

Headline CPI remained low in August; Kharif sowing and monsoon progress, GST rate cuts augur well for outlook

17 September, 2025

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Data highlights

Headline CPI inflation

- Headline CPI inflation rose to 2.07% in August from 1.61% in July amid neutral base effect and positive but below average monthly change of 0.46%. The headline print was in line with market expectations (Reuters poll: 2.1%).
- In fiscal year-to-date terms, CPI inflation averaged 2.35% vs. 4.17% in Apr-Aug FY25.
- In August, core inflation (ex-food, fuel) was largely stable at around 4.1%. In FYTD terms, core inflation has averaged 4.2% vs. 3.2% in the same period a year ago.

Food, beverage (Wt. 45.9%)

- The food index posted mild inflation at 0.05% after remaining in deflation for two months. The sub-indices of vegetables, spices, and pulses remained in deflation, while edible oils inflation stayed in double-digits and increased further.
- The month-on-month change in food index was below previous trends for August (FY12-25) but base effect was slightly unfavorable. Prices rose sequentially in 8 out of 12 food sub-groups, with cereals prices rising for the first time in five months.

Fuel and light (Wt. 6.8%)

- Domestic fuel inflation remained positive for the sixth consecutive month in August but eased from the previous month to 2.43%. Base effect was favorable and the month-on-month increase was below historical trends.
- Continued deflation in kerosene PDS sub-index and lower inflation in electricity offset higher inflation in some other sub-indices such as LPG.

Miscellaneous (Wt. 28.3%)

- Inflation in the miscellaneous group mildly increased to 5.05% from 5.01% in July. Inflation in this segment has been above 4% for a year now. In August, gains were led by personal care and effects segment, while inflation in other sub-indices eased.
- The increase and continued double-digit inflation in the personal care sub-group continued to reflect the surge in global prices of precious metals such as gold and silver, and also higher inflation in some FMCG goods such as soaps and shampoos.

Outlook and policy implication

- **Assessing historical trends:** Historical data shows that after peaking in July, the month-on-month change in headline CPI index tends to ease in August and September. Base effect is slated to be favorable in September and October. The median and average measures based on FY12-25 data show that headline inflation could ease in September to 1.8%-2.0%, while core inflation could rise to 4.3% from 4.1% in the past two months.

- **High frequency data:** Data till 15-Sep shows continued double-digit inflation in edible oils and higher inflation in sugar. Deflation has continued in key pulses, albeit at mildly shallower rates. But data shows further easing or deflation in major cereals, and weak price impulses in key vegetables. These suggest that though food has moved out of deflation, prices so far do not indicate sharp upside surprises for September.

- **Sowing:** Data as on 12-Sep shows total Kharif sowing was up 1.4%YY, with sowing of rice and coarse cereals above last year's and normal area sown for the season. Total pulses sowing was above last year's level, but deficiency in some was offset by surplus sowing of others. Sowing of oilseeds stayed below last year's levels.

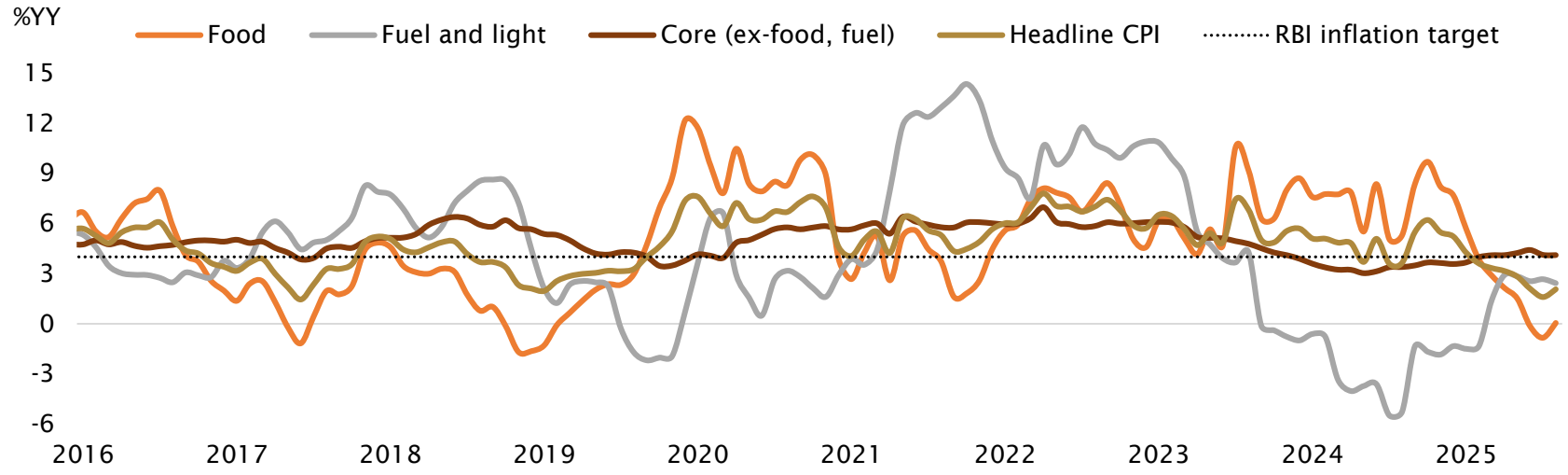
- **Monsoon progress, reservoir levels:** For the country, the southwest monsoon rain was 8% above long period average as of 10-Sep. But distribution was skewed, with surpluses in most regions being partly offset by deficient rains in the east and north-east regions. This trend was reflected in reservoir storage levels, with above normal storage across regions being partially offset by deficiency in the north.

- **Global commodity prices:** Brent spot remains below USD70/b and decision by OPEC+ to further raise output from October indicates continued downward bias to prices. Gains in Bloomberg commodity index continue to be led by precious metals on safe haven demand amid the ongoing US tariff-related and geopolitical woes.

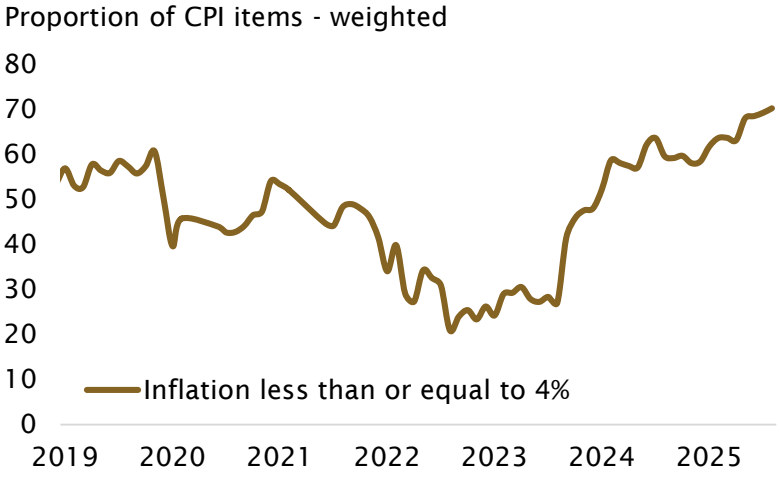
- **Policy implication:** The GST reforms will impart a disinflationary impulse to domestic prices going forward. Risks to the benign inflation outlook could stem from 1) unexpected climate events that could impact Kharif harvest 2) further INR depreciation 3) demand boost from fiscal stimuli (income tax relief plus GST rate cuts).
- At its upcoming policy meeting decision on 1-Oct, the RBI MPC is likely to keep the policy rate stable at 5.50% and stance at neutral. Real GDP growth data for Q1 at 7.8% was stronger than its estimate of 6.5%. The MPC might prefer to wait and assess the impact of various factors on domestic growth-inflation dynamics, such as: 1) 50% US tariffs on India and the ongoing trade negotiations between the two economies 2) domestic GST reforms and rate rationalization 3) transmission of front-loaded monetary easing in June.

Headline CPI inflation rose to 2.1% in Aug from 1.6% in Jul

CPI inflation rose to 2.07% in August from 1.61% in July – food moved out of deflation, posted mild inflation at 0.05%



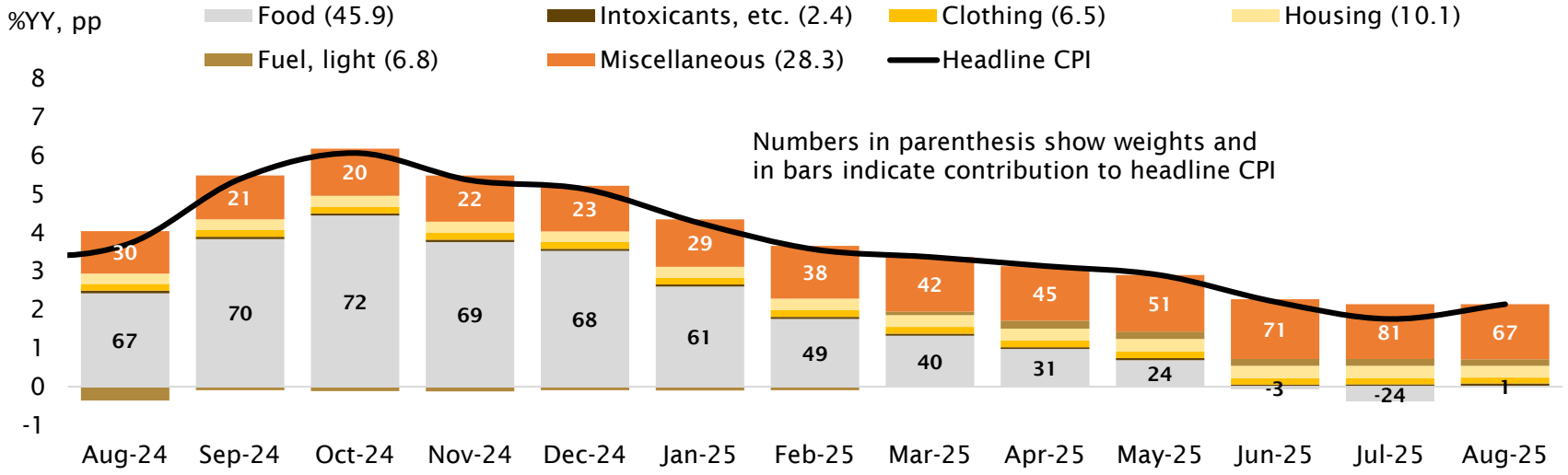
Around 70% of CPI basket posted inflation less than or equal to 4%; miscellaneous category inflation stayed above 4%



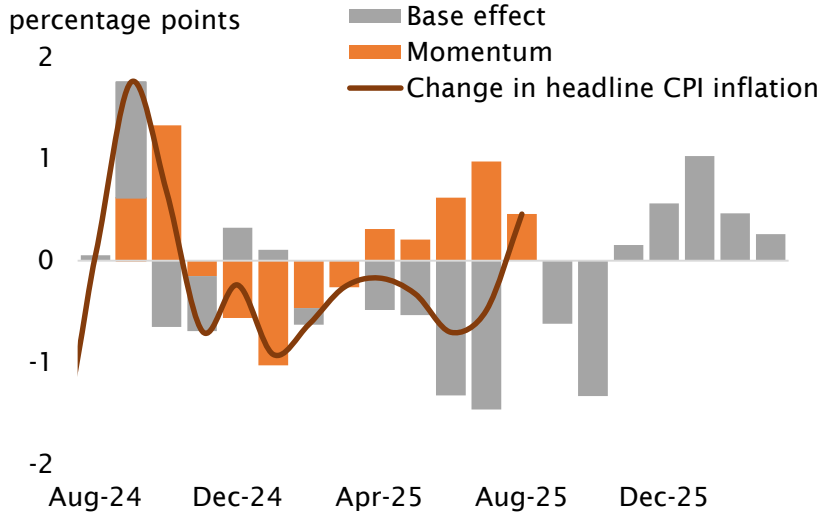
%YY	Weight	Jun-25	Jul-25	Aug-25
Headline CPI	100.0	2.10	1.61	2.07
Food	45.9	-0.15	-0.84	0.05
Intoxicants	2.4	2.41	2.45	2.49
Clothing	6.5	2.55	2.50	2.33
Housing	10.1	3.18	3.17	3.09
Fuel and light	6.8	2.55	2.67	2.43
Miscellaneous	28.3	5.49	5.01	5.05

Miscellaneous group continued to add the most to inflation

Contribution of food to headline CPI turned mildly positive; that of miscellaneous category remained the highest



Base effect was flat; momentum below past trends

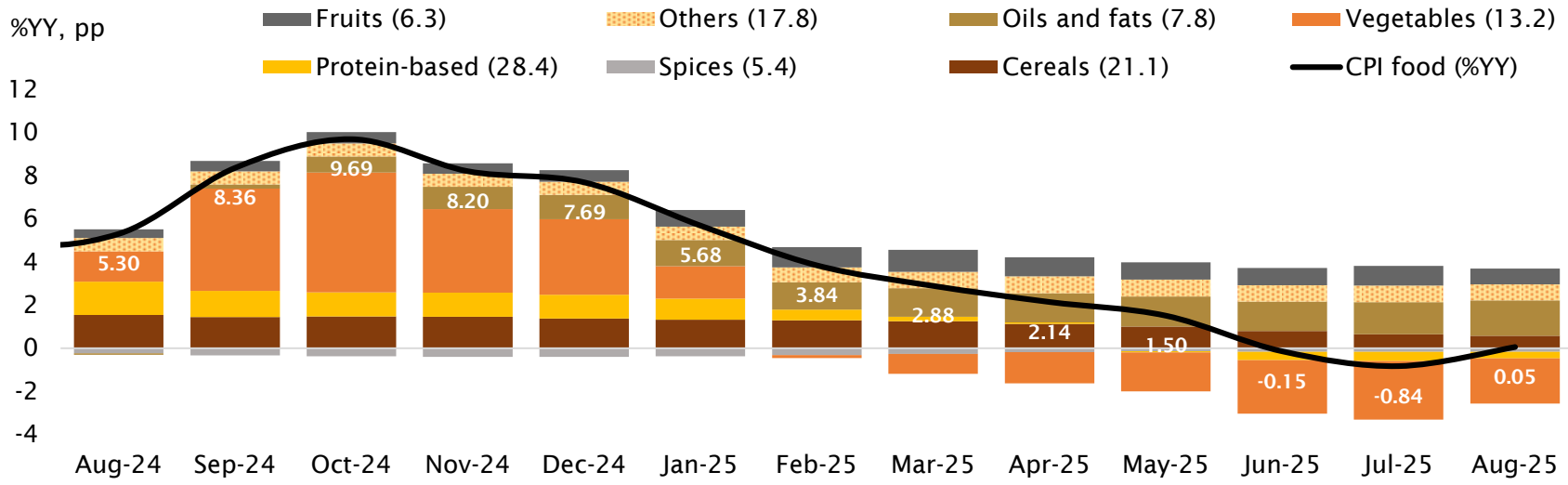


Price rise was higher month-on-month in housing, fuel

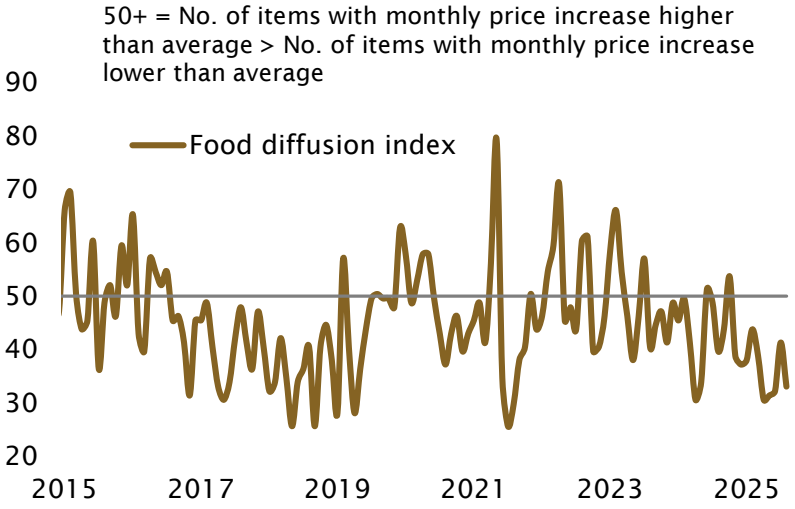
%MM, NSA	Weight	Jun-25	Jul-25	Aug-25
Headline CPI	100.0	0.62	0.98	0.46
Food	45.9	1.02	1.77	0.60
Intoxicants	2.4	0.28	0.28	0.19
Clothing	6.5	0.20	0.15	0.10
Housing	10.1	-0.54	0.49	0.54
Fuel and light	6.8	-0.17	-0.06	0.17
Miscellaneous	28.3	0.58	0.36	0.36

CPI food posted mild inflation after two months of deflation

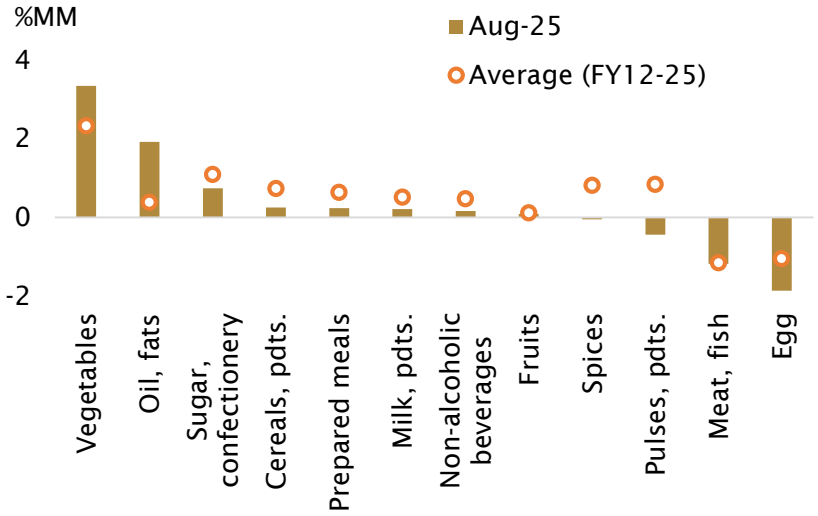
Edible oils continued to add the most to food inflation; vegetables, spices, pulses remained in deflation



Food diffusion index remained benign in August

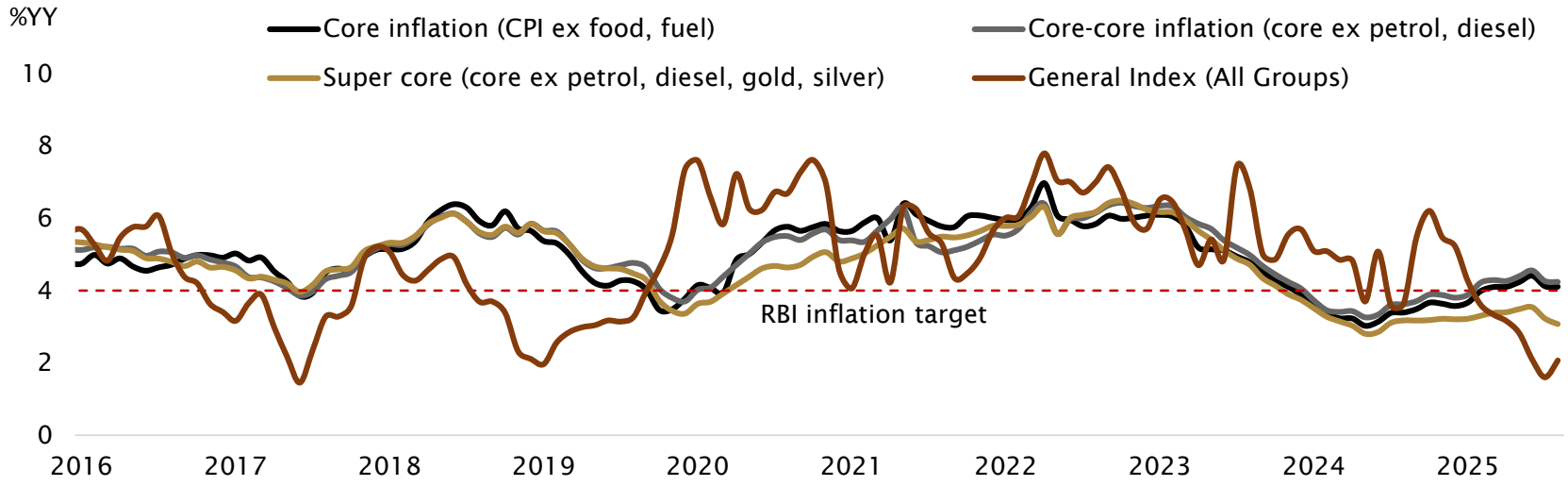


Prices rose month-on-month in 8 out of 12 sub-groups

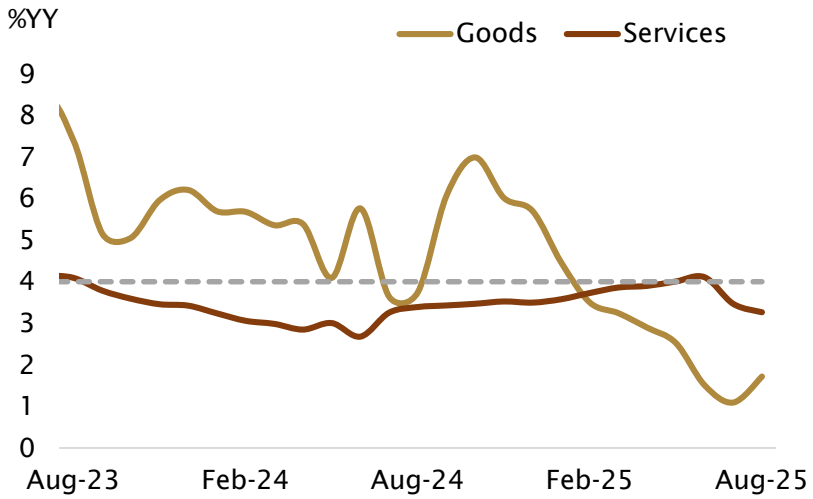


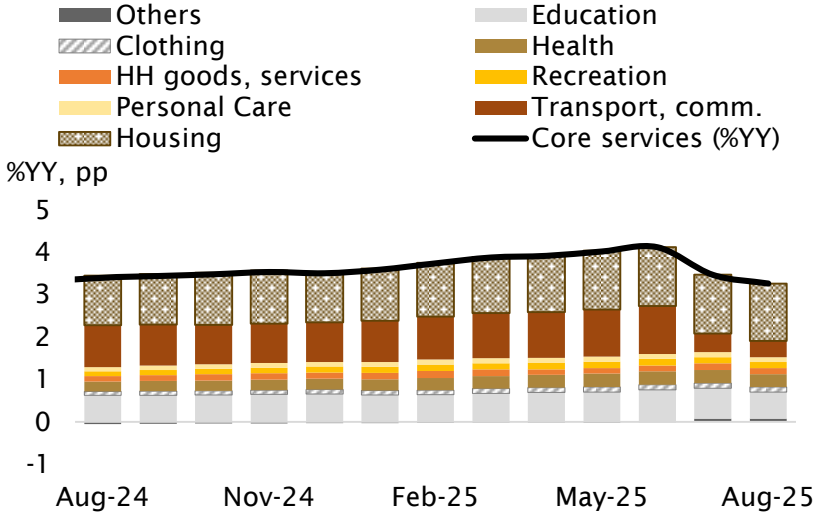
Core inflation (ex-food, fuel) was stable at around 4.1%

Core inflation (ex-food, fuel) was stable at around 4.1% in August; other measures of core inflation eased fractionally



Services inflation eased further due to base effects that turned benign from hike in telecom charges around a year ago





Fuel inflation stayed soft; mixed trends in global commodity prices

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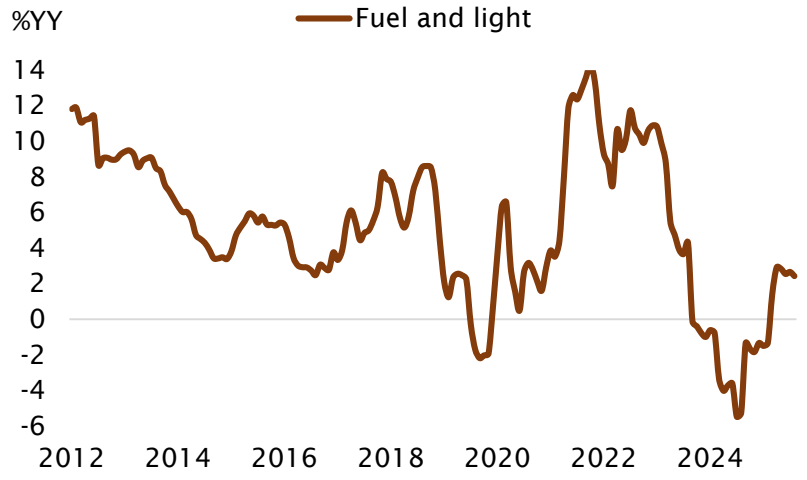
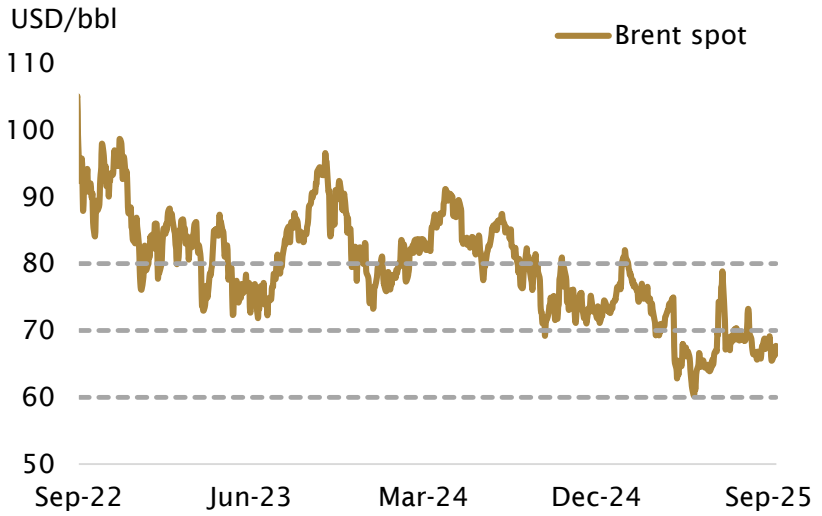
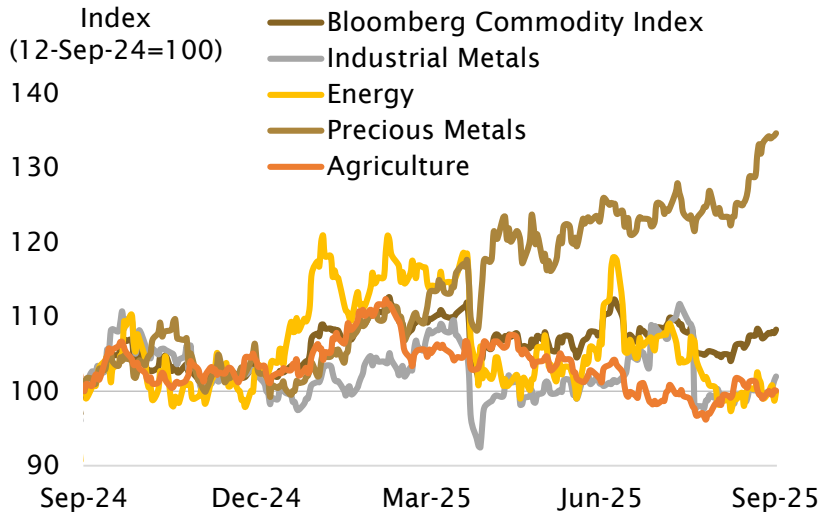
Domestic fuel inflation eased and remained sub-3%

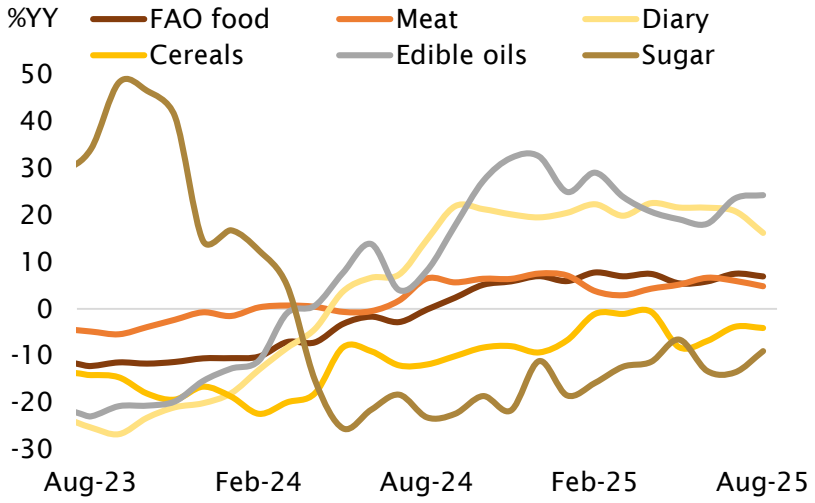


Brent crude below USD70/b since August



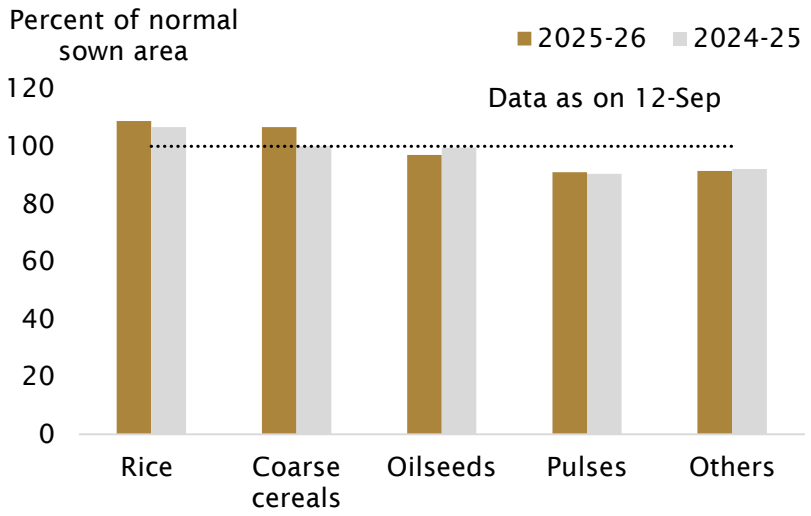
Precious metal prices continue to rise on safe haven demand; global food inflation at 7% in Aug, led by diary, edible oils





Kharif sowing, monsoon progress indicate benign food inflation outlook

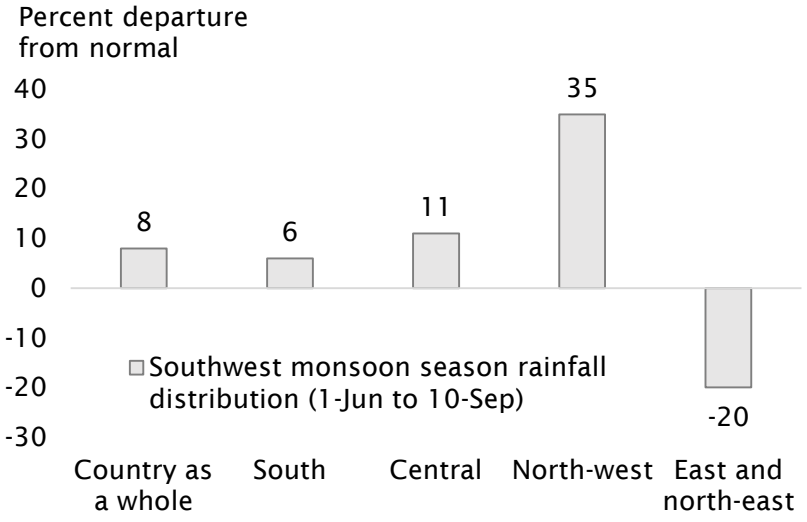
Total Kharif sowing largely on track, up 1.4%YY; high frequency data shows vegetable price gains muted till mid-Sep

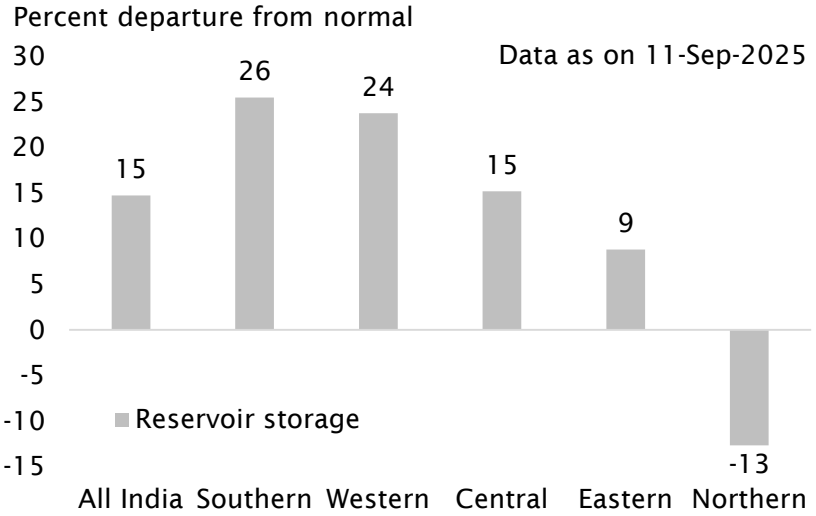


%YY	Tomato	Onion	Potato	Vegetables
Wt. in CPI	0.57	0.64	0.98	6.0
Jun-25	-31.5	-26.6	-25.3	-18.9
Jul-25	-34.1	-34.9	-34.3	-20.7
Aug-25	16.9	-39.1	-36.8	-15.9
Sep-25*	1.7	-43.5	-28.8	
%MM				
Jun-25	37.9	2.0	5.1	7.3
Jul-25	36.4	7.0	2.6	11.7
Aug-25	26.2	0.8	-2.5	3.3
Sep-25*	-23.8	1.5	-0.1	

Note: *All India retail price till Sep 15.

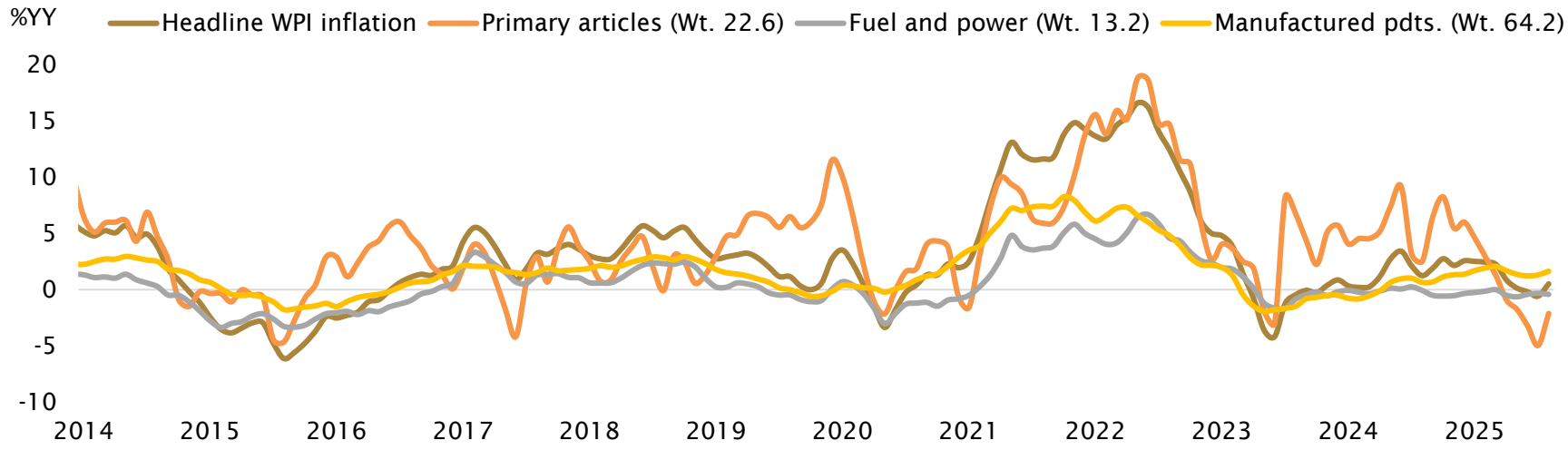
Amid overall progress, distribution of southwest monsoon season rains and reservoir storage remain somewhat skewed



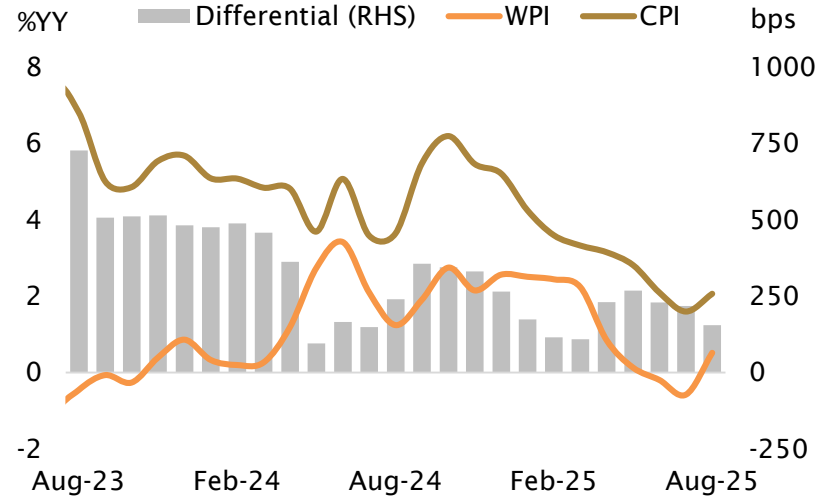


WPI inflation at 0.5% in Aug after two months of deflation

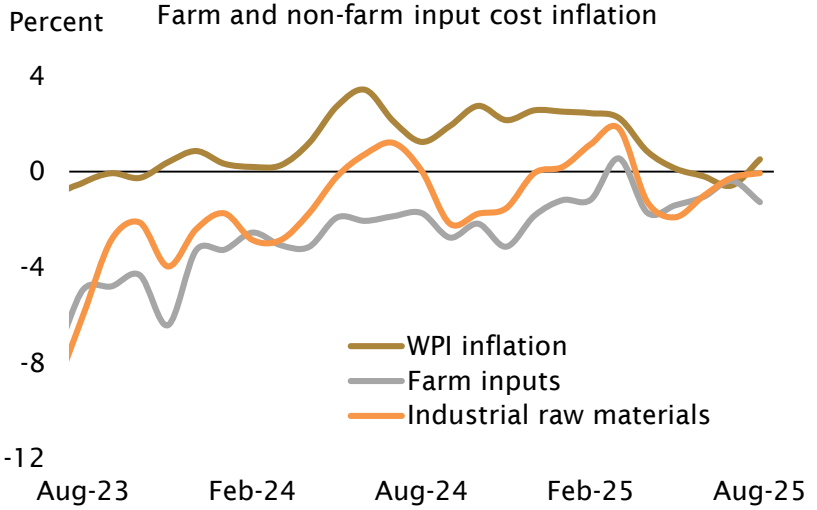
Headline WPI posted inflation after two months; gains led by manufactured pdts., shallower deflation in primary items



Both CPI and WPI inflation rose in August



Farm and non-farm input costs remained in deflation



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