Economy | Macro-Cap

The cost shock deepens!

- **WPI inflation accelerated to 11.4% YoY in Sep'26 from 9.9% in Aug'26,** indicating a sharp broadening of wholesale price pressures. On a month-on-month (MoM) basis, WPI inflation rose by 1.5% in Sep'26 vs. a 0.7% increase in Aug'26. The increase was broad-based, with higher prices across fuel and power, primary articles and manufactured products. **Rising energy and industrial commodity prices, coupled with a sharp increase in primary food inflation, contributed to the acceleration.**
- The impact of the West Asia conflict on global energy prices has pushed up crude oil, petroleum products and industrial input costs. **However, the pass-through of higher input costs from WPI to CPI is not yet clearly evident.** The recent increase in CPI inflation has been driven primarily by food prices, rather than by a broad-based pass-through of higher wholesale input costs. Going forward, if elevated energy and industrial commodity prices persist, their impact could become more visible in CPI during 3QFY27 as higher transportation, logistics, and manufacturing costs feed through to retail prices. A sustained increase in both food and non-food inflation could also risk un-anchoring inflation expectations and trigger second-round price pressures.
- **The rise in WPI inflation in Sep'26 was driven primarily by higher energy prices and a spike in crude petroleum and natural gas inflation**. Fuel and Power inflation rose to 25.9% YoY in Sep'26 from 22.9% in Aug'26, while inflation in crude petroleum and natural gas surged to 57.3% from 34.4%. Mineral oils inflation rose to 40.0% in Sep'26 vs. 38.5% in Aug'26, while coal and lignite inflation increased to 9.3% in Sep'26 from 1.6% in Aug'26.Therefore, imported inflation surged to 17.8% YoY in Sep'26, up from 15.0% YoY in Aug'26.
- **WPI food inflation accelerated to 8.6% YoY in Sep'26 from 7.1% YoY in Aug'26, reflecting a sharp increase in primary food inflation**. Inflation in primary food articles rose to 8.1% in Sep'26 from 5.7% in Aug'26. In contrast, inflation in manufactured food products moderated marginally to 9.4% in Sep'26 (from 9.7% in Aug'26), although it remained elevated. The persistence of elevated manufactured food inflation indicates that processing, packaging and other production costs remain important sources of inflationary pressure throughout the food supply chain.
- **Inflation in manufactured products rose to 9.8% YoY in Sep'26 from 8.4% YoY in Aug'26.** Inflation accelerated across basic metals (17.0% vs 10.9%), chemicals (16.7% vs 14.3%), textiles (13.9% vs 12.6%), rubber and plastic products (13.5% vs 11.2%), and electrical equipment (11.9% vs 11.1%) in Sep'26 compared with Aug'26. **The spike in metals and chemicals inflation is particularly significant given their role as intermediate inputs across several industries. If these pressures persist, manufacturers may face a combination of margin compression and higher selling prices, depending on demand conditions and their ability to pass on increased costs.**

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- **Agricultural terms of trade improved in Sep'26, with the contraction narrowing to 2.4% in Sep'26 from 4.0% in Aug'26.** Nevertheless, the terms of trade remained in contraction, indicating that pressures on agricultural profitability have not fully dissipated. The impact on farm incomes will continue to depend on movements in agricultural output prices relative to input costs, alongside crop-specific realizations and supply conditions.
- **Output Producer Price Inflation (OPPI) accelerated in Sep'26, rising to 11.4% YoY in Sep'26 from 9.8% in Aug'26.** Inflation increased in mining and quarrying (21.3% in Sep'26 vs 15.1% in Aug'26), manufactured products (12.6% vs 11.0%), and agriculture, forestry and fishing (8.5% vs 7.3%), while deflation in electricity prices narrowed (-0.3% in Sep'26 vs -1.7% in Aug'26). Within manufacturing, inflation rose in coke and refined petroleum products (39.6% in Sep'26 vs 37.9% in Aug'26), chemicals (16.7% vs 14.2%), textiles (16.1% vs 14.4%), rubber and plastic products (14.1% vs 11.8%), and basic metals (17.3% vs 11.0%). **These trends indicate that selling-price pressures remain elevated across several industrial segments, potentially reflecting higher commodity costs and ongoing price adjustments by producers.**
- **Input Producer Price Inflation (IPPI) for the manufacturing sector increased to 1.8% MoM in Sep'26 following a 1.2% MoM dip in Aug'26, indicating a renewed increase in manufacturing input costs**. The rebound was led by a 9.2% MoM increase in coke and refined petroleum products in Sep'26, following a 13.8% decline in Aug'26. Input prices also increased in chemical products (2.3% MoM in Sep'26 vs 0.8% in Aug'26), rubber and plastic products (1.9% MoM in Sep'26 vs 1.3%), basic metals (1.6% vs 0.2%), electrical equipment (1.3% vs 0.9%) and textiles (1.1% vs -0.2%).
- **The combination of rebounding input costs and accelerating output producer prices suggests that cost pressures remain significant. If sustained, these increases could squeeze manufacturers' margins or lead to higher final-goods prices, depending on pricing power and demand conditions.**

Outlook: Inflation risks remain skewed to the upside

- Inflationary pressures are broadening, with September CPI inflation rising to 5.5% YoY from 4.8% in Aug'26, driven primarily by higher food prices. Core inflation also edged up to 4.3% from 4.2%. Meanwhile, WPI inflation accelerated to 11.4% from 9.9%, reflecting higher food, energy and industrial commodity prices. Wholesale price pressures strengthened further in Sep'26, with both input and output prices rising. Manufacturing input prices increased by 1.8% MoM after declining 1.2% in Aug'26, led by a sharp rebound in coke and refined petroleum products, alongside higher prices of chemicals, metals and rubber and plastic products. Output producer price inflation also accelerated, indicating that selling-price pressures are strengthening across several industrial sectors. Together, these trends point to mounting pressure on manufacturers' margins and an increased risk of cost pass-through to final goods prices if elevated commodity prices persist.
- **The pass-through from higher WPI inflation to CPI is not yet clearly visible, as the recent increase in retail inflation has been driven primarily by food. However, sustained geopolitical tensions arising from the West Asia conflict, persistently elevated crude oil prices and rising manufacturing costs could**

make the pass-through more visible in 3QFY27, adding to inflationary persistence and increasing the risk of second-round price effects. Weather-related uncertainties and El Niño risks further complicate the food inflation outlook.

- The RBI has responded by raising the repo rate by 25bp to 5.50% in its October policy meeting and shifting its stance from neutral to calibrated tightening, signaling that rate cuts are unlikely in the near term. The RBI raised its FY27 CPI inflation forecast to 5.2%, with inflation projected to average around 5.8% over the next three quarters and peak at 6.0% in 3QFY27. Against this backdrop of persistent inflation risks and resilient growth, we expect a further cumulative 75bp of rate hikes, taking the repo rate to 6.25%, although the pace will depend on crude oil prices and incoming inflation data. A sustained rise in Brent crude above USD95–100/bbl would strengthen the case for further tightening.
- **The key risk is that a prolonged energy shock, combined with food inflation and a delayed pass-through of higher input costs to consumer prices, could un-anchor inflation expectations and require a more prolonged tightening cycle.** Conversely, a sustained correction in crude oil prices and a moderation in food inflation would reduce the need for additional hikes and ease pressure on domestic interest rates.

Exhibit 1: WPI grew 11.4% YoY in Sep'26 vs. 9.9% in Aug'26

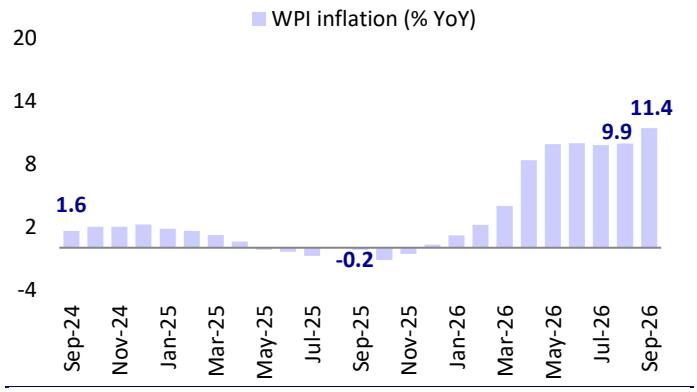


Exhibit 2: Fuel & power inflation grew 25.9% YoY in Sep'26 vs. 22.9% in Aug'26

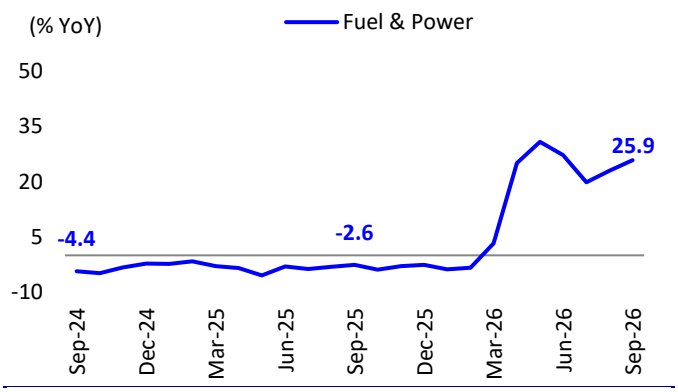


Exhibit 3: Food inflation increased to 8.6% in Sep'26 from 7.1% in Aug'26

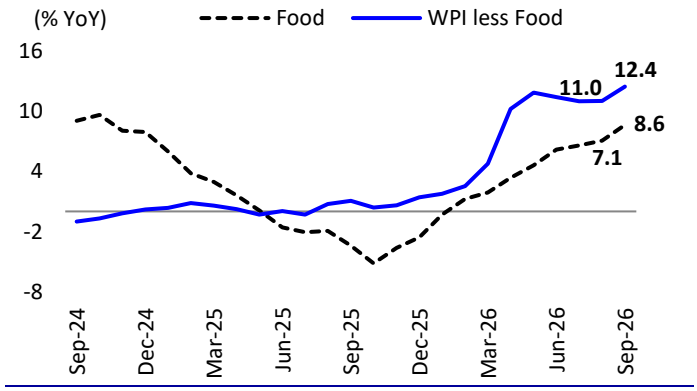


Exhibit 4: Manufacturing products inflation increased to 9.8% in Sep'26, up from 8.4% in Aug'26

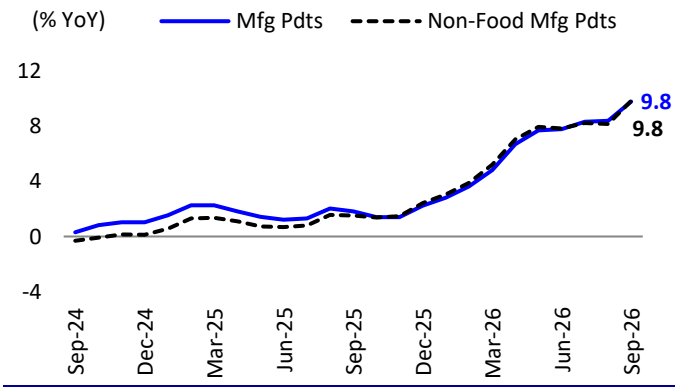
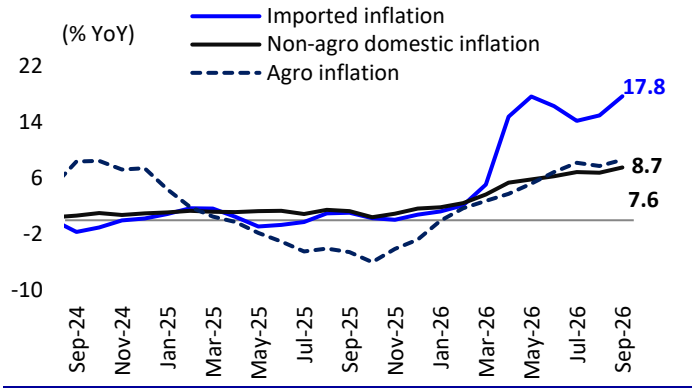
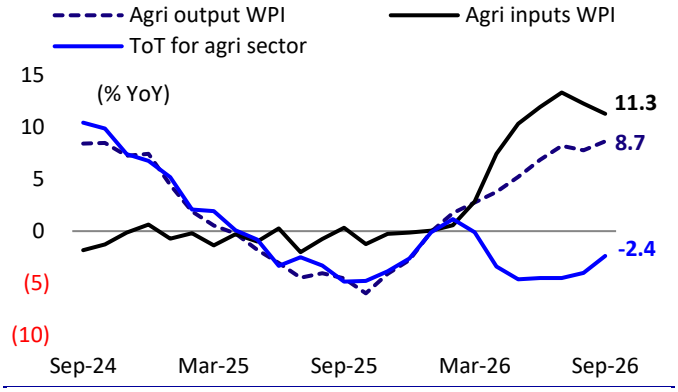


Exhibit 5: Imported inflation edged up to 17.8% in Sep'26 vs. 15.0% in Aug'26



*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 2.4% in Sep'26 vs. a contraction of 4.0% in Aug'26



Source: Office of Economic Adviser, MOFSL

Details:

Fuel inflation accelerates to 25.9% YoY

- Inflation in the Fuel and Power category increased to 25.9% YoY in Sep'26 from 22.9% in Aug'26, reflecting a further intensification of energy-related price pressures.
  - **Crude petroleum and natural gas inflation** accelerated sharply to 57.3% from 34.4%, marking the most pronounced increase among the major fuel components.
  - **Mineral oils inflation** rose to 40.0% from 38.5%, remaining elevated and indicating continued pressure across petroleum-related products.
  - **Coal and lignite** inflation increased to 9.3% from 1.6%, signaling a broadening of inflationary pressures within the fuel category.
- The rise in energy prices has implications beyond their 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 a 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 higher 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 continues to strengthen

- Inflation in manufactured products rose to 9.8% YoY in Sep'26 from 8.4% YoY in Aug'26. Inflation accelerated across basic metals (17.0% vs 10.9%), chemicals (16.7% vs 14.3%), textiles (13.9% vs 12.6%), rubber and plastic products (13.5% vs 11.2%), and electrical equipment (11.9% vs 11.1%) in Sep'26 compared with Aug'26. The sharp increase in metals and chemicals inflation is particularly significant given their role as intermediate inputs across several industries. If these pressures persist, manufacturers may face a combination of margin

compression and higher selling prices, depending on demand conditions and their ability to pass on increased costs.

- Manufacturing inflation remained elevated in 1HFY27 compared with 1HFY26, with price pressures intensifying across several industrial segments. Inflation accelerated in basic metals to 13.8% in 1HFY27 from 12.5% in 1HFY26, chemicals to 15.0% from 14.4%, textiles to 11.9% from 11.6%, fabricated metals to 6.8% from 6.6% and motor vehicles to 3.1% from 2.7%. Inflation in rubber and plastics remained unchanged at 11.1%. In contrast, inflation moderated in electrical equipment to 9.5% in 1HFY27 from 11.0% in 1HFY26, wood products to 3.2% from 7.2% and food products to 2.9% from 7.7%. Deflation in electronics deepened, with prices falling by 6.6% in 1HFY27, compared with a 0.2% dip in 1HFY26. Overall, input and output price pressures remained persistent in chemicals, basic metals and textiles, while easing inflation in food products, wood products and electrical equipment provided some offset.

Exhibit 7: Manufacturing sectors – Apr-Sep FY27 (YoY %) vs. Apr-Sep FY26 (YoY %)

Manufacturing Sector	Apr–Sep FY26 (%)	Apr–Sep FY27 (%)	Acceleration (pp)
Chemicals	-0.6	**14.4**	**15.0**
Basic Metals	-1.4	**12.5**	**13.8**
Electrical Equipment	1.5	**11.0**	**9.5**
Textiles	-0.3	**11.6**	**11.9**
Rubber & Plastics	0.1	**11.1**	**11.1**
Wood Products	4.0	**7.2**	**3.2**
Food Products	4.8	**7.7**	**2.9**
Fabricated Metals	-0.3	**6.6**	**6.8**
Motor Vehicles	-0.4	**2.7**	**3.1**
Electronics	6.4	**-0.2**	**-6.6**

Output producer prices remain elevated

- The output producer price indicators point to a further strengthening of price pressures in Sep'26. All-commodity inflation increased to 11.4% YoY in Sep'26 from 9.8% in Aug'26. The increase was accompanied by accelerating price inflation in mining and manufactured products.
  - Mining and quarrying inflation accelerated to 21.3% from 15.1%, indicating intensifying price pressures at the extraction stage.
  - Manufactured products inflation increased to 12.6% from 11.0%, suggesting that output-price pressures strengthened across the manufacturing sector.
  - Agriculture, forestry, and fishing inflation rose to 8.5% from 7.3%.
  - Deflation in electricity prices narrowed to 0.3% from 1.7%, indicating a smaller drag from this component.
- Within manufacturing, inflation in coke and refined petroleum products increased to 39.6% from 37.9%. Chemical products' inflation rose to 16.7% from 14.2%, while textiles inflation increased to 16.1% from 14.4%. Rubber and plastic products inflation rose to 14.1% from 11.8%, and basic metals inflation accelerated to 17.3% from 11.0%.
- Price pressures also became more evident in some manufacturing segments that had previously recorded relatively subdued or negative inflation. The inflation in computer, electronics, and optical products turned positive at 4.0%, following deflation of 3.0% in Aug'26. Motor vehicle inflation increased to 4.2%

from 3.1%, while electrical equipment inflation rose to 8.1% from 7.5%. There were, however, some areas of moderation. Inflation in food products eased to 9.5% from 9.7%, while machinery and equipment inflation declined marginally to 2.9% from 3.0%.

- **Overall, the OPPI indicators suggest that output-price inflation strengthened across several industrial sectors, particularly those exposed to energy, metals and chemicals. This raises the possibility of further upward pressure on downstream prices if these increases persist.**

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

Major Group	Weight	Jul'26	Aug'26	Sep'26
All Commodities	**100.0**	**9.6**	**9.8**	**11.4**
Agriculture, Forestry & Fishing	22.2	7.8	7.3	8.5
Mining & Quarrying	3.4	14.7	15.1	21.3
Manufactured Products	69.9	10.4	11.0	12.6
Electricity	4.5	0.4	-1.7	-0.3

Exhibit 9: Key Manufacturing Industries – Output Producer Price Inflation (YoY, %)

Industry	Weight	Jul'26	Aug'26	Sep'26
Manufacture of Food Products	8.5	9.0	9.7	9.5
Manufacture of Textiles	4.4	14.1	14.4	16.1
Manufacture of Coke & Refined Petroleum Products	7.1	32.0	37.9	39.6
Manufacture of Chemicals & Chemical Products	5.7	13.2	14.2	16.7
Manufacture of Rubber & Plastic Products	2.6	11.3	11.8	14.1
Manufacture of Basic Metals	7.5	12.6	11.0	17.3
Manufacture of Electrical Equipment	3.8	7.5	7.5	8.1
Manufacture of Computer, Electronic & Optical Products	1.8	-4.1	-3.0	4.0
Manufacture of Machinery & Equipment	2.5	2.8	3.0	2.9
Manufacture of Motor Vehicles	4.4	2.8	3.1	4.2
Other Manufacturing	6.8	12.1	12.2	13.3

Input producer prices rise 1.8% MoM in Sep'26, led by petroleum products

- **The manufacturing Input Producer Price Index (IPPI) rose 1.8% MoM in Sep'26, reversing a 1.2% decline in Aug'26 and a 0.4% decline in Jul'26, signaling a renewed increase in input cost pressures. The rebound was led by coke and refined petroleum products, which rose 9.2% MoM in Sep'26 after falling 13.8% in Aug'26. Input prices also increased at a faster pace in chemicals and chemical products (2.3% in Sep'26 vs 0.8% in Aug'26), rubber and plastic products (1.9% vs 1.3%), basic metals (1.6% vs 0.2%), electrical equipment (1.3% vs 0.9%) and textiles (1.1% vs -0.2%).**
- **Food product prices grew 0.5% MoM in Sep'26, moderating from a 1.1% rise in Aug'26. In contrast, machinery and equipment prices declined 1.6% in Sep'26 after increasing 1.0% in Aug'26, while computer, electronic and optical product prices fell 0.1%, following a 0.8% decline in the previous month.**
- **The rebound in manufacturing input prices, alongside accelerating output producer price inflation, points to strengthening cost and selling-price pressures across several industrial sectors. The sharp recovery in petroleum-related input prices is particularly notable given their influence on transportation, logistics and production costs. If these pressures persist, manufacturers may face further margin compression or need to pass on higher costs to customers, depending on demand conditions and pricing power.**

Exhibit 10: IPPI – Major manufacturing sectors (MoM, %)

Industry Group	Weight	Jul'26	Aug'26	Sep'26
Manufacturing Sector	**100.0**	**-0.4**	**-1.2**	**1.8**
Manufacture of Food Products	14.8	1.2	1.1	0.5
Manufacture of Coke & Refined Petroleum Products	12.3	-4.3	-13.8	9.2
Manufacture of Basic Metals	11.3	0.0	0.2	1.6
Manufacture of Chemicals & Chemical Products	8.0	-0.7	0.8	2.3
Manufacture of Textiles	5.9	0.2	-0.2	1.1
Manufacture of Machinery & Equipment n.e.c.	5.1	0.2	1.0	-1.6
Manufacture of Electrical Equipment	3.6	0.1	0.9	1.3
Manufacture of Rubber & Plastic Products	3.4	-0.8	1.3	1.9
Manufacture of Computer, Electronic & Optical Products	2.2	0.8	-0.8	-0.1
Manufacture of Basic Pharmaceutical Products	2.4	0.3	0.8	1.4
Other Manufacturing	3.8	0.5	-2.9	1.2

Outlook: Inflation risks remain skewed to the upside

- Inflationary pressures are broadening, with September CPI inflation rising to 5.5% YoY from 4.8% in Aug'26, driven primarily by higher food prices. Core inflation also edged up to 4.3% from 4.2%. Meanwhile, WPI inflation accelerated to 11.4% from 9.9%, reflecting higher food, energy and industrial commodity prices. Wholesale price pressures strengthened further in Sep'26, with both input and output prices rising. Manufacturing input prices increased by 1.8% MoM after declining 1.2% in Aug'26, led by a sharp rebound in coke and refined petroleum products, alongside higher prices of chemicals, metals and rubber and plastic products. Output producer price inflation also accelerated, indicating that selling-price pressures are strengthening across several industrial sectors. Together, these trends point to mounting pressure on manufacturers' margins and an increased risk of cost pass-through to final goods prices if elevated commodity prices persist.
- **The pass-through from higher WPI inflation to CPI is not yet clearly visible, as the recent increase in retail inflation has been driven primarily by food. However, sustained geopolitical tensions arising from the West Asia conflict, persistently elevated crude oil prices and rising manufacturing costs could make the pass-through more visible in 3QFY27, adding to inflationary persistence and increasing the risk of second-round price effects. Weather-related uncertainties and El Niño risks further complicate the food inflation outlook.**
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- **The key risk is that a prolonged energy shock, combined with food inflation and a delayed pass-through of higher input costs to consumer prices, could un-anchor inflation expectations and require a more prolonged tightening cycle.** Conversely, a sustained correction in crude oil prices and a moderation in food inflation would reduce the need for additional hikes and ease pressure on domestic interest rates.

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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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