Economy | Macro-Cap

Input costs ease, output prices stay elevated

WPI inflation edges lower

- **WPI inflation eased marginally to 9.8% YoY in Jul’26 from 9.9% YoY in Jun’26,** marking the first moderation after several months of elevated producer price inflation.
- **The decline was mainly driven by a correction in global crude oil prices, which lowered fuel inflation during the month.** However, stronger inflation in primary articles and manufactured products partly offset the decline. Consequently, imported inflation eased in Jul'26 to 14.3% YoY from 16.4% in Jun'26.
- **WPI Food Price Index accelerated to 6.6% YoY in Jul’26 from 6.1% YoY in Jun'26**. While primary food inflation eased marginally to 5.4% YoY in Jul'26 from 5.5% YoY in Jun'26, the increase in the overall Food Index was driven by higher inflation in manufactured food products. This suggests that although inflation in primary agricultural produce remained broadly stable, rising costs of processing, packaging and other input items continued to drive up wholesale food prices across the supply chain.
- **Manufactured products inflation rose to 8.3% YoY in Jul'26 from 7.5% YoY in Jun'26**, highlighting that cost pressure continues to spread across the manufacturing sector. Inflation remained in double digits for chemicals (13.1% YoY), base metals (12.6% YoY), electrical equipment (12.3% YoY), textiles (12.8% YoY) and rubber & plastic products (10.4% YoY).
- **Agricultural terms of trade worsened in Jul'26**, as input prices increased by 13.5% YoY, while agricultural output prices rose by a comparatively lower 8.2%. As a result, agricultural terms of trade contracted by 4.6% YoY in Jul'26, slightly deeper than the 4.4% contraction in Jun'26.
- **Output Producer Price Inflation (OPPI) remained elevated at 9.6% YoY in Jul'26, unchanged from Jun'26, broadly mirroring the WPI trend**. Higher producer prices persisted across agriculture, mining and manufacturing, particularly in food products, chemicals, basic metals and textiles, indicating that firms continue to pass on higher production costs despite the recent moderation in global crude oil prices.
- **Input Producer Price Inflation (IPPI) for the manufacturing sector declined by 1.1% MoM in Jul'26 after rising 0.6% MoM in Jun'26, reflecting easing input cost pressure.** The moderation was driven primarily by lower prices of petroleum products, chemicals and textiles following the correction in crude oil prices. However, with OPPI remaining elevated, the easing in input costs has not yet translated into lower producer selling prices, suggesting that upstream price pressures remain significant.

Outlook

- Wholesale inflation is likely to remain elevated over the coming months, although the pace of increase could moderate if global crude oil prices stabilize. While the correction in crude oil prices after the US-Iran ceasefire agreement provided some relief in Jul'26, Brent crude has turned volatile over the past few

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days, trading in a range of USD83-89/bbl amid renewed geopolitical tensions in the Middle East and concerns over supply disruptions through the Strait of Hormuz. The recent rebound in crude prices has increased the risk of another round of imported inflation.

- **Overall, input cost pressures have started to ease, providing some relief to manufacturers after several months of elevated commodity prices. However, given that output price remained unchanged at 9.6% YoY in Jul'26, the decline in input costs has not yet translated into lower producer selling prices. This indicates that firms continue to pass through earlier accumulated cost increases, while the recent moderation in input prices is likely to improve corporate margins if sustained over the coming months.**
- **Going forward, the trajectory of WPI inflation will depend on global crude oil prices, geopolitical developments, monsoon outcomes and domestic food supply conditions.** A steady rise in crude oil prices could once again intensify imported inflation and keep fuel and manufacturing inflation elevated. At the same time, Super El Niño-related weather risks, weakening agricultural terms of trade and higher prices of non-food agricultural commodities could adversely affect the kharif crop and keep food inflation firm. Although the latest IPPI data suggests easing input cost pressure, the persistence of elevated OPPI indicates that producers continue to pass on earlier cost increases, implying that upside risks to wholesale and consumer inflation remain.

Exhibit 1: WPI grew 9.8% YoY in Jul'26 vs. 9.9% in Jun'26

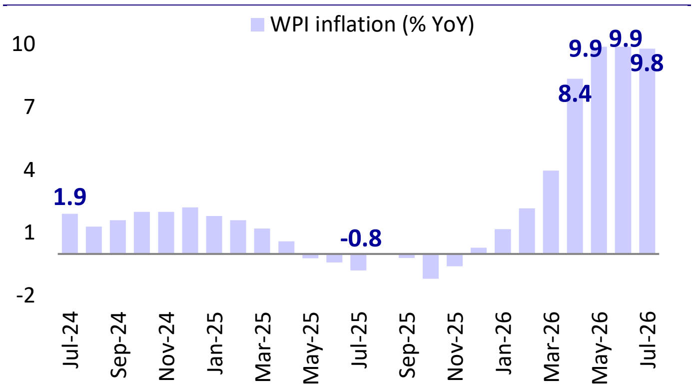


Exhibit 2: Fuel & power inflation eased to 20% YoY in Jul'26 vs. 27.4% in Jun'26

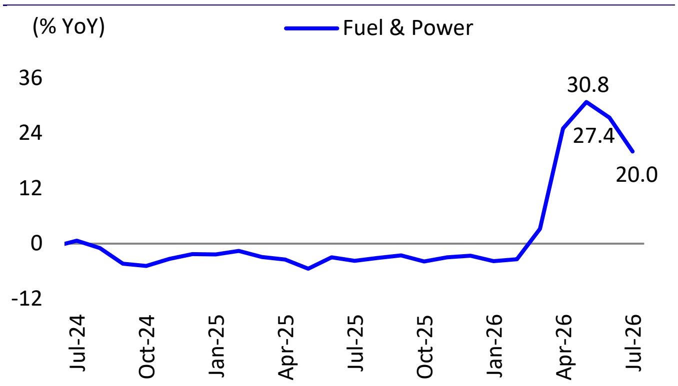


Exhibit 3: Food inflation increased to 6.6% in Jul'26 from 6.1% in Jun'26

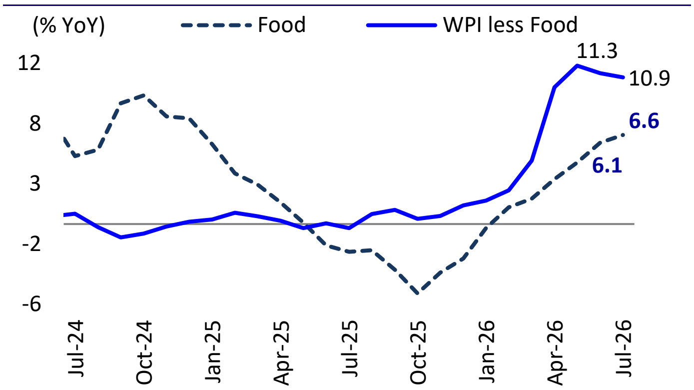


Exhibit 4: Manufacturing products inflation increased 8.3% in Jul'26, from 7.5% in Jun'26

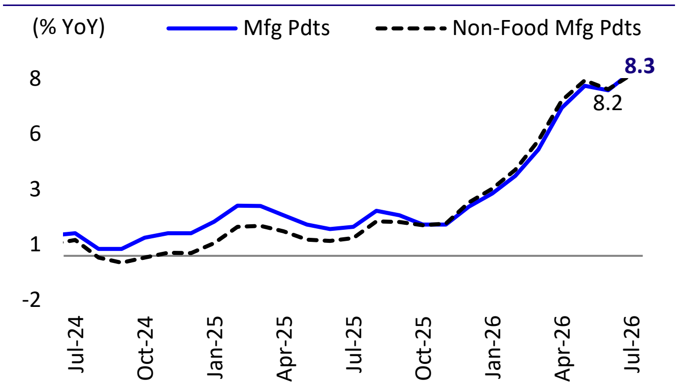
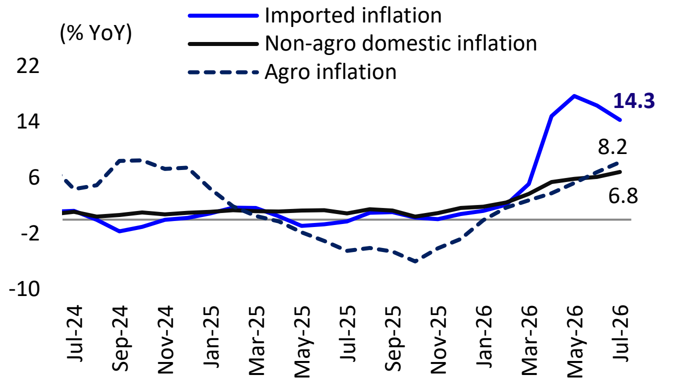


Exhibit 5: Imported inflation eased slightly to 14.3% in Jul'26 vs. 16.4% in Jun'26

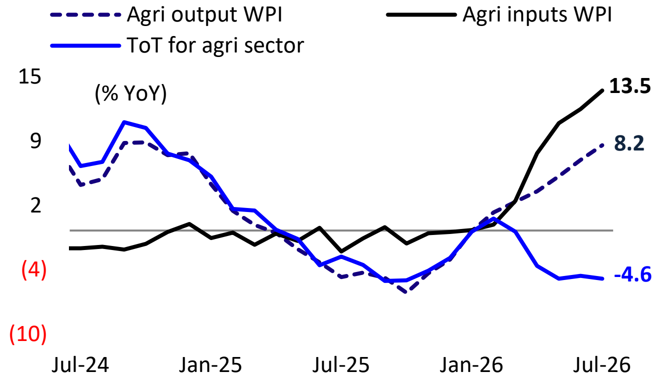


*Constituting ~41.8% weightage in the WPI basket

**Constituting ~38.8% weightage in the WPI basket

@Constituting ~19.4% weightage in the WPI basket

Exhibit 6: Agri terms of trade contracted 4.6% in Jul'26 vs. a contraction of 4.4% in Jun'26



Source: Office of Economic Adviser, MOFSL

Details

Fuel inflation moderated, but still very high

- Fuel & Power inflation moderated to 20.1% YoY in Jul'26 from 27.4% YoY in Jun'26, mainly due to the correction in international crude oil prices, which led to lower mineral oil prices.
- Despite the decline, fuel inflation remained significantly elevated and continued to be the largest contributor to WPI inflation. Moreover, with energy being a critical input across manufacturing, transportation and logistics, elevated fuel costs continue to keep overall production costs high.

Primary articles inflation continues to rise

- Primary Articles inflation accelerated to 8.5% YoY in Jul'26 from 7.0% YoY in Jun'26, continuing the steady uptrend seen over the past few months. Inflation in this category has risen consistently from 4.0% in Apr'26 and 5.3% in May'26.
- The increase was primarily driven by non-food articles, where inflation surged to 17.7% YoY in Jul'26 from 11.1% YoY in Jun'26, led by higher prices of fibers, oilseeds and other industrial raw materials. Minerals inflation also increased to 13.3% YoY in Jul'26 from 9.5% in Jun'26, adding to input cost pressures for manufacturing industries.
- In contrast, food article inflation declined marginally to 5.4% YoY in Jul'26, compared with 5.5% YoY in Jun'26, suggesting that the rise in primary article inflation was driven by non-food commodities rather than food items.

Manufacturing inflation continues to strengthen

- Manufactured Products inflation rose further to 8.3% YoY in Jul'26 from 7.5% YoY in Jun'26, highlighting that cost pressures continue to spread across the manufacturing sector.
- Inflation remained in double digits for chemicals (13.1% YoY), base metals (12.6% YoY), electrical equipment (12.3% YoY), textiles (12.8% YoY) and rubber & plastic products (10.4% YoY).
- Higher prices of metals, petrochemical feedstock and energy continued to keep input costs elevated, suggesting that producers are increasingly passing these costs through the supply chain.

Agri terms of trade worsened

- Agricultural terms of trade worsened in Jul'26, as input prices increased by 13.5% YoY, while agricultural output prices rose by a comparatively lower 8.2%. As a result, agricultural terms of trade contracted by 4.6% YoY in Jul'26, slightly deeper than the 4.4% contraction in Jun'26.
- The continued rise in input costs relative to farm-gate prices is squeezing farm profitability. If sustained, lower farm incomes could weigh on rural demand, while weaker production incentives and weather-related risks could tighten agricultural supplies and add to food inflation pressure in the coming months.

Producer price pressure raises risks of future CPI pass-through

- WPI inflation increased sharply to 9.5% YoY during Apr–Jul FY27, compared with a 0.2% decline during Apr–Jul FY26. The sharp rise was mainly driven by higher global crude oil prices, which pushed up fuel and input costs across the economy. Fuel & Power inflation jumped to 25.8% during Apr–Jul FY27 from -3.9% during Apr–Jul FY26, led by a sharp increase in mineral oil and crude petroleum prices.
- Compared with Apr–Jul FY26, inflation became much more broad-based during Apr–Jul FY27. Manufacturing inflation rose to 7.5% from 1.5%, with sectors such as chemicals, basic metals, textiles, electrical equipment and rubber products recording double-digit inflation. While primary article inflation increased to 6.2% from -2.4%, wholesale food inflation remained relatively moderate, indicating that the current inflation is mainly being driven by higher energy and industrial input costs rather than food prices.
- Overall, the comparison between Apr–Jul FY27 and Apr–Jul FY26 suggests that wholesale inflation has transitioned from an environment of commodity-led disinflation to broad-based producer price inflation. **While the initial shock originated from higher imported energy prices, the increasing breadth of manufacturing inflation indicates that upstream cost pressures are becoming more entrenched. If elevated crude oil and commodity prices persist, these producer price increases are likely to be gradually passed on to consumers, posing upside risks to core inflation over the coming quarters.**

Exhibit 7: Manufacturing sectors: Apr–Jul FY27 (% YoY) vs Apr–Jul FY26 (% YoY)

Manufacturing Sector	Apr–Jul FY26	Apr–Jul FY27	Acceleration (pp)
Chemicals	-0.7%	**13.3%**	**+14.0**
Basic Metals	-2.2%	**12.2%**	**+14.4**
Electrical Equipment	1.2%	**11.1%**	**+9.9**
Textiles	-0.4%	**10.5%**	**+11.0**
Rubber & Plastics	0.4%	**10.3%**	**+9.9**
Wood Products	4.1%	**7.9%**	**+3.8**
Food Products	5.2%	**6.7%**	**+1.5**
Fabricated Metals	-0.6%	**6.2%**	**+6.8**
Motor Vehicles	-0.6%	**1.3%**	**+1.9**
Electronics	7.2%	**-1.2%**	**-8.4**

Output producer prices remained elevated

- **The newly released OPPI broadly mirrored the WPI trend, remaining elevated at 9.6% YoY in Jul'26, unchanged from Jun'26, while WPI inflation eased marginally to 9.8% YoY in Jul'26 from 9.9% in Jun'26.** Higher producer prices continued to be observed across agriculture, mining and manufacturing, particularly in food products, chemicals, basic metals, textiles and electrical equipment. The persistence of elevated output prices suggests that producers continue to pass on higher input costs despite the recent moderation in global commodity and crude oil prices.
- **Manufacturing continued to be the key driver of output price inflation.** Inflation in manufactured products, which account for nearly 70% of the OPPI basket, moderated to 10.5% YoY in Jul'26 from 11.0% YoY in Jun'26, indicating broad-based pricing pressure across industries. Double-digit inflation persisted in textiles (14.1% YoY), other manufacturing (13.4% YoY), chemicals (13.0% YoY), base metals (12.9% YoY), rubber & plastic products (11.0% YoY), and manufactured food products (9.1% YoY).
- Agricultural output prices also strengthened further during Jul'26. Inflation in Agriculture, Forestry and Fishing increased to 7.8% YoY in Jul'26 from 6.5% YoY in Jun'26, driven by higher prices of crop and animal products and forestry products. Within agriculture, prices remained elevated for commodities such as onions, spices, oilseeds, groundnut and rubber.

Exhibit 8: Output Producer Price Index (OPPI) – Major Groups (YoY %)

Major Group	Weight	Jun'26	Jul'26
All Commodities	100.0	**9.6**	**9.6**
Agriculture, Forestry & Fishing	22.2	6.5	7.8
Mining & Quarrying	3.4	15.5	14.0
Manufactured Products	69.9	11.0	10.5
Electricity	4.5	-0.6	1.1

Exhibit 9: Key Manufacturing Industries – Output Producer Price Inflation (YoY %)

Industry	Weight	Jun'26	Jul'26
Manufacture of Food Products	8.5	7.4	9.1
Manufacture of Textiles	4.4	12.8	14.1
Manufacture of Coke & Refined Petroleum Products	7.1	45.9	32.0
Manufacture of Chemicals & Chemical Products	5.7	12.8	13.0
Manufacture of Rubber & Plastic Products	2.6	10.6	11.0
Manufacture of Basic Metals	7.5	12.6	12.9
Manufacture of Electrical Equipment	3.8	7.3	8.1
Manufacture of Computer, Electronic & Optical Products	1.8	-2.9	-3.8
Manufacture of Machinery & Equipment	2.5	1.9	2.6
Manufacture of Motor Vehicles	4.4	1.9	1.8
Other Manufacturing	6.8	11.6	13.4

Input cost pressures eased (-1.1% MoM)

- **IPPI for the manufacturing sector declined by 1.1% MoM in Jul'26**, compared with an increase of 0.6% in Jun'26, indicating that input cost pressure eased meaningfully during the month. The moderation was largely driven by the correction in international crude oil prices, which reduced energy and petrochemical input costs.
- The decline in input costs was led by coke and refined petroleum products (-12.0% MoM), which recorded the sharpest fall during the month. Input prices also declined for textiles (-3.6%), chemicals and chemical products (-2.8%),

computer, electronic and optical products (-2.7%), leather and related products (-1.9%), and pharmaceuticals (-1.2%). These sectors benefited from lower crude oil prices and softer prices of petrochemical feedstock and imported raw materials. However, input costs continued to rise in a few industries, including other manufacturing (12.8%), tobacco products (6.0%), furniture (2.9%), basic metals (2.3%), and beverages (1.8%), indicating that cost pressure remains uneven across sectors.

- **Overall, the Jul'26 IPPI data suggests that input cost pressures have started to ease, providing some relief to manufacturers after several months of elevated commodity prices. However, given that OPPI remained unchanged at 9.6% YoY in Jul'26, the decline in input costs has not yet translated into lower producer selling prices. This indicates that firms are continuing to pass through earlier accumulated cost increases, while the recent moderation in input prices is likely to improve corporate margins if sustained over the coming months.**

Exhibit 10: Input Producer Price Index (IPPI): Major Manufacturing Sectors (MoM %)

Industry Group	Weight	Jun'26	Jul'26
Manufacturing Sector	**100.0**	**0.6**	**-1.1**
Manufacture of Food Products	14.8	1.5	1.4
Manufacture of Coke & Refined Petroleum Products	12.3	1.5	-12.0
Manufacture of Basic Metals	11.3	-2.9	2.3
Manufacture of Chemicals & Chemical Products	8.0	1.8	-2.8
Manufacture of Textiles	5.9	4.3	-3.6
Manufacture of Machinery & Equipment n.e.c.	5.1	-0.1	1.0
Manufacture of Electrical Equipment	3.6	1.3	-0.4
Manufacture of Rubber & Plastic Products	3.4	0.9	-0.4
Manufacture of Computer, Electronic & Optical Products	2.2	4.2	-2.7
Manufacture of Basic Pharmaceutical Products	2.4	0.3	-1.2
Other Manufacturing	3.8	-1.7	12.8

Outlook

- Wholesale inflation is likely to remain elevated over the coming months, although the pace of increase could moderate if global crude oil prices stabilize. While the correction in crude oil prices after the US-Iran ceasefire agreement provided some relief in Jul'26, Brent crude has turned highly volatile over the past few days, trading in a range of around USD83-89/bbl amid renewed geopolitical tensions in the Middle East and concerns over supply disruptions through the Strait of Hormuz. The recent rebound in crude prices has increased the risk of another round of imported inflation.
- **Going forward, the trajectory of WPI inflation will depend on global crude oil prices, geopolitical developments, monsoon outcomes and domestic food supply conditions.** A steady rise in crude oil prices could once again intensify imported inflation and keep fuel and manufacturing inflation elevated. At the same time, Super El Niño-related weather risks, weakening agricultural terms of trade and higher prices of non-food agricultural commodities could adversely affect the kharif crop and keep food inflation firm. Although the latest IPPI data suggests easing input cost pressure, the persistence of elevated OPPI indicates that producers continue to pass on earlier cost increases, implying that upside risks to wholesale and consumer inflation remain.

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