

Moderation in food inflation dragged headline CPI to five-month low in January

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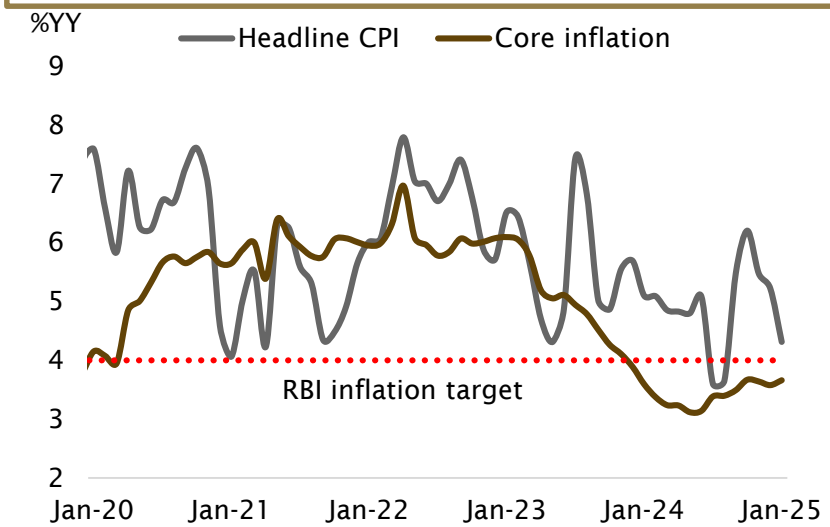
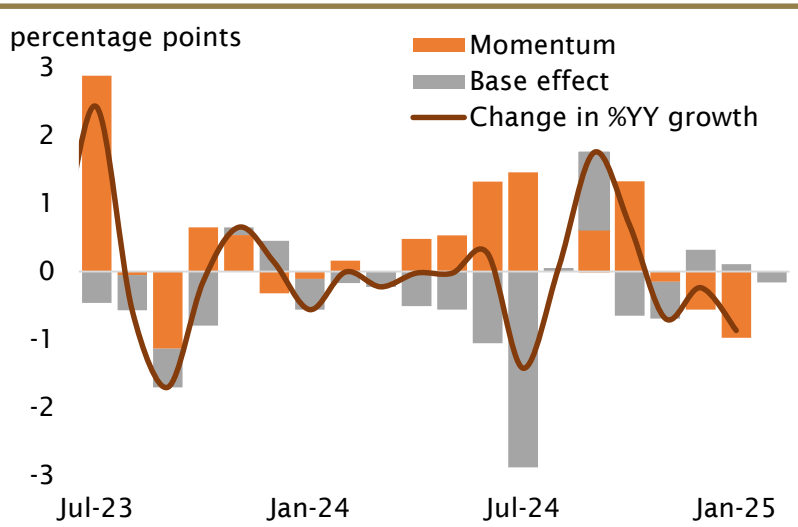
Key takeaways

- Headline CPI inflation eased to five-month low of 4.31% in January from 5.22% in December. The moderation was sharper than market expectations (Reuters poll: 4.60%) and was enabled by month-on-month contraction in the index that more than offset mildly unfavorable base effect. In fiscal year-to-date terms, CPI inflation average stands at 4.9% versus 5.4% in April-January FY24.
- The moderation in CPI inflation in January was driven by softening in food inflation, particularly vegetable prices that fell sharply from the previous month. The food and beverages index, with a weight of 45.9 in the consumer basket, contributed 60% to the headline print, lower than 68% in December.
- Core inflation (ex-food, fuel) increased mildly to 3.7% from 3.6% in December due to rise in services component, while the goods counterpart eased. The fuel index has been in deflation since September 2023, making the latest print the seventeenth successive one of year-on-year decline in prices.
- Going forward, global commodity prices will continue to remain a wildcard, in addition to the recent depreciation of the INR. The latest CPI print could provide the room for another 25bp rate cut at the RBI MPC meeting in April, particularly when high frequency indicators of economic activity continue to point a sluggish recovery.
- However, the easing cycle is likely to be a shallow one in the backdrop of global uncertainties, and possible second order effects of high food prices that could lift core inflation. An increase in consumption post the Union Budget boost via tax relief measures could also add to upside risks for the inflation trajectory.

Headline CPI eased in January due to month-on-month fall in prices that offset slightly unfavorable base effects





Moderation in food inflation dragged headline CPI to five-month low

- Headline CPI inflation moderated to a five-month low of 4.31% in January from 5.22% in December. The print was better than market expectations (Reuters poll: 4.60%) and was supported by month-on-month decline in the CPI index that more than offset mildly negative base effect. The index fell 0.97% from the previous month, which was steeper than the historical median decrease of 0.11% for the month between FY12-24.
- On a fiscal year-to-date (FYTD) basis, CPI inflation average stands at 4.9% versus 5.4% in April-January FY24. Inflation will need to average 4.75% in the next two months to meet the RBI MPC's forecast for FY25 at 4.8%.
  - The moderation in CPI inflation in January was driven by softening in food inflation. The food and beverages index contributed 60% to the headline print, lower than 68% in December. However, in FYTD terms, food inflation has averaged 7.4%, higher than 6.9% in FYTD-FY24.
  - Inflation eased across most major categories in January, except for housing and miscellaneous groups that saw an uptick due to month-on-month rise in prices that weighed on favorable base effects. However, housing inflation remained sub-4%. Inflation in the miscellaneous category, which mostly comprises services, stayed above 4% for the fifth straight month but the gains have been modest. Within the miscellaneous group, personal care and effects, and transport and communication added more to inflation. The personal effects category continued to be influenced by global prices of gold, while the transport group saw the sharpest month-on-month rise in bus/tram fares in 30 months.
  - The fuel index has been in deflation in Sep-2023. Core inflation (ex-food, fuel) increased mildly to 3.7% from 3.6% in December. Core goods inflation eased, while core services rose slightly. On FYTD basis, core inflation has averaged 3.4%, compared to 4.5% in April-January FY24.

Headline CPI inflation eased to five-month low in Jan

%YY	Weight	Nov-24	Dec-24	Jan-25
Headline CPI	100.0	5.48	5.22	4.31
Food	45.9	8.20	7.69	5.68
Intoxicants, etc.	2.4	2.35	2.49	2.30
Clothing	6.5	2.75	2.74	2.68
Housing	10.1	2.87	2.71	2.76
Fuel and light	6.8	-1.83	-1.33	-1.38
Miscellaneous	28.3	4.26	4.19	4.35

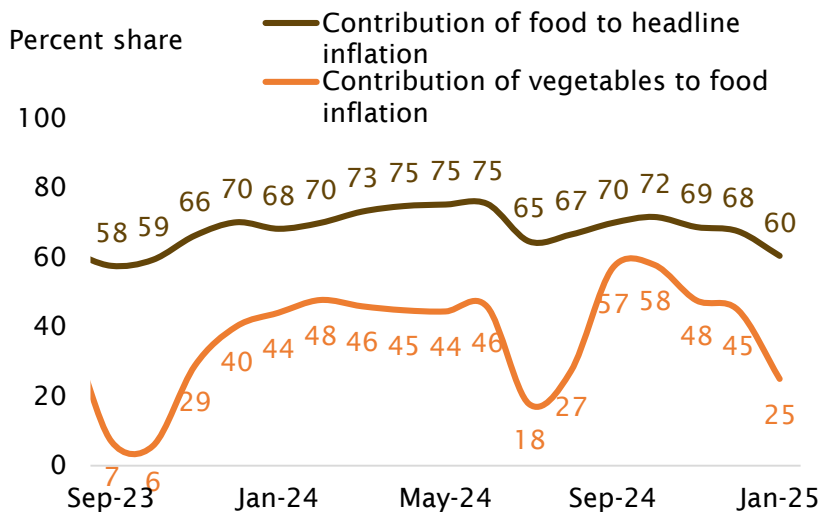
Month-on-month rise in housing, miscellaneous groups

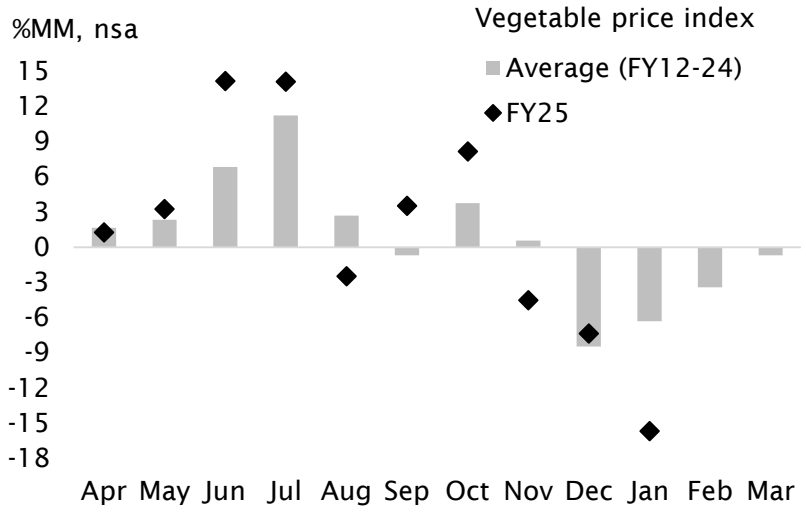
%MM, NSA	Weight	Nov-24	Dec-24	Jan-25
Headline CPI	100.0	-0.15	-0.56	-0.97
Food	45.9	-0.48	-1.20	-2.43
Intoxicants, etc.	2.4	0.10	0.19	-0.10
Clothing	6.5	0.26	0.21	0.15
Housing	10.1	0.16	-0.71	0.44
Fuel and light	6.8	-0.11	0.68	0.34
Miscellaneous	28.3	0.22	0.16	0.38

Sharp correction in vegetable prices enabled easing in food inflation

- Food inflation eased to 5.7% from 7.7% in December. The moderation was due 2.4% month-on-month decline in the index that more than offset unfavorable base effect. The monthly fall in food prices was the sharpest in five years and steeper than historical median drop of 0.6% for the month. Of 12 major food groups, prices fell month-on-month in vegetables, pulses, egg, spices, and sugar. Prices of milk and prepared meals rose month-on-month, but the increase was softer than the median for the month. However, monthly price gains were steeper than historical trends in case of fruits, meat and fish, non-alcoholic beverages, cereals, and edible oils.
- The seasonal correction in prices of vegetables at 15.7% month-on-month was sharper than historical (FY12-24) median decline for the month at 4.7%. However, on FYTD basis, inflation in vegetables has averaged 24.8% versus 12.7% in April-January FY24. In the latest print, contribution of vegetables to food inflation eased. It is important to note that the seasonal correction in prices of vegetables was steeper in case of vegetables other than TOP (tomato-onion-potato), so that despite softening in prices of both TOP and ex-TOP groups, the contribution of TOP to vegetables inflation rose from the previous month. In standalone terms, inflation in potatoes eased but increased in onions, while tomatoes slipped into deflation.
- Despite easing, vegetables added the most to food inflation, followed by cereals and edible oils. The disinflation in cereals is progressing at a slow pace and is spilling over to processed items as second order effects. Edible oils inflation stayed in double digits, following the import duty hike in mid-September.

Seasonal correction in vegetable prices was sharper than historical trends and drove easing in overall food inflation

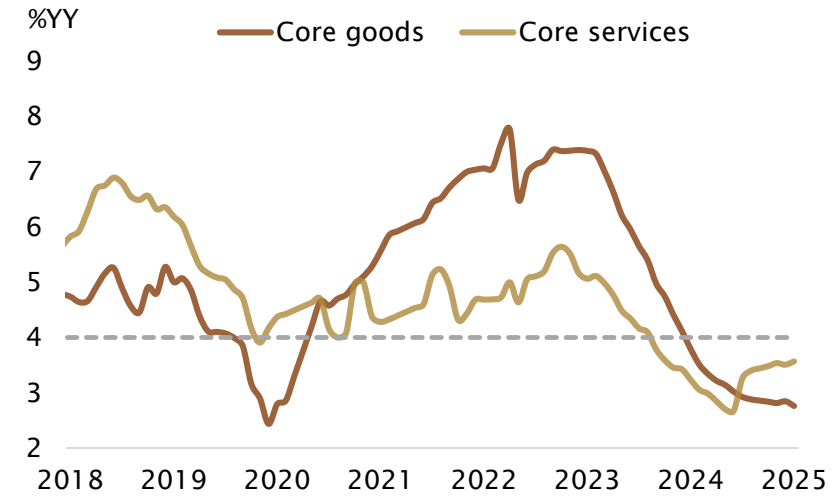


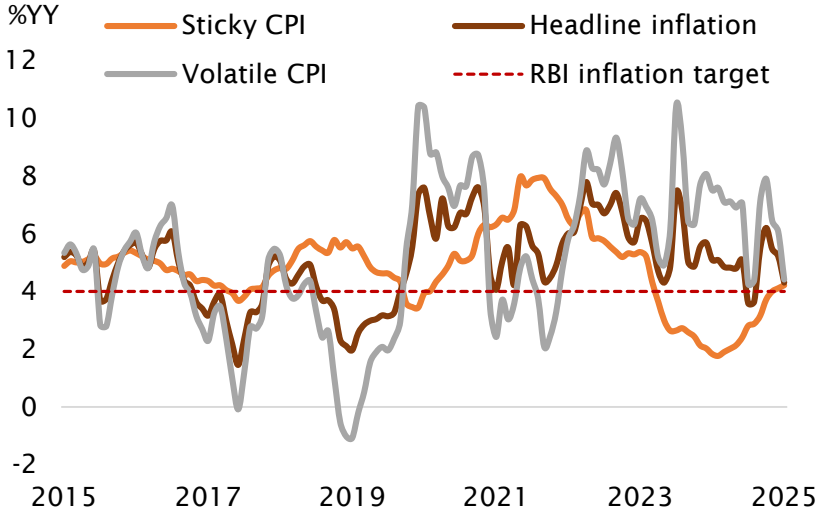


Core inflation rose mildly but stayed sub-4%, increase led by services

- The mild rise in core inflation to 3.7% from 3.6% in December was primarily driven by services, as goods inflation eased slightly due to lower contribution from pan, intoxicants; clothing and footwear, household goods, health, and education.
- Since Jul-2024, when the telecom tariff hikes were introduced, core services inflation surpassed the goods counterpart, though both remain benign at below 4%. However, as a result of the tariff hikes, transport and communication remains the second largest contributor to core services inflation, while housing retains its lead position. In January, the contribution of both these categories rose further, in addition to that of household services. The increment in case of transport group was due to the steepest month-on-month rise in bus/tram fares in 30 months, while the rent component added to higher housing inflation in January. The increase in household services inflation was due to the domestic servant/cook category.
- As per latest results from the RBI's latest Survey of Professional Forecasters (SPF), the median estimate of core inflation stands at 3.6% for FY25 and 4% for FY26. The quarterly median forecasts show core inflation to rise above the headline print only in Q3-FY26 at 4.1%, when headline slips below the target to 3.9%. Though most measures of core inflation remain benign, there is evidence of spill over effects of persistently high food inflation in categories of certain processed food items, and salaries of domestic help. This is reflected in rise in certain measures of sticky inflation and need to be watched out for.

Core inflation remains benign; need to watch second order effects of persistently high inflation in primary food articles

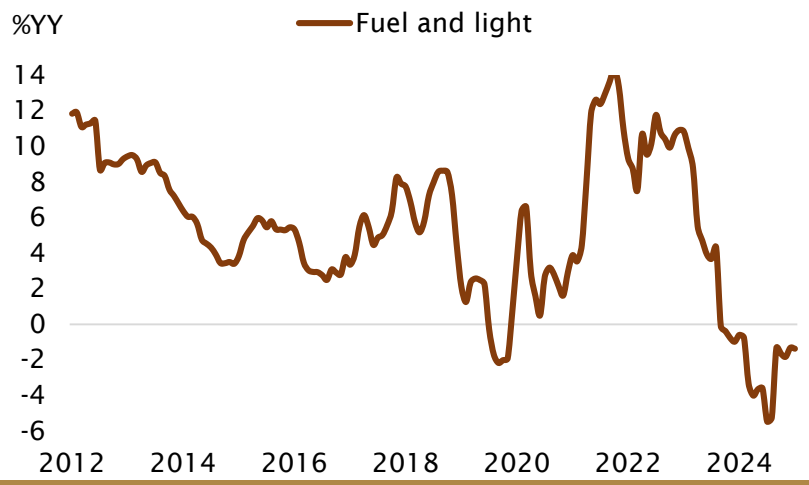




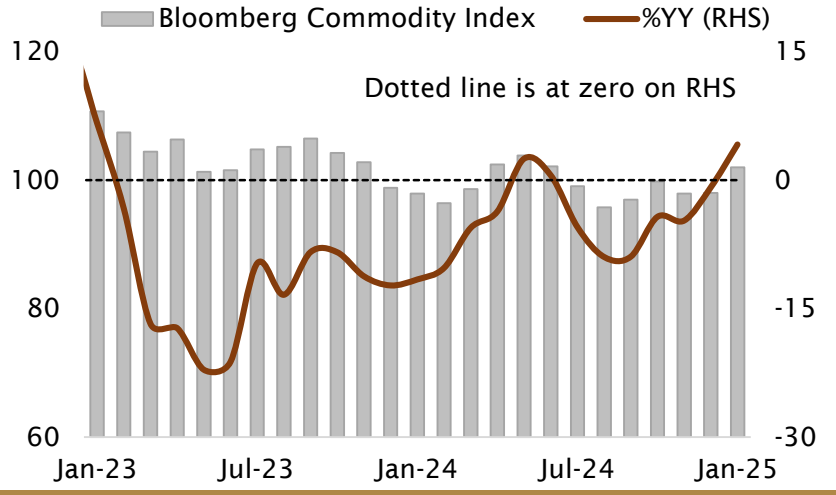
Domestic fuel index stayed in deflation; upside risks from global prices

- The domestic fuel and light index has been in deflation since September 2023, making the latest print the 17th successive one of year-on-year decline in prices. The index was down 1.4%YY in January, mildly steeper than 1.3% drop in December. The sub-indices of LPG, kerosene, diesel, and other fuel remained in deflation. Compared to December, inflation rose mildly in electricity and coal, while it eased in coke, firewood and chips.
- Global commodity prices remain benign but are gaining year-on-year. There is volatility in certain segments such as crude oil prices that remain vulnerable to demand-supply outlook but the gains have been limited in recent months. In its latest monthly update, the OPEC kept the year-on-year global demand growth forecast for 2025 and 2026 unchanged at 1.4mb/d, while the supply growth forecast was trimmed slightly by 0.1mb/d to 1.1mb/d. In its latest monthly outlook update, the US EIA kept Brent crude oil price forecasts for 2025 and 2026 stable at USD74/bbl and USD66/bbl, respectively, lower than average of USD81/bbl in 2024.
- Precious metal prices continue to rise on safe haven demand amid myriad global uncertainties ranging from geopolitical tensions to financial market repricing of monetary policy moves by systemic central banks. Industrial metals, particularly copper, have also gained recently due to uncertainties around global trade wars.
- Global prices of agriculture or soft commodities are starting to rise but the gains remain contained so far. The agriculture sub-index within the Bloomberg commodity index rose year-on-year in February after remaining in deflation for 18 consecutive months. The UN FAO index posted year-on-year gains for the fifth straight month in February, led by diary and edible oils, even as sugar and cereals remained in deflation.

Domestic fuel index in deflation since September 2023



Gains in global commodity prices subdued so far



Outlook

- **Assessing historical trends:** In February, base effects are slated to be favorable for both headline and core CPI, shaving off around 15bps and 27bps, respectively, from the two metrics. Historical trends (FY12-24) based on average and median month-on-month change indicate headline inflation in February at 4.1-4.2% and core inflation at about 3.7%. Food inflation typically tends to ease in winter months due to Kharif output reaching the market and seasonal softening in horticulture produce such as vegetables. High frequency data indicates continued easing of prices in February that could impart further downside to the next headline print.

- **High frequency data:** Daily data from the Department of Consumer Affairs shows broad-based progress in disinflation and also deflation in certain food items, including pulses, cereals, and key vegetables (tomato, onion, potato). This raises the probability of headline inflation slipping below 4% in February. However, certain pressure points remain such as edible oils post the recent import duty hike and slight firming up of sugar prices in the latest high frequency prints.

- **Sowing:** Rabi sowing is almost completed for the year and has surpassed normal area levels across all major crops. However, compared to FY24, sowing is fractionally deficient in coarse cereals and oilseeds. Summer sowing has commenced and tracking above last year's levels as on 7-Feb, particularly in rice, pulses, oilseeds.

- **Rainfall and weather conditions:** In January, the average maximum, minimum and mean temperatures for the country as a whole were above normal. The mean temperature was the second highest on record since 1901. In its monthly outlook for February, the India Meteorological Department has projected minimum and maximum temperatures over most parts of the country to again exceed normal levels, with certain exceptions. Rainfall in the country as a whole is expected to be below normal, similar to the trend in January. These weather conditions are likely to have adverse impact on Rabi produce, including crops such as wheat, mustard, and chickpea, and certain horticulture items such as apples. Data till 13-Feb 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 states of Punjab and Himachal Pradesh that continued to record deficiency.

- **Procurement and stock:** In Kharif Marketing Season (KMS) 2024-25, 416 LMT of paddy had been procured (up to Jan 31) versus 398 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 January 31, wheat and rice stocks in the central pool totaled 502 LMT, higher than 343 LMT in the same period of 2024.

Policy implication

- **Government intervention:** The government continues to actively intervene on the supply side to ensure timely availability of major food grains and horticulture items at affordable prices. Additionally, it continues to support farmers, agriculture growth, and distribution of produce through allocation and various measures announced annually in the Union Budget. In the latest Union Budget for FY26, allocation for the Department of Food and Public Administration remained among the top three on the revenue expenditure side. Some of the measures announced include 1) development of agriculture districts under the Prime Minister Dhan-Dhaanya Krishi Yojana program 2) aatmanirbharta or self-sufficiency in pulses 3) comprehensive program for vegetables and fruits to promote production, efficient supplies, and remunerative prices for farmers 4) enhanced credit through Kisan Credit Cards 5) support to allied sectors such as fisheries and aquaculture.

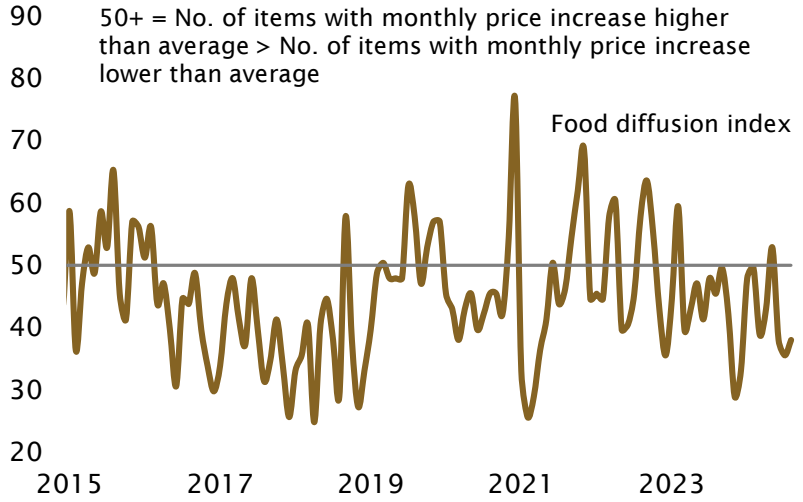
- **Insights from latest RBI surveys:** Results from the latest RBI survey showed that households expect inflation to be higher than the current rate in the near- (three months ahead) and medium-term (one year ahead), particularly for services. Also, firms across industries (manufacturing, services, infrastructure) expect input costs to rise in Q4-FY25, which they would be able to pass on to consumers, as reflected in expectations of rise in selling prices in services and infrastructure sectors. But manufacturers expect mild margin compression in Q4 amid expectations of lower selling prices.

- **INR depreciation:** After closing at low of Rs.87.58/USD (Source: Bloomberg) a day ahead of the RBI MPC policy outcome this month, the INR recovered sharply in the following days amid reports of USD sales by state-run banks, mostly likely on behalf of the RBI. The depreciation of around 5% since the beginning of FY25 and until the recent low close is likely to raise CPI inflation by around 35bps, as per RBI's latest bi-annual monetary policy report published in Oct-2024. Though the recent weakness has been contained, the INR could face further depreciation pressures in FY26 amid expected USD strength on safe haven demand in the backdrop of global trade wars. The risk of imported inflation could continue to linger and needs to be watched out for.

- **Policy implication:** The recovery in economic activity remains sluggish, as per the latest high frequency data. This raises downside risk to real GDP growth forecast of 6.4% for FY25, based on first advance estimates by the national statistical office. When the RBI MPC meets again in April, it will have an additional data point on CPI inflation for February at its disposal, and also the estimate of Q3-FY25 GDP, along with revised estimates for annual GDP data (second advance estimates for FY25, first revised estimates (RE) for FY24 and second RE for FY23). However, the latest CPI print is likely to keep policy space open for another 25bp rate cut in April.

Despite easing inflation, pockets of concern remain in food basket

Food diffusion index remains benign

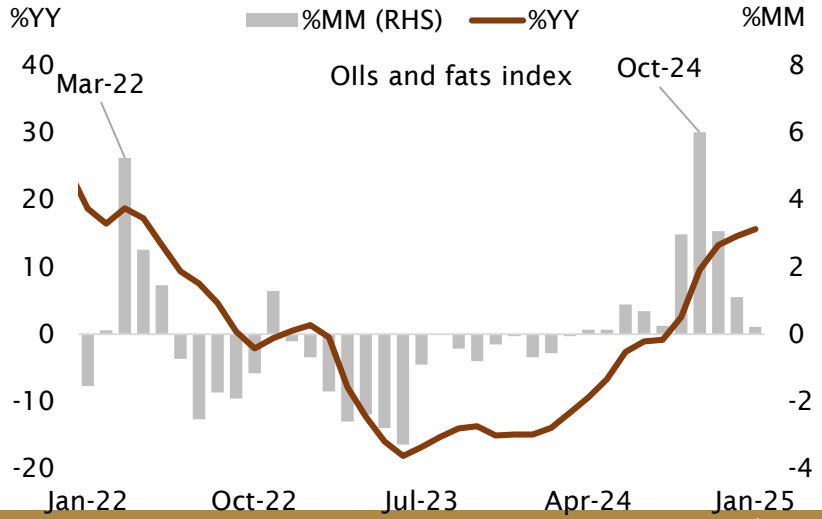


Data shows further easing in vegetable prices in Feb

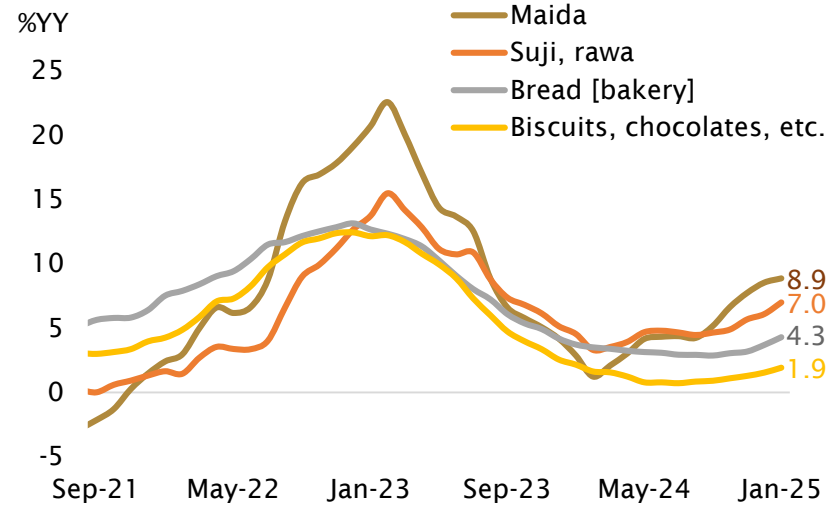
%YY	Tomato	Onion	Potato	Vegetables
Wt. in CPI	0.57	0.64	0.98	6.0
Nov-24	41.8	5.5	66.5	29.4
Dec-24	31.4	10.9	68.2	26.6
Jan-25	-7.0	16.4	49.6	11.3
Feb-25*	-27.9	11.1	15.3	
%MM				
Nov-24	-23.4	2.6	-0.1	-4.5
Dec-24	-16.0	-11.9	-4.9	-7.4
Jan-25	-35.1	-21.6	-20.5	-15.7
Feb-25*	-26.0	-8.1	-14.3	

Note: *All India retail price till Feb 14.

Edible oils inflation continues to rise

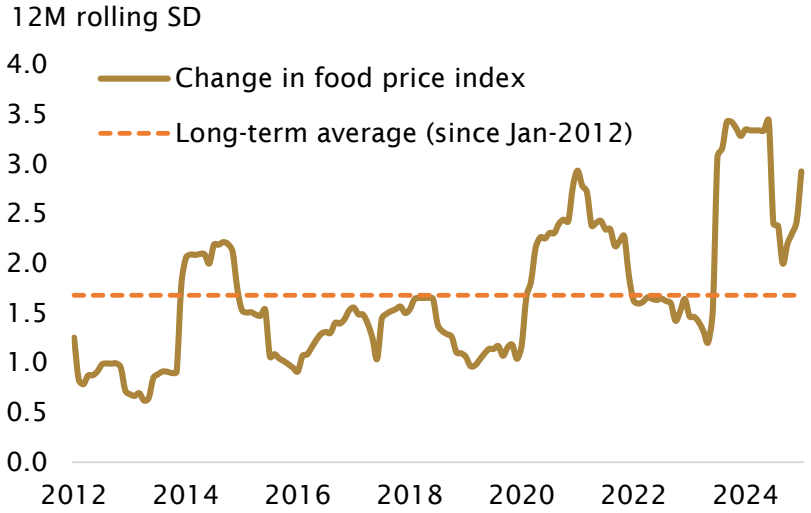


Second order effects due to sticky inflation in cereals

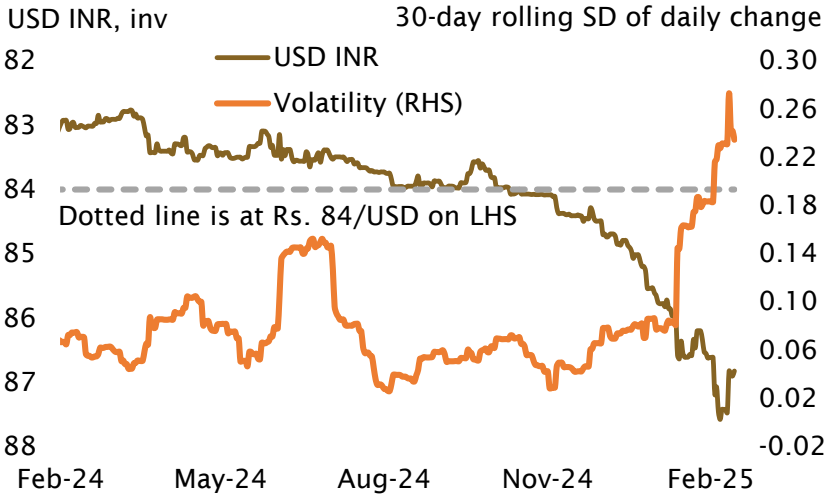


Volatility pervades amid policy and other uncertainties

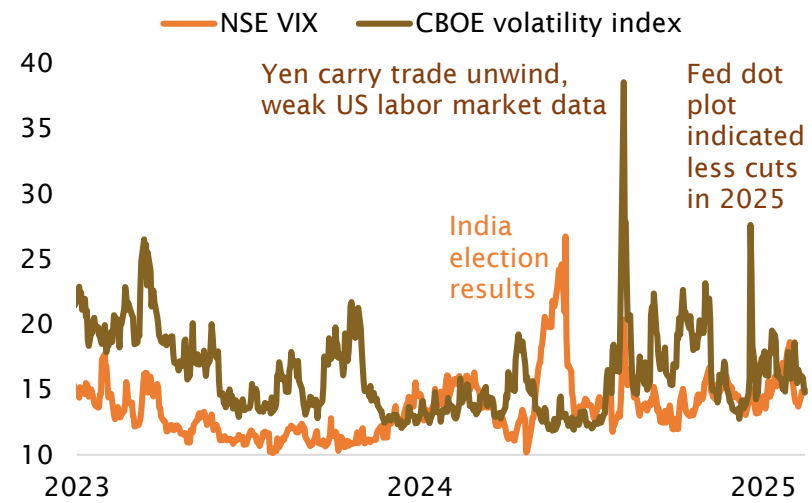
Amid easing domestic CPI, food price volatility lingers



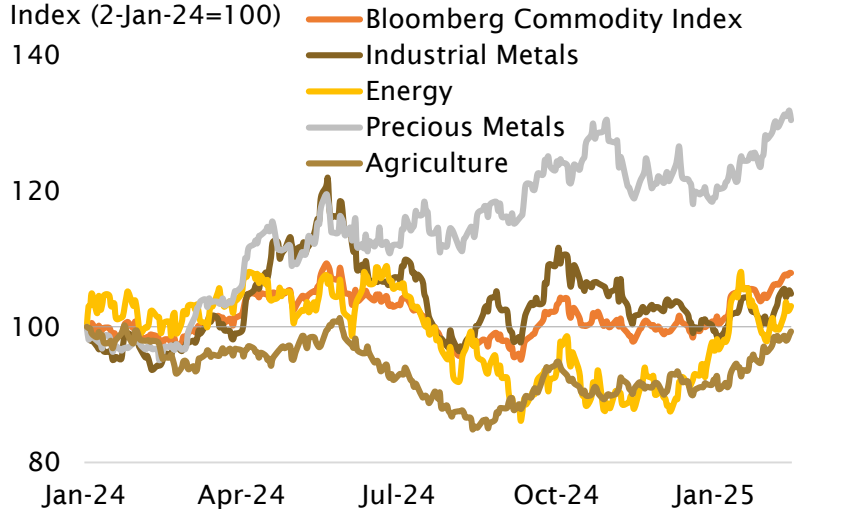
USDINR volatility has risen amid recent depreciation



Equites continue to gyrate to pricing of policy moves



Despite staying range-bound, energy prices are volatile



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