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Inflation spurts in May as food and energy pressures intensify : Crisil

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Crisil
a company of S&P Global

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Inflation based on the Consumer Price Index (CPI) rose to 3.9 per cent in May from 3.5 per cent in April, driven by broad-based pressures across both food and non-food categories. The increase comes against the backdrop of wholesale inflation rising to 8.3 per cent in April, suggesting that higher input costs faced by producers are now being transmitted to consumers.

Food inflation continued its upward march, climbing to 4.8 per cent from 4.2 per cent in April. Persistent heatwaves disrupted agricultural supply chains and exerted fresh pressure on prices of vegetables, dairy products and eggs. At the same time, fuel-related inflation rose as expected, led by cooking and transportation fuels. Part of the estimated 36-basis-point direct impact on CPI from the cumulative Rs 7.5 per litre increase in petrol and diesel prices during May has already been reflected in inflation data, with the remaining pass-through expected in June. The broader impact is likely to reverberate across the economy through higher transportation and logistics costs.

Core inflation also strengthened. The Reserve Bank of Indiaâ??s preferred measure of core inflation, which excludes food, beverages, electricity, gas, fuels and lubricants for personal transport, increased to 3.9 per cent from 3.7 per cent in April. Excluding gold and silver, core inflation rose to 2.4 per cent from 2.2 per cent, indicating a gradual broadening of underlying price pressures.

Food Inflation Hardens Further

Food and beverages inflation rose to 4.5 per cent in May from 4.0 per cent in April, while food inflation accelerated to 4.8 per cent from 4.2 per cent.

Despite edging higher, foodgrain inflation remained relatively benign. Inflation in cereals and cereal products returned to positive territory at 0.3 per cent, compared with -0.2 per cent in April, after three consecutive months of deflation. Deflation in pulses eased to -0.1 per cent from -1.7 per cent. Continued duty-free imports of tur until March 2027 are expected to help offset any domestic production shortfall.

Vegetables emerged as a key source of inflationary pressure. Inflation in fresh vegetables and tubers rose sharply to 6.1 per cent from 3.8 per cent, driven largely by tomatoes, where inflation surged to 48.4 per cent from 35.3 per cent. In contrast, onions and potatoes continued to record deflation, with onion prices declining 2.2 per cent compared with 17.7 per cent deflation in April, while potato deflation remained unchanged at 23.7 per cent amid ample supplies.

Heatwave conditions also contributed to a rise in inflation for milk, dairy products and eggs, which increased to 3.3 per cent from 3.1 per cent.

Inflation in oils and fats rose further to 9.5 per cent from 9.2 per cent, supported by vegetable oil inflation of 10.9 per cent compared with 10.7 per cent in April. Global vegetable oil prices have remained elevated since the escalation of conflict in West Asia, while higher freight costs and rupee depreciation have added to import costs.

Processed food prices also accelerated. Inflation in ready-made foods and other food products increased to 5.3 per cent from 3.8 per cent, reflecting higher prices for spices and the likely pass-through of increased packaging costs.

Fruit and nut inflation rose to 8.2 per cent from 7.9 per cent, while inflation moderated in meat, fish and seafood categories. Meat inflation eased to 9.5 per cent from 10.1 per cent, while fish and seafood inflation slowed to 7.5 per cent from 8.6 per cent.

High Base Effects Mask Building Fuel Pressures

Inflation in electricity, gas and other fuels increased modestly to 0.8 per cent from 0.7 per cent, with a favourable base effect helping contain the rise.

Electricity continued to remain in deflation, although the pace moderated to -3.1 per cent from -3.4 per cent. Inflation in liquefied petroleum gas (LPG) and piped natural gas (PNG) eased to 2.2 per cent from 3.0 per cent due to a high base, despite sequential increases in prices.

Inflation across the remaining fuel categoriesâ??including kerosene, coal, firewood and chipsâ??accelerated to 6.6 per cent from 5.3 per cent. The increase likely reflects substitution effects, with consumers increasingly shifting towards alternative fuels amid rising LPG costs and supply constraints.

Fuel inflation is expected to rise further in the coming months, particularly for LPG, as the conflict in West Asia continues to keep energy markets under pressure. Domestic LPG prices were increased by Rs 29 per cylinder during the first week of June, with the impact expected to be visible in June inflation data.

Meanwhile, inflation in fuels and lubricants used for personal transport recorded a sharp jump to 3.1 per cent from 0.1 per cent, following multiple increases in petrol and diesel prices since mid-May.

Core Inflation Reflects Expanding Cost Pass-Through

The strengthening of core inflation points to a widening transmission of higher fuel and input costs into consumer-facing sectors.

Transportation inflation increased sharply to 1.8 per cent from virtually 0.0 per cent in April. Petrol inflation rose to 3.1 per cent, while diesel inflation climbed to 3.4 per cent. Inflation in domestic airfares also accelerated to 15.1 per cent from 11.1 per cent, reflecting higher operating costs.

Restaurant and accommodation services inflation rose significantly to 5.7 per cent from 4.2 per cent, driven largely by the pass-through of higher cooking fuel prices. The latest LPG price increase in June suggests further pressure could emerge in upcoming inflation readings.

Inflation in the personal care, social protection and miscellaneous category increased to 18.5 per cent from 17.7 per cent, supported by elevated precious metal prices. Inflation in gold, diamond and platinum jewellery rose to 40.9 per cent from 40.7 per cent, while silver jewellery inflation surged to 155.2 per cent from 144.4 per cent.

Elsewhere, house rent inflation remained stable at 2.0 per cent for a fourth consecutive month. Inflation in furnishings, household equipment and routine household maintenance rose to 1.9 per cent from 1.6 per cent, while clothing and footwear inflation increased to 3.0 per cent from 2.8 per cent. Recreation, sport and culture inflation eased marginally to 2.0 per cent from 2.1 per cent, while inflation in health declined to 1.5 per cent from 1.6 per cent and education services inflation moderated to 3.0 per cent from 3.2 per cent.

Inflation Outlook Faces Multiple Upside Risks

Crisil forecasts average CPI inflation of 5.1 per cent in fiscal 2027, compared with 2.0 per cent in fiscal 2026, but sees significant upside risks to the outlook.

Crude oil remains the most immediate concern, with prices expected to average US$90â??95 per barrel during the fiscal year. As the government passes through a portion of these higher costs to consumers, headline inflation is likely to face further upward pressure. Retail petrol and diesel prices have already increased by a cumulative Rs 7.5 per litre.

The gradual pass-through of higher energy, transportation and input costs by producers is expected to push core inflation higher, although some temporary relief may emerge from GST rationalisation measures.

A sharp depreciation of the rupee is adding to imported inflation pressures, while expectations of below-normal monsoon rainfall under El NiÃ±o conditions, coupled with ongoing heatwaves, pose risks to agricultural production and food prices.

While the Reserve Bank of India is likely to look through these predominantly supply-side shocks for now, it will remain closely focused on inflation expectations and the risk of second-round effects. The combination of elevated energy costs, weather-related disruptions and broadening price pressures suggests inflation may remain on an upward trajectory in the near term.