Economic Research Vertical 14-July-2026

India's CPI Inflation rises to 4.38 % in June'26

India's year-on-year retail inflation, measured by the Consumer Price Index (CPI) with base year 2024, increased to 4.38% (provisional) in June 2026 from 3.93% in May 2026, indicating a further acceleration in headline inflation. The increase was primarily driven by higher food inflation, which rose to 5.32% in June 2026 from 4.78% in May 2026.

At the same time, major segments such as Food and beverages, Paan, tobacco and intoxicants, Clothing and footwear and Housing, water, electricity, gas and other fuels continued to witness relatively moderate inflation, suggesting that broader underlying inflationary pressures remain contained. Personal care, social protection and miscellaneous goods and services increased highest 16.72% followed by Restaurants and accommodation services 6.91% and Education services 3.34%

Rural inflation remained higher at 4.74% compared to urban inflation at 3.92%, reflecting relatively stronger price pressures in rural regions, particularly in food-related items. Despite the increase, headline inflation continues to remain within the RBI's tolerance band of 2-6%, indicating overall macroeconomic stability.

Core CPI (Excluding Food and Fuel):

Core CPI is estimated at around 4.0% in June 2026, remaining broadly stable and below the headline CPI inflation rate of **4.38%**. The contained core inflation trend indicates that underlying price pressures remain moderate. The rise in headline inflation was mainly driven by **food prices, precious metals, and select commodity segments**, rather than broad-based demand-led inflationary pressures.

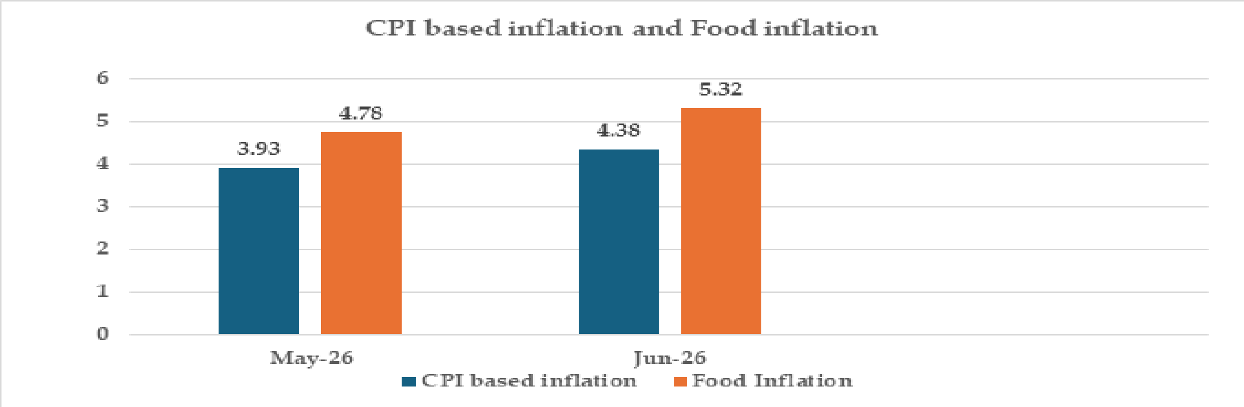
The stability of core inflation at around 4.0% in June 2026, indicating that underlying price pressures across services and non-food categories remained contained. The moderate core inflation trend reflects stable inflation expectations and suggests that price pressures are largely limited to food and commodity segments rather than broad-based inflation.

CPI Excluding Gold and Silver

"The elevated inflation in the personal care and miscellaneous category continued to be primarily driven by exceptionally high gold and silver prices. Excluding precious metals, underlying inflationary pressures across most consumption categories remained moderate and well contained, indicating that the recent rise in headline inflation was largely due to specific commodity price movements rather than broad-based price pressures."

Headline inflation excluding gold and silver is estimated at around 3.32%, lower than the overall CPI inflation of 4.38%. This indicates that elevated precious metal prices have made a significant contribution to the recent rise in headline inflation, despite their relatively small weight in the CPI basket. The divergence highlights that the increase in inflation is largely driven by specific commodity price movements rather than broad-based price pressures across the economy.

The divergence between headline CPI inflation (4.38%) and CPI excluding gold and silver (3.32%) indicates that elevated bullion prices continue to exert a significant influence on the overall inflation reading. Excluding these volatile components, underlying inflationary conditions remain moderate and well contained, supporting a stable inflation outlook and providing comfort for the monetary policy framework.



CPI Inflation (June 2026: 4.38%) vs. MPC Projection for Q1 FY2026-27 (4.2%)

The increase in CPI inflation to 4.38% in June 2026, compared with the RBI Monetary Policy Committee's Q1 FY2026-27 inflation projection of 4.2%, represents a modest overshoot of 18 basis points, indicating that inflation has evolved broadly in line with the RBI's expectations. The acceleration in headline inflation was primarily driven by higher food prices and a sharp increase in gold and silver prices, while underlying inflationary pressures across most other categories remained contained.

The rise in inflation continues to be predominantly supply-driven, reflecting higher food prices, elevated precious metal prices, weather-related disruptions, and volatility in global commodity markets, rather than broad-based demand pressures. Excluding the impact of gold and silver, inflation across most consumption categories remains moderate, with core inflation staying well anchored. Going forward, geopolitical uncertainties, global commodity price movements, monsoon developments, and evolving international trade conditions remain the key upside risks to the inflation outlook, although the current inflation trajectory remains broadly consistent with the RBI's medium-term price stability objective.

Jun 2026 Inflation Snapshot (Base 2024=100)

All-India CPI Inflation (June 2026): 4.38% YoY (Provisional)	**Food Inflation (CFPI): 5.32%**	**Housing Inflation: 2.10%**	**CPI Index Level (June 2026)**
Rural: 4.74% Urban:3.92%	Rural: 5.45% Urban:5.09%	Rural: 2.66% Urban:1.90%	Rural: 107.24 Urban:106.69 Combined:107.00

Key Driver of Inflation:

Food inflation increased to 5.32% in June 2026 from 4.78% in May 2026, contributing significantly to the acceleration in headline CPI inflation. The rise was primarily driven by higher prices of key food items, including vegetables, spices and selected processed food products. Persistent food price pressures remained the main factor behind the increase in overall retail inflation during the month.

However, food inflation continued to remain concentrated in select categories rather than reflecting broad-based price increases across the entire food basket. While certain vegetables, spices and other food items witnessed upward price pressures, sharp deflation persisted in items such as potato and peas, partially offsetting the impact of rising prices in other food components. This indicates that food inflation pressures remained uneven and category-specific rather than widespread.

Top High Inflation Food/Commodity Related Items:
Tomato: 31.92%, Ginger:50.41%, Silver Jewellery: 133.21%, Gold/Diamond/Platinum: 36.82%,

Items witnessing sharp deflation:
Potato: (-20.34%), Peas: (-9.67%), Motor Car and Jeep: (-6.89%)

Food inflation in June 2026 remained influenced by supply-side constraints, weather disruptions and seasonal price movements. The concentration of price increases in specific food items suggests that inflationary pressures are largely supply-driven rather than reflecting generalized demand-side overheating.

Paan, Tobacco and Intoxicants
Inflation in the Paan, Tobacco and Intoxicants segment remained elevated in June 2026, reflecting continued price adjustments in tobacco-related products and the impact of taxation measures. The category continues to represent policy-driven inflationary pressures, as periodic tax revisions and regulatory measures influence prices more than changes in consumer demand. The persistence of inflation in this segment indicates a relatively stable but structurally higher price environment due to administered and indirect tax-related factors rather than broad-based demand pressures.

Restaurants and Accommodation Services

Inflation in the Restaurants and Accommodation Services segment increased to 6.91% in June 2026 from 5.75% in May 2026, reflecting continued upward pressure from food input costs, labour expenses, and higher operational costs. The increase indicates a sustained pass-through of rising input prices to consumers, particularly across urban consumption segments. The category continues to reflect a combination of cost-driven inflation and steady demand for hospitality services, rather than broad-based demand-side inflationary pressures. The persistence of elevated services inflation highlights the impact of higher operating expenses and gradual strengthening of consumption-led price pressures

Transport inflation increased to 4.31% in June 2026, reflecting higher transportation and logistics costs. The rise was mainly supported by increased fuel prices, higher goods transportation costs, and operating expenses for personal transport equipment. While vehicle purchase prices remained relatively subdued, overall transport-related price pressures strengthened during the month.

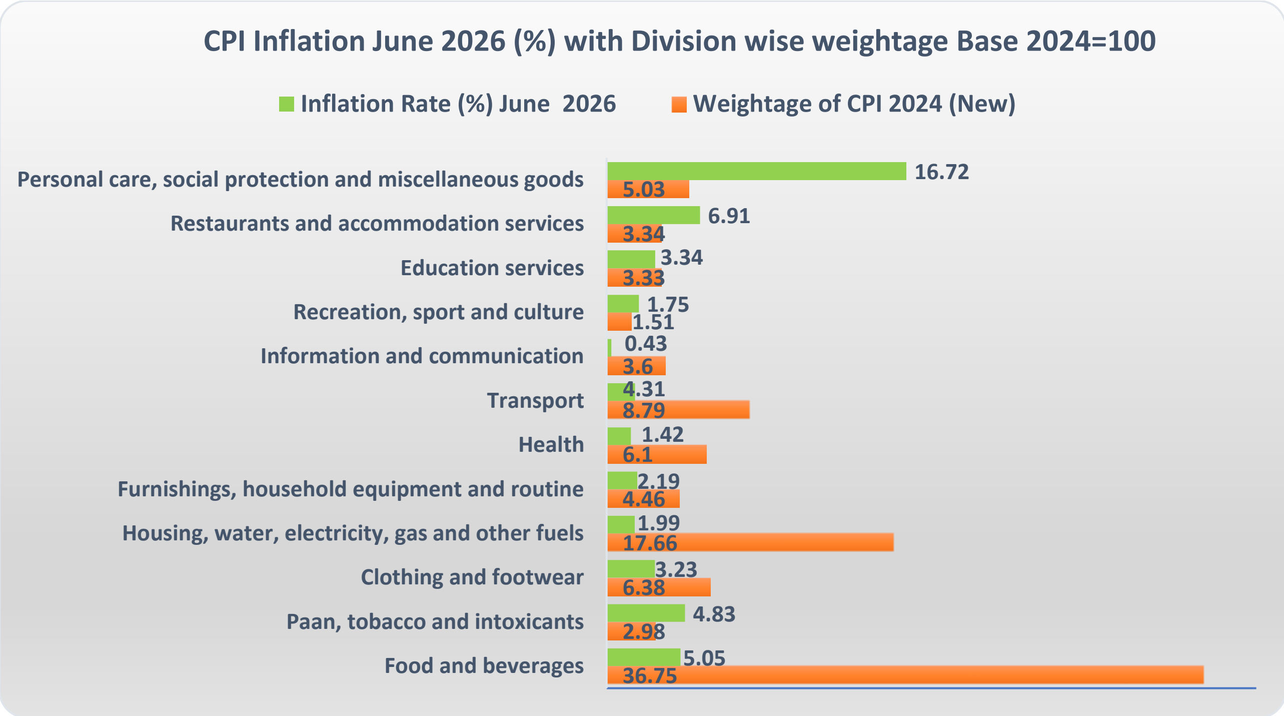
Transport inflation rising reflecting higher transportation and logistics costs along with firmer fuel prices. The increase indicates some strengthening of sectoral price pressures; however, second-round inflationary effects remain limited and require continued monitoring

Personal Care and Miscellaneous Goods

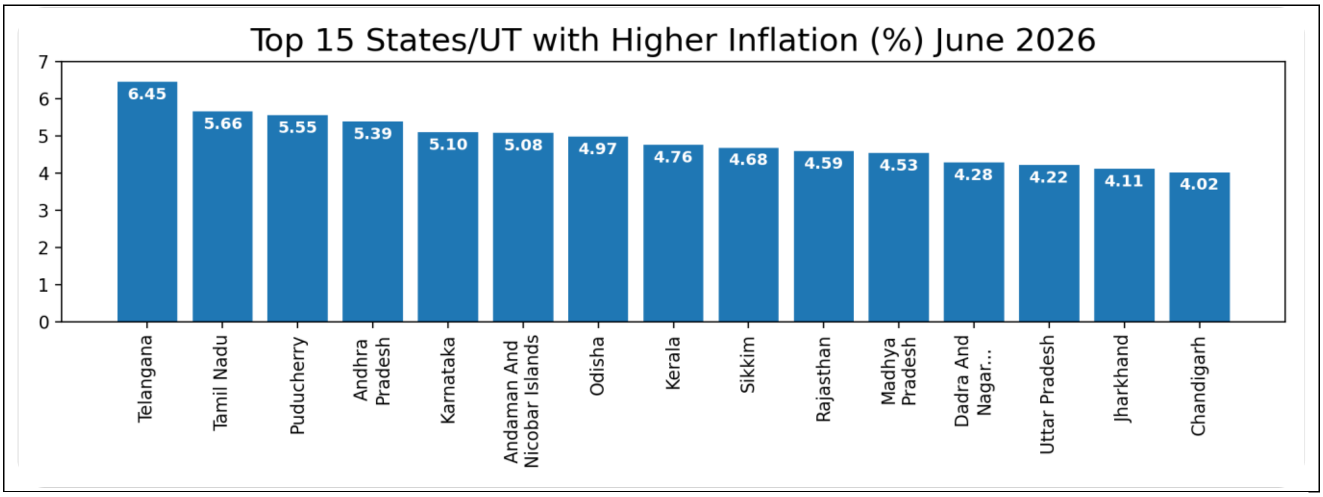
Inflation in personal care, social protection and miscellaneous goods & services remained elevated at 16.72% in June 2026, mainly driven by persistently high prices of gold, silver, and other precious metals, which continued to exert significant upward pressure on the category.

Despite their relatively low weight in the CPI basket, the sharp rise in gold and silver prices continued to exert significant upward pressure on headline inflation in June 2026. The increase mainly reflected global safe-haven demand, geopolitical uncertainties, and international commodity price movements, rather than broad-based domestic consumption-driven inflation pressures.

CPI Inflation and weight distribution across major categories (June 2026)



The state-wise inflation data for June 2026 indicates that inflationary pressures remain concentrated in several southern states and Union Territories. Telangana continued to record the highest inflation at 6.45%, followed by Tamil Nadu (5.66%), Puducherry (5.55%), and Andhra Pradesh (5.39%), reflecting relatively stronger food and services-led inflation in the southern region. Karnataka (5.10%), Andaman & Nicobar Islands (5.08%), Odisha (4.97%), Kerala (4.76%), and Sikkim (4.68%) also reported inflation above the national average of 4.4%, indicating persistent price pressures. Among other states/UTs, Rajasthan (4.59%) and Madhya Pradesh (4.53%) recorded moderately elevated inflation, while Dadra & Nagar Haveli and Daman & Diu (4.28%), Uttar Pradesh (4.22%), Jharkhand (4.11%), and Chandigarh (4.02%) registered relatively moderate inflation levels. The wide variation across states highlights regional differences in food price movements, consumption patterns, agricultural conditions, and local supply dynamics, underscoring the uneven nature of inflationary pressures across the country.



CPI Index Trends and Month-on-Month Changes (Base Year 2024 Vs 2012)

MONTH	CPI INDEX 2024 BASE	MOM CHANGE (%)	CPI INDEX 2012 BASE	MOM CHANGE (%)
Jun-25	102.51	0.60%	194.20	0.62%
Jul-25	103.35	0.82%	196.10	0.98%
Aug-25	103.74	0.38%	197.00	0.46%
Sep-25	103.74	0.00%	197.00	0.00%
Oct-25	103.74	0.00%	197.30	0.15%
Nov-25	104.01	0.26%	197.90	0.30%
Dec-25	104.10	0.09%	198.00	0.05%
Jan-26	104.45	0.35%	-	-
Feb-26	104.57	0.11%	-	-
Mar-26	104.84	0.26%	-	-
Apr-26	105.12	0.27%	-	-
May-26	105.91	0.75%	-	-
Jun-26	107.00	1.03%		

Implications for the Economy and Banking Sector

- Although CPI inflation at 4.38% remains within the RBI's tolerance band (2–6%), its rise above the medium-term target of 4% signals a resurgence of inflationary pressures. Consequently, the RBI is expected to maintain a cautious and data-dependent approach in upcoming MPC meetings, closely monitoring inflation dynamics before considering any further monetary policy easing.

- Although the southwest monsoon has progressed satisfactorily, cumulative rainfall of around 90% of the Long Period Average (LPA), compared with earlier expectations of about 92%, warrants close monitoring. Any uneven spatial distribution of rainfall or weather-related disruptions could adversely affect agricultural output, tighten food supplies and exert upward pressure on food inflation in the coming months.

- The continued increase in food inflation, particularly in vegetables, pulses and protein-rich items, remains the key driver of headline CPI inflation. Persistent food price pressures could keep inflation above the RBI's 4% target, limiting the central bank's flexibility to undertake further policy rate cuts in the near term.
- The increase in June 2026 CPI inflation has strengthened expectations of a cautious RBI policy stance, keeping government bond yields and borrowing costs under upward pressure.

- Higher inflation may reduce household purchasing power, particularly in rural areas, affecting discretionary spending and overall consumer demand.

- High gold prices may increase gold imports, putting pressure on the Current Account Deficit (CAD) and the external sector.

- Higher services inflation, particularly in housing, healthcare, transport and hospitality, reflects resilient domestic demand and suggests that inflationary pressures are gradually broadening beyond food prices.

- For banks, the rise in June 2026 CPI inflation is likely to delay further policy easing, supporting Net Interest Margins (NIMs). However, higher borrowing costs may moderate credit demand and increase repayment risks in interest-sensitive sectors.

- Global crude oil prices, geopolitical tensions and supply-chain disruptions remain key upside risks to inflation and could influence the RBI's future monetary policy decisions.

- The inflation trajectory over the next two quarters will be critical in determining the RBI's future monetary policy stance and the timing of any further policy easing.

CPI inflation in June 2026 reflects a moderate but rising inflation environment, driven primarily by food prices, services inflation and precious metals, while underlying core inflation remains broadly stable. Although inflation remains within the RBI's tolerance band, the latest reading reinforces the need for a cautious monetary policy stance.

Going forward, food prices, monsoon performance, global commodity and crude oil prices, geopolitical developments, transportation costs and precious metal prices will be the key determinants of India's inflation trajectory, monetary policy direction and banking sector performance over the coming quarters.

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Economic Research Vertical

For Suggestions and views please contact, Economic Research Vertical

080-2222 3169 (Chief Economist)
080-2227 3275 (Section)

chiefeconomist@canarabank.com
hoersection@canarabank.com