From Onions to Interest Rates

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Decoding India's food inflation story

The Onion Paradox: Decoding the Hidden Shock Behind India's Food Bill

A data-led look at what is pushing up the household food bill, why rural inflation is higher, and where policy can help.

In September 2026, India's headline CPI inflation was 5.54%. Food inflation was much higher at 7.74%.

Why is the household food bill rising faster than headline inflation?

Retail Inflation Rises to 5.54% While Food Inflation Climbs to 7.74% → Essential Food Items Such as Onions, Potato & Animal meat Record Sharp Price Increases → Food Price Trends Diverge as Potatoes & Tomatoes Become Cheaper → Food Inflation Emerges as the Primary Driver of Headline Inflation → Rural Households Face Greater Price Pressures Than Urban Households → Questions Arise Around Weather, Crop Availability & Supply Chain Disruptions → Food Prices Rise Faster Than Overall Consumer Prices → India Experiences a Distinct Food-Led Inflation Challenge

India's food inflation is running ahead of headline inflation

Year-on-Year Inflation	Apr 2026	May 2026	Jun 2026	Jul 2026	Aug 2026	Sep 2026
Headline CPI	**3.48%**	**3.93%**	**4.38%**	**4.45%**	**4.83%**	**5.54%**
Food Inflation (CFPI)	**4.20%**	**4.78%**	**5.32%**	**5.52%**	**5.97%**	**7.74%**
Rural CPI	**3.74%**	**4.25%**	**4.74%**	**4.84%**	**5.24%**	**6.08%**

Year-on-Year Inflation	Apr 2026	May 2026	Jun 2026	Jul 2026	Aug 2026	Sep 2026
Urban CPI	3.16%	3.53%	3.92%	3.96%	4.31%	4.88%
Rural Food Inflation	4.26%	4.85%	5.45%	5.79%	6.17%	8.06%
Urban Food Inflation	4.10%	4.66%	5.09%	5.05%	5.64%	7.18%

Source: NSO/MoSPI, Consumer Price Index release for September 2026. April to August figures are final; September figures are provisional.

Why "food inflation" is not one number

Consumer Price Index (CPI) Measures the Overall Cost of Living Across Goods and Services → Consumer Food Price Index (CFPI) Focuses Specifically on Food Prices Within the CPI Basket → CPI Reflects Broad Inflationary Pressures Across the Economy → CFPI Captures Food-Specific Price Movements Driven by Weather, Harvests and Supply Conditions → Food Inflation Can Diverge Significantly from Overall Inflation → CFPI Helps Identify Food-Related Inflation Risks Hidden Within Headline CPI → Comparing CPI and CFPI Provides a Clearer Understanding of Broader Cost-of-Living Pressures and Food Inflation Dynamics

One food basket, very different price stories

Different Food Commodities Follow Different Price Trends → Supply, Harvest Cycles & Availability Vary Across Items → Some Prices Rise While Others Fall → Food Inflation Is Uneven Across the Basket → Headline Food Inflation Reflects the Combined Impact of These Movements

Volatility Classification	Commodity Sub-Category	Item Weight in Basket	YoY Inflation Rate (Sept 2026)	Real Economic Impact Factor
Hyper-Inflationary	**Onion** **Ginger** **Garlic** **Lemon**	Moderate Low Low Low	**+108.09%** **+62.85%** **+54.62%** **+36.41%**	**High Out-of-Pocket Shock:** Highly visible daily purchases that trigger strong consumer anxiety and disproportionately influence inflation perceptions.
Deflation	**Potato** **Tomato**	Moderate Moderate	**−11.50%** **−8.62%**	**Cushioning Mechanism:** Offsets the cash drain from high-inflation items, preventing the aggregate food index from rising even faster.
Sticky	**Animal Protein & Spices**	High	**+5.66% → +7.36%** *(Aug–Sep 2026)*	**The Real Culprit:** Accounts for nearly **48%** of the recent food inflation acceleration. Driven by persistent feed, input and supply-chain costs rather than temporary weather-related shocks.

Source: NSO/MoSPI, Consumer Price Index release for September 2026.

What has caused this substantial price increase?

1. Weather and crop conditions

Deficient & Erratic Monsoon • El Nino • Localised Heatwaves → Adverse Impact on Crop Conditions and Agricultural Output → Reduced Market Arrivals of Food Commodities → Tighter Food Supply → Demand for Essential Food Items Remains Largely Unchanged → Supply-Demand Imbalance Emerges → Food Prices Rise Rapidly → Higher Food Inflation

2. Higher production costs

Rising Feed, Fodder, Energy, Transport & Packaging Costs → Higher Food Production Costs → Supply Chain Cost Transmission → Higher Wholesale Prices → Higher Retail Food Prices → Sustained Food Inflationary Pressures → Food Inflation Persists Beyond the Initial Weather Shock.

3. Energy, transport and storage

Energy Costs → Higher Logistics and Input Costs Across the Food Supply Chain → Domestic Agricultural Supply Disruptions Become More Expensive → Inefficient Storage and Transport Increase Vulnerability of Perishable Produce → Greater Supply Losses and Distribution Challenges → Higher Food Prices → Food Inflation Expands Beyond the Initial Supply Shock → Broader and More Persistent Inflationary Pressures.

4. Inventories and supply management

Comfortable Rice & Wheat Stocks (584.1 Lakh Tonnes and 474.5 Lakh Tonnes) → Trade Policy Measures & Active Supply Management → Relief for Tightening Grain Markets → Reduced Pressure on Headline Food Inflation → Limited Effectiveness for Perishable Commodities such as Onions and Vegetables → Localised Supply Shortages Can Persist → Retail Food Inflation May Remain Elevated Despite Adequate Grain Inventories → Need to Monitor Wholesale Price Movements → Wholesale Inflation Acts as an Early Warning Signal → Future Retail Inflation Risks Become More Visible
Source: https://share.google/7UV8v9ysT70hx28L0

The Wholesale Inflation Warning Signal

Wholesale Food Inflation Accelerates to 8.7% → Sharp Rise in Key Agricultural Commodity Prices (Paddy +6.1% • Arhar +18.9%) → Higher Producer-Level Costs for Food Commodities → Cost Pass-Through via Transportation, Processing & Distribution Networks → Rising Wholesale Prices Feed into Retail Markets → Today's Wholesale Inflation Becomes Tomorrow's Consumer Inflation → Elevated

Inflationary Pressures Continue Moving Through the System → Retail Food Inflation May Moderate Temporarily, but Underlying Price Pressures Persist → Wholesale Inflation Serves as an Early Warning Signal for Future Consumer Inflation
Source: Wholesale Price Index (WPI) and Producer Price Index (PPI) data published by Bank of Baroda Research in BoB Economics-WPI 14Oct2026.pdf.

Food has remained sticky even as headline inflation cooled

The recent spike sits on top of a longer pattern. Headline CPI inflation moderated from 6.7% in 2022-23 to 4.6% in 2024-25. Food-and-beverages inflation, however, remained at 6.7% in 2024-25 after touching 7.0% in 2023-24. In other words, the average inflation rate improved.

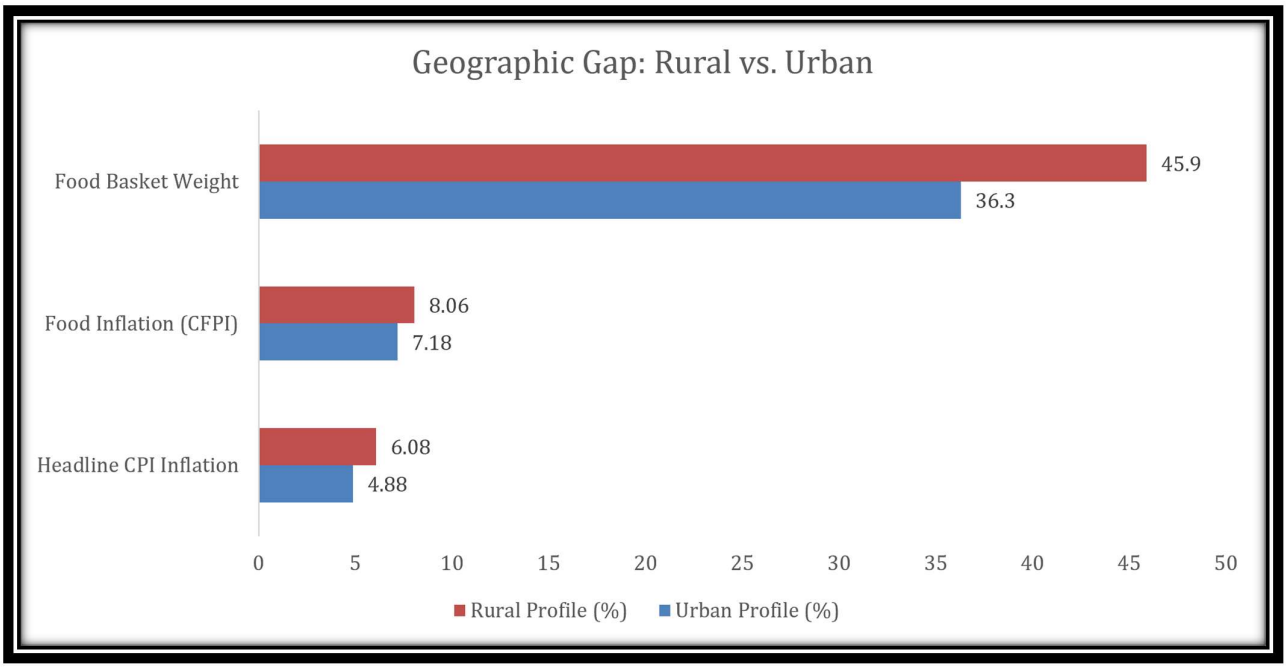
The Great Decoupling: How Food Costs Broke Away From Broad Inflation

Financial Horizon	Headline CPI Baseline	Food & Beverages Index	Macro Landscape Shift
FY 2022-23	6.7%	6.7%	**Unified Shock:** Broad global pandemic-era disruptions hit all sectors equally.
FY 2023-24	5.4%	7.0%	**The Divergence:** Core industrial manufacturing cools down, but retail food prices uncouple.
FY 2024-25	4.6%	6.7%	**Deep Entrenchment:** General consumer inflation drops, but food stays stubbornly sticky.
Q2 2026 Build-up	*Core Trend*	**+200 bps Shift**	**The Foundation:** Food inflation climbs from 3.7% in March to 5.7% in August, setting the stage for the September breakout.

Source: Reserve Bank of India, Monetary Policy Report – October 2026, as reproduced in the internal inflation presentation “D-kode, Inflation Rise”.

Why rural India feels a sharper squeeze

Rural Food Inflation (8.06%) → Household Budget Pressure → Lower Disposable Income → Reduced Non-Food Consumption → Weaker Demand → Higher Inflation Expectations → Business Price Adjustments → Broader Inflationary Pressures → Monetary Policy Implications.



Source: Ministry of Statistics and Programme Implementation (NSO), “Press Release of Consumer Price Index on Base 2024=100 for September 2026”, dated 12 October 2026

The policy dilemma

Food Supply Shocks (Weather, Crop Losses, Logistics Bottlenecks) → Higher Food Inflation → Monetary Policy Cannot Directly Create Food Supply → Need for a Dual Policy Approach → Monetary Policy (Manage Demand & Inflation Expectations) + Fiscal/Administrative Measures (Improve Availability, Storage & Distribution) → Reduced Inflation Persistence → Greater Price Stability.

Balancing the Plate and the Policy

India's recent inflation experience highlights the complex relationship between food prices, weather patterns, supply chains and monetary policy. While headline inflation may appear stable at times, underlying food inflation continues to exert significant

pressure on household budgets, influence inflation expectations and create spillover effects across the broader economy.

Looking ahead, the inflation outlook will depend on how these competing forces evolve. Adequate foodgrain stocks, government supply-side interventions and a favourable agricultural season could help ease some pressure on food prices.

Ultimately, the most important takeaway is that inflation steadily erodes the purchasing power of idle money and hence cash kept idle or in low-yield savings avenues may gradually lose real value over time, even when inflation appears moderate.

Mr. Siddharth Kothari, Economist at Sunidhi Securities & Finance Ltd. mentions **"Inflation begins at the kitchen table, but its consequences can reach the RBI's policy table.** Food prices may ignite inflationary expectations, yet it is the central bank's credibility in anchoring those expectations that determines whether a temporary shock becomes a persistent inflation problem."

Ms. Sonal Varma, MD and Chief Economist (India & Asia ex-Japan) at Nomura adds "India's food inflation challenge is becoming increasingly broad-based, with risks tilted to the upside. **Rising input costs and the prospect of El Niño conditions persisting into early next year could keep food prices elevated**. This poses a challenge not just for headline inflation, but also for growth, as higher food prices erode real disposable incomes. It also complicates policy trade-offs, as policymakers must balance the need to contain inflation expectations against supporting growth, particularly when inflationary pressures are supply-driven."

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