

Food deflation, GST rate cuts dragged headline CPI in September to the lowest in more than eight years at 1.5%

16 October, 2025

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Data highlights

Headline CPI inflation

- CPI inflation eased to 1.54% in September from 2.07% in August amid favorable base effect and positive but below average monthly change for September at 0.10%. The print was the lowest in over eight years and a tad below estimates (Reuters poll: 1.7%). In FYTD terms, inflation averaged 2.22% vs.4.57% in Apr-Sep FY25.

Core inflation (excluding food, fuel)

- Core inflation (ex-food, fuel) increased to 4.5% from 4.1% in August. In FYTD terms, core inflation has averaged 4.2% vs. 3.3% in the same period a year ago.
- Gains in core inflation were led by personal care segment within the miscellaneous group, followed by housing sub-index. Housing inflation rose to 4.0% from 3.1% in August amid mildly negative base effect and higher-than-average monthly change.

Food, beverage (Wt. 45.9%)

- The food index moved back to deflation at (-)1.37%, the steepest decline since Jan-2019. The sub-indices of vegetables, pulses and spices remained in deflation, while edible oils inflation stayed in double-digits, albeit at a shallower rate than August.
- The food index fell month-on-month, which was contrary to previous years' (FY12-25) trends when food prices typically posted gains in September. Of the 12 sub-groups, prices fell sequentially in three items – vegetables, fruits, and pulses.

Fuel and light (Wt. 6.8%)

- Domestic fuel inflation eased to sub-2% amid month-on-month drop in the index and favorable base effect. Among sub-index heavy weights, the mild uptick in LPG was more than offset by lower inflation in electricity, and firewood and chips.

Miscellaneous (Wt. 28.3%)

- Inflation in the miscellaneous group rose to 5.35% from 5.05% in August. Personal care continued to contribute the most due to double-digit inflation for nine months now, reflecting the surge in global gold prices. Inflation in other sub-indices eased.
- The inflation print partly captured the impact of GST rate cuts that were effective 22-Sep. There was monthly fall in prices of white goods such as washing machines and refrigerators, and automobiles such as passenger vehicles and two-wheelers.

Outlook and policy implication

- **Assessing historical trends:** Historical data shows that the month-on-month increase in headline CPI tends to be higher in October than in September. Base effect is slated to be favorable in October. The median and average measures based on FY12-25 data show that headline inflation could further ease in October to around 1%, while core inflation could be stable at about 4.5%.

- **High frequency data:** Data till 15-Oct shows that pulses stayed in deflation, and price gains softened further in cereals. The double-digit inflation in some edible oils continued but somewhat eased. Key vegetable prices were down both month-on-month and in annualized terms. Despite fears of surplus rains and late withdrawal of monsoon damaging crops, the impact has not trickled to prices so far.

- **Sowing:** Data as on 3-Oct shows that total Kharif sowing was already above normal area sown for the season. That this trend held for cereals, while sowing of pulses and oilseeds was still below normal sown area. Total sowing of pulses and cereals was above last year's levels, but down year-on-year in case of oilseeds.

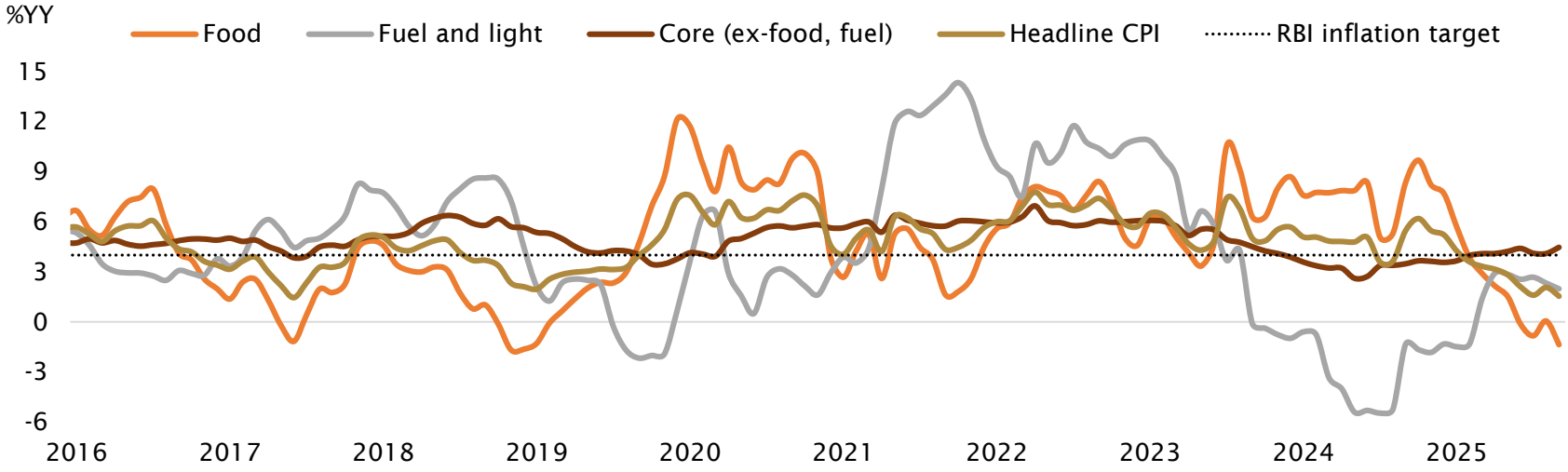
- **Monsoon progress, reservoir levels:** The southwest monsoon season rain for 2025 was 8% above average. The monsoon core zone, consisting of rain-fed farm areas of the country, received surplus rains. The post-monsoon season rainfall from Oct-Dec is also expected to be above average. As on 9-Oct, reservoir levels were above normal across regions. These indicators augur well for food output and inflation.

- **Global commodity prices:** In its latest update, the US EIA raised average crude oil price forecast for 2025 and 2026 by USD1/b each to USD69/b and USD52/b, respectively. The EIA expects that despite the unwinding of production cuts by OPEC+, output will remain below targets, limiting the downside to prices. Gains in Bloomberg commodity index continue to be led by precious metals on safe haven demand.

- **Policy implication:** A benign food inflation outlook, combined with the full impact of GST rate cuts that is expected to start reflecting from October indicate that inflation could further ease in coming months. But there are risks to this outlook from 1) impact of surplus rains and late withdrawal of monsoon on crop output 2) INR depreciation 3) consumer demand boost fiscal stimuli (income tax relief, GST cuts), front-loaded monetary easing in June and the recently announced credit easing regulatory measures. The downward bias to inflation from GST reforms has opened space for the RBI to cut rate(s) in upcoming meetings, particularly in the backdrop of uncertainties around US tariffs and likely spillovers to the domestic economy.

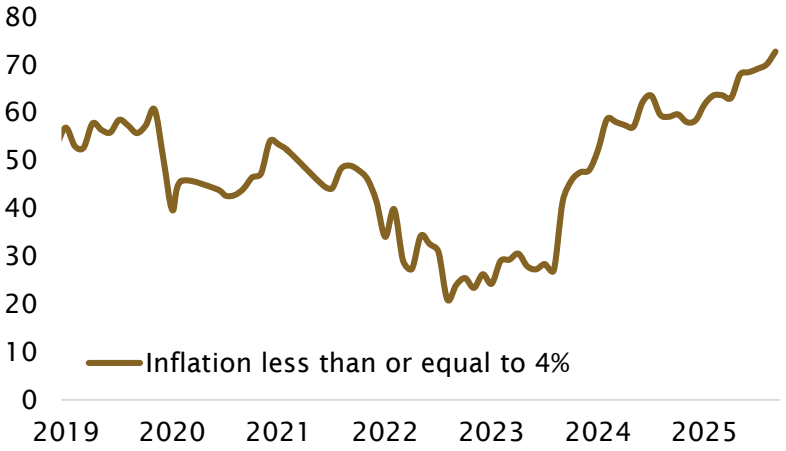
Headline CPI inflation eased to 1.5% in Sep from 2.1% in Aug

CPI inflation eased to 1.54% in Sep from 2.07% in Aug; food deflation at (-)1.37% was the steepest since Jan-2019



Inflation remained at or below 4% for over 70% of CPI basket; housing, intoxicants, misc. group inflation accelerated

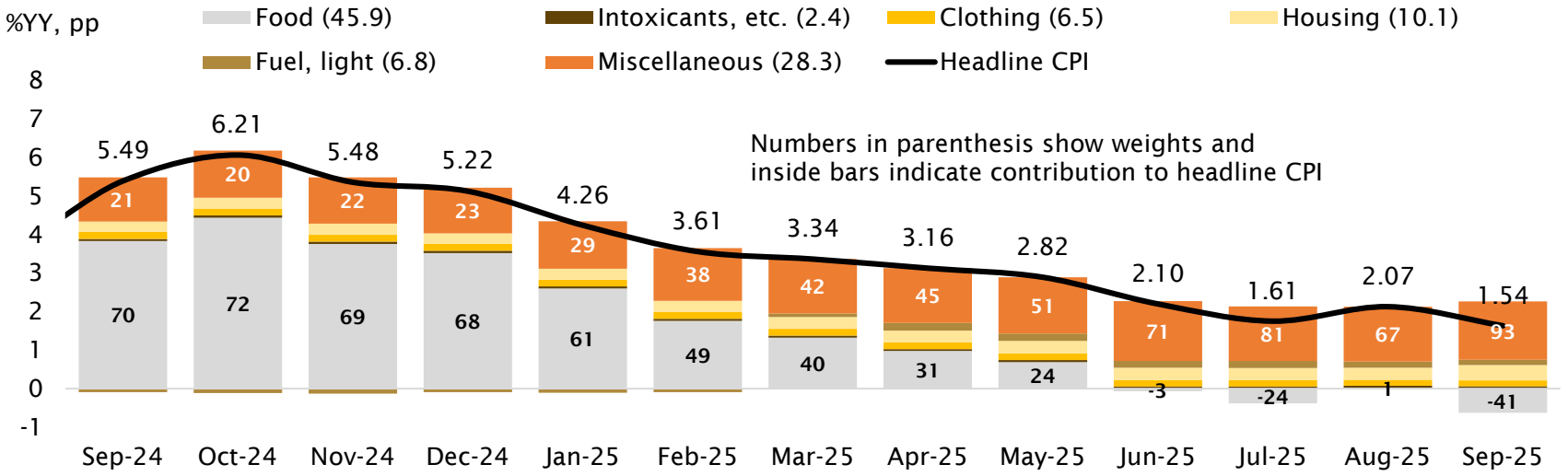
Proportion of CPI items - weighted



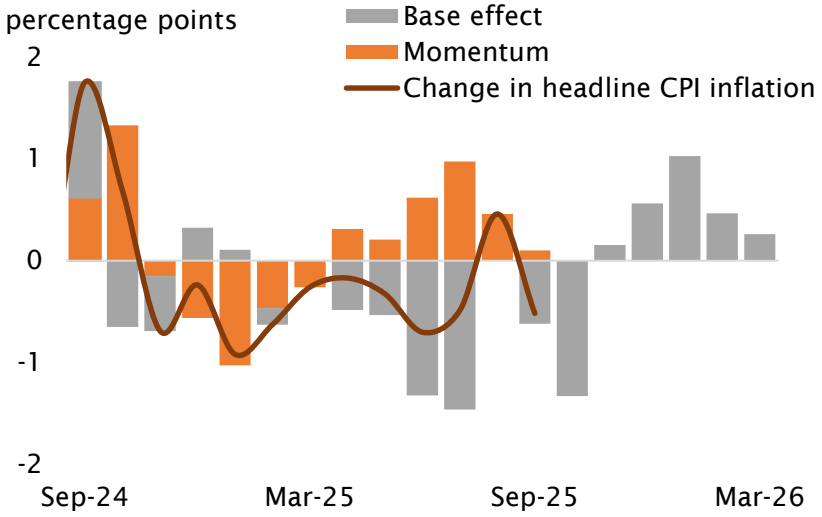
%YY	Weight	Jul-25	Aug-25	Sep-25
Headline CPI	100.0	1.61	2.07	1.54
Food	45.9	-0.84	0.05	-1.37
Intoxicants	2.4	2.45	2.49	2.73
Clothing	6.5	2.50	2.33	2.28
Housing	10.1	3.17	3.09	3.98
Fuel and light	6.8	2.67	2.32	1.98
Miscellaneous	28.3	5.01	5.05	5.35

Miscellaneous group continued to add the most to inflation

Miscellaneous group added more than 90% to headline CPI, followed by housing; food was a drag due to deflation



Favorable base effect; momentum below past trends

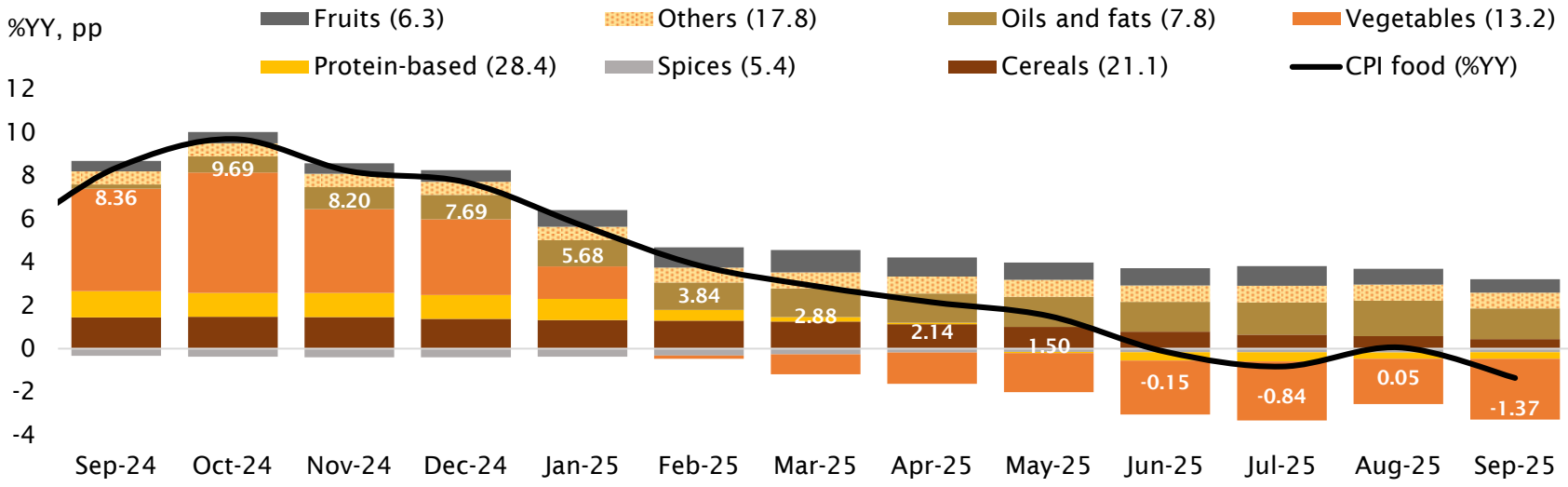


Except food and fuel, prices rose m-o-m across groups

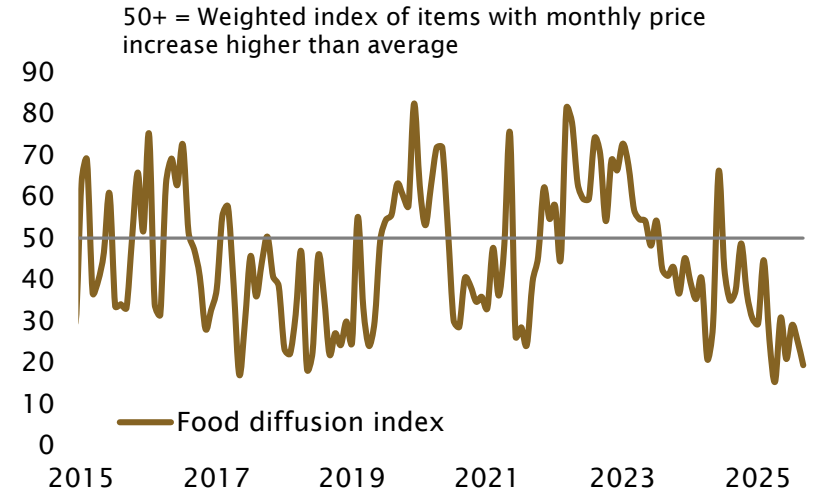
%MM, NSA	Weight	Jul-25	Aug-25	Sep-25
Headline CPI	100.0	0.98	0.46	0.10
Food	45.9	1.77	0.60	-0.39
Intoxicants	2.4	0.28	0.19	0.28
Clothing	6.5	0.15	0.10	0.15
Housing	10.1	0.49	0.54	0.80
Fuel and light	6.8	-0.06	0.06	-0.22
Miscellaneous	28.3	0.36	0.36	0.67

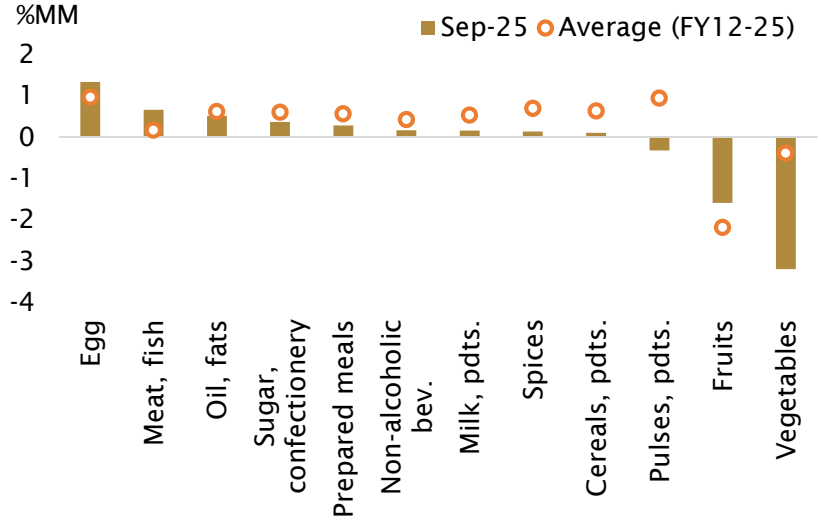
Food deflation at (-)1.37% was the steepest since Jan-2019

Deflation in vegetables and pulses turned sharper; edible oils inflation stayed in double digits but eased vis-à-vis Aug



Food diffusion index remained benign in September; monthly food price decline was due to vegetables, fruits, pulses





Core inflation (ex-food, fuel) rose to 4.5% from 4.1% in August

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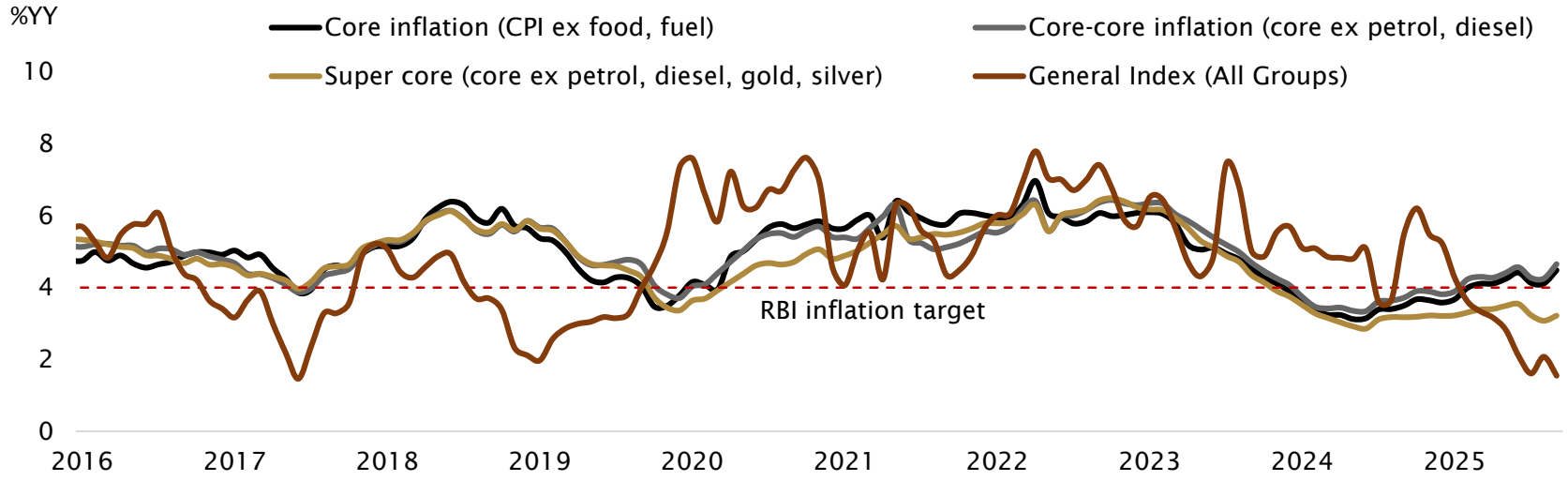
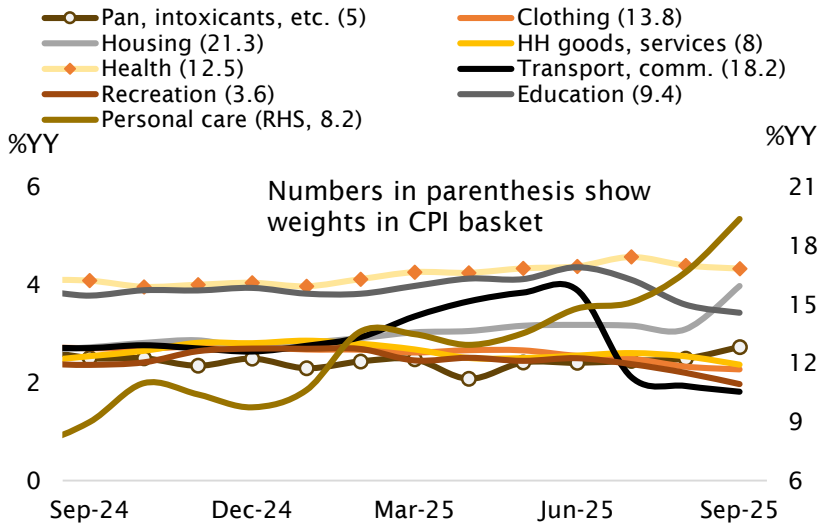
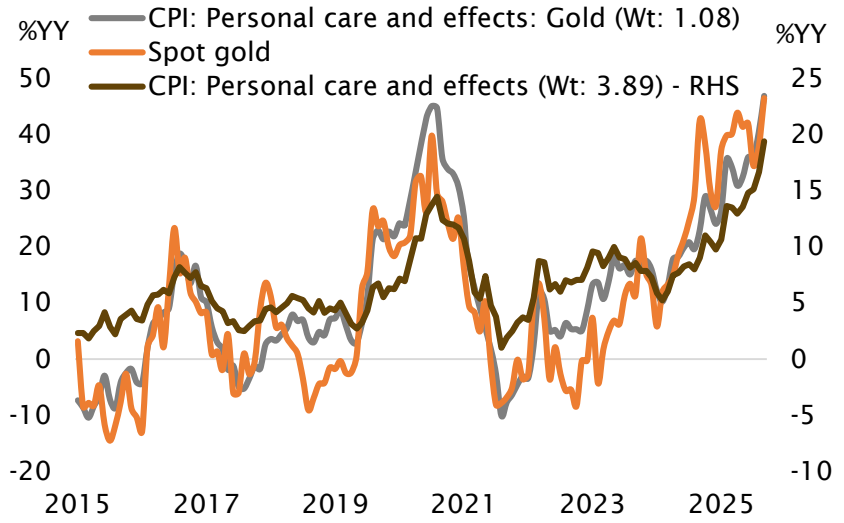
Core inflation (ex-food, fuel) increased to around 4.5% in September from 4.1% in August



Uptick in personal care, housing drove core inflation higher; surge in global gold prices lifted personal care inflation





Fuel inflation eased further; global commodity prices remained muted, except precious metals that continued to surge

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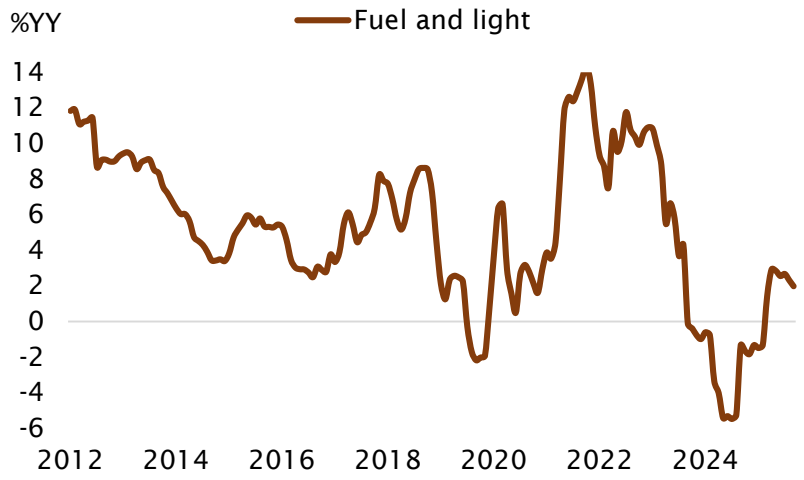
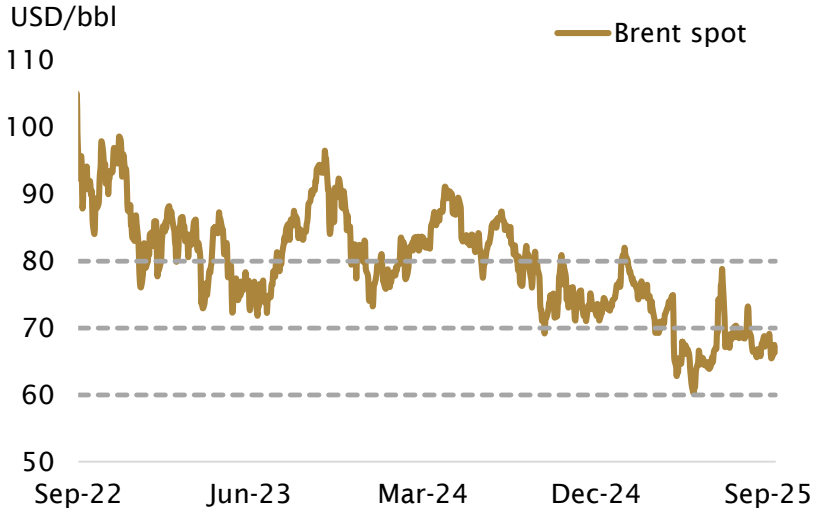
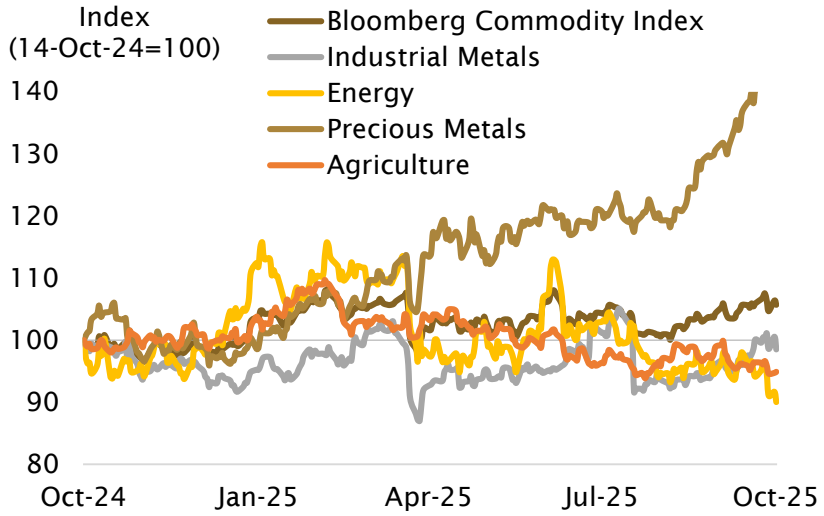
Domestic fuel inflation slipped below 2% in September

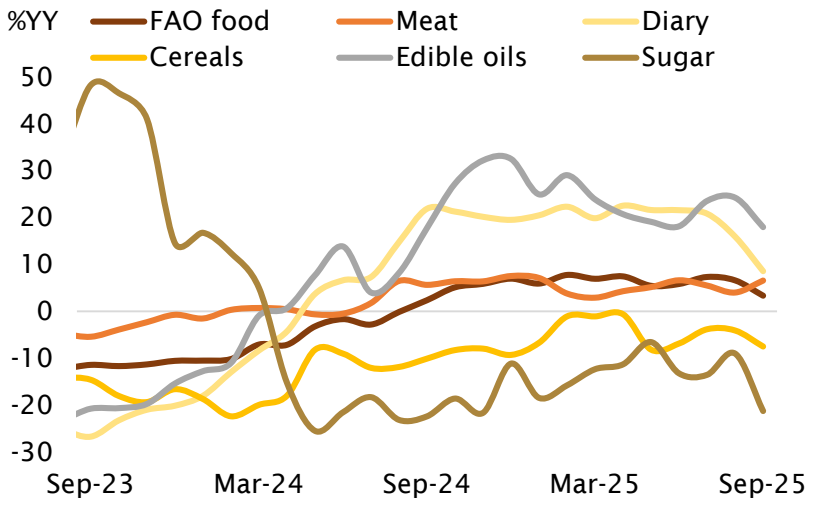


Crude oil prices remain range-bound



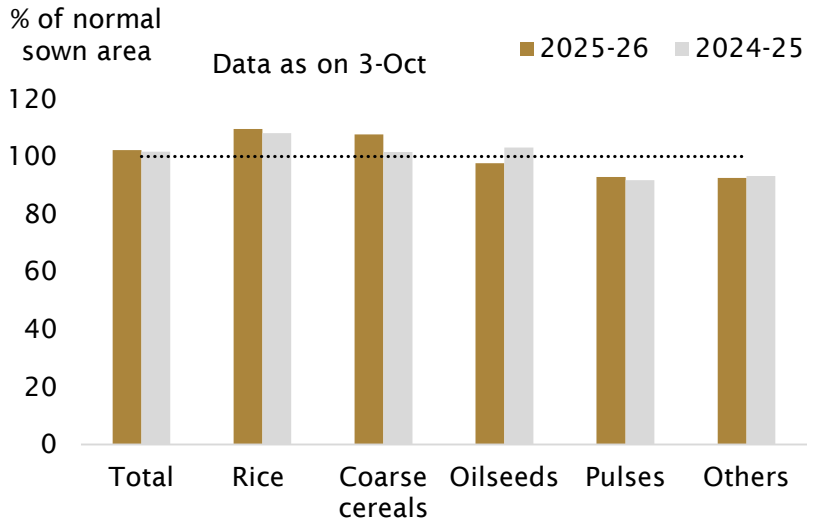
Precious metal prices continue to rise on safe haven demand; global food inflation eased further in September





Kharif sowing, above normal monsoon rains, and reservoir levels indicate benign food inflation outlook

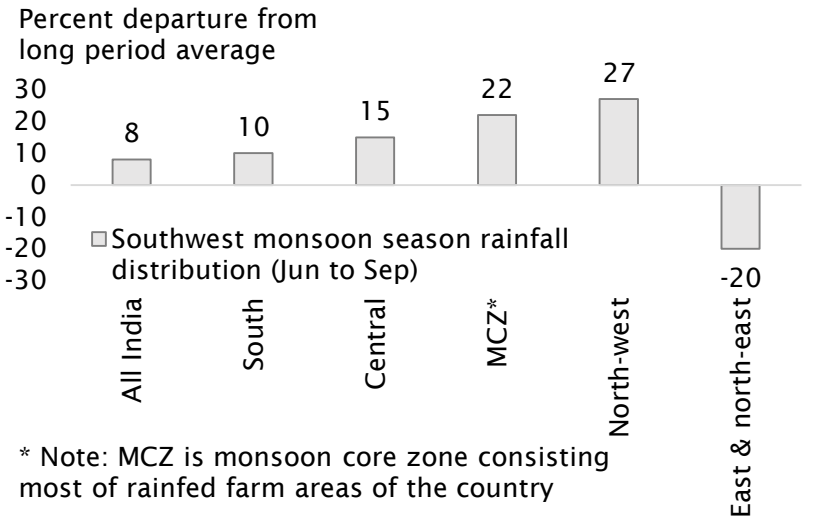
Total Kharif sowing largely on track, up 0.6%YY; high frequency data shows continued deflation in key vegetables



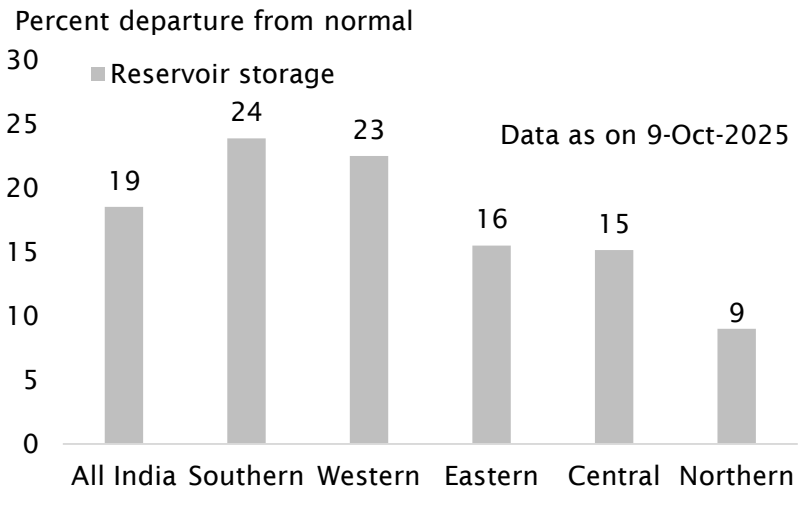
%YY	Tomato	Onion	Potato	Vegetables
Wt. in CPI	0.57	0.64	0.98	6.0
Jul-25	-34.1	-34.9	-34.3	-20.7
Aug-25	16.8	-39.2	-36.8	-15.9
Sep-25	-6.1	-49.9	-37.3	-21.4
Oct-25*	-43.0	-50.6	-31.6	
%MM				
Jul-25	36.4	7.0	2.6	11.7
Aug-25	26.1	0.7	-2.5	3.3
Sep-25	-22.5	-2.3	-2.1	-3.2
Oct-25*	-2.1	1.1	4.2	

Note: *All India retail price till Oct 14.

All India southwest monsoon season rains in 2025 at 8% above average; reservoir storage levels augur well for Rabi crop

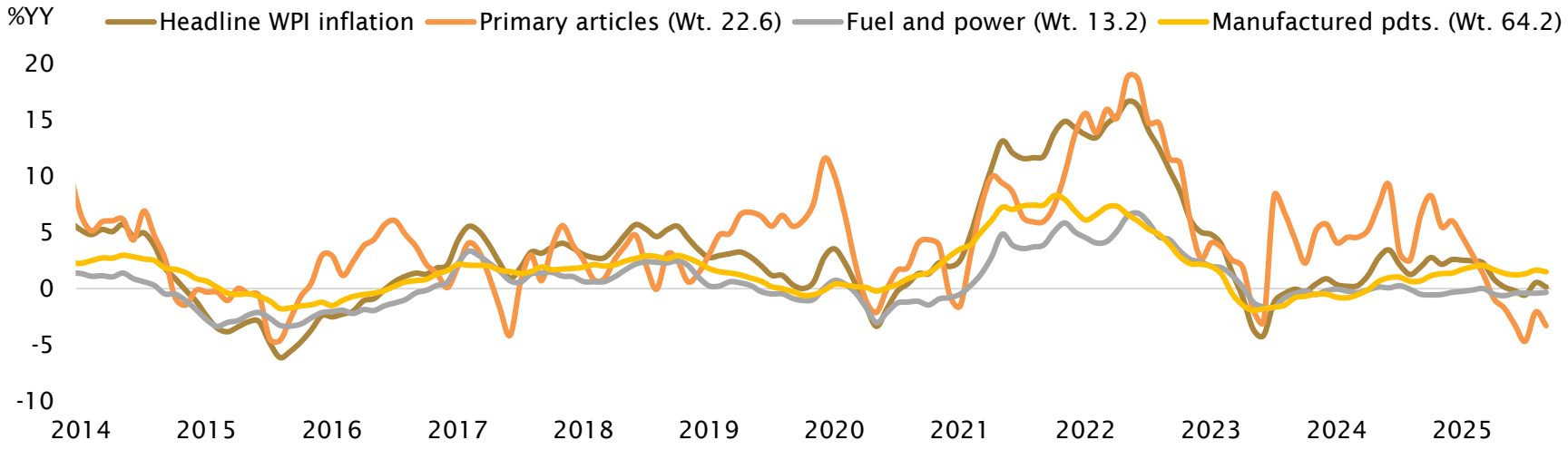


* Note: MCZ is monsoon core zone consisting most of rainfed farm areas of the country

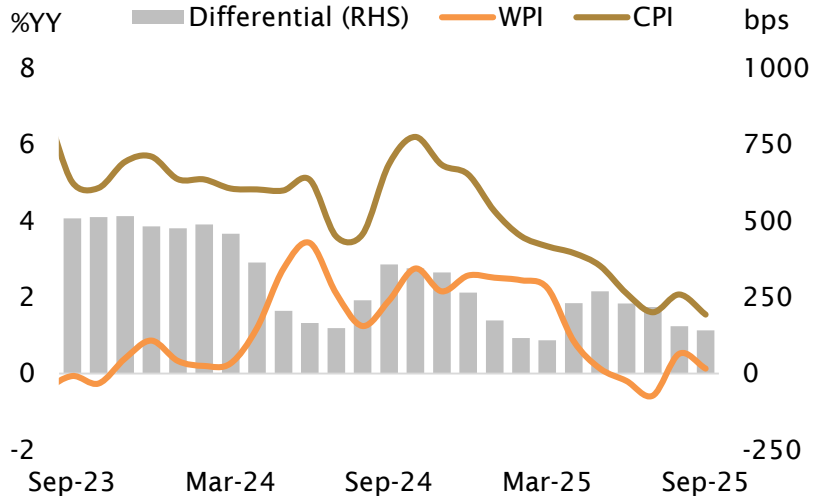


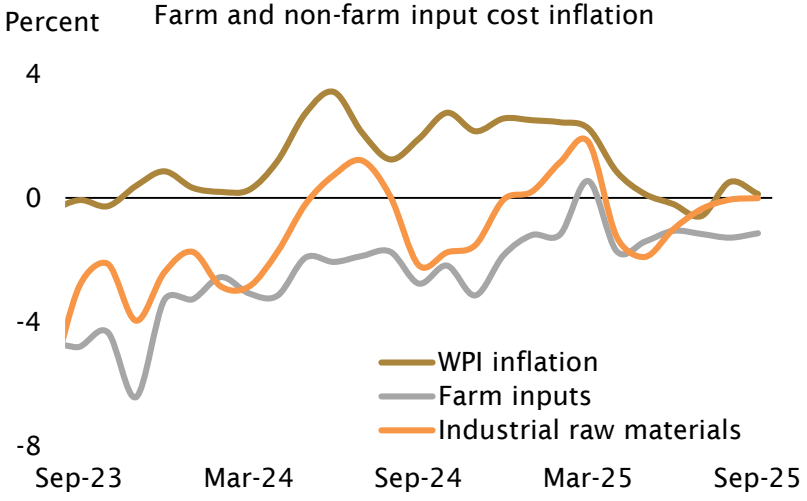
WPI inflation eased to 0.1% in Sep from 0.5% in Aug

Headline WPI eased, tracking the trend in manufactured products; primary articles, fuel and power remained in deflation



Both CPI and WPI inflation eased in September; farm input costs stayed in deflation; non-farm input inflation was flat





Appendix

GST slabs mapped to item-level CPI

	Major Items	GST 1.0 Rate (per cent)	GST 2.0 Rate (per cent)	Difference (pp)	CPI Weight (per cent)
1	Primary food articles (Cereals, Pulses, Vegetables, Fresh Fruits, Raw Milk, etc.)	0	0	0	61.3
2	Gold and Silver	3	3	0	1.2
3	Clothing and Footwear (less than Rs.1000), Fuel (LPG, kerosene), some household items	5	5	0	18.9
4	Electrical fittings, small electronic items, washing soap, private tuition fees, etc.	18	18	0	6.1
5	Coal	5	18	0	0.04
6	Demerit goods like pan, tobacco, intoxicants	28	40	0	1.1
7	Stationery items like notebooks, exercise books, pencils, etc.	12	0	-12	0.4
8	Milk products, Dry fruits, Utensils, Medicines, Sugar, Clothing and Footwear (between Rs.1000 and Rs.2500), etc.	12	5	-7	4.6
9	FMCG items: biscuits, soaps, shampoo, shaving kits, etc.	18	5	-13	3.5
10	White goods like AC, refrigerator, etc.	28	18	-10	2.2
11	Packaged cooked meal	5	0	-5	0.7
	Decreased (Weight in CPI)				11.4
	No change (Weight in CPI)				88.6

Source: RBI Monetary Policy Report, October 2025

Without quantifying the disinflationary impact of GST rate rationalization on CPI inflation, the report notes – "The overall impact of GST changes on CPI inflation would be conditional on the extent of the pass-through which is likely to remain partial on account of offsetting changes in input tax credit and compensation cess, as well as various forms of price rigidities."

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