

Explained: Clues India's 3 inflation indices offer on consumption, profits, dependence on China

India's June inflation data showed higher CPI, WPI and PPI, but core inflation stayed subdued. Here's what rising food prices, fuel costs and weak consumption mean.

Written by: **Siddharth Upasani** 5 min read New Delhi Updated: Jul 19, 2026 05:50 AM IST



With eateries passing on higher costs to diners, the second-round impact of the LPG price hikes is clearly visible, although the cut in cylinder prices earlier this month may rein it in. (Magnific)

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This week, the government released three different measures of inflation – Consumer Price Index (CPI), Wholesale Price Index (WPI), and Producer Price Index (PPI) – for the month of June. The common theme across all three was that prices rose at a faster rate in June compared to May on the back of higher food inflation and elevated fuel prices, thanks to the weak rains and the West Asia war.

CPI inflation, which is relevant for households, rose to 4.38% from 3.93% in May; WPI inflation, which measures the year-on-year [change in wholesale prices](#), increased to 9.87% from 9.68%; and output PPI inflation edged up to 9.57% from 9.38%.

But the price situation in the country is more complex than just an increase in inflation.

Core inflation and consumption

The 4% inflation the Reserve Bank of India targets refers to headline CPI inflation. And while that crossed 4% in June for the first time in 17 months, core inflation was unchanged at 3.9%.

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Core inflation measures the year-on-year change in prices for items other than food and fuel, which can be volatile. Households also may not drastically change their consumption of food and fuel just because prices rose or fell – people can't give up eating and necessary travel. This is why focussing on the non-food-non-fuel portion of the CPI can provide more useful information.

Economists think core inflation suggests consumption is subdued.

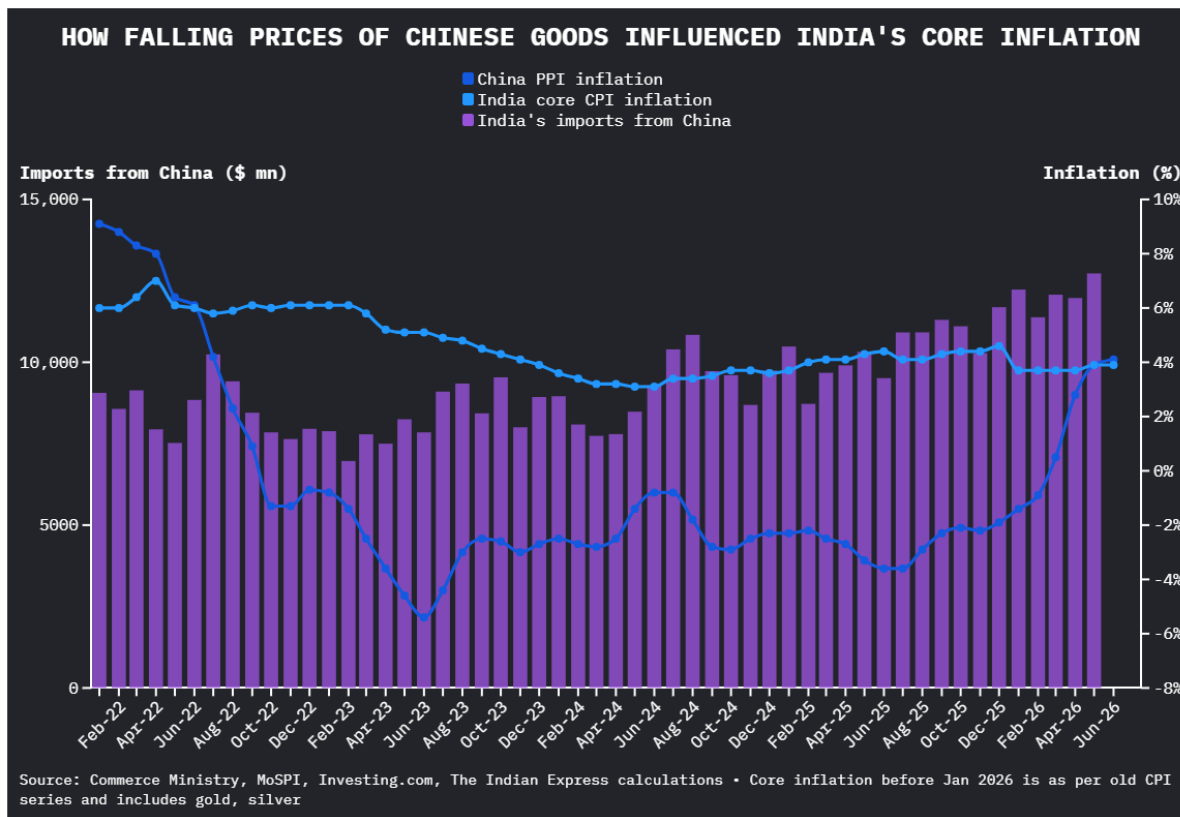
The most widely-used core inflation measure has risen only 20 basis points over the last six months from 3.7% in January. A narrower version of core inflation that also excludes gold and silver jewellery – precious metal prices have rapidly risen and fallen over the last 12 months or so – has also edged up to 2.5%. However, it was as high as 6% in early 2023.

This is puzzling: how did core inflation fall from 2023 to 2026 even as India recorded a world-beating 7%-plus growth? According to ANZ economists Dhiraj Nim and Sanjay Mathur, the answer may lie in what has been driving India's growth in recent years: investments.

“In the last four fiscal years, gross fixed capital formation (GFCF) growth has consistently driven GDP, outpacing private consumption growth. In other words, the productive capacity of the economy has grown faster than consumption demand,” Nim and Mathur said in a note Wednesday, pointing towards indicators they say reflect moderation in discretionary demand after the Goods and Services Tax rate cuts of September 2025 (vehicle sales and auto, credit card, and durable goods loans).

The China factor

Also pulling down India's non-food-non-fuel-non-precious metal inflation is falling prices of Chinese goods. According to Nim and Mathur, movement in Chinese producer prices is the second-most important driver of this narrow core inflation in India. With China's Producer Price Index (PPI) inflation in negative territory from October 2022 to February 2026, India has been importing 'deflation' from China.



“India’s increased supply chain dependence on China means price spillovers are becoming stronger. India’s goods imports from China now exceed \$130 billion annually, representing close to 3.5% of India’s GDP, ranging all kinds of goods,” Nim and Mathur said.

The GST rate cuts and the subsequent price reductions of last year also explain why core inflation has been subdued over the better part of the last one year. However, this low base effect will vanish in a couple of months.

Dining out gets expensive

One part of core inflation which has risen sharply since the West Asia war started is prices charged by restaurants and cafes. From 2.73% in February, restaurant and cafe inflation has risen to 6.94% in June because of higher commercial LPG prices.

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Profit margin pressures

Restaurants and cafes are especially sensitive to higher costs. But the manufacturing sector has seemingly stomached the increased input prices, possibly in the face of weak consumer demand.

Consider this: the output PPI – which measures the change in prices received by producers excluding net taxes at the factory gate – for the manufacturing sector declined 0.3% in June from May. At the same time, the sector's input PPI – currently being released on an experimental basis – jumped 2.1% month-on-month in June.

What does this mean? Prices received by manufacturers were little changed, but their costs rose. More broadly, while the all-commodity index of the WPI has risen 6.9% from February to June, the CPI is up just 2.3%.

Gaura Sen Gupta of IDFC FIRST Bank notes that generalisation of price pressures in CPI inflation remains “relatively moderate despite past increases in input costs for producers”. She added the inflation impact of May's Rs 7.5/litre increase in pump prices of petrol and diesel will be seen for the next 12 months.

Is it absurd to read so much into inflation data? Perhaps not. According to DSP Mutual Fund, inflation is “by far...the cleanest indicator of the underlying strength of consumption”, especially with the CPI series having been updated.

“And this print suggests that consumption still needs the support of monetary policy. Moreover, with the India-US inflation differential hovering around historical lows, the case for a more generous rate environment in India remains intact,” the fund's analysts added.

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