

Headline CPI slipped below 4% in February as food inflation eased to 21-month low; core inflation rose

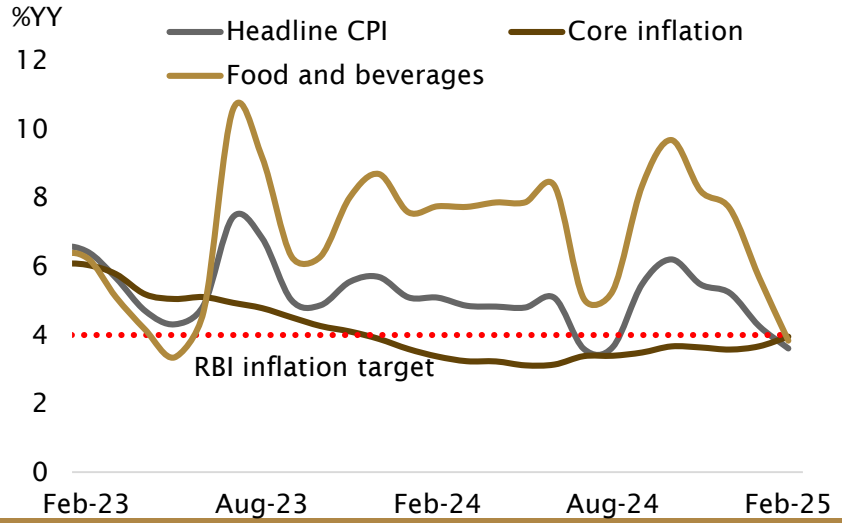
18 March, 2025

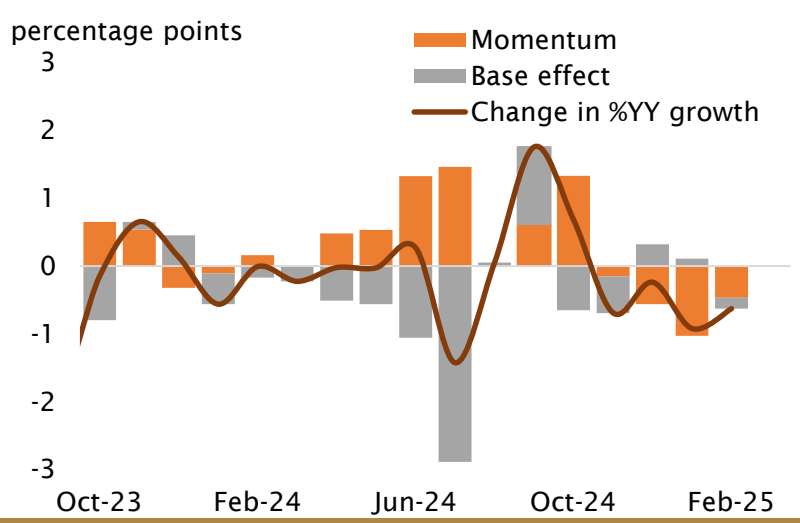
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Key takeaways

- In February, both headline CPI and food inflation slipped below core inflation for the first time since mid-2023. Headline CPI inflation slipped below the RBI's target of 4% after a gap of five months to 3.61% from 4.26% in January. The print was softer than market expectations (Bloomberg survey: 3.98%) and the moderation was supported by both month-on-month decline in the index and favorable base effects. In fiscal year-to-date terms, CPI inflation averaged 4.7% versus 5.4% in Apr-Feb FY24. Historical trends for March and high frequency data for food so far indicate a fair probability of inflation undershooting RBI MPC estimates for Q4 and full year FY25.
- Lower inflation in February was due to moderation in food inflation to 21-month low. The food and beverages index contributed 49% to headline CPI, compared to 61% in January. This easing was supported by seasonal correction in prices of vegetables that was sharper than historical trend for the month. The domestic fuel and light index has been in deflation since Sep-2023, marking the latest print as the 18th successive one of year-on-year decline in prices. Core inflation (ex-food, fuel) rose to 4.0% in February from 3.7% in January.
- Global commodity prices remain a wildcard, with the rise in external risks due to global tariff wars. Despite many uncertainties, domestic inflation outlook has improved amid record output of some food grains, as per latest estimates of farm produce. However, domestic recovery remains sluggish post the slump in Q2-FY25, as indicated by high frequency data. The confluence of these factors should enable the RBI MPC to deliver an additional 25bp rate cut in April, beyond which further easing will depend on domestic and external developments.

Headline CPI slipped below core inflation amid low food prices; CPI index fell month-on-month, base effects were favorable





Headline CPI slipped below 4% as food inflation eased to 21-month low

- Headline CPI inflation slipped below the RBI's target of 4% after a gap of five months to 3.61% from 4.26% in January. The print was softer than market expectations (Bloomberg survey: 3.98%) and the moderation was supported by both month-on-month decline in the index and favorable base effects. The index fell 0.47% from the previous month, compared to the median increase of 0.17% for the month between FY12-24.
- CPI inflation averaged 4.7% versus 5.4% in Apr-Feb FY24. Inflation can print at as high as 5.3-5.4% in March and still meet the RBI MPC's Q4 estimate at 4.4% and FY25 forecast at 4.8%. Historical trends for March and high frequency data for food so far indicate a fair probability of inflation undershooting RBI MPC estimates.
  - Lower inflation in February was due to moderation in food inflation to 21-month low of 3.84%. The food and beverages index contributed 49% to headline CPI, compared to 61% in January. In fiscal year-to-date terms (FTYD), food inflation averaged 7.1%, fractionally above 7.0% in FYTD-FY24.
  - In addition to food, inflation also eased in the clothing category, but increased in other major categories of intoxicants, housing, and miscellaneous groups due to positive month-on-month momentum that offset favorable base effects. Inflation in the miscellaneous category, which mainly includes services, remained above 4% for the sixth straight month. Inflation remained benign within subgroups of this category, except for personal care and effects that continued to reflect the ongoing rally in global prices of gold and precious metals on safe haven demand.
  - The fuel index has been in deflation since Sep-2023. Core inflation (ex-food, fuel) rose to 4.0% from 3.7% in January. On FYTD basis, core inflation has averaged 3.5%, compared to 4.4% in Apr-Feb FY24. Core services gained more than goods counterpart, tracing higher inflation in the miscellaneous group.

Food inflation eased to 21-month low in Feb-2025

%YY	Weight	Dec-24	Jan-25	Feb-25
Headline CPI	100.0	5.22	4.26	3.61
Food	45.9	7.69	5.68	3.84
Intoxicants, etc.	2.4	2.49	2.30	2.39
Clothing	6.5	2.74	2.68	2.68
Housing	10.1	2.71	2.82	2.91
Fuel and light	6.8	-1.33	-1.49	-1.33
Miscellaneous	28.3	4.19	4.35	4.78

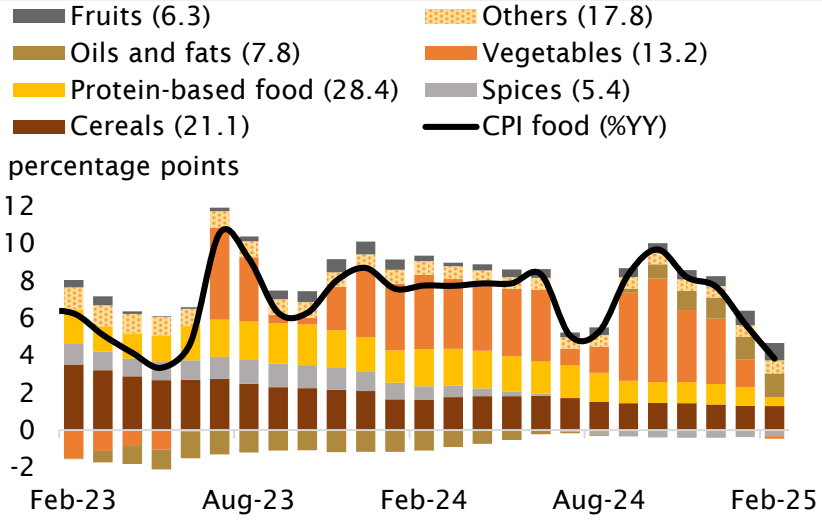
Headline, food CPI falling month-on-month since Nov

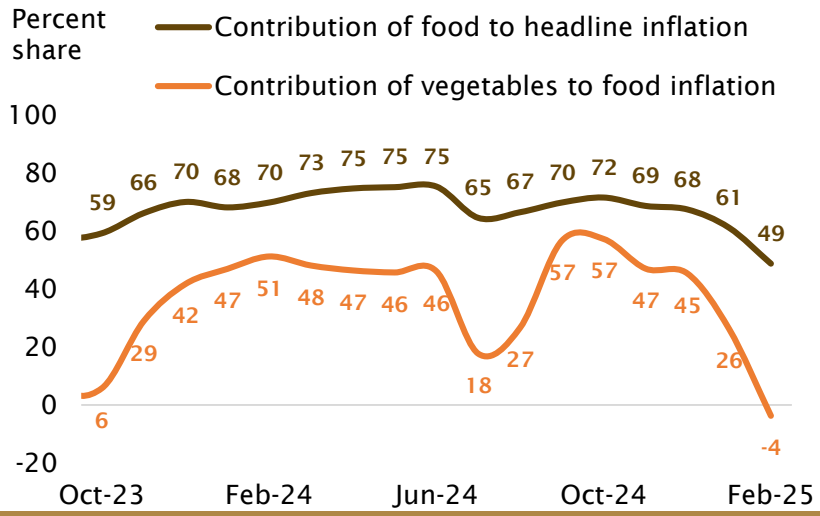
%MM, NSA	Weight	Dec-24	Jan-25	Feb-25
Headline CPI	100.0	-0.56	-1.02	-0.47
Food	45.9	-1.20	-2.43	-1.64
Intoxicants, etc.	2.4	0.19	-0.10	0.33
Clothing	6.5	0.21	0.15	0.15
Housing	10.1	-0.71	0.50	0.60
Fuel and light	6.8	0.68	0.22	0.06
Miscellaneous	28.3	0.16	0.38	0.64

Vegetables in deflation for the first time since mid-2023

- In February, food inflation eased to 3.8% from 5.7% in January, supported by 1.64% month-on-month fall in prices and a mildly favorable base effect. The food index has been declining sequentially since November, partly reflecting the seasonal winter correction in prices, and ongoing disinflation in certain sticky pockets of the food basket. The monthly fall in food prices was sharper than historical average decline of 0.28% for the month between FY12-24. Of 12 major food groups, prices fell month-on-month in vegetables, spices, and protein-based items – pulses, eggs, and meat. Prices of edible oils and prepared meals rose month-on-month, but the increase was softer than the average for the month. However, monthly price gains were steeper than historical trends in case of fruits, sugar, cereals, and non-alcoholic beverages.
- In annualized terms, pulses, eggs, and vegetables moved into deflation after a gap of 31, 27, and 19 months, respectively. Spices remained in deflation for the eighth month. Both edible oils and fruits continued to post double-digit inflation. Inflation is easing in cereals but remains above 6%, while inflation in prepared meals is rising but currently benign at 4.2%. Cereals added the most to food inflation, followed by edible oils and fruits.
- The seasonal correction in prices of vegetables at 11.2% month-on-month was sharper than historical average decline of 3.4% for the month (FY12-24). On FYTD basis, inflation in vegetables has averaged 22.4% versus 14.3% in Apr-Feb FY24. Among key vegetables, inflation in both potatoes and onions remained in double digits, easing in case of potatoes but rising in onions. Tomatoes posted deflation for the second month.

Despite high inflation in edible oils, fruits; food added less to headline CPI amid deflation in vegetables, eggs, pulses, spices

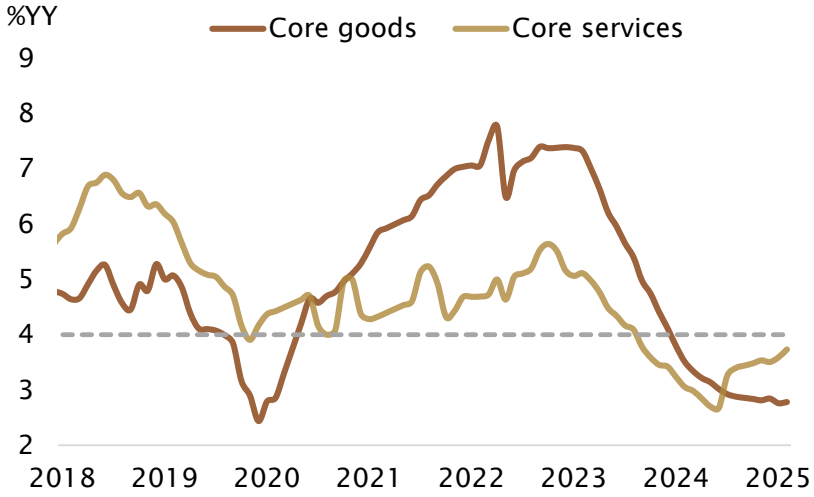


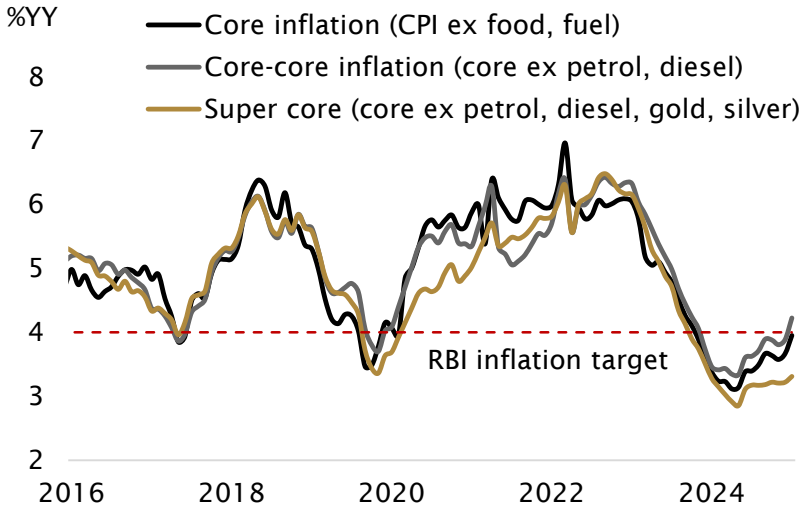


Core inflation at 4% surpassed food inflation; gains led by services

- Core inflation (ex-food, fuel) rose to 4.0% in February from 3.7% in January. It surpassed food inflation (3.8%) for the first time since Jul-2023. The increase in core inflation was due to month-on-month rise in the index that was sharper than historical trend for the month (0.55% versus 0.42% average between FY12-24), offsetting favorable base effect. However, excluding the components of gold and silver in the miscellaneous group, the monthly gain was relatively muted, enabling sub-4% annualized print.
- Within the core segments, gains were led by services categories of housing and miscellaneous groups. In case of latter, almost all sub-groups, except education, added more to core inflation. Within the transport sub-group, bus/tram fare and taxi/auto-rickshaw fare posted higher inflation and contributed more to core print. There was mild rise in core goods inflation amid increased contribution from intoxicants and miscellaneous group. Within the miscellaneous category, health and personal care products, particularly FMCG goods, added more to inflation.
- In fiscal year-to-date terms, core inflation (ex-food, fuel) has averaged 3.5% versus 4.4% in Apr-Feb FY24. This suggests a fair probability of core inflation printing below 3.6% for full year FY25, which is the median estimate from the RBI's latest Survey of Professional Forecasters (SPF). For FY26, the estimate stands at 4%. Benign core inflation and falling food inflation should keep policy space open for the RBI to deliver further policy easing in coming months.

Varied measures of core inflation are slowly starting to rise; surpassing food inflation for the first time since mid-2023

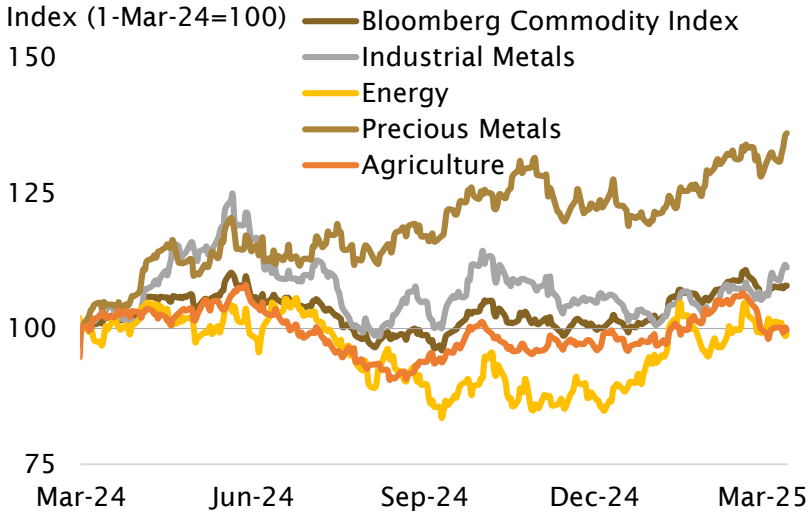




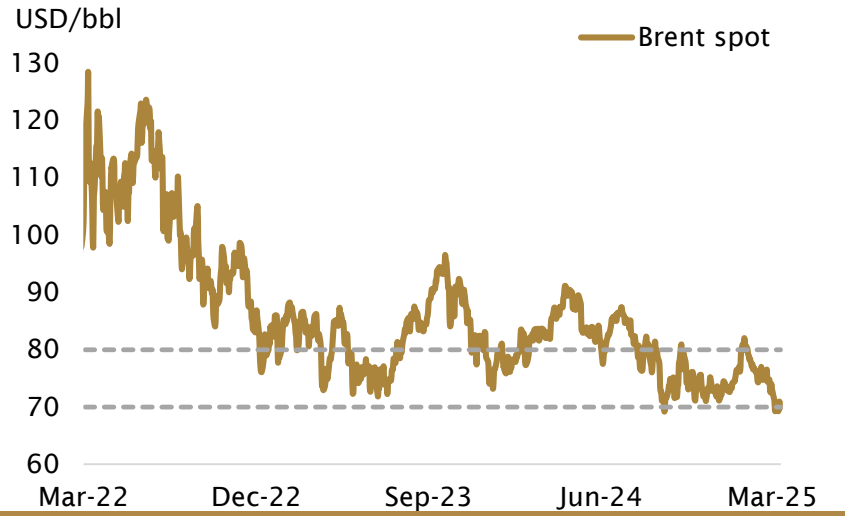
Domestic fuel index stayed in deflation; global prices remain a wildcard

- The domestic fuel and light index has been in deflation since Sep-2023, marking the latest print as the 18th successive one of year-on-year decline in prices. The sub-indices of LPG, kerosene, and diesel remained in deflation, and those of coke, firewood and chips, and charcoal posted lower inflation compared to January. There was fractional increase in inflation in the electricity sub-index.
- The quantum of potential pass through effect of rupee depreciation on domestic inflation is expected to be muted, based on estimates from the RBI latest bi-annual monetary policy report published in Oct-2024. However, the potential spill overs from global commodity prices remain a wildcard amid multiple push and pull factors that keep the outlook uncertain, though slightly tilted to the downside.
- US trade policy uncertainty remains the largest risk, with implications for its own and global growth prospects. Concerns of a near-term slowdown in the US could weigh on the outlook for commodity prices, though this could be partly offset by stimulus plans in other parts of the world. China recently announced a slew of measures to boost domestic consumption, Germany is working its way to unveil an infrastructure plan for its economy, while the EU has proposed to increase its defence spending.
- In its latest note, the US EIA kept oil price forecast for 2025 unchanged at USD74/b. The OPEC+ nations announced unwinding of output cuts starting April, which should help offset the impact of recent US policies of 1) tighter sanctions on Iranian oil 2) revoking licenses on oil production in Venezuela and exports to US.

Metals driving year-on-year gains in commodity prices



Crude oil prices remain soft and range-bound



Outlook

- **Assessing historical trends:** In March, base effect is slated to be neutral for headline CPI and favorable for core CPI, shaving off around 13bps from the latter. Historical trends (FY12-24) based on month-on-month change indicate headline inflation to see an uptick in March by a few basis points but remain sub-4% and core inflation at about 4.10-4.15%. This suggests a fair probability of undershoot to RBI MPC's latest forecast for Q4 at 4.4% by 50bps, and full year FY25 forecast at 4.8% by 6bps.

- **High frequency data:** Daily data from the Department of Consumer Affairs for March so far (17-Mar) shows mixed trends, with deepening deflation in pulses, softening inflation and even deflation in some items within cereals and key vegetables (onion-tomato-potato), but further rise in inflation in edible oils and sugar. The seasonal correction in vegetable prices, which has aided the recent easing in headline CPI, tends to weaken in March. This is evident in latest data on key vegetables, where month-on-month decline in prices has narrowed, compared to February. These factors could limit further downside to food inflation from current rates.

- **Sowing and crop output:**
  - As of 13-Mar, summer sowing is progressing well, with area sown exceeding previous year's levels across most major crops, barring mild deficiencies in case of cereals such as bajra and maize.
  - As per second advance estimates for FY25, Kharif production is expected to be higher by almost 7%YY at 1664 LMT and Rabi output by 3% at 1645 LMT amid record production attained in rice, wheat, maize, groundnut, and soybean. Despite year-on-year gains in output, Kharif pulses and Rabi rice are slated to be below average levels between FY19-23.
  - The first advance estimates on horticulture produce shows around 2%YY increase in output despite slight decline in area under production. Production of fruits, vegetables, and plantation crops is expected to be higher amid decline in case of spices.

- **Rainfall, reservoir, and weather conditions:**
  - In its update for the hot weather season (March to May), the IMD has forecast above-normal number of heat wave days over most parts of the country, with certain exceptions. This warrants caution on outlook for Rabi crop harvest and spill overs to food inflation.
  - The winter season rainfall (Jan-Feb) was 47% below LPA, with deficiencies across regions. The pre-monsoon season rainfall starting 1-Mar (and as on 12-Mar), was 34% below LPA, except for the southern part. Weak La Nina conditions continue to prevail and are expected to last till March before turning

Policy implication

ENSO-neutral, which marks a neutral outlook for the monsoon season.
- Data till 13-Mar shows that reservoir levels across regions and in the country as a whole were at or above normal and last year's levels, except for the northern and eastern regions that were at or above last year's levels but recorded deficiency vis-à-vis normal storage levels.

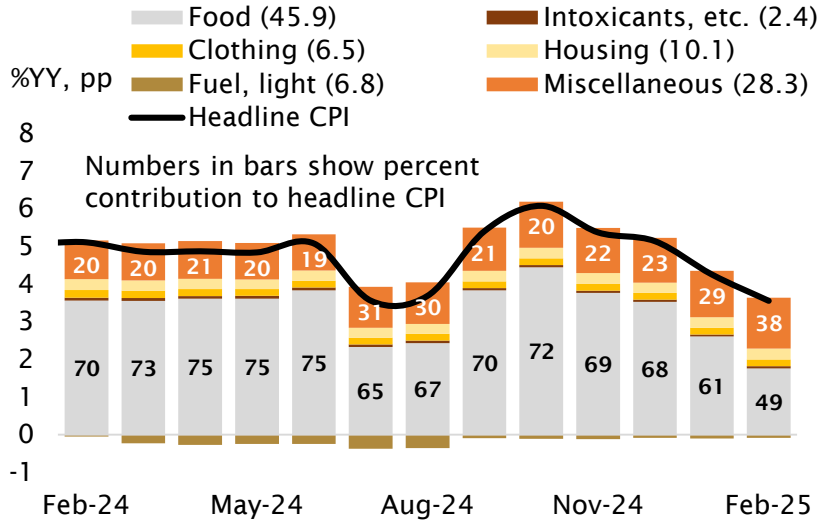
- **Procurement and stock:** In Kharif Marketing Season (KMS) 2024-25, 458 LMT of paddy had been procured (up to 28-Feb) versus 438 LMT in the same period last year. The procurement of wheat in Rabi Marketing Season (RMS) 2024-25 was 266 LMT, up from 262 LMT in RMS 2023-24. As on 28-Feb, wheat and rice stocks in the central pool totaled 502 LMT, higher than 360 LMT in the same period of 2024.

- **Government intervention:** In addition to the various measures announced in the Union Budget for FY26 to improve agriculture productivity and enhance the welfare of farmers, the government continues to intervene on the supply side to ensure timely availability of major food grains and horticulture items at affordable prices. In a latest such measure, the government lowered stock limits for wheat for traders, retailers, and processors to prevent hoarding and ensure moderate prices.

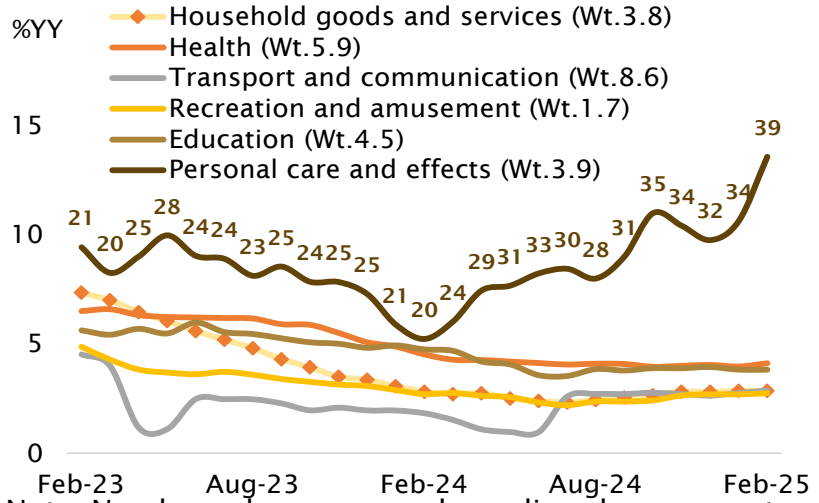
- **Policy implication:**
  - Real GDP growth improved in Q3-FY25 to 6.2%YY, following the slump to sub-6% in Q2. However, high frequency data indicates underwhelming economic recovery in recent months, with chances of growth in Q4 likely missing the implied rate of 7.6%YY, based on second estimate of GDP growth for FY25 at 6.5%.
  - External risks to both growth and inflation continue to exacerbate in the backdrop of tariff wars that is imparting volatility to financial markets, including INR weakness in recent months. The pass through to domestic inflation from the latter is expected to be muted, but internal risks remain, with the IMD's forecast of above normal number of heat wave days during March-May that could impact Rabi harvest.
  - However, second advance estimates (SAE) of agriculture produce suggest record output for some of the key food grains. Also, base effect for the food index expected to be favorable for most of H1-FY26, suggesting a fair probability of food inflation moderating in coming months.
  - Easing inflation provides RBI MPC with the required space to further trim the policy rate to support growth. Post the 25bp rate cut in February, an additional 25bp cut is priced in by the market for the April MPC meet. In addition to recent steps to loosen liquidity conditions and regulatory norms, easing beyond the likely cut in April will depend on domestic and external developments in coming months.

Lower food inflation enabled headline CPI to ease below 4%

Food contributed less to CPI; miscellaneous added more

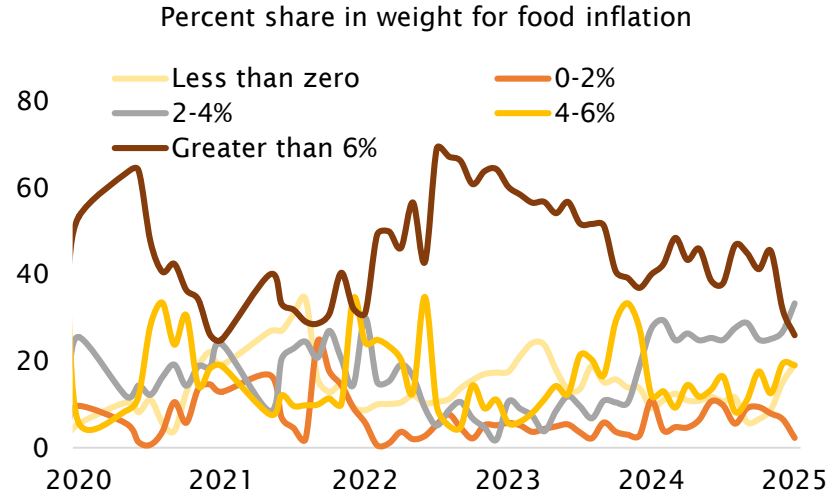


Miscellaneous group inflation led by personal care

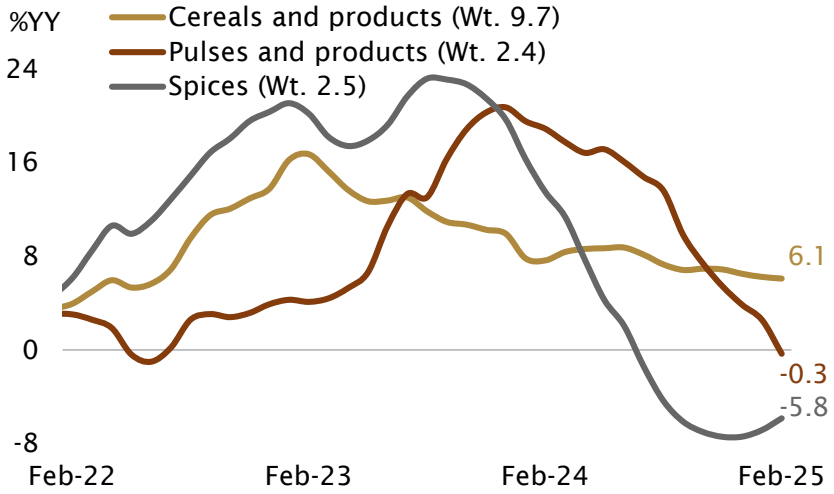


Note: Numbers above personal care line show percent share in contribution to misc. group inflation

Drop in share of food items with inflation above 6%

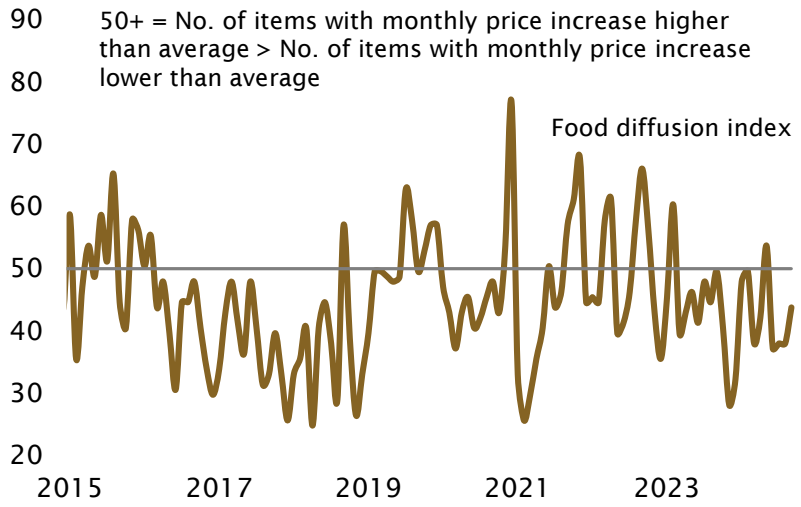


Pulses in deflation for the first time since mid-2022

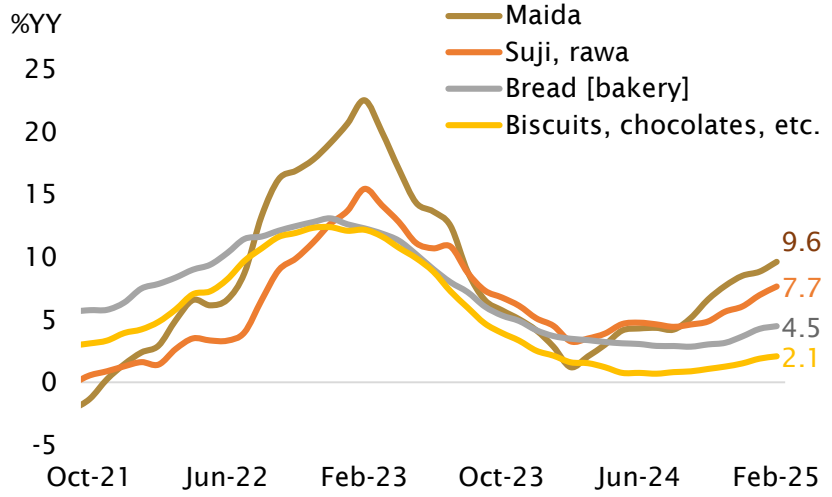


Despite lingering concerns, food inflation outlook has improved

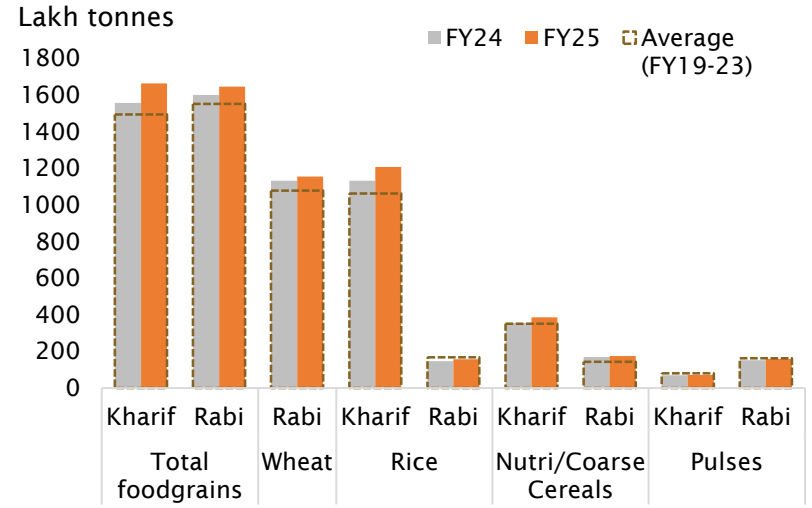
Food diffusion index remains benign



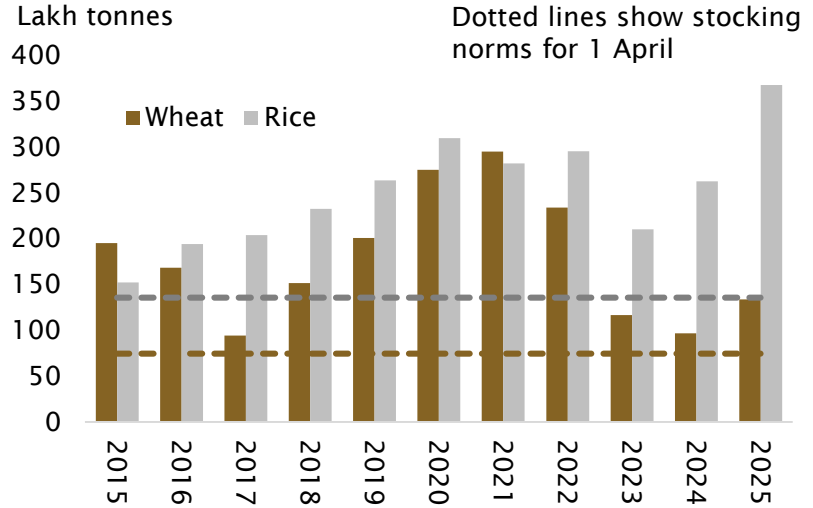
Second order effects due to sticky inflation in cereals



Second advance estimates of food grain output FY25



Procurement of Kharif paddy and Rabi wheat (28-Feb)



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