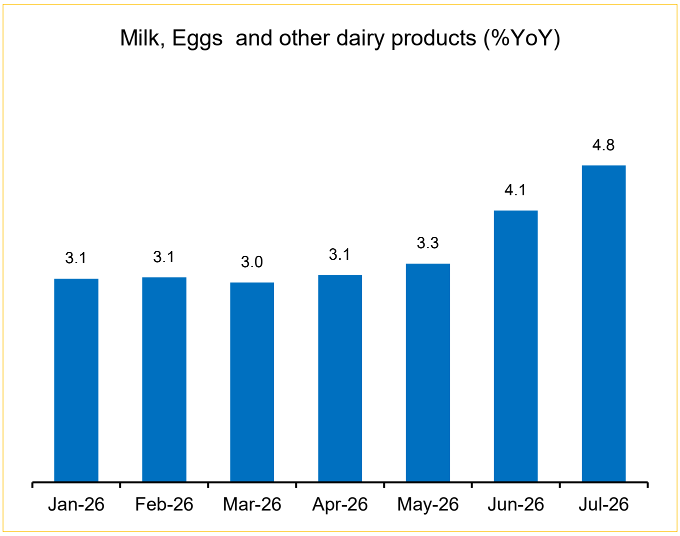

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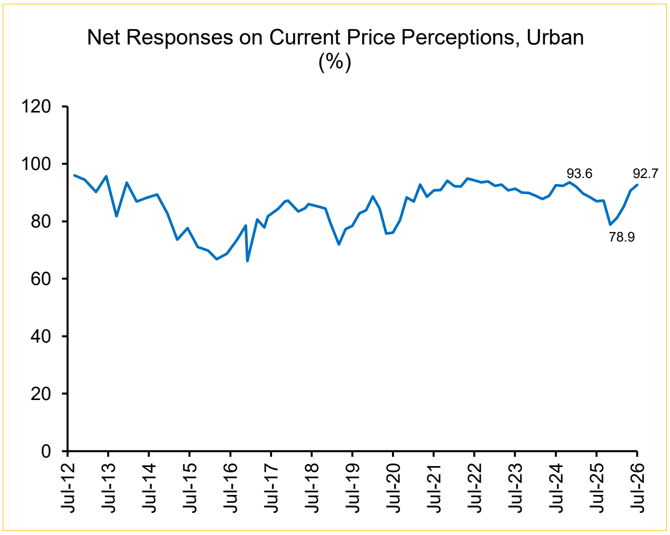
Increasing number of respondents recorded a rise in prices at 92.7%, significantly higher than a year ago



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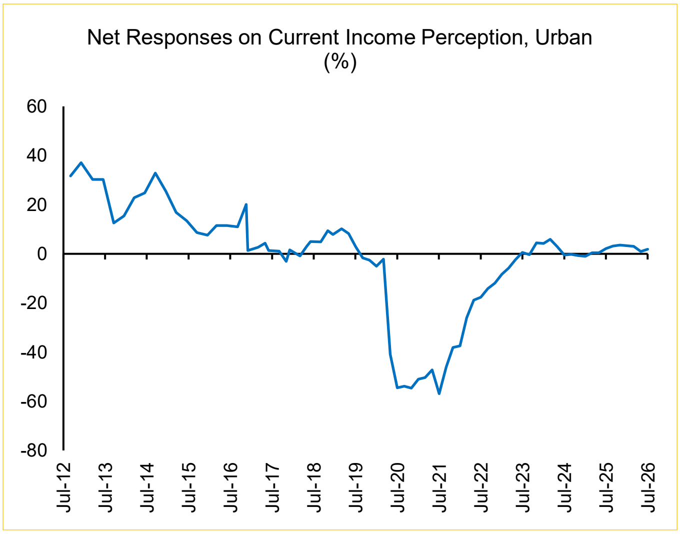
Urban HH continued to face muted income growth, a situation much weaker than in 2013-2016



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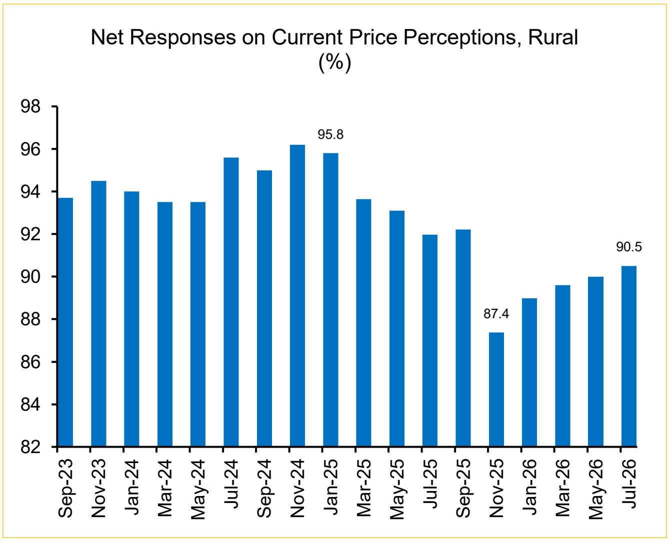
Current price perception in the rural areas worsens, reflected in rising rural inflation>urban



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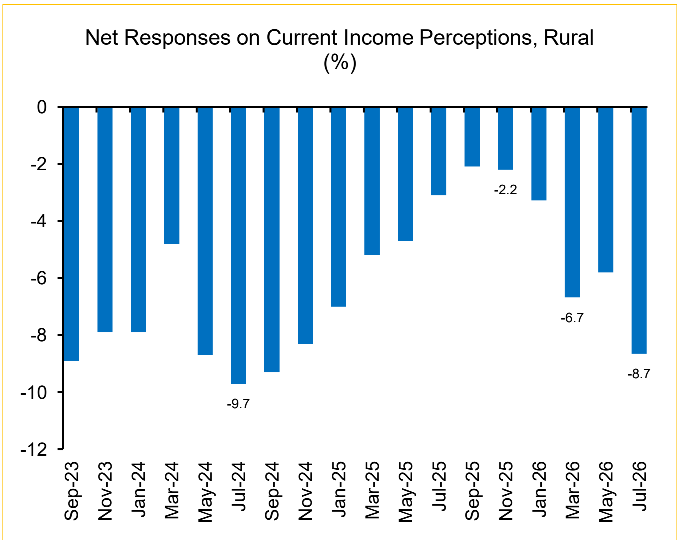
Increasing pessimism in rural households regarding income scenario, amid rising prices, is impacting disposable income



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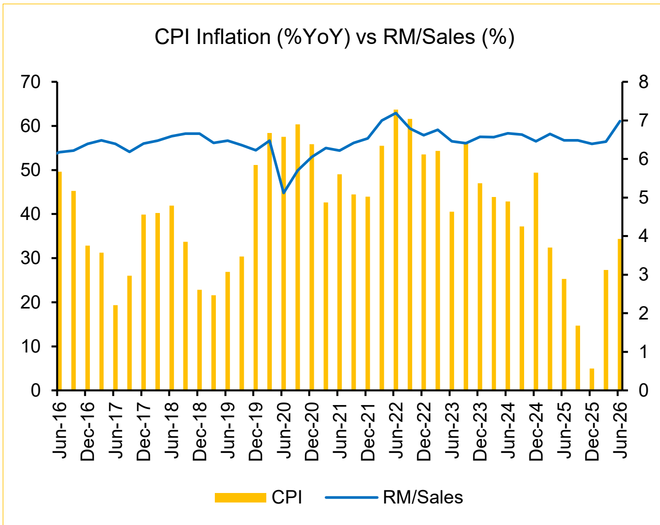

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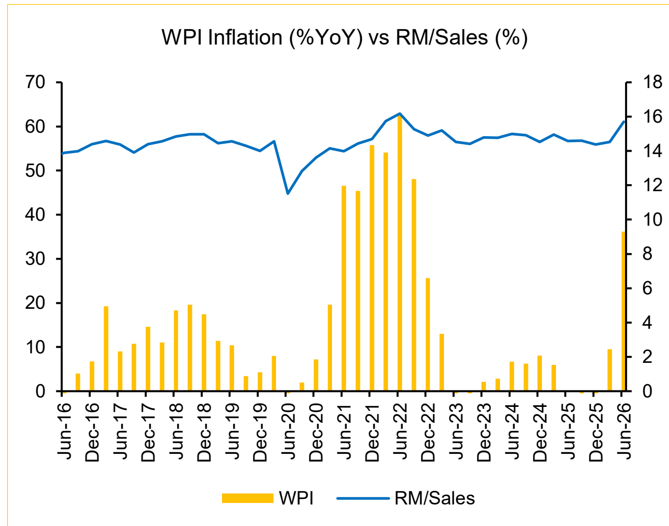
WPI inflation pushes RM/Sales higher for Non-Finance Companies, mimicking the post-COVID surge



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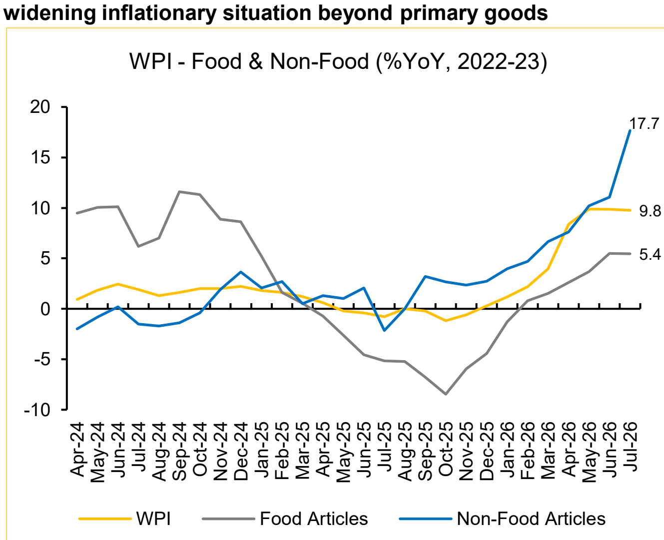
Diverging trend between food and non-food inflation indicates a widening inflationary situation beyond primary goods



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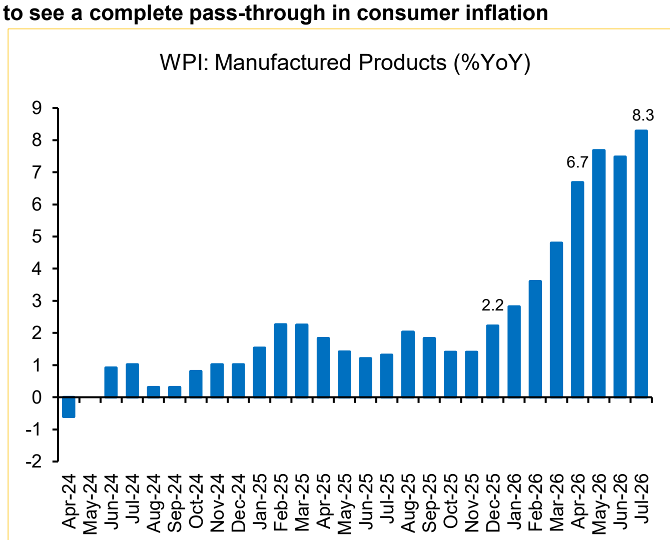
Surge in Wholesale Manufactured goods Inflation to 8.3% is yet to see a complete pass-through in consumer inflation



Source: CMIE, Choice Institutional Equities

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BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
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