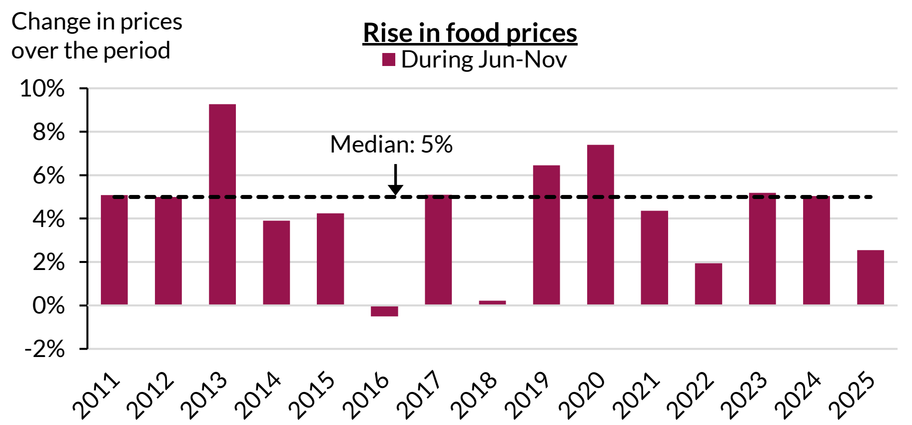
Economic Research | India

India inflation now above target, but policy pause still favoured

13 Jul 2026
Inflation
Monthly Tracker

Jun CPI surprised at 4.4% YoY (+20bps vs. consensus expectations), with both food and core inflation firming up. Core rose 35bps to 4.2%, led by transport, restaurant prices (amid LPG constraints), and household fuel prices (LPG, Kerosene). Demand-side measures are also rising but remain muted at 3.2%; supply-driven pressures and seasonal food trends pose upside risks. We expect underlying inflationary pressures to continue to inch upwards, though it is unlikely to breach 4% in the next few months. Thus, the MPC is likely to stay on hold for the next several months, and the markets have sharply repriced rate hike expectations for Aug MPC (24% now vs. 86% on 5-Jun).

Exhibit 1 - Southwest monsoon still weak; cumulative rainfall 18% below normal (so far)



Source: MoSPI, Axis Bank Research

Jun retail inflation jumps 45bps over May (Core: +35bp)

Headline inflation in June-26 jumped to 4.4% YoY vs 3.9% earlier (Fig 2) and was 20bps above expectations. The 45bps increase was led by higher food prices (Fig 5: 5.1% vs. 4.5% in May-26) and a 35bps rise in core inflation (4.2% YoY). Higher core was driven by higher transportation costs, rise in restaurants' prices (6.9% vs. 5.7% in May) as prices of commercial LPG remained elevated, and higher household fuel prices. Seasonal patterns show that food prices rise 5% (median) in the Jun-Nov period (FY26 an exception).

Demand led inflation measures suggest underlying price pressures growing <4%

While the underlying price pressure captured by core goods (ex-gold and silver) remain muted, core services inflation (3.1%) has been steadily climbing (Fig 3). Our preferred core indicator suggests that demand side inflation is at 3.2% and rising (Fig 4). We expect our demand side inflation measure to continue to rise for two reasons: the GST linked drop in goods prices would fade by Sep-26 and higher than median food inflation will pull median like inflation measures higher. It is when this measure breaches 4%, one needs to worry.

Despite upside risks to inflation vs. target, MPC likely to stay on hold in Aug-26

The MPC in June raised its FY27 inflation forecast by 50bps to 5.1% highlighting risks from higher food and energy prices (one-time effects; Fig 7, link). Markets now assign a 24% probability to an August MPC hike—down sharply from 86% on 5 June. While inflation risks remain contained for now, vegetable and fruit prices remain vulnerable as the monsoon outcome remains far from settled. Rainfall trends over the next eight weeks remain crucial (Fig 9-10). Recent events show that the situation around the Strait remains an important tail risk and continues to warrant close monitoring (link).

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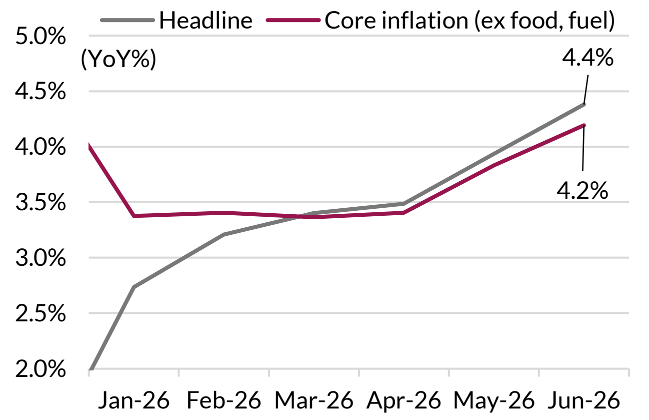
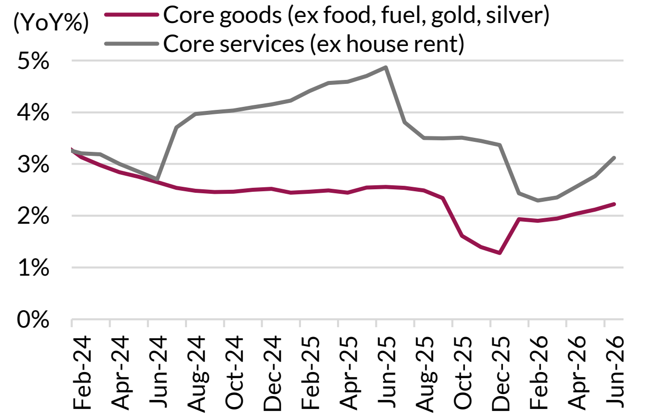
Exhibit 2 – Headline inflation inched up by 45bps in Jun-26; core inflation higher by 35bps



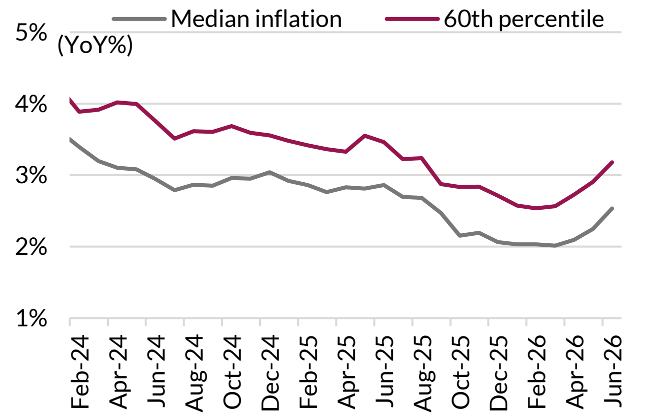
Source: MoSPI, Axis Bank Research

Exhibit 3 – Core goods prices (ex-gold and silver, food and fuel) rose 2.2% YoY, while core services inflation rose to 3.1%



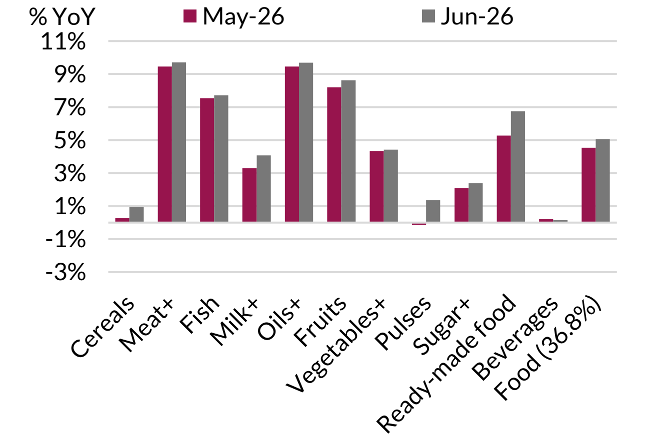
Source: MoSPI, Axis Bank Research

Exhibit 4 – Our measure of demand inflation (link) suggests underlying price pressures growing at 3.2% pa and rising



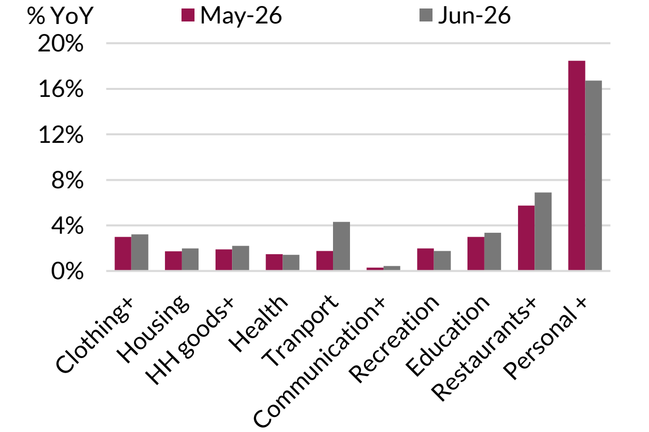
Source: MoSPI, Axis Bank Research

Exhibit 5- Higher food inflation (5.1% vs. 4.5% in May-26) driven by increases in almost all sub-categories



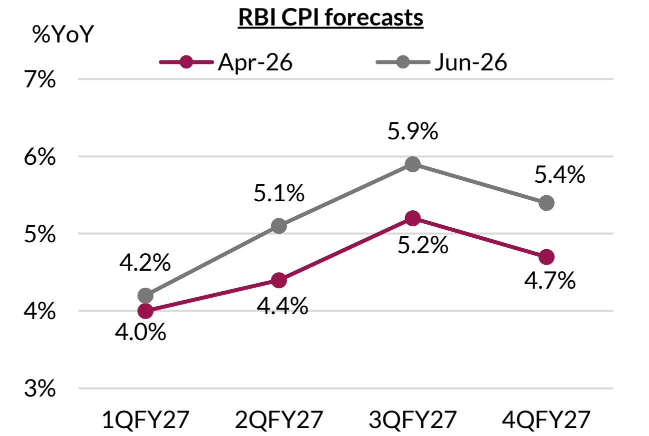
Source: MoSPI, Axis Bank Research

Exhibit 6 – Higher costs in transport (higher pump prices), restaurant services (LPG prices/shortages), and housing



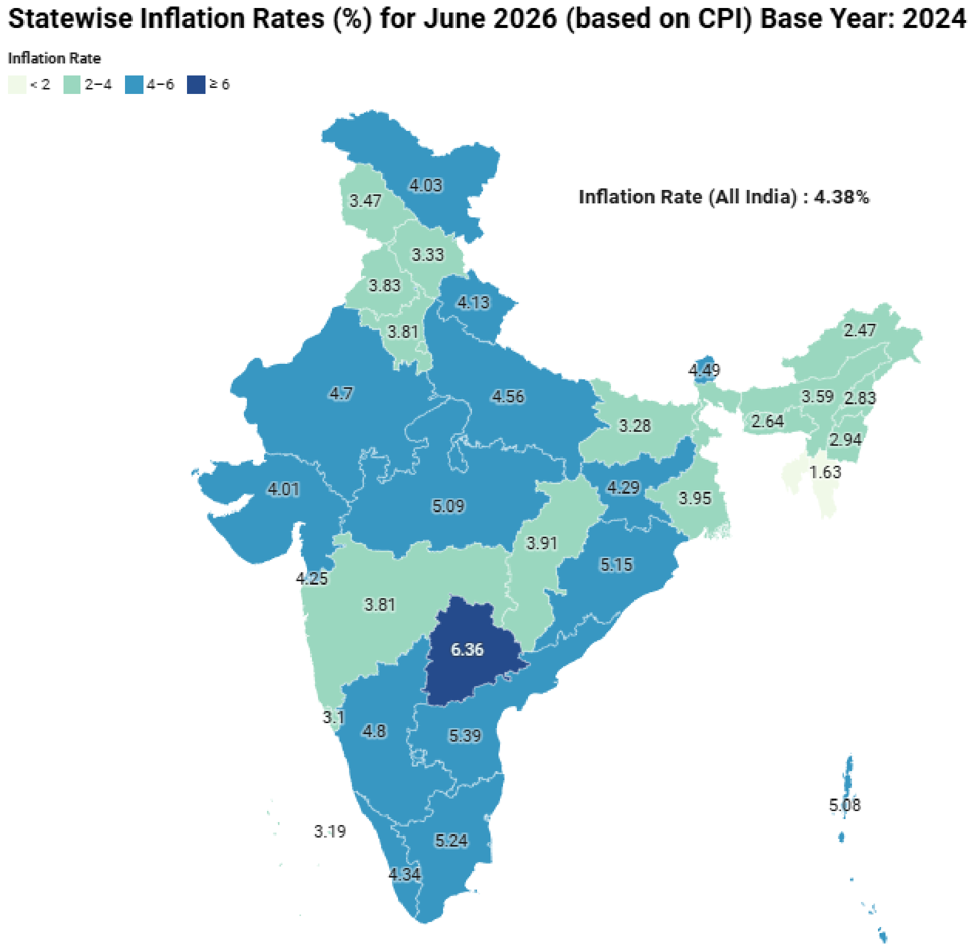
Source: MoSPI, Axis Bank Research

Exhibit 7 – RBI MPC in June raised its FY27 inflation forecast by 50bps to 5.1%



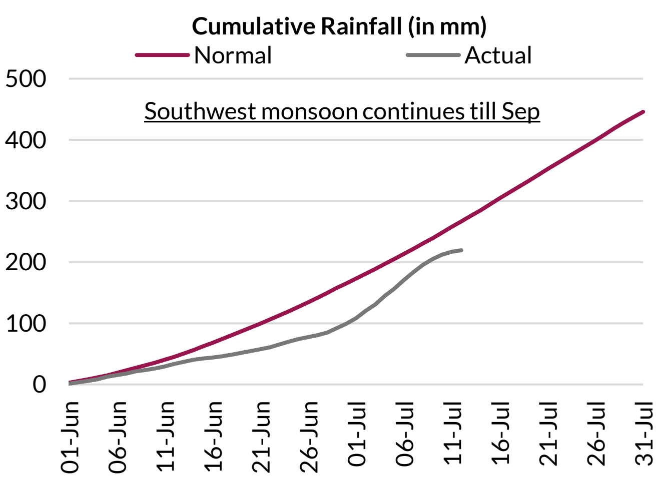
Source: RBI, Axis Bank Research

Exhibit 8 – State-wise inflation rates for June 2026: retail inflation in Telangana is 6.4%



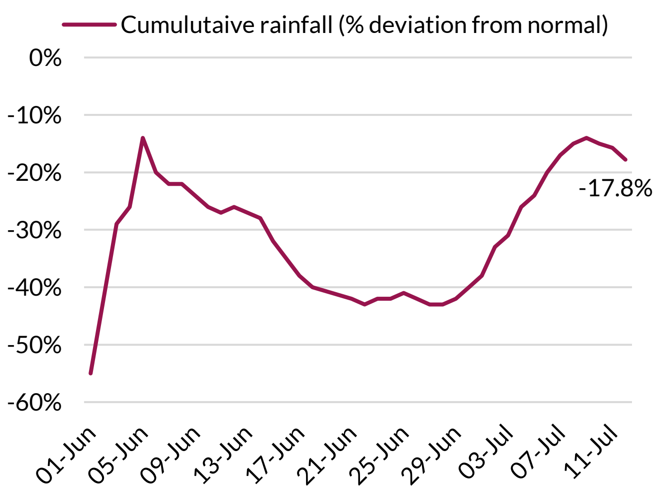
Source: MoSPI, India. Prepared by Data Informatics & Innovation Division (DIID) @GoIStats

Exhibit 9 – Strong rainfall in July led to a catch-up &...



Source: IMD, Axis Bank Research

Exhibit 10 – ...a narrower deficit in cumulative rainfall



Source: IMD, Axis Bank Research

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