

Headline CPI eased to the softest pace in more than five years in March, averaged lower in FY25 than in FY24

23 April, 2025

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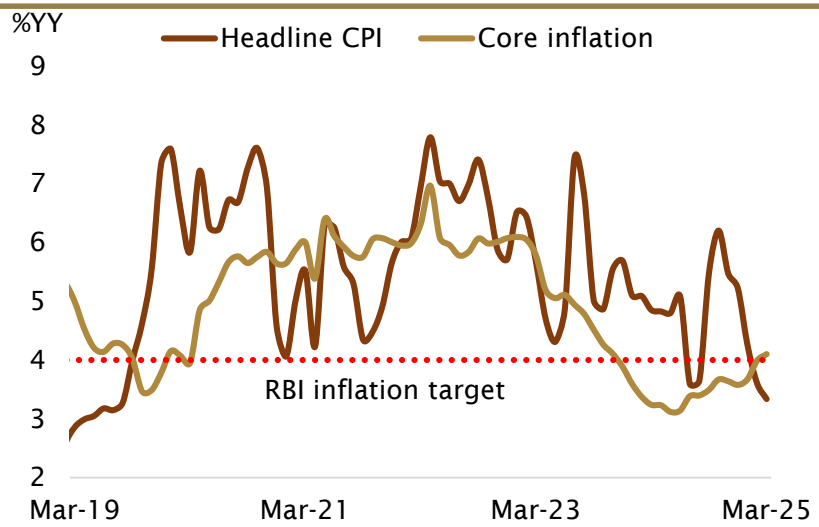
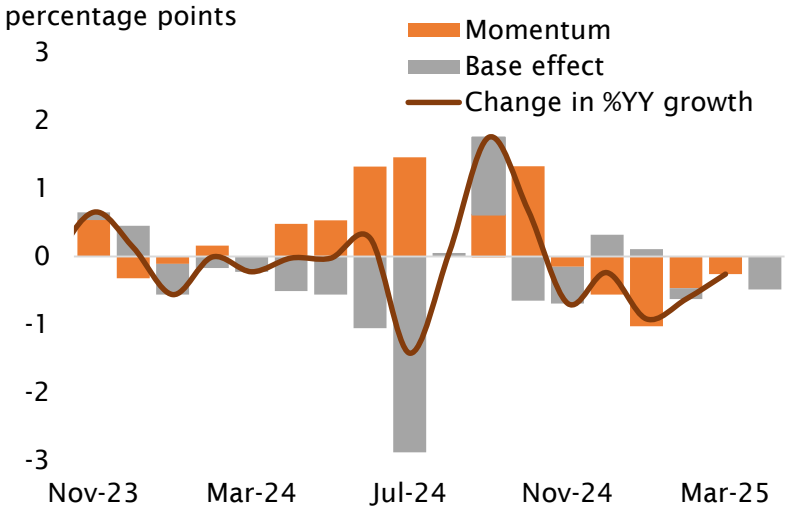
Key takeaways

- In Mar-2025, headline CPI inflation eased to the slowest pace in more than five years at 3.34%. The print was below street estimates (Reuters poll: 3.60%) amid 0.26% month-on-month fall in the index and flat base effect. In FY25, CPI averaged 4.63%, an undershoot to the RBI MPC's forecast of 4.8% and below 5.36% average in FY24.
- Among categories, food inflation (wt. 45.9) moderated to 40-month low of 2.88%, marking the second straight print of sub-4%, in line with the headline CPI. In addition to food, inflation also eased in the clothing group, but increased in categories of intoxicants, housing, and miscellaneous items. The fuel and light index moved out of deflation after 18 months, but inflation was soft at 1.5%. Core inflation rose mildly to 4.1% from 4.0% in February. For the fiscal year FY25, core inflation averaged 3.5%, lower than 4.3% in FY24.
- The outlook for food inflation has improved with the latest RBI MPC statement exuding confidence that inflation is on track to durably align with the 4% target. The forecast of above normal monsoon this year and declining global commodity prices, particularly crude oil, bode well for domestic inflation outlook. However, there are risks to watch out for, including unexpected extreme climate events; and an uncertain external environment that continues to impart volatility to financial markets, including currency movements.
- However, the latest inflation print suggests that the RBI MPC has space to support domestic growth by continuing to ease monetary conditions. The extent of further easing would also depend on the evolving external backdrop that remains uncertain due to the ongoing tariff wars.

Headline CPI eased to the lowest in more than five years at 3.3% amid lower food inflation; core inflation rose mildly to 4.1%





Headline CPI eased to 67-month low, printing sub-4% for second month

- In Mar-2025, headline CPI eased by about 27bps vis-à-vis the previous month, marking the slowest pace in more than five years or a 67-month low at 3.34%. The print was below market expectations (Reuters poll: 3.60%) amid 0.26% month-on-month fall in the index and flat base effect. This was contrary to historical trend for the month (FY12-24) that showed sequential gains of 0.23% (median) – 0.29% (average). For the quarter, CPI inflation averaged 3.73%, below the RBI MPC's forecast of 4.4%. For the fiscal year FY25, CPI averaged 4.63%, also an undershoot to the MPC's forecast of 4.8% and below 5.36% average in FY24.
- Among categories, food inflation (wt. 45.9) moderated to 40-month low of 2.88%, also marking the second straight print of sub-4%, in line with the headline CPI. The food and beverages index contributed 40% to CPI inflation, down from 49% in February. In FY25 as a whole, food inflation averaged 6.7% versus 7.0% in FY24.
- In addition to food, inflation also eased in the clothing category, but increased in categories of intoxicants and miscellaneous groups due to positive month-on-month momentum that offset favorable base effects. In case of housing, unfavorable base effect weighed on mild month-on-month decline that contributed to slightly higher inflation compared to the previous month, though it remained soft at sub-4%.
- Inflation in the miscellaneous group, which mainly includes services, remained above 4% for the seventh straight month. Inflation remained benign within subgroups, except health and personal care. The latter continued to reflect the ongoing rally in global prices of gold and precious metals on safe haven demand.
- The fuel and light index moved out of deflation after 18 months, but inflation was soft at 1.5%. The index averaged (-)2.5% in FY25 versus 1.3% in FY24. Core inflation rose mildly to 4.1% from 4.0% in February. For the fiscal year FY25, core inflation averaged 3.5%, lower than 4.3% in FY24.

Both headline, food inflation eased to multi-year lows in Mar-2025; falling month-on-month for the fifth straight month

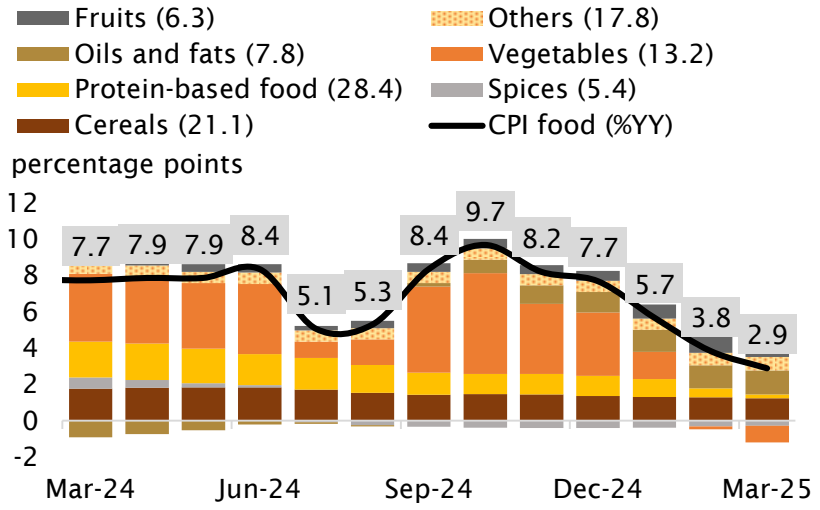
%YY	Weight	Jan-25	Feb-25	Mar-25
Headline CPI	100.0	4.26	3.61	3.34
Food	45.9	5.68	3.84	2.88
Intoxicants, etc.	2.4	2.30	2.44	2.48
Clothing	6.5	2.68	2.68	2.62
Housing	10.1	2.82	2.91	3.03
Fuel and light	6.8	-1.49	-1.33	1.48
Miscellaneous	28.3	4.35	4.84	4.99

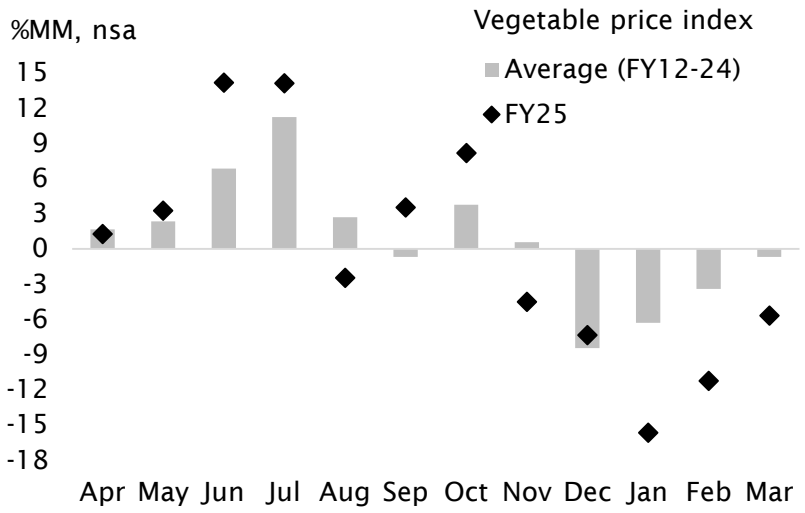
%MM, NSA	Weight	Jan-25	Feb-25	Mar-25
Headline CPI	100.0	-1.02	-0.47	-0.26
Food	45.9	-2.43	-1.64	-0.71
Intoxicants, etc.	2.4	-0.10	0.38	0.29
Clothing	6.5	0.15	0.15	0.10
Housing	10.1	0.50	0.60	-0.05
Fuel and light	6.8	0.22	0.06	0.06
Miscellaneous	28.3	0.38	0.69	0.37

Food prices declined sequentially for the fifth straight month

- Food inflation eased to 40-month low of 2.9% in March from 3.8% in February. The moderation was supported by month-on-month decrease in prices and a favorable base effect. The month-on-month drop of 0.7% marked the fifth straight month of decline and was contrary to historical trends (FY12-24) for the month of March that indicated gains of around 0.23% (median) – 0.25% (average).
- Of 12 major food groups, prices fell month-on-month in vegetables, spices, and protein-based items – pulses, eggs, and meat. Prices of prepared meals, cereals, and milk rose month-on-month, but the increase was softer than historical averages for the month. However, monthly price gains were steeper than historical trends in case of fruits, sugar, edible oils, and non-alcoholic beverages.
- In annualized terms, vegetables, pulses and eggs remained in deflation for the second straight month. Spices have been in deflation for nine months now. Inflation softened in protein-based items such as milk and meat. However, pockets of concern remained. Inflation in prepared meals is gradually rising, while the disinflation in cereals continues at a tardy pace. Inflation in edible oils and fruits remained in double digits. In fact, edible oils displaced cereals as the category adding the most to food inflation, followed by fruits and prepared meals.
- The seasonal correction in prices of vegetables at 5.7% month-on-month was shallower than in February but sharper than historical average (FY12-24) decline of 0.7% for the month of March. For FY25 as a whole, inflation in vegetables averaged 20.0% versus 15.5% in FY24.

Food inflation eased to the lowest since Dec-2021, aided by sharper-than-average seasonal decline in vegetable prices

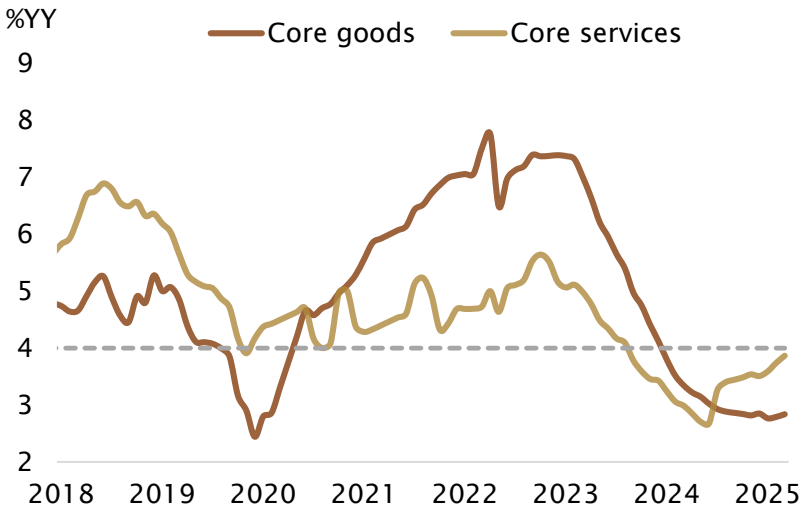


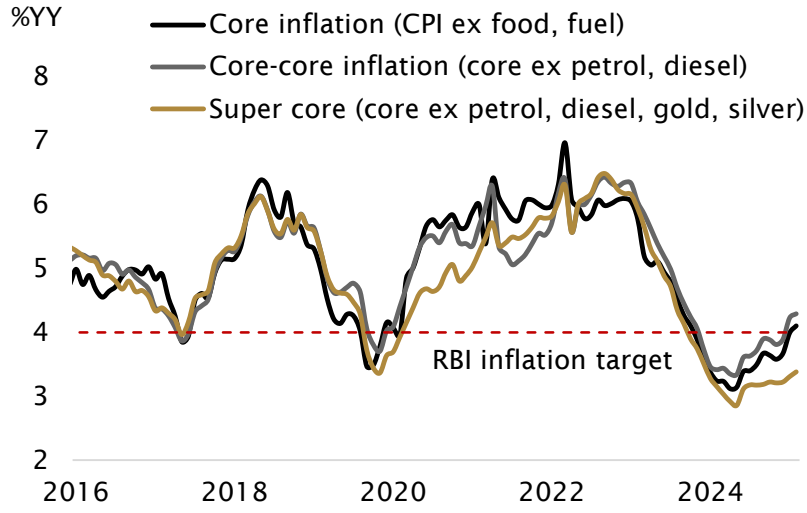


Core inflation breached 4% after 15 months but remains benign

- In Mar-2025, core inflation (ex-food, fuel) breached the 4% mark for the first time in 15 months, rising mildly to 4.1% from 4.0% in February. The month-on-month increase of 0.24% was softer than historical gains (FY12-24) for the month of around 0.28% (median) – 0.33% (average). In FY25, core inflation averaged 3.5%, lower than 4.3% in FY24 and the softest annualized print in the current CPI series starting Jan-2011.
- Both core goods and services groups printed higher than in February but remained sub-4%. Within core goods, gains were led by health (medicines), transport (motor car, cycle, etc.), and personal care and effects groups (FMCG products). Within core services, housing (rent), and transport and communication (bus and taxi fare, telecom charges) contributed more to inflation. In FY25, both core goods and services inflation averaged below 4% at 2.9% and 3.3%, respectively, compared to 4.9% and 3.8%, respectively in FY24. But for the first time in the post-pandemic period, core services inflation averaged higher than core goods category.
- Other measures of core inflation continued to point to gradual increase in March but do not indicate any immediate cause of concern. In fact, some of the measures, particularly the ones excluding gold and silver, remain sub-4%. In FY25, almost all measures of core inflation averaged below 4%.
- As per the RBI's latest Survey of Professional Forecasters (SPF), the median forecast for core inflation stands at 4.3% for FY26. Results from the survey on inflation expectations of households showed declines in three- and 12-month ahead expectations that bodes well for anchoring of inflation expectations in the near term.

Amid recent gains in core services inflation, average for FY25 was higher than for core goods, though both were sub-4%

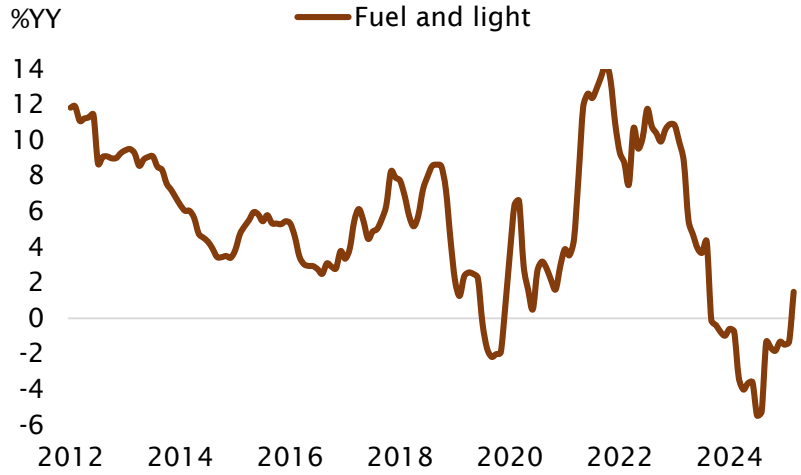


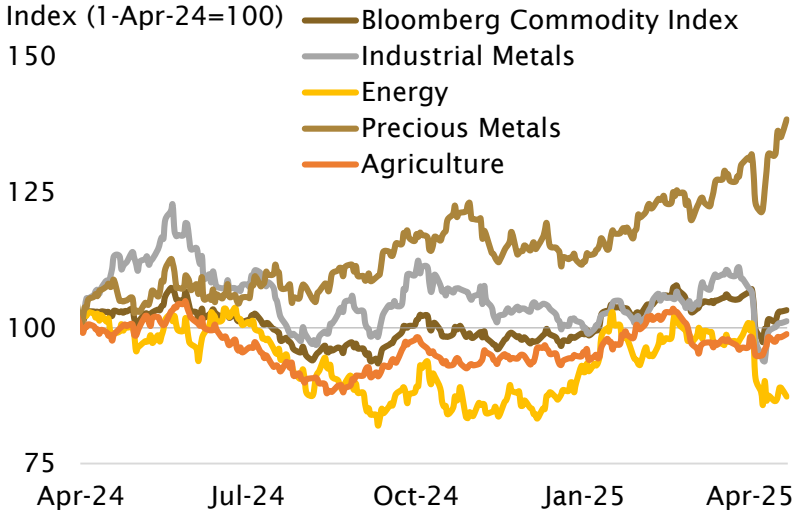


Domestic fuel index moved out of deflation after 18 months

- The domestic fuel and light index increased 1.5%YY after remaining in deflation for 18 successive months or since Sep-2023. The kerosene PDS sub-index posted gains after declining for six straight months, while the extent of deflation in kerosene non-PDS and diesel categories narrowed. Inflation in the electricity sub-index rose for the third consecutive month. Inflation in other categories such as coke and coal eased. In FY25, inflation in the fuel and light index averaged (-)2.5% versus 1.3% in FY24 and double-digit prints in FY22-23.
- Going forward, trends in this category need to be monitored. Recently, the government hiked excise duty on petrol and diesel, though retail prices are not expected to rise immediately. Amid rising global rates of LPG, the government has also raised domestic prices by Rs.50/cylinder, while easing rates for commercial users.
- Global commodity prices, particularly crude oil and industrial metals, continue to soften, as the ongoing tariff wars are expected to keep demand muted amid lower global growth prospects. On the other hand, rising uncertainties continue to fuel the rally in precious metal prices on safe haven demand.
- In its latest bi-annual monetary policy report (MPR), the RBI has assumed crude oil (Indian basket) to average USD70/b in FY26, compared to USD80/b in H2-FY25. The report notes that if crude oil prices drop by 10% relative to the baseline, inflation could be lower by 30 bps with a boost of 15 bps to real GDP.
- In its latest note, the US EIA cut Brent crude oil price forecasts for 2025 and 2026 to USD68/b and USD61/b, respectively, from USD74/b and USD68/b, respectively due to increased supply and lower demand dynamics.

Domestic fuel index out of deflation after 18 months; global energy, industrial metal prices fell on slowdown fears





Outlook

- **Assessing historical trends:** In April, base effects are slated to be favorable for headline and core inflation, dragging down both by 48bps and 58bps, respectively. Historical trends (FY12-24) based on sequential change indicate headline inflation to be around 3.42% – 3.68% and core inflation around 4.06% – 4.12% in April. However, with the seasonal winter correction in food prices behind us, it is quite likely that food inflation has bottomed at current rates, which could add some upside to inflation in April.

- **High frequency data:** Daily data from the Department of Consumer Affairs (till April 22) shows mixed trends for food inflation during the month. Deflation in some of the key pulses such as arhar/tur, moong, masur, and urad has sharpened compared to March. Inflation in cereals and sugar has eased. Deflation in key vegetables (tomato-onion-potato) turned steeper, aided by favorable base effects amid mixed month-on-month trends. However, inflation in edible oils continued to surge.

- **Crop sowing:** Summer sowing of major crops is progressing well, with overall levels above that of last year as on April 18. However, compared to the normal area sown during summer, overall sowing is deficient due to lower sowing of pulses, particularly green gram. In case of horticulture crops, Rabi sowing of key vegetables was on above last year's and normal levels in case of onion and potato but deficient in case of tomato (as on April 4). However, the sowing window is still available for tomato crop and is expected to achieve normal area.

- **Rainfall, reservoir, and weather conditions:**
  - The IMD has predicted a strong probability of above normal monsoon seasonal rainfall this year at 105% of long period average (LPA). This bodes well for farm sector prospects, and therefore, food inflation.
  - As on April 17, the reservoir levels in the country as a whole were above last year's and normal levels. However, the spatial distribution was uneven with deficiencies in the eastern and southern regions.
  - Between March 1 – April 16, the pre-monsoon season rainfall was 23% deficient in the country due to less rains in eastern and northern parts that more than offset surpluses in southern and central regions.

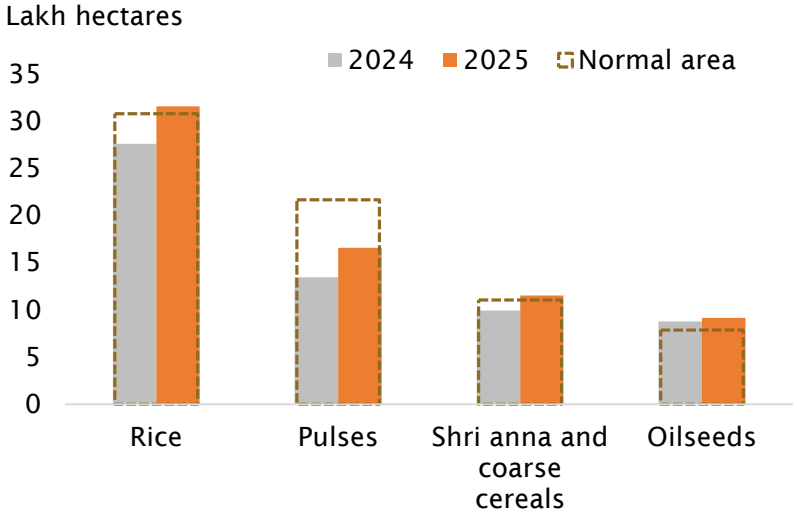
- **Procurement and stock:** In Kharif Marketing Season (KMS) 2024-25, 511 LMT of paddy had been procured (up to 31-Mar) versus 479 LMT in the same period last year. The procurement of wheat in Rabi Marketing Season (RMS) 2025-26 has been 3.87 LMT so far versus total procurement of 266 LMT in RMS 2024-25. As on 31-Mar, wheat and rice stocks in the central pool totaled 500 LMT, higher than 377 LMT in the same period of 2024.

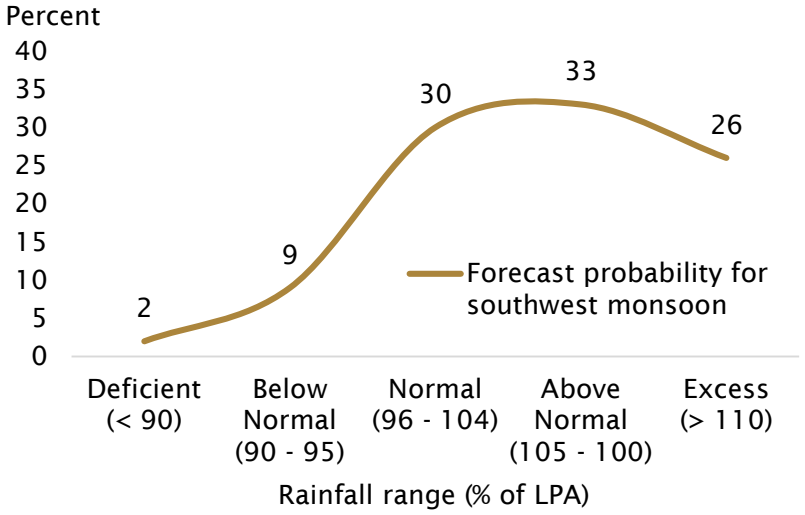
Policy implication

- **Government intervention:** The government continues to monitor availability of food grains and crops, and intervene as required. In a latest such measure, the government has advised traders, retailers, and processors to declare their stock position of wheat every week to prevent speculation, and keep prices in check.
- **Policy implication:**
  - In its latest bi-monthly policy meeting, the RBI MPC pruned forecasts for both domestic growth and inflation by 20bps each to 6.5% and 4.0%, respectively. In fact, actual inflation data for Jan-Mar and the quarterly MPC forecasts indicate that inflation is likely to average sub-4% in CY2025. The policy statement exuded confidence that inflation was on track to durably align with the RBI's 4% target, mainly as food inflation outlook had improved amid bumper Kharif and Rabi produce.
  - In this backdrop, the IMD's prediction of above normal rainfall in 2025 bodes well for farm sector prospects. Global commodity prices, particularly oil, continue to soften amid risks to global growth outlook due to the ongoing tariff wars. Lower crude oil prices could act as a tailwind for domestic inflation outlook.
  - However, there are risks to watch out for, such as:
    1. Unexpected extreme climate events could disrupt agriculture activity.
    2. The favorable winter seasonal correction in prices of horticulture items, particularly vegetables, is expected to fade in coming months.
    3. Core inflation is rising, though the outlook remains benign with results from the latest RBI's Survey of Professional Forecasters (SPF) suggesting median forecast of 4.3% for FY26.
    4. The pass-through to domestic inflation from the recent hikes in petrol and diesel excise duties, and domestic LPG cylinder prices need to be watch out for.
    5. In addition to the increase in import duty on edible oils, global prices are continuing to rise, which could remain a source of pressure for domestic food inflation.
    6. In its latest bi-annual Monetary Policy Report (MPR), the RBI noted that 5% depreciation of the INR relative to the baseline (Rs.86/USD in FY26) could raise domestic inflation by 35bps and lift GDP growth by 25bps through the trade channel in the short term. Also, any upward pressure on food prices could add 50bps to headline inflation compared to baseline forecast of 4.0% for FY26.
  - The latest inflation print and improved outlook for food inflation suggest that the RBI MPC has space to support domestic growth by continuing to ease monetary conditions. In addition to the latest 25bp rate cut that moved the policy rate to 6.0%, the change in policy stance to 'accommodative' gives the MPC the scope to ease beyond the neutral rate of 5.5% (assuming inflation forecast of 4% for FY26 and real rate of interest at 1.5%). The extent of further easing would also depend on the evolving external backdrop that remains volatile due to the ongoing tariff wars.

Inflation outlook, particularly for food, continues to improve

Summer sowing on track but lower than normal in pulses; IMD has forecast strong probability of above normal rainfall

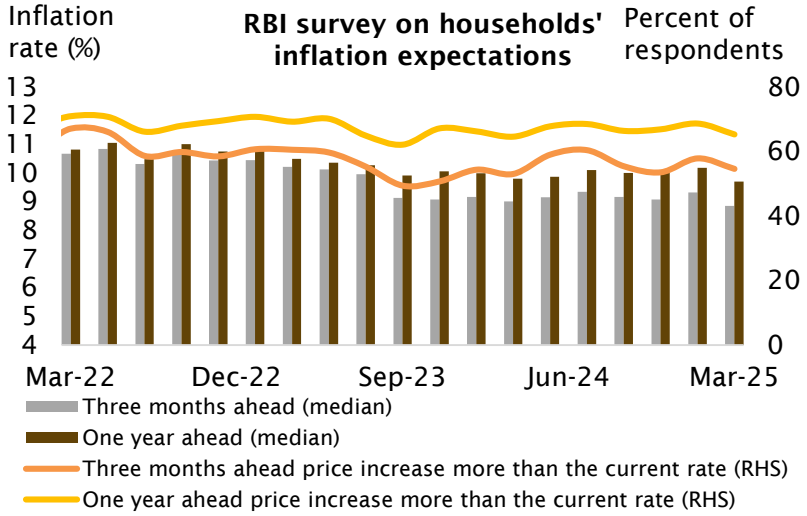




Key vegetables remain in deflation; households' inflation expectations fell in latest RBI survey

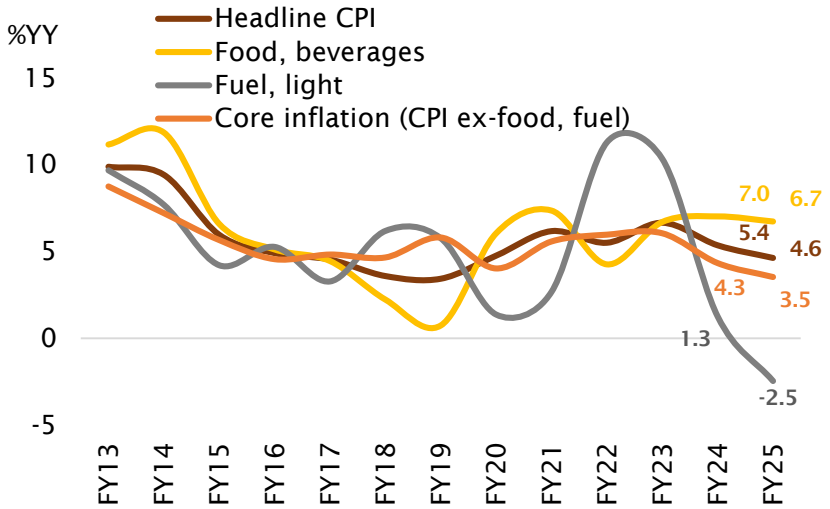
%YY	Tomato	Onion	Potato	Vegetables
Wt. in CPI	0.57	0.64	0.98	6.0
Jan-25	-7.0	16.4	49.6	11.3
Feb-25	-28.6	30.2	26.1	-1.1
Mar-25	-35.0	19.3	2.3	-7.0
Apr-25*	-33.0	-8.1	-13.4	
%MM				
Jan-25	-35.1	-21.6	-20.5	-15.7
Feb-25	-21.3	-6.8	-19.6	-11.2
Mar-25	-11.3	-7.1	-6.4	-5.7
Apr-25*	4.9	-12.2	2.3	

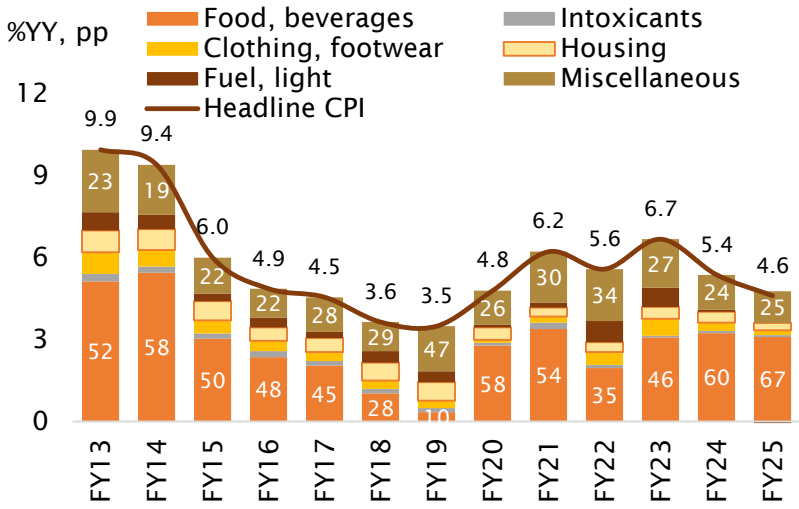
Note: *All India retail price till Apr 22.
Source: Department of Consumer Affairs



Except for food, inflation was benign across categories in FY25

Despite lower food inflation, the category contributed more to headline CPI than in FY24 amid overall easing in inflation



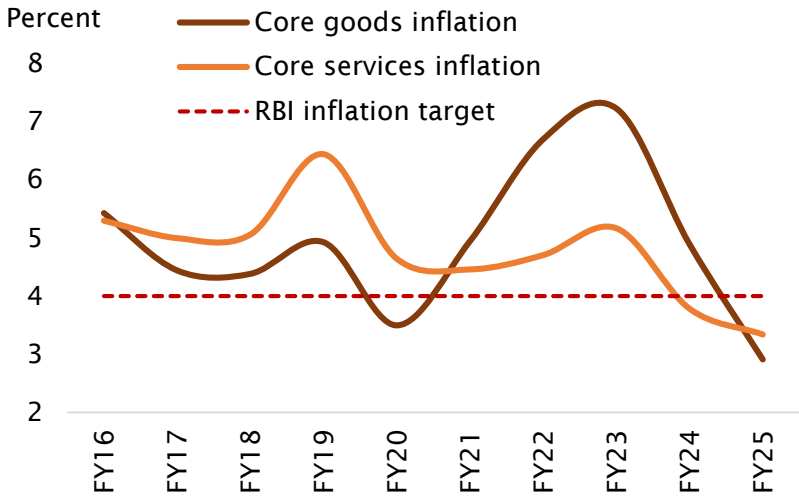


Note: Numbers in bars show percent contribution to headline CPI

Ex-food, inflation was benign across groups in FY25

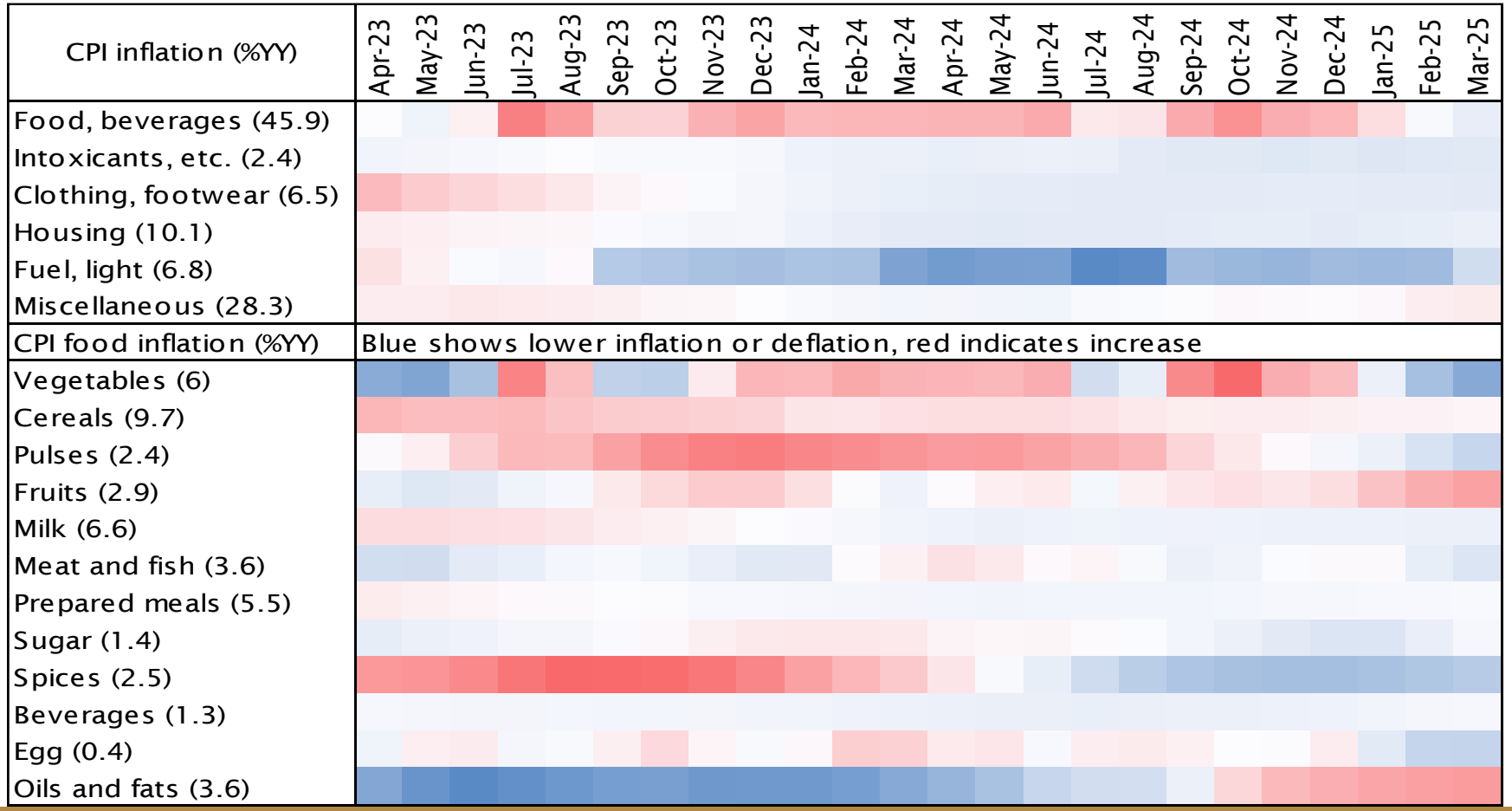
%YY	Wt.	Q1	Q2	Q3	Q4	FY25	LTA (FY13-24)
Headline CPI	100.0	4.9	4.2	5.6	3.7	4.6 ↓	5.9
Food, bev.	45.9	8.0	6.2	8.5	4.1	6.7 ↑	6.1
Intoxicants	2.4	3.0	2.7	2.4	2.4	2.7 ↓	6.8
Clothing	6.5	2.8	2.7	2.7	2.7	2.7 ↓	6.2
Housing	10.1	2.6	2.7	2.8	2.9	2.8 ↓	5.5
Fuel, light	6.8	-3.8	-4.0	-1.6	-0.4	-2.5 ↓	5.8
Miscelleneous	28.3	3.5	3.9	4.3	4.7	4.1 ↓	5.4
Core inflation	0.6	3.2	3.4	3.6	3.9	3.5 ↓	5.6

Both core goods and services inflation averaged sub-4%



Food inflation has eased in recent months, increased in services group

Food inflation has eased in recent months, reaching a 40-month low in Mar-2025. Inflation in vegetables that had been imparting volatility to food inflation has abated in recent months. Inflation in cereals, pulses, and spices that was cause of concern for most of FY24 has softened and in fact, pulses and spices have slipped into deflation. However, inflation in oils and fats, and fruits has been rising. Also, inflation in the miscellaneous group that mostly consists of services has been above 4% for seven months in a row now, though that is partly attributable to the surge in global prices of gold. In the latest print, the fuel and light group moved out of deflation after 18 months. However, except for the miscellaneous group, inflation stays benign and sub-4% in the remaining major categories.



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