

Headline CPI slipped to the lowest in eight years in July at 1.6% amid steeper deflation in food, lower core inflation

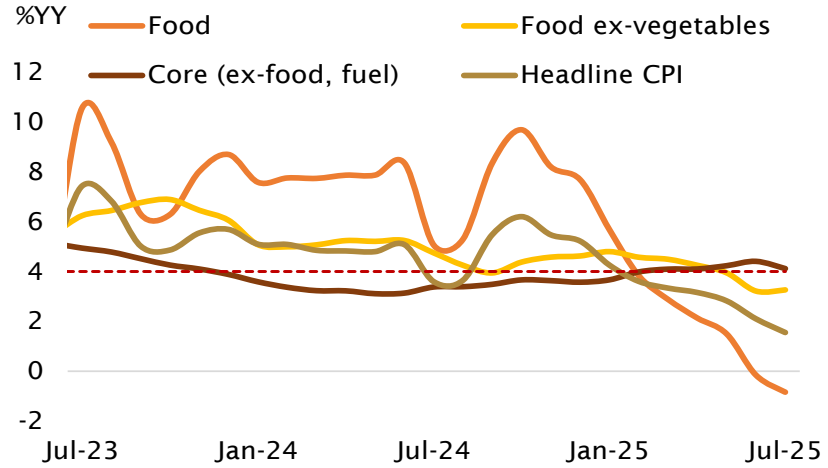
21 August, 2025

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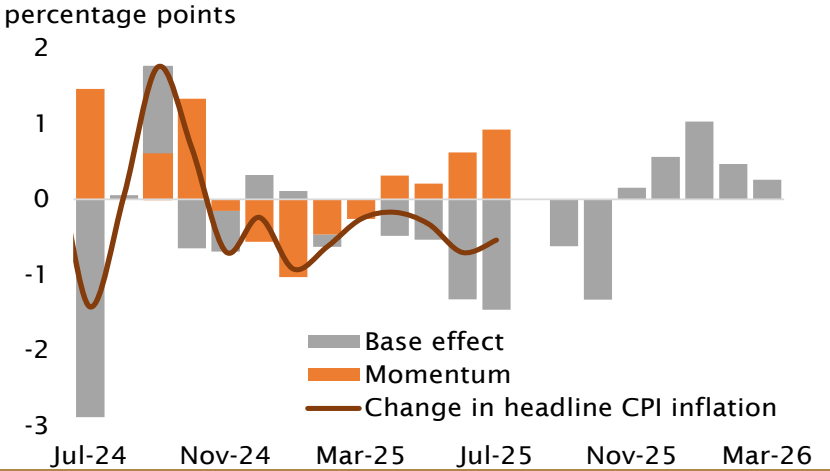
Key takeaways

- Headline CPI inflation eased to an eight-year low of 1.55% in July, aided by multiple factors such as favorable base effect, lower-than-average monthly increase, sharper deflation in food, and moderation in core inflation.
- The food index posted deflation for the second straight month and at a steeper rate of (-)0.8% versus (-)0.2% in June. Even as the ongoing food deflation is being largely attributable to the volatile vegetables component, food ex-vegetables inflation also remains well behaved at sub-4%. However, latest high frequency data and the surge in edible oils inflation indicate bottoming out of food prices.
- Inflation stayed below 4% across other main groups, except the miscellaneous category (wt. 28.3), where it has been above 4% for 11 months now. Despite slight easing in July, contribution of the miscellaneous group to headline CPI has more than doubled over the past six months to about 80%. Core inflation (ex-food, fuel) eased to 4.1% in July from 4.4% in June, mostly reflecting the waning impact of telecom tariff hike in the corresponding month of FY25 that resulted in lower core services inflation.
- Global commodity prices remain vulnerable to geopolitical woes and developments unfolding on the US tariffs front. For instance, on 31-Jul-2025, copper futures fell sharply after the US announced 50% tariffs on semi-finished copper products, and not ores and concentrates, which was widely expected.
- Going forward, the RBI MPC is likely to remain in a data dependent, wait-and-watch mode. There is a possibility of further easing by 25-50bps in the last leg of the current easing cycle if global headwinds outweigh the policy support to domestic growth. But the timing would depend upon trends in incoming data on domestic growth

Food ex-veg well-behaved amid deflation in food index



Base effects are slated to be neutral or favorable till Oct



Headline CPI slipped to the lowest in eight years in July at 1.6%, aided by below average momentum and favorable base effects

- Headline CPI inflation eased to 1.55% in July (Reuters poll: 1.76%) from 2.10% in June, marking the softest print in eight years. There was a section of market participants anticipating inflation to be further lower by 20-30bps, and the upside surprise was mainly driven by stronger-than-average month-on-month gain in the food index, particularly vegetables, fruits, and edible oils. However, favorable base effects ensured that the food index remained in deflation for the second straight month and to a greater extent than in June.
- The easing of 55bps in headline CPI inflation from June was driven by favorable base effects and below average monthly change in the index. The CPI index rose sequentially for the fourth straight month but the gain of 0.93% was less than historical trend for the month (FY12-25) at 1.29% (average) – 1.31% (median). Base effects are slated to be either neutral or favorable till Oct-2025, post which they will remain unfavorable till the end of fiscal FY26.
- Inflation stayed below 4% across other main groups, except the miscellaneous category (wt. 28.3), where it has been above 4% for 11 months now. However, inflation in this group eased by about 48bps from the previous month, mainly as impact of the telecom tariff hike effective Jul-2024 faded from year-on-year calculations, and offset gains in some of the other sub-groups. Despite the latest easing, contribution of the miscellaneous group to headline CPI has more than doubled over the past six months to about 80% in July.
- Core inflation (ex-food, fuel) eased to 4.1% in July from 4.4% in June, mostly reflecting the waning impact of telecom tariff hike in the corresponding month of FY25 that resulted in lower core services inflation. The fuel and light index posted inflation for the fifth straight month and at a sharper rate than in June due to unfavorable base effect that more than offset the monthly decline in the index for the second straight month.

Headline CPI eased to the lowest since Jul-2017 aided by lower-than-average momentum and favorable base effects

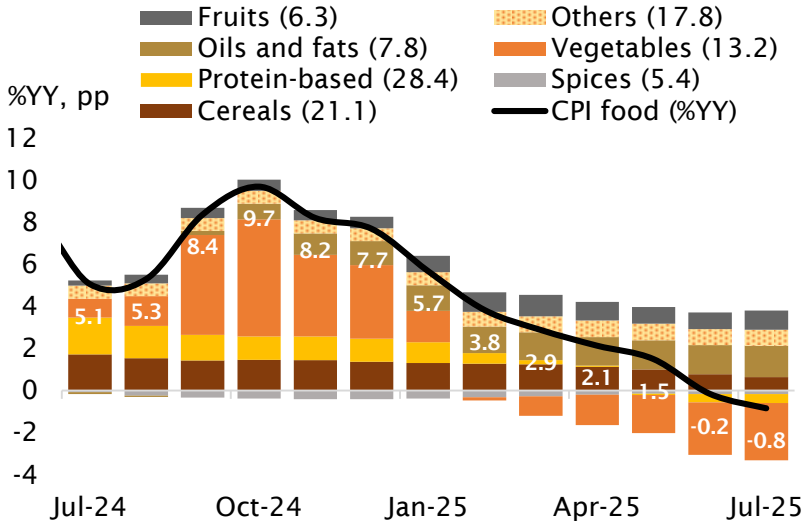
%YY	Weight	May-25	Jun-25	Jul-25
Headline CPI	100.0	2.82	2.10	1.55
Food	45.9	1.50	-0.15	-0.84
Intoxicants, etc.	2.4	2.41	2.41	2.45
Clothing	6.5	2.67	2.55	2.50
Housing	10.1	3.16	3.18	3.17
Fuel and light	6.8	2.84	2.55	2.67
Miscellaneous	28.3	5.17	5.49	5.01

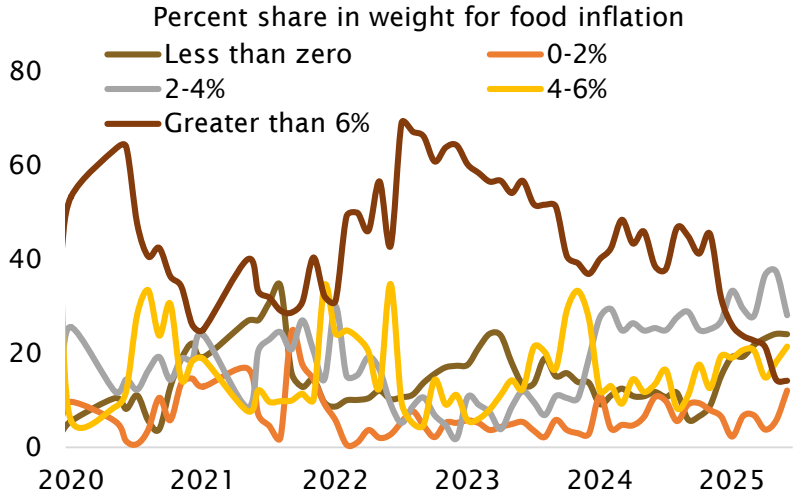
%MM, NSA	Weight	May-25	Jun-25	Jul-25
Headline CPI	100.0	0.21	0.62	0.93
Food	45.9	0.05	1.02	1.77
Intoxicants, etc.	2.4	0.57	0.28	0.28
Clothing	6.5	0.15	0.20	0.15
Housing	10.1	0.22	-0.54	0.49
Fuel and light	6.8	0.89	-0.17	-0.06
Miscellaneous	28.3	0.42	0.58	0.36

Food index posted sharper deflation in July; tracing the trend in vegetables, pulses, and spices

- The food index posted deflation for the second straight month in July and at a steeper rate of (-)0.8% versus (-)0.2% in June. The month-on-month rise of 1.77% in the index was higher than 1.02% increase in June, but between the historical median (1.69%) and average (2.00%) for the month of July. Base effects were favorable. Of the 12 major groups, prices of pulses, meat, and cereals fell month-on-month.
- Prices of pulses have been falling sequentially for nine months, and cereals for four months, but the extent narrowed for both in July. Also, prices of spices rose mildly, snapping a seven-month declining streak but the increase was less than the trend in previous years. Prices of meat and fish fell after gaining for three consecutive months. Gains in prices of vegetables, fruits, edible oils and egg were above historical averages for the month. Prices of other food items – milk and products, sugar and confectionery, non-alcoholic beverages, and prepared meals – rose at or below historical trends for the month of July.
- In annualized terms, spices have been in deflation for more than a year now, vegetables and pulses for six straight months each, and meat and fish for four consecutive months. Inflation in milk and products, and egg eased compared to June, so that the protein-based index stayed in deflation for the third straight month. Both cereals and sugar posted sub-4% inflation for the second straight month. On the other hand, inflation in edible oils and fruits remained in double digits for the ninth and seventh successive months, respectively. Inflation in non-alcoholic beverages and prepared meals stayed above 4% and rose further in July.

Favorable base effects offset monthly gain in vegetable prices; largest portion of food basket with inflation between 2-4%

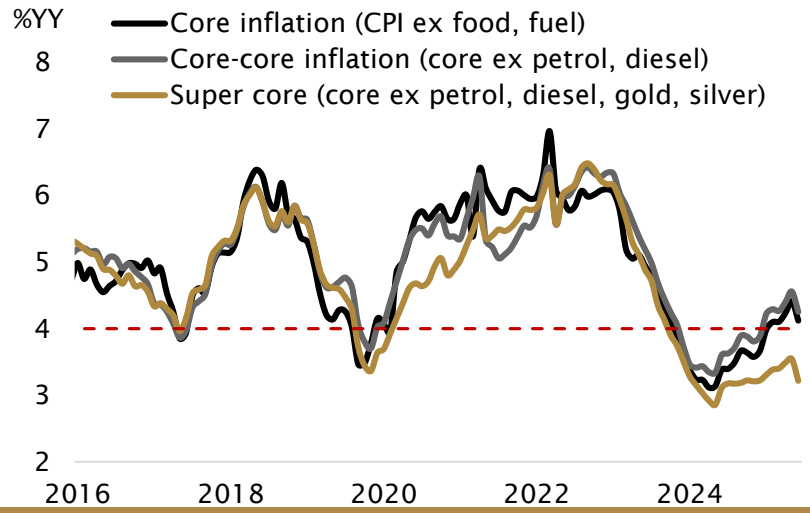


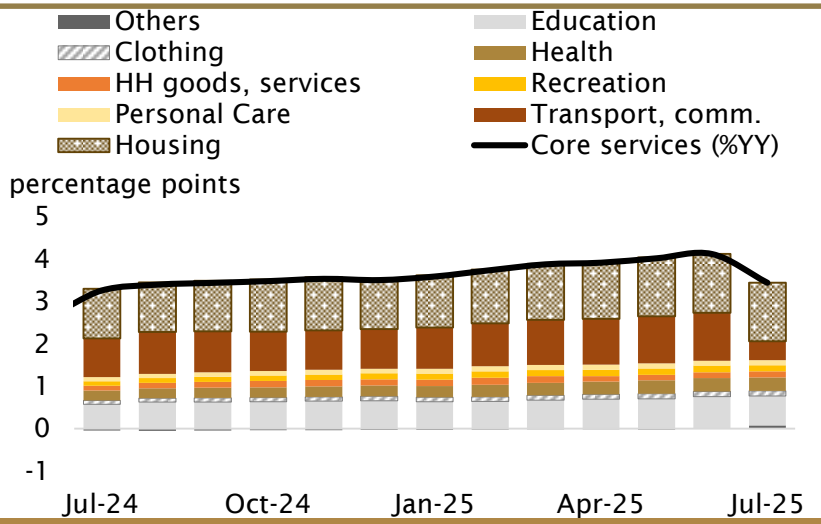


Core inflation eased as telecom tariff hike impact effective Jul-2024 faded from year-on-year calculations

- In July, core inflation (ex-food, fuel) moderated for the first time in 2025 to 4.1% from 4.4% in June. The month-on-month increase of 0.35% was below historical trends for the month (FY12-25) at 0.57% (median) – 0.61% (average), and supported by favorable base effects. Various other measures of core inflation also eased in July. Results from the RBI's latest survey of professional forecasters (SPF) suggest a mild uptick in median expectations for core inflation for both Q2-FY26 and full year FY26 to 4.4% from 4.3% in the previous survey..
- Inflation eased across the four core groups in July, except for intoxicants, where it rose but stayed sub-3%. Despite easing, inflation in the miscellaneous group stayed above 5% for the second straight month. Within the six sub-groups of miscellaneous category, inflation moderated in transport and communication, recreation, and education sub-groups but rose in the categories of household goods and services, health, and personal care and effects. In the latter sub-group, inflation remained in double digits for the seventh straight month, and added the most to inflation in the miscellaneous group, followed by health, transport and communication, and education. However, inflation in the transport and communication segment eased, as the impact of telecom tariff hike effective Jul-2024 faded from year-on-year calculations. As a result, core services inflation that had been rising slowly for the past six months, eased. Core goods inflation rose mildly.
- In the personal care and effects group, in addition to the rising global prices of gold, higher prices of certain FMCG products also added to inflation. Higher inflation in health was driven by medicines, and in household goods and services by domestic servant/cook category.

Core inflation eased in July, mainly as the effect of telecom tariff hike effective in Jul-2024 faded from y-o-y calculations

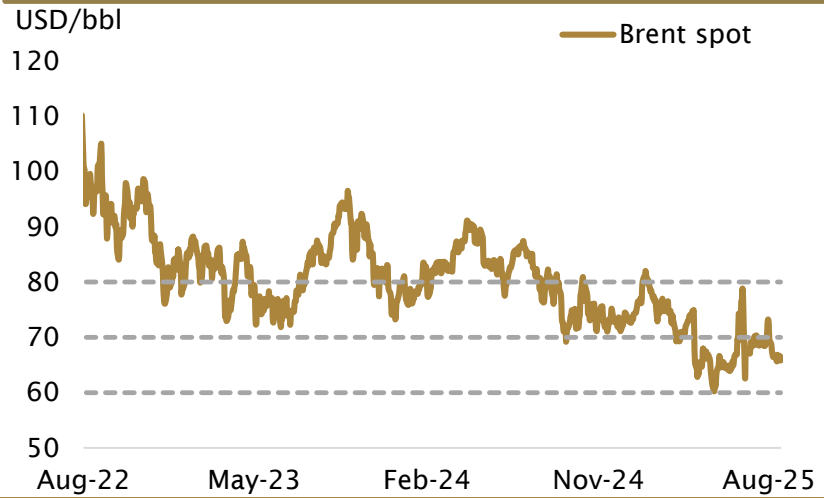


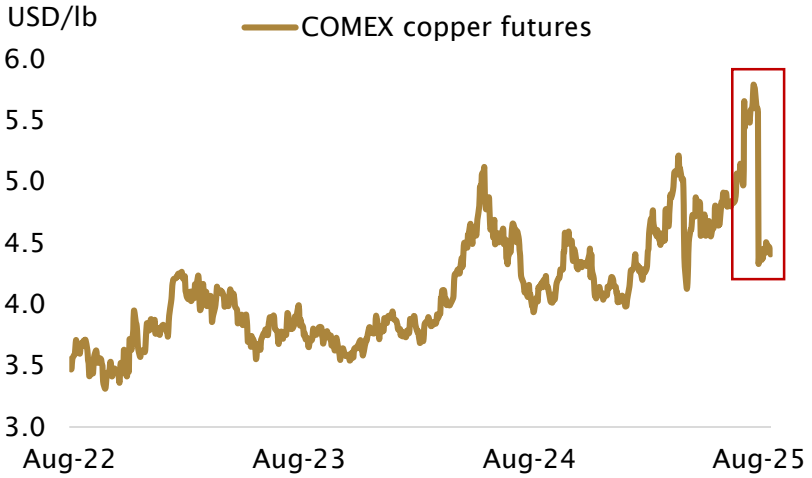


Global commodity prices remain vulnerable to changes in geopolitical dynamics and trade policy-related developments

- The domestic fuel index posted inflation for the fifth straight month, and it rose to 2.67% in July from 2.55% in June due to unfavorable base effects that offset the month-on-month decline in the index for the second straight month. Gains were led by traditional sources of fuel such as coal, and firewood and chips, though LPG and electricity continued to add the most to fuel inflation. The deflation in kerosene PDS sub-index for the fourth straight month more than offset mild gains in kerosene from non-PDS sources.
- In the past month, crude oil prices remained volatile but range-bound and are currently below USD70/b. Factors influencing prices included shifts in geopolitical tensions, trade-policy related uncertainties, seasonal demand patterns, with a downward bias being imparted by the OPEC+ affirmation to raise output, as also noted by the US EIA in its latest outlook update. The US EIA has cut its 2025 Brent crude oil price forecast by USD2/b to an average of USD67/b, and lowered 2026 estimate by USD7/b to USD51/b.
- As on 19-Aug-2025, the Bloomberg commodity index was down by around 5% month-on-month, dragged by weakness in energy and industrial metal prices. On 31-Jul-2025, copper futures posted one of the largest daily declines on record after the US administration announced 50% tariffs on semi-finished copper products, and not ores and concentrates, which was widely expected. In recent weeks, precious metals such as gold have lost some of their sheen due to hopes of easing Russia-Ukraine tensions amid US intervention and signs of easing trade policy woes, with the US continuing the suspension of high reciprocal tariffs on China until 10-Nov-2025, even as the 10% baseline tariff would remain effective.

Crude oil prices remain subdued at sub-USD70/b; trade policy-related developments continue to influence metal prices





Historical trends, high frequency food inflation data indicate that headline CPI inflation mostly bottomed out in July

- **Assessing historical trends:** Historical trends suggest that the month-on-month increase in the headline CPI index tends to ease in August after peaking in June-July. Base effect is slated to be flat or neutral in August. The median and average measures based on data for FY12-25 indicate headline CPI inflation to rise to 2.1% - 2.2% in August, suggesting that consumer inflation mostly bottomed out at 1.6% in July. Similar assessment of historical data shows core inflation to increase to 4.3% after easing to 4.1% in July. Just based on historical trends, headline inflation could average below 3% for the entire fiscal FY26, while core inflation could average around 4.5%. Fiscal year-to-date averages for these stand at 2.4% and 4.2%, respectively.

- **High frequency data:** Daily data on food prices till 20-Aug shows softening of inflation in cereals, with further disinflation in wheat and rice slipping into deflation. The deflation in pulses continues, albeit either at a constant or shallower pace, compared to July. However, the bad news on edible oils is persistent, with inflation continuing its uptrend. Some mixed trends have also emerged in vegetables, validating the hypothesis that inflation, particularly in food items probably bottomed out in July. Tomato prices are showing year-on-year rise after remaining in deflation for seven successive months. The deflation in potatoes has narrowed, while it continues to steepen in case of onions. It needs to be seen how these trends average for the entire month.

- **Crop situation:** For the week ending 15-Aug, total Kharif sowing was above last year's levels and at around 95% of normal sown area for the season, up from 91% in the corresponding week of 2024-25. Gains were led by cereals and pulses, though details show deficient sowing in certain crops being offset by surplus in others. For instance, while sowing of rice was at 99% of normal sown area for the season, sowing of certain coarse cereals such as jowar and bajra, and pulses such as tur was mildly lagging compared to last year's levels. The sowing of oilseeds remained lower year-on-year, along with that of other cash crops such as cotton and jute.

- **Procurement and stock: :** In Kharif Marketing Season (KMS) 2024-25, 545 LMT of paddy had been procured (up to 31-Jul), higher than 524 LMT in the same period last year, and 526 LMT during the entire KMS 2023-24. The procurement of wheat in Rabi Marketing Season (RMS) 2025-26 has been 300 LMT, up from 266LMT in 2024-25. Data as on 1-Aug shows that stocks of rice and wheat in the central pool were at 1.3X and 2.8X, respectively of the stocking norms for 1-Jul and above last year's levels.

RBI MPC to remain in data dependent, wait-and-watch mode; possibility of rate cut if growth surprises on the downside

- **Rainfall status and reservoir levels:** Data up to 13-Aug shows that cumulative south-west monsoon season rainfall was at the long period average (LPA) for the country as a whole amid deviations in some regions (chart in appendix). For instance, rainfall in northwest region in the season so far was 15% above LPA, while that in the east and northeast regions was 16% below LPA. The deviations in case of southern and central regions were minor at 1% and 2% above LPA, respectively. As on 14-Aug, reservoir levels in the country as a whole and across regions were above normal and last year's levels.

- **Policy implication:**

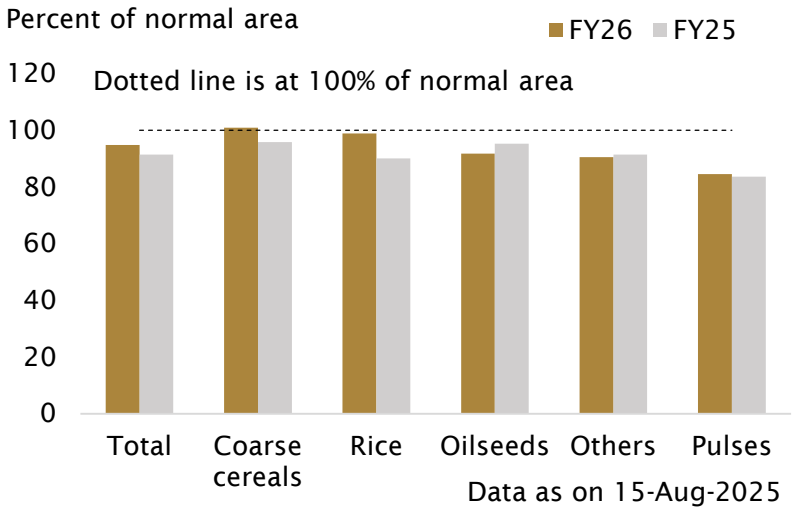
  - In its latest policy meeting held in August, the RBI MPC kept real GDP growth forecast for FY26 unchanged at 6.5%. The MPC cut headline CPI inflation estimate by 60bps to 3.1% amid sharp downward revisions to forecasts for Q2 and Q3. After printing at 1.6% in July, headline CPI inflation needs to average about 2.6% over the next two months to meet the Q2 estimate of 2.1%. Historical trends indicate a possibility of an undershoot to MPC forecast in Q2 by about 20bps.

  - Even as the RBI MPC lowered CPI inflation forecast for FY26, the committee introduced Q1-FY27 estimate at 4.9%, taking the H1-CY27 average inflation at around 4.7%, thereby raising the bar for further rate cut(s) with the implied year-ahead ex-ante real rate of 0.85%. This would be below the range of neutral rate at 1.4% - 1.9% for the economy, as noted by the RBI in a recent study.

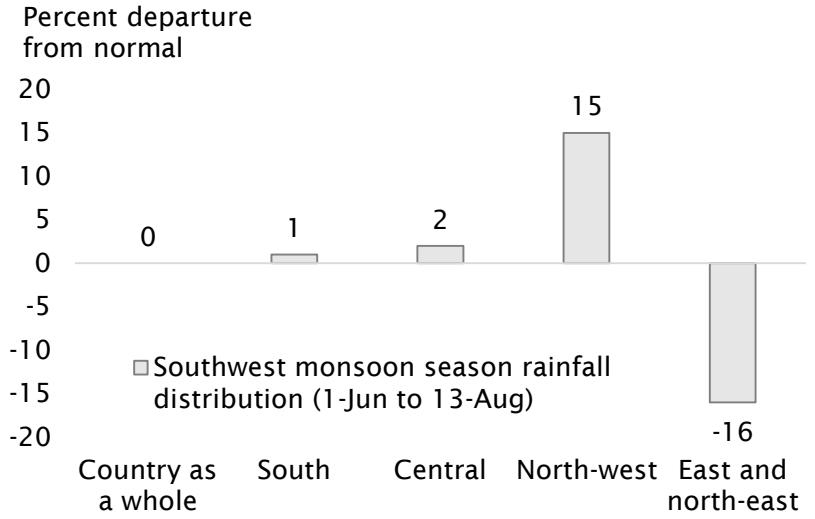
  - As noted in an earlier note on RBI policy review, even if the MPC were to allow for further easing below the neutral rate, it would highly likely be in a scenario where growth undershoots its estimates in coming quarters. Hopefully, the lagged impact of domestic monetary, fiscal and regulatory easing will offset some of the negative impact from the ongoing challenging trade negotiations on domestic growth impulses. Thus, the MPC is likely to remain in a data dependent, wait-and-watch mode for now. There is a possibility of further easing by 25-50bps in the last leg of the current easing cycle, in case global headwinds outweigh the policy support to domestic growth. But the timing would largely depend upon the trends in incoming data on domestic economic activity. The median estimate of terminal policy repo rate as per results from the RBI's latest round of survey of professional forecasters (SPF) stands at 5.25% vis-à-vis the current rate of 5.50%. The 25bp rate cut is expected to be in Q3-FY26, implying it to be either at the October or December policy meeting.

Overall Kharif sowing progressing well despite some deficiencies; rainfall distribution skewed in some regions

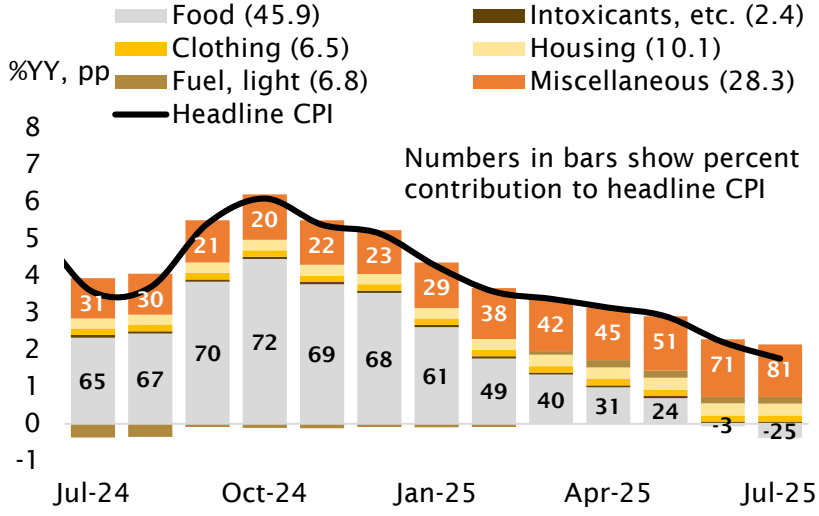
Progress in overall Kharif sowing better than in FY25

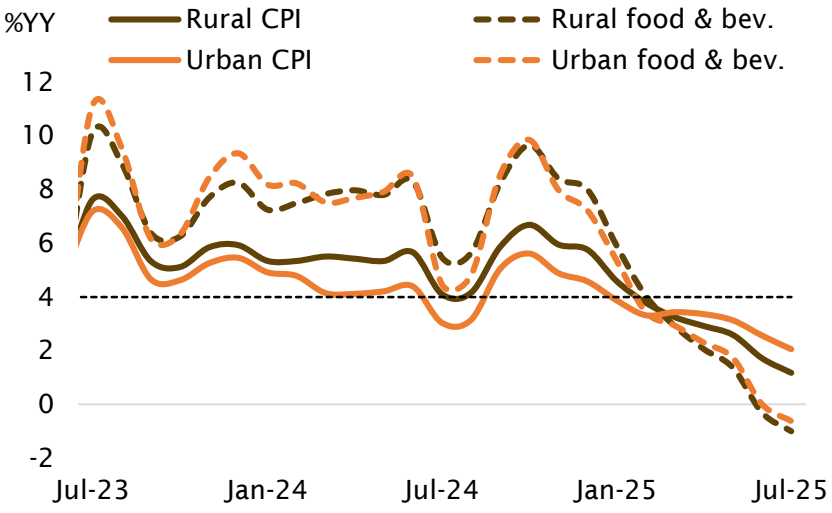


Skewed spatial distribution of rainfall in some regions



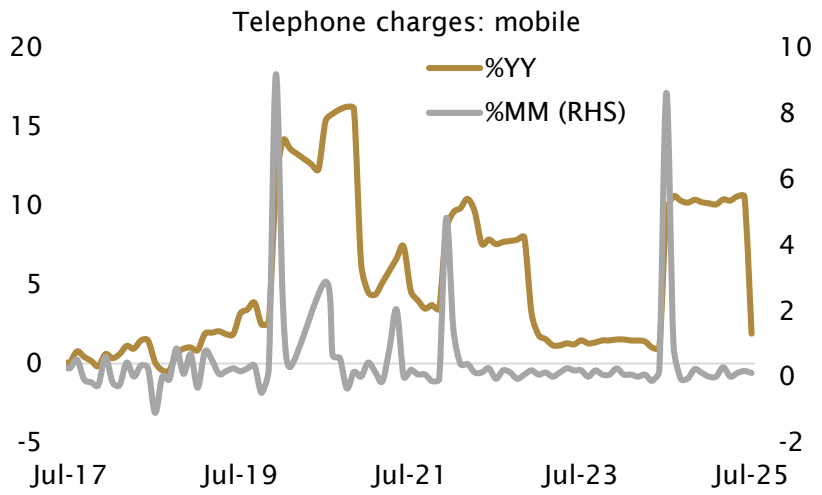
Food deducted sharply from headline CPI inflation in July; both rural and urban food indices posted deflation

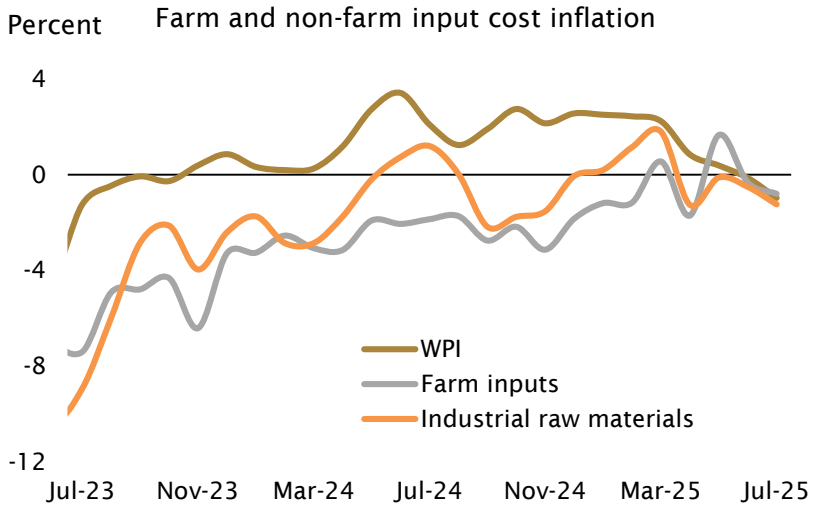




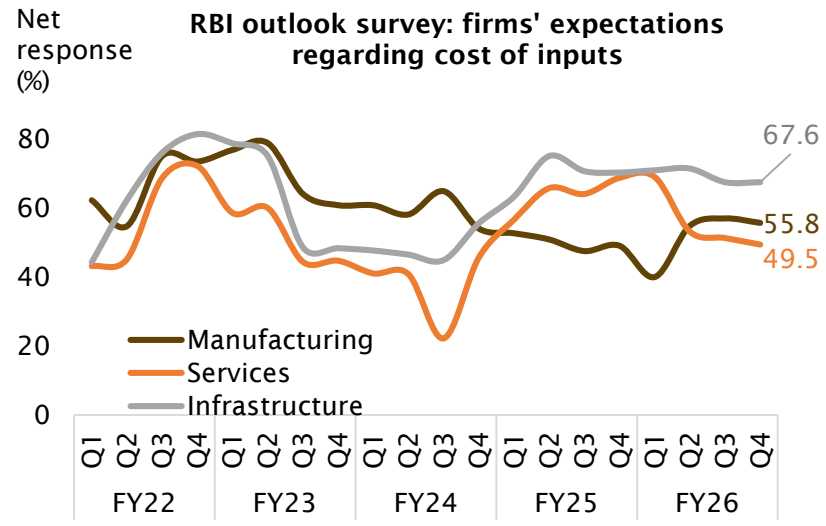
WPI in deflation for second straight month in July; RBI surveys show different price expectations across firm types for Q2

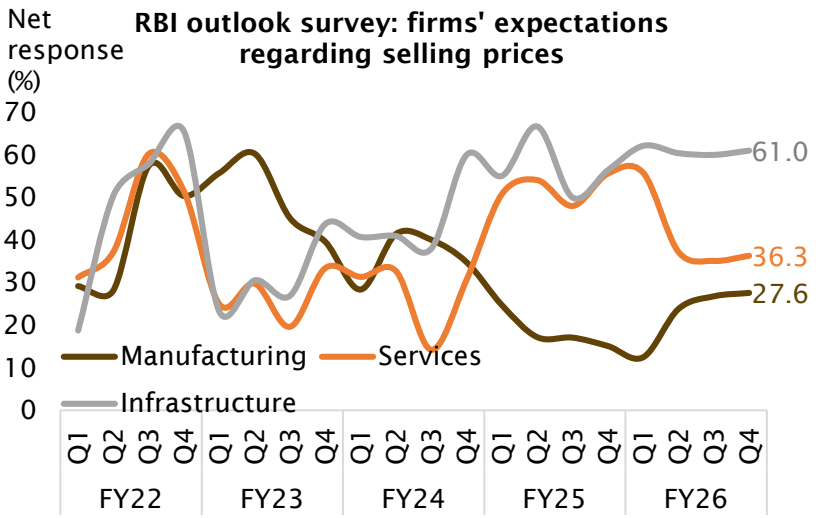
Telecom tariff hike in Jul-24 faded from y-o-y calculations; overall WPI, incl. farm and non-farm input costs, in deflation





More manufacturing firms expect both input costs and selling prices to rise in Q2; services firms expect the opposite





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