

Retail inflation eases to 1.54%

Retail inflation in India based on the Consumer price Index eased to 1.54% in Sep'25 compared to 2.07% in August and 5.49% in Sep'24. Food and beverages were the major contributor to lower headline print in September though favourable base effect also helped in the easing. Vegetables deflated by 21.4% and overall deflation in food & beverages category on a monthly basis was 142 bps.

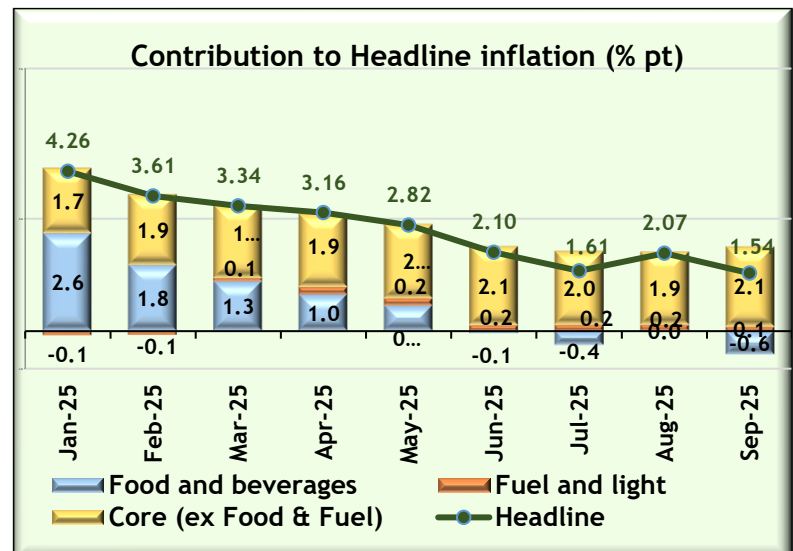
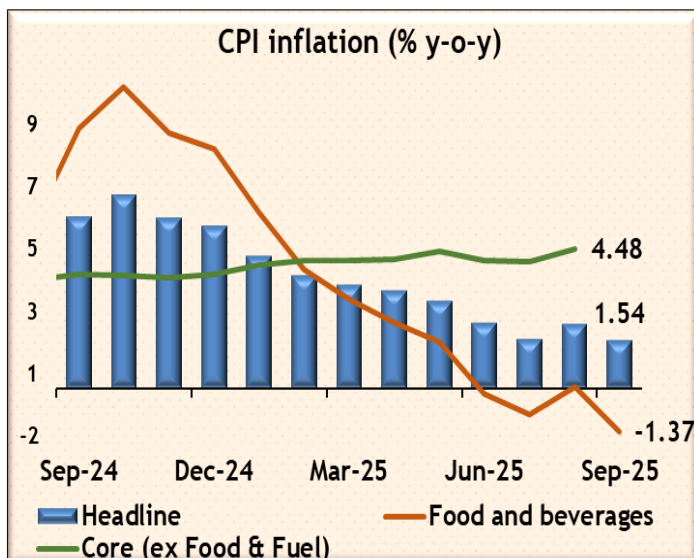
Core inflation (excluding food & fuel) however rose to 4.48% led by 5.4% in miscellaneous category. The food inflation in September, 2025 is the lowest since December, 2018.

Inflation in rural and urban areas declined by 62 bps and 43bps respectively over the previous month driven by base effects and good monsoon.

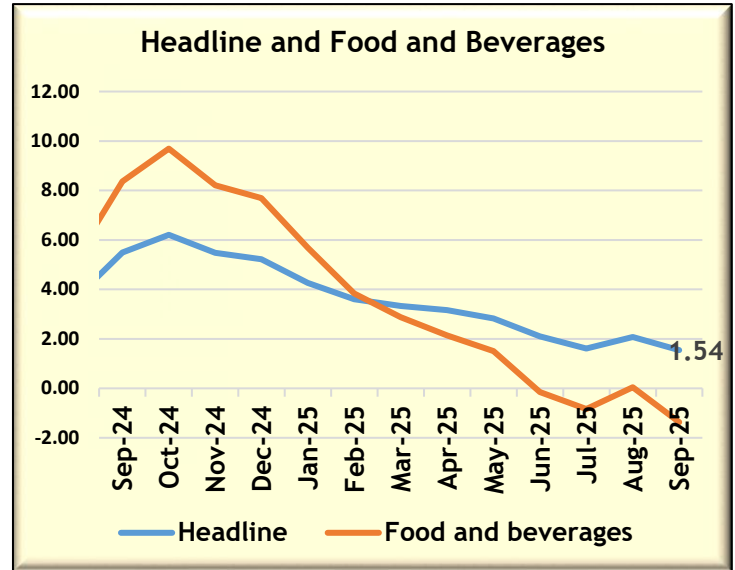
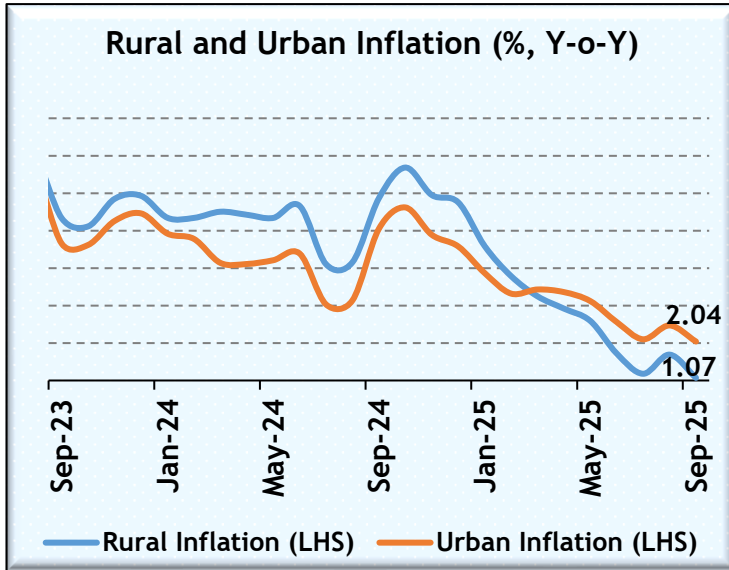
In the miscellaneous category, health inflation was 4.34% and the decline was only 6 bps in this category compared to August. This is not surprising as healthcare exhibits significant degree of stickiness in inflation owing to rising out of pocket medical expenses and low insurance coverage.

Gold and silver inflation, with a weight of 1.08% and 0.11% is 46.87% and 41.75%. If these are excluded CPI would have declined by 54 bps.

CPI Inflation (% y.o.y)					
	Weight	Sep-24	Mar-25	Aug-25	Sep-25
Headline	100	5.49	3.34	2.07	1.54
Food and beverages	46	8.36	2.88	0.05	-1.37
Cereals and products	10	6.84	5.93	2.70	2.06
Protein	13	4.26	0.72	-1.03	-1.06
Fruits	3	7.65	16.27	11.70	9.93
Vegetables	6	36.04	-7.04	-15.92	-21.38
Fuel and light	7	-1.34	1.42	2.32	1.98
Core (ex Food & Fuel)	47	3.49	4.10	4.10	4.48
Pan, tobacco and intoxicants	2	2.51	2.48	2.49	2.73
Clothing and footwear	7	2.71	2.62	2.33	2.28
Housing	10	2.72	3.03	3.09	3.98
Miscellaneous	28	4.05	4.99	5.05	5.35
of which: Transport & Comm.	9	2.71	3.36	1.94	1.82



Economic Research Vertical



What are the odds of a rate cut?

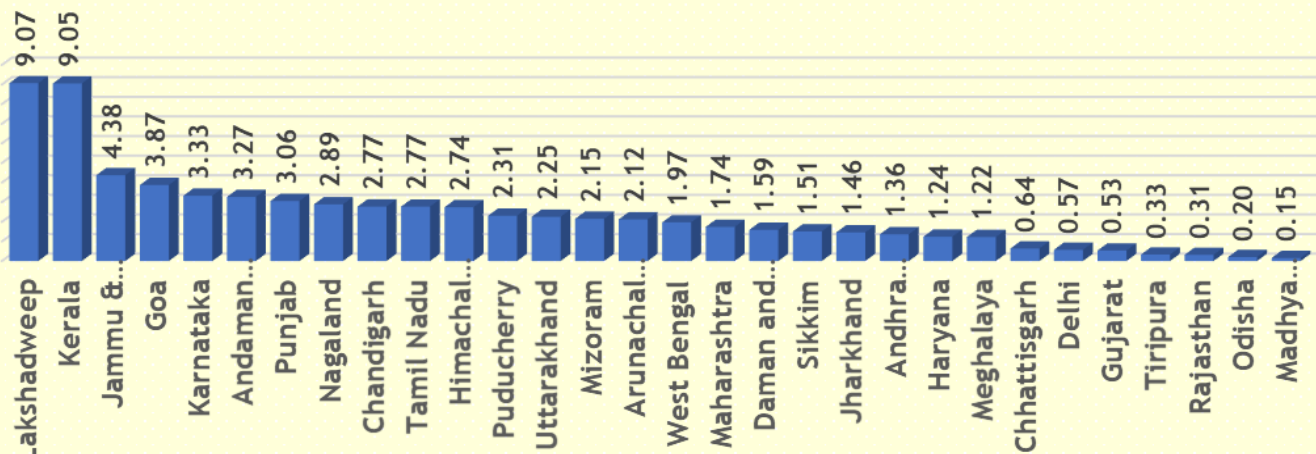
Headline inflation for Q2FY26 is 1.74% and is in line with MPC forecast of 1.8%. As MPC estimates the headline print to be 2.6% in FY26, it implies that the H2 number should be 3.46%, attributable to a lower base in Q4 of the previous fiscal. The impact of GST rate cuts would not be significant for the current fiscal as it would be only for a period of 6 months and products impacted by GST cuts has a weight of only 11.4% in the headline CPI index.

	Q2FY26	Q3FY26	Q4FY26	FY26	Q1FY27	H1FY26
RBI forecasts	1.8	1.8	4.0	2.6	4.5	
Actual	1.74	--	--	--	--	2.21

Flow of Financial Resources to Commercial Sector in India			(₹ Lakh crore)
	2023-24	2024-25 P	Growth Y-o-Y
A. Non-Food Bank Credit	21.40	17.98	-15.98%
B. Non-Bank Sources (B1+B2)	12.64	17.10	35.35%
B1. Domestic Sources	10.20	13.86	35.80%
B2. Foreign Sources	2.43	3.25	33.45%
C. Total Flow of Resources (A+B)	34.04	35.09	3.08%
TOTAL Share of (A) Non-Food Bank Credit	62.87%	51.24%	----
TOTAL Share of (B) Non-Bank Sources	37.12%	48.75%	----

From the above table which denotes the flow of resources to the commercial sector it is pertinent to note that the share of non-bank resources has risen significantly from 37.1% % to 48.8 % in FY25 which means that bulk of resource flows to the commercial sector are agnostic to repo rate changes. This further implies the limits of monetary policy when it comes to stimulating growth and resource flows in the economy.

State-wise Retail Inflation (YoY%) Sep-2025



Meanwhile, top 5 state and Union territory which recorded highest Retail inflation YoY% are Lakshadweep (9.07), Kerala (9.05), Jammu & Kashmir (4.38), Goa (3.87) and Karnataka (3.33).

Implications

- The inflation trajectory provides the Reserve Bank of India (RBI) with continued policy space. However as 50% of resource flows to commercial sector is repo rate agnostic a cut in repo rate may not happen just because inflation is benign. Moreover, though transmission of repo rate cuts to fresh rupee loans has been 55 bps so far in the current fiscal overall bank credit growth is little changed from 10% levels.
- GDP growth has also been holding up well with Q1 coming at 7.8% and Q2 also expected to post growth of more than 7% going by high frequency indicators and facilitated by favourable base effect. This obviates any need to cut rates from a growth perspective.
- The target real rate of 1.5% will be achieved if Q4 CPI print comes at 4% and this limits room for further round rate cuts in FY26.
- However, rate cut possibility is high in FY27 as MOSPI changes base year and new categories like free food grains are proposed to be brought within the CPI index which will take CPI inflation closer to the lower bound of 2%.

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