

India CPI May'26: Broad-based inflation risks begin to emerge

- India's CPI inflation edged up to 3.9% YoY in May'26 from 3.5% in April, reflecting the impact of higher food and fuel prices. The increase was primarily driven by a rise in transport inflation following the phased petrol and diesel (petrol and diesel have 4.8% weightage in CPI) price hikes announced in May'26.
- Transport inflation rose to 1.8% in May'26 from 0% in Apr'26, while restaurant and accommodation services inflation accelerated to 5.7% in May'26 from 4.2% in Apr'26, reflecting the pass-through of higher commercial LPG prices. Inflation in personal care and effects also remained elevated at 18.5% in May'26, supported by continued strength in precious metals prices.
- Food inflation increased to 4.8% in May'26 from 4.2% in Apr'26, mainly led by vegetables and pulses. Vegetable and pulse inflation rose to 4.3% in May'26 from 2.3% in Apr'26, led by a sharp increase in tomato prices (48.4% YoY in May'26). Edible oil inflation remained elevated at 9.5% in May'26, while cereals (5.3% in May'26 vs. 3.8% in Apr'26), fruits (8.2% in May'26), milk, and ready-made food products also recorded higher inflation. Although domestic vegetable arrivals and reservoir levels remain comfortable, the rise in fuel costs could increase transportation and freight expenses, creating second-round effects on food prices in the coming months.
- Core inflation also showed signs of firming up. Headline core inflation excluding food and fuel increased to 3.9% in May'26 from 3.7% in Apr'26, while core inflation excluding gold, silver, and precious metals edged up to 2.2% in May'26 from 2.1% in Apr'26.
- Within core inflation, the primary drivers have been the transportation component and restaurant & accommodation services, reflecting the pass-through of higher fuel and commercial LPG prices. Beyond these categories, other demand-sensitive components have also shown signs of firming up. Clothing and footwear inflation edged up to 3.0% YoY in May'26 from 2.8% in Apr'26. Similarly, inflation in household equipment and routine household maintenance increased to 1.9% in May'26 from 1.6% in Apr'26. We believe that going forward, upside risks to core inflation will intensify, as firms have yet to fully pass on higher input costs to consumers.
- Overall, headline CPI continues to remain below the 4% mark; however, the composition of inflation indicates that underlying price pressures are widening. Food inflation has started to edge up, supported by rising prices of vegetables, pulses, and edible oils, while weather-related risks from heatwave conditions and the increasing probability of an El Niño event could further aggravate food price pressures. In addition, the recent domestic fuel price hikes have already begun feeding into transport and services inflation, raising the likelihood of broader second-round effects. The RBI has revised its FY27 CPI inflation forecast upward to 5.1% from 4.6% earlier.
- We believe that inflation risks are becoming increasingly broad-based. Rising food prices, fuel price pass-through, potential El Niño-related disruptions, and gradually strengthening core inflation suggest that price pressures are likely to intensify over FY27. Accordingly, we expect headline CPI inflation to average 5.7% in FY27.

Exhibit 1: Inflation increased to 3.9% in May'26 from 3.5% in Apr'26

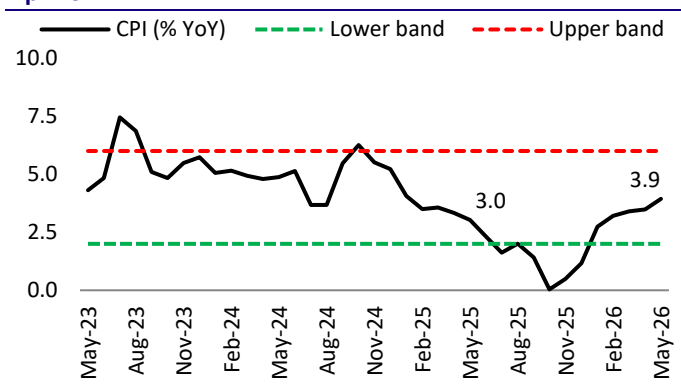
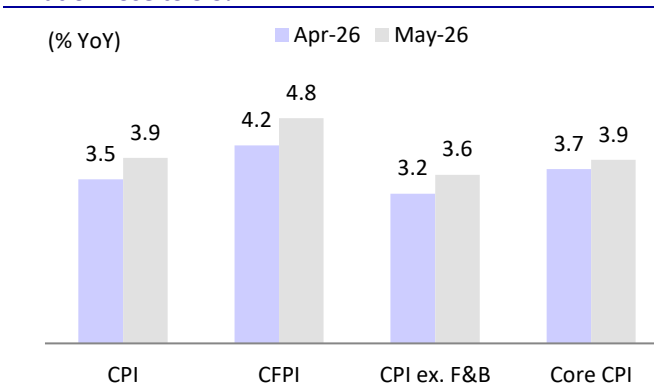


Exhibit 2: Food inflation increased to 4.8% in May'26; core inflation rose to 3.9%



Source: CEIC, MOSPI, MOFSL

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Exhibit 3: Division-wise inflation in May'26 (% YoY)

Category	Feb 2026	Mar 2026	Apr 2026	May 2026
Consumer Price Index	3.2	3.4	3.5	3.9
Consumer Food Price Index	3.5	3.9	4.2	4.8
Food & Beverages	3.4	3.7	4.0	4.5
Paan, Tobacco & Intoxicants	3.5	4.2	4.8	4.8
Clothing & Footwear	2.8	2.7	2.8	3.0
Housing, Water, Electricity, Gas & Other Fuels	1.5	2.0	1.7	1.7
Furnishings, Household Equipment & Routine HH Maintenance	1.4	1.4	1.6	1.9
Health	1.9	1.8	1.6	1.5
Transport	0.0	0.0	0.0	1.8
Information & Communication	0.2	0.3	0.5	0.3
Recreation, Sport & Culture	2.2	2.5	2.1	2.0
Education Services	3.3	3.3	3.1	3.0
Restaurants & Accommodation Services	2.7	2.9	4.2	5.7
Personal Care, Social Protection & Misc	19.7	18.6	17.7	18.5
Excluding Food & Beverages	3.1	3.2	3.2	3.6
Excluding Food & Beverages and Fuel & Light	3.7	3.7	3.7	3.9

Source: CEIC, MOSPI, MOFSL

Exhibit 4: Rural inflation was higher than urban inflation in May'26 (% YoY)

Division Name	Rural	Urban	Combined
Food and beverages	4.6	4.4	4.5
Paan, tobacco, and intoxicants	4.6	5.4	4.8
Clothing and footwear	3.5	2.2	3.0
Housing, water, electricity, gas, and other fuels	2.0	1.6	1.7
Furnishings, household equipment, and routine household maintenance	2.2	1.4	1.9
Health	1.4	1.6	1.5
Transport	1.8	1.7	1.8
Information and communication	0.4	0.2	0.3
Recreation, sport, and culture	2.2	1.7	2.0
Education services	2.8	3.1	3.0
Restaurants and accommodation services	5.5	6.0	5.7
Personal care, social protection, and miscellaneous goods and services	19.5	17.1	18.5
All India	4.3	3.5	3.9

Exhibit 5: Division-wise CPI weights (new structure comparison)

Division	Rural 2012	Rural 2024	Urban 2012	Urban 2024	Combined 2012	Combined 2024
Food and beverages	50.9	42.0	32.8	30.3	42.6	36.8
Paan, tobacco, and intoxicants	3.3	3.7	1.4	2.1	2.4	3.0
Clothing and footwear	7.4	7.1	5.6	5.5	6.5	6.4
Housing, water, electricity, gas, and other fuels	8.0	11.8	27.3	25.0	16.9	17.7
Furnishings, household equipment, and routine household maintenance	3.6	4.6	3.7	4.3	3.7	4.5
Health	6.8	6.8	4.8	5.3	5.9	6.1
Transport	5.6	8.6	7.1	9.0	6.4	8.8
Information and communication	2.8	3.6	3.9	3.6	3.3	3.6
Recreation, sport, and culture	1.5	1.4	1.6	1.7	1.5	1.5
Education Services	2.5	2.4	4.7	4.5	3.5	3.3
Restaurants and accommodation services	3.2	2.8	3.5	4.0	3.2	3.3
Personal care, social protection, and miscellaneous goods and services	4.4	5.2	3.6	4.9	4.0	5.0

Source: CEIC, MOSPI, MOFSL

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