India’s Three Inflation Indices: What CPI, WPI and PPI Reveal About the Economy

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India’s Three Inflation Indices Latest News

- The government released three inflation measures for June, the **Consumer Price Index (CPI)**, **Wholesale Price Index (WPI)**, and **Producer Price Index (PPI).**
- All three showed prices rising faster in June compared to May, driven by higher food inflation and elevated fuel prices due to weak rains and the West Asia war.
- However, a deeper look at the data reveals a more complex picture of subdued consumption, profit pressures, and India’s growing dependence on China.

The Headline Numbers

- **CPI inflation** (relevant for households) rose to **4.38%** in June from 3.93% in May.
- **WPI inflation** (year-on-year change in wholesale prices) increased to **9.87%** from 9.68%.
- **Output PPI inflation** edged up to **9.57%** from 9.38%.

- Notably, headline CPI crossed the RBI’s 4% target for the first time in **17 months**.

Core Inflation Tells a Different Story

- Despite the rise in headline CPI, core inflation remained unchanged at 3.9%.
    - Core inflation measures price changes for **items excluding food and fuel**, both of which tend to be volatile and don’t reflect changes in real consumption since households cannot easily cut back on eating or essential travel.
- The most widely-used core inflation measure rose only 20 basis points over six months, from 3.7% in January.
- A narrower measure, excluding gold and silver jewellery as well, edged up to just 2.5%, sharply down from as high as 6% in early 2023.
- Economists interpret this subdued core inflation as a sign that **consumption remains weak**.

Why Has Core Inflation Fallen Despite Strong Growth?

- This presents a puzzle: core inflation fell between 2023 and 2026 even as India recorded growth exceeding 7%.
- According to economists, the explanation lies in the nature of India’s growth:
    - Over the last four fiscal years, **Gross Fixed Capital Formation (GFCF)** growth, driven by investment, has consistently outpaced private consumption growth.
    - This means the economy’s productive capacity has expanded faster than actual consumer demand.
    - Indicators like vehicle sales, and credit card and durable goods loans, point to moderating discretionary demand following the GST rate cuts of September 2025.

The China Factor: Importing Deflation

- A major driver of **India’s narrow core inflation is falling prices of Chinese goods**:
    - China’s Producer Price Index (PPI) has stayed in negative territory from October 2022 to February 2026, meaning India has effectively been “importing deflation” from China.
    - India’s goods imports from China now exceed $130 billion annually, representing close to 3.5% of India’s GDP.
- India’s increased supply chain dependence on China means price spillovers are becoming stronger.
- The **GST rate cuts** and their **resulting price reductions** have also kept core inflation subdued over the past year, though this low base effect will fade in the coming months.

Dining Out Gets Costlier

- One segment of core inflation that has risen sharply is restaurant and cafe pricing:
    - Restaurant and cafe inflation rose from 2.73% in February to 6.94% in June, driven by higher commercial LPG prices linked to the West Asia war.
    - This reflects the second-round impact of LPG price hikes, though a recent cut in cylinder prices may moderate this trend going forward.

Profit Margin Pressures in Manufacturing

- While restaurants have passed on rising costs to consumers, the manufacturing sector appears to have absorbed higher input costs instead, likely due to weak consumer demand:
  - The manufacturing sector's **output PPI declined 0.3%** in June from May.
  - Meanwhile, its **input PPI (an experimental new metric) jumped 2.1%** month-on-month in June.
- This gap indicates that manufacturers' selling prices remained largely stable even as their costs rose.
- More broadly, the all-commodity WPI rose **6.9% from February to June**, while CPI rose just **2.3%** in the same period, a significant divergence.
- Economists notes that price pressures in CPI remain "relatively moderate" despite rising input costs for producers, though the effects of May's ₹7.5/litre hike in petrol and diesel prices will likely be felt over the next 12 months.

What This Means for Monetary Policy

- Inflation remains "the cleanest indicator of the underlying strength of consumption."
- The current data suggests that consumption still requires support from monetary policy.
- With the India-US inflation differential near historical lows, analysts argue there remains room for a more accommodative interest rate environment in India.

Conclusion

- India's June inflation data paints a layered picture: rising headline numbers mask subdued core inflation, weak consumption, and growing reliance on cheaper Chinese imports.
- With manufacturers absorbing cost pressures rather than passing them on, and consumption needing continued monetary support, policymakers face a delicate balancing act between growth, prices, and India's deepening trade dependence on China.

Source: IE

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