

Deflation in food dragged headline CPI in June to the lowest in 6.5 years at 2.1%

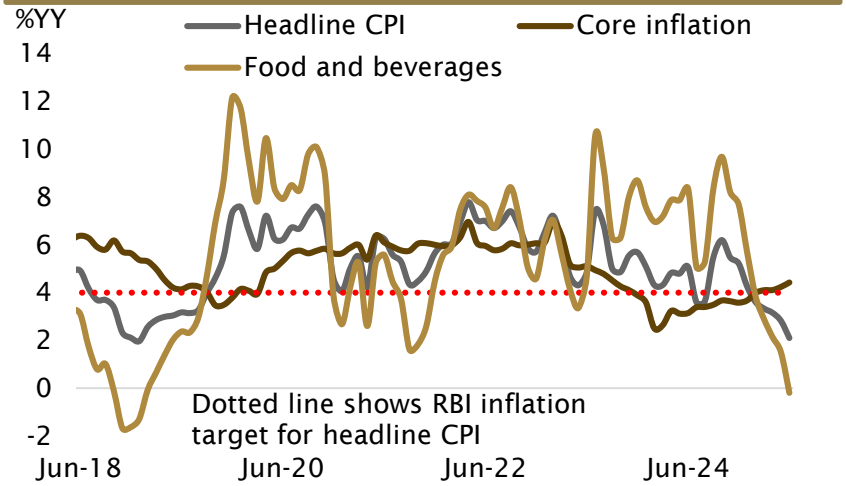
21 July, 2025

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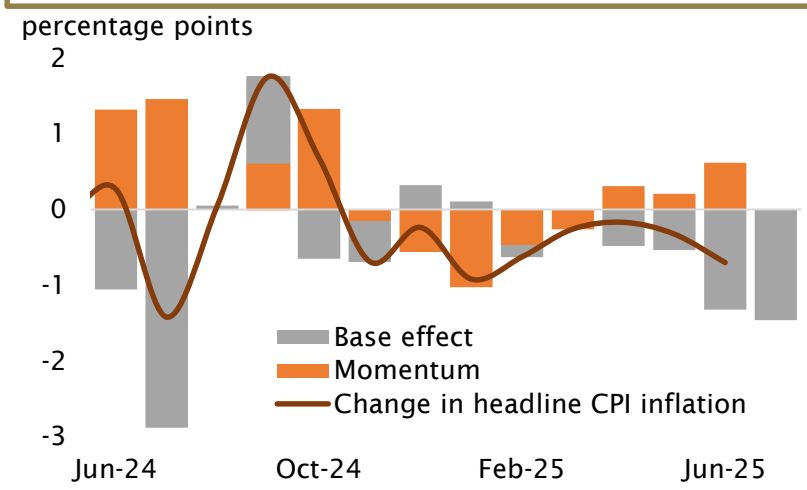
Key takeaways

- Headline CPI stayed below 3% for the second straight month in June, marking a 77-month low at 2.1% (Reuters poll: 2.5%), aided by below average sequential gains and favorable base effect. For Q1-FY26, inflation averaged 2.7%, undershooting the RBI MPC"s forecast of 2.9%. The food index (wt. 45.9) slipped into deflation for the first time since Feb-2019. There was a broad-based easing in inflation across most major food groups.
- Inflation remained below 4% across other major groups, except miscellaneous category (wt. 28.3), where it has been above 4% for ten months now, and mostly driven by higher global prices of gold in the personal care sub-group. In June, the miscellaneous group added about 70% to headline CPI, up from 50% in May. This marked a change from the trend in FY25 when food contributed more to CPI inflation.
- Core inflation (ex-food, fuel) rose to 4.4% from 4.2% in May, led by gains in services segment. After remaining in deflation for 1.5 years, the fuel index posted inflation for the fourth month, though at a slower pace than in May.
- Historical trends indicate headline CPI could slip below 2% in July, and core inflation will likely be stable at around 4.4%. An analysis of past trends in the food index and latest high frequency data shows that it is likely to remain in deflation in July, and at a steeper rate. However, in H2-FY26, there are upside risks to core inflation, particularly as economic activity is expected to pick up, reflecting the lagged impact of growth-supportive policy measures. Post the front-loading of stimulus in June, and the change in stance to neutral, the RBI MPC is likely to maintain status quo in August and act, if required, in October or December, particularly if there are changes to growth-inflation outlook.

Food index in deflation for first time since early 2019



Base effects are slated to be favorable in July



Deflation in food kept CPI inflation below 3% for the second straight month in June, marking the lowest print in 6.5 years

- Headline CPI remained below 3% for the second consecutive month in June, marking a 77-month low at 2.1% (Reuters poll: 2.5%), and tracing the deflation in food index (wt. 45.9) for the first time since Feb-2019. The headline print was below the RBI's 4% target for the fifth straight month. Consumer inflation has been consistently surprising on the downside since the recent peak of over 6% in Oct-2024. For the quarter, inflation averaged 2.7%, undershooting the RBI MPC's forecast of 2.9%.
- The easing of 72bps from the previous month was more than double the moderation in May and enabled by base effects that offset the monthly increase of 62bps. The sequential increase for the third straight month was higher than in May but lower than historical gains (FY12-25) for June at 0.83% (median) – 0.94% (average).
- Inflation remained below 4% across groups, except miscellaneous category (wt. 28.3), where it has consistently been above 4% for ten months now, and above 5% in each of the months in Q1-FY26. Though inflation in the miscellaneous group continues to be driven by higher global prices of gold in the personal care and effects sub-group, inflation was higher than in May in all the other sub-groups as well.
- In June, the miscellaneous group added about 70% to headline CPI, up from 50% in May. This marked a change from the trend in FY25 when food contributed 65% on average to CPI inflation. The deflation in food was aided by favorable base effects that offset the monthly uptick. Housing inflation rose for the sixth straight month but stayed soft at below 3.5%. Inflation in other main groups eased vis-à-vis May and remained low at sub-3%.
- Core inflation (ex-food, fuel) rose to 4.4% from 4.2% in May, led by gains in the services component, and within it, the miscellaneous and housing sub-groups. The fuel index posted inflation for the fourth straight month, though at a slower pace than in May due to monthly fall in the index and favorable base effect.

Food index slipped into deflation, as favorable base effects more than offset the uptick in monthly momentum

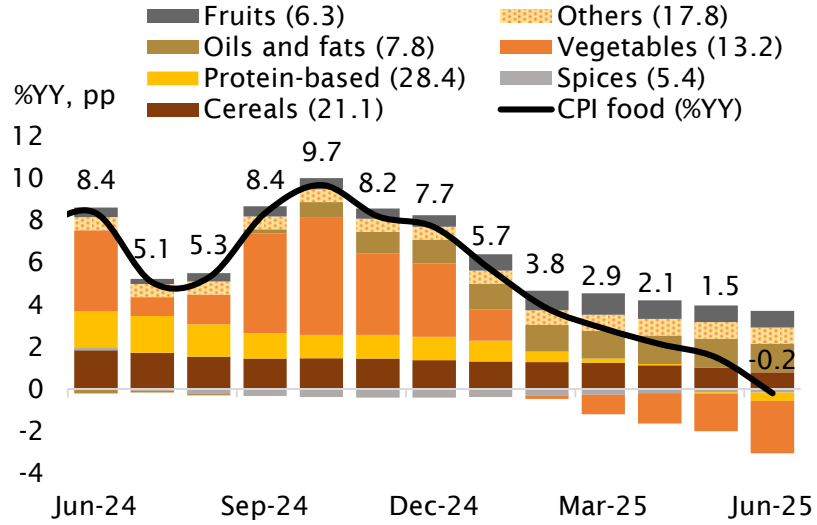
%YY	Weight	Apr-25	May-25	Jun-25
Headline CPI	100.0	3.16	2.82	2.10
Food	45.9	2.14	1.50	-0.20
Intoxicants, etc.	2.4	2.08	2.41	2.41
Clothing	6.5	2.67	2.67	2.55
Housing	10.1	3.06	3.16	3.24
Fuel and light	6.8	2.92	2.84	2.55
Miscellaneous	28.3	5.02	5.17	5.49

%MM, NSA	Weight	Apr-25	May-25	Jun-25
Headline CPI	100.0	0.31	0.21	0.62
Food	45.9	-0.10	0.05	0.97
Intoxicants, etc.	2.4	0.05	0.57	0.28
Clothing	6.5	0.26	0.15	0.20
Housing	10.1	0.98	0.22	-0.48
Fuel and light	6.8	0.67	0.89	-0.17
Miscellaneous	28.3	0.58	0.42	0.58

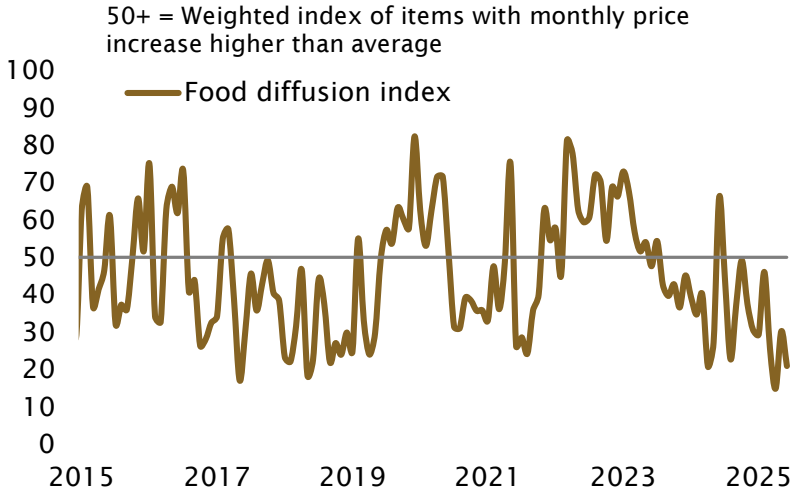
Food index slipped into deflation; favorable base effects more than offset the uptick in monthly momentum

- The food index slipped into deflation of (-)0.2% in June from 1.5% inflation in May. The month-on-month rise of 0.97% was higher than 0.05% in May, but was below historical gains for the month of June (FY12-25) at 1.27% (median) – 1.57% (average). Of the 12 major groups, prices of pulses, cereals, and spices fell month-on-month.
- While prices of pulses and spices have been falling sequentially for the past seven-eight months now, cereals post the third straight month of sequential decline. This bodes well for food inflation outlook, as inflation typically tends to be sticky in pulses and cereals. The sequential rise in overall food index was led by vegetable prices that rose over 7%. This increase was somewhere between historical median and average gain for the month. Except pulses, prices of other protein-based items rose, with gains being led by egg, followed by meat and milk. Prices of other food items such as prepared meals, non-alcoholic beverages, fruits, and sugar rose month-on-month. Except for egg, edible oils, and fruits, monthly gains were muted relative to previous trends.
- In annualized terms, spices have been in deflation for a year now, and vegetables and pulses for five straight months. The deflation in pulses steepened to double digits in June, while vegetables posted double-digit deflation for the third successive month. The protein-based index posted deflation for the second consecutive month and at a sharper rate. In addition to pulses being in deflation, the meat sub-index also fell year-on-year for the third straight month, and inflation in milk eased. Inflation in cereals slipped below 4% for the first time in 40 months. Despite easing from May, inflation in edible oils and fruits remained in double digits.

Favorable base effects aided deflation in vegetables



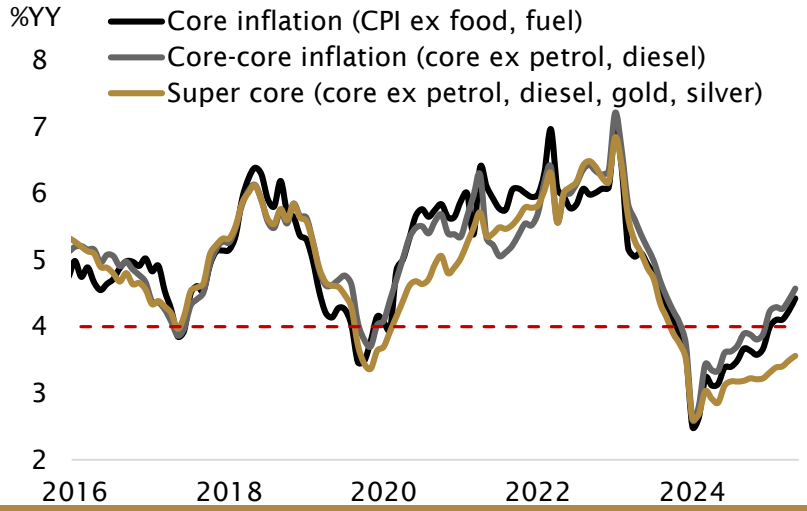
Broad-based easing of inflation in the food basket

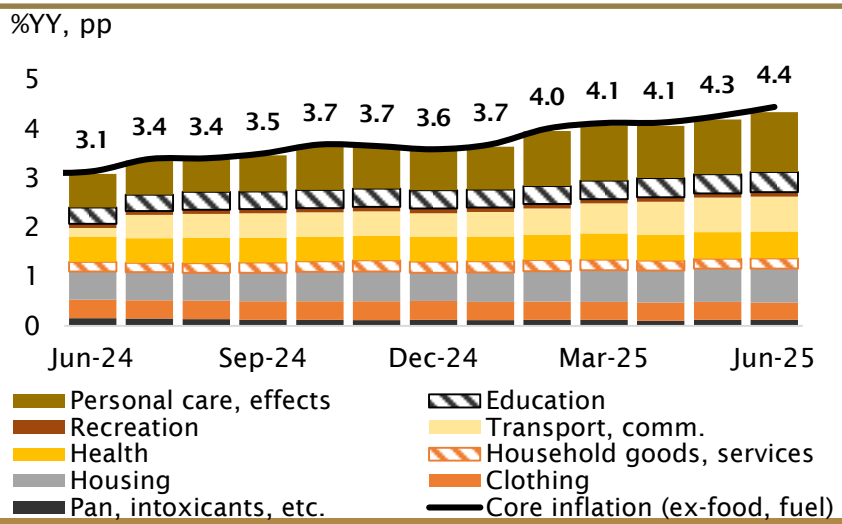


Core inflation rose in line with expectations amid broad-based gains across categories

- Core inflation (ex-food, fuel) has been gradually rising above 4% since early-2025 but remains contained. In June, it rose to 4.4% from 4.2% in May, taking the Q1-FY26 average to 4.3%. The quarterly print was in line with the median estimate in the RBI's latest survey of professional forecasters (SPF). For the full year FY26, core inflation is expected to be around this number, though recent gradual gains suggest some upside risk.
- In June, the monthly increase eased to 0.29% from 0.35% in May, and was between historical median (0.25%) and average (0.43%) gain for the month. Of the four core groups, inflation eased in intoxicants and clothing where it stayed sub-3%, but rose in housing and miscellaneous groups. Despite rising, inflation remained sub-4% in housing, while it has been above 5% in the miscellaneous category across months in Q1-FY26.
- All sub-groups in the miscellaneous category posted higher inflation in June. The personal care sub-group continued to add the most to inflation within the group, mainly reflecting higher global prices of gold. But as noted in the previous month's trends as well, some of the FMCG goods have been adding to inflation in this segment. Inflation in health and education sub-groups remained above 4% but gains have been gradual. Sub-index heavyweights medicines and tuition fees, respectively, led gains these categories in June. Inflation stayed below 4% in the transport and communication sub-index, but being a heavyweight, it contributed the most to inflation in the miscellaneous group after personal care. The contribution of telecom charges stayed the highest but stable from the previous month, so that the increase in June was led bus/tram fare, and school bus segments. Higher inflation in household goods and services was led by domestic help sub-index.

Rise in core inflation in line with expectations; personal care, transport, housing continued to contribute the most in June

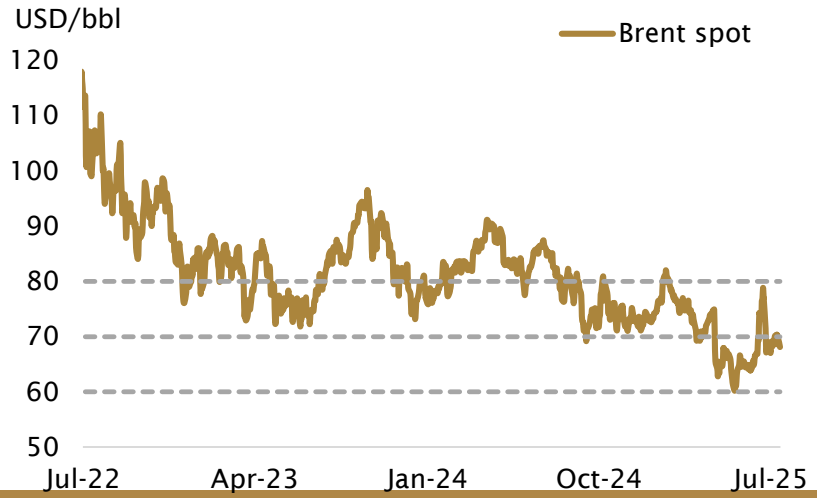


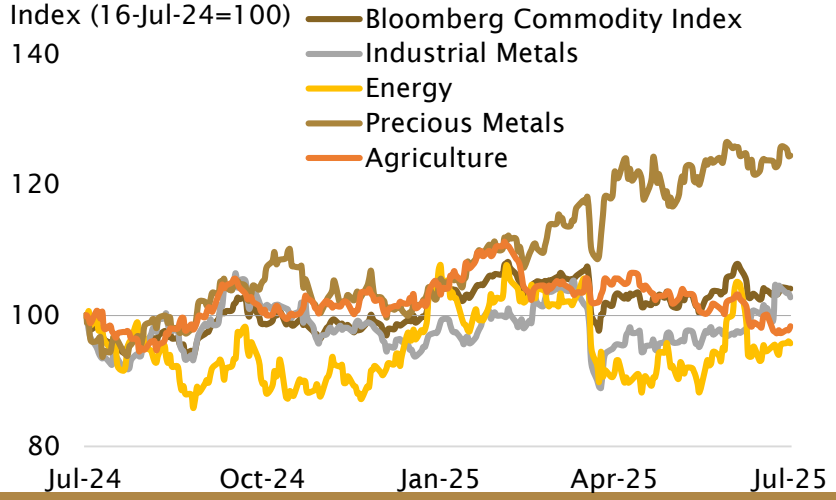


Despite recent volatility, crude oil prices remain range-bound; outlook subdued amid higher output targets by OPEC+

- Domestic fuel inflation eased for the second straight month to 2.55% from 2.84% in May due to month-on-month fall in the index and favorable base effect. The latest print marked the fourth straight month of inflation after the index remained in deflation for 1.5 years. The easing in June was marked by continued deflation in kerosene PDS sub-index that offset mild gains in kerosene from non-PDS sources. Inflation in electricity, coke, firewood and chips, and charcoal eased, while it rose in case of LPG, and other traditional sources of fuel such as coal and dung cake. The impact of excise duty hike in petrol and diesel in April has reflected in price increases in only one of the metro cities so far in both May and June.
- In the past couple of months, crude oil prices have been volatile with Brent spot moving from the low of sub-USD60/b in early May to close to USD80/b in June, and currently around USD70/b. While subdued global growth outlook due to tariff wars kept prices muted until May, Iran-Israel tensions drove prices higher in June. Despite myriad geopolitical and geo-economic risks, prices have been range-bound.
- Data as on 16-July shows around 4%YY rise in the Bloomberg commodity index, with gains led by precious metals, followed by industrial metals. Energy and agriculture sub-indices were down year-on-year.
- In its latest note, the US EIA raised Brent crude oil price forecast for 2025 by USD3/b from previous estimate to USD69/b to capture the geopolitical risk premium from escalation in Iran-Israel tensions. But it pruned forecast for 2026 by USD1/b to USD58/b, as global inventories are likely to keep downward pressure on prices. Also, EIA's latest forecasts do not capture reversal of output cuts announced by OPEC+ in early July.

Despite recent volatility, crude oil prices remain range-bound; gains in other commodity prices led by precious metals





Historical trends, high frequency data indicate that headline CPI could slip below 2% in July

- **Assessing historical trends:** Historical trends indicate that the month-on-month change in headline CPI index tends to be the strongest in the month of July, followed by June and October; reflecting the patterns in food prices. Accordingly, base effects tend to be favorable during these months for the annualized prints, particularly for overall inflation. In each of these months in FY26, base effects are expected to drag headline CPI inflation by more than 1pp (146bps in July). Core inflation trends are less predictable, though average trends show sharpest sequential gains in July in the current series, so that base effect will be favorable for the annualized print next month to the extent of 63bps. Historical trends indicate headline CPI could slip below 2% in July to 1.9%, and core inflation will likely be stable at around 4.4%.

  Similar analysis based on previous data shows that headline inflation could average around 3% in FY26 but core inflation could rise to 4.6% - 4.8%. If economic activity picks up in H2-FY26, reflecting the lagged impact of supportive policy measures, it could create further upside risk to core inflation in FY27, with the possibility of it then turning generalized and trickling to headline CPI. In terms of implications for monetary policy, the MPC might take into consideration the medium-term outlook for inflation and be prudent in implementing further rate cut(s), instead of basing decisions on the ongoing sharper-than-expected disinflation.

- **High frequency data:** An analysis of past trends in the food index shows that it is likely to remain in deflation in July, a continuation of the trend in June and at a steeper rate. This is plausible absent any unexpected surprises, which are presently not reflecting in high frequency data. Data till July 18 shows that deflation has steepened across major vegetables – tomato, onion, potato – compared to the previous month. Key cereals – rice and wheat – have slipped into deflation, indicating first such instance in four years, though data for the entire month needs to be watched out for. Inflation in sugar has eased further compared to June. In case of pulses, deflation has either sharpened or the ones posting inflation have slipped into deflation.

  Inflation in edible oils remains a pain point, as high frequency data suggests that it continues to rise higher than in June. The import duty cut to 10% from 20%, announced in June, is yet to trickle to consumer prices. As per the UN FAO index, inflation in edible oils has eased from the peak of over 30% in end-2024 but remains in double digits. This could also be offsetting some of the gains from lower duty.

RBI MPC could exercise caution in further lowering interest rates due to upside risks to inflation in the medium-term

- **Crop situation:** For the week ending July 11, Kharif sowing was above last year's levels, and accounted for 55% of normal sowing area for the season, up from 51% in the corresponding week of FY25. Gains were led by cereals and pulses that offset slight deficiency in the sowing of oilseeds.

- **Procurement and stock:** In Kharif Marketing Season (KMS) 2024-25, 531 LMT of paddy had been procured (up to 30-Jun), higher than 512 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. As on 30-Jun, wheat and rice stocks in the central pool totaled 737 LMT, comprising of 378 LMT of rice and 359 LMT of wheat. This was higher than the combined stock of 609 LMT in the same period of 2024.

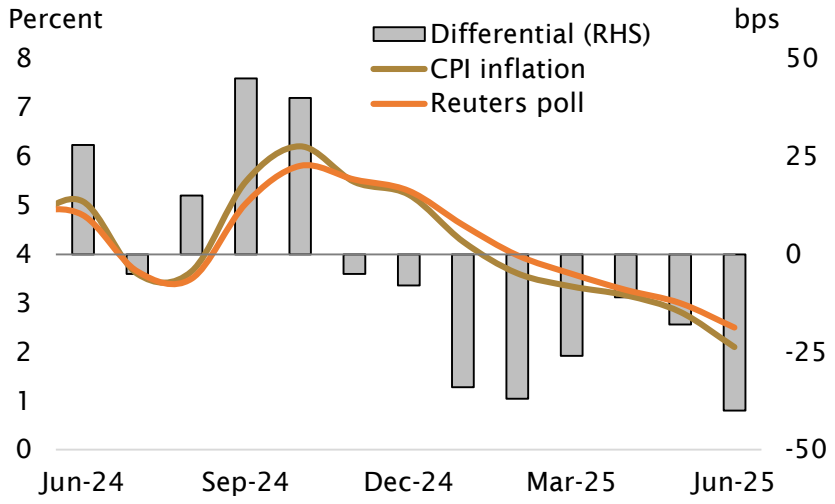
- **Rainfall status:** In its forecast for the month of July, the IMD had predicted rainfall for the country as a whole to be at 106% of long period average (LPA). For the season as a whole so far (16-Jul), rainfall was at 109% of LPA but the spatial distribution was skewed with the northwest (+32%) and central (+31%) regions receiving surplus rains, and the east and northeast (-21%), and southern (-11%) parts receiving deficient rainfall.

- **Policy implication:** In terms of implications for monetary policy, RBI Governor Shri Sanjay Malhotra noted in a recent interview that that monetary policy is forward-looking, so that under the current neutral stance, policy action is likely if there are changes to growth and inflation outlook. With the ongoing disinflation being sharper-than-expected, it is likely that the RBI MPC lowers its inflation forecasts for FY26 either at its upcoming policy decision on August 6 or the next one on October 1. The overall growth-inflation dynamics will be crucial for the MPC in its decision making. The high frequency indicators of economic activity remained weak in Q1, though there is a possibility that real GDP growth will meet the MPC forecast for Q1 at 6.5%, and it would mark a slowdown from 7.4% growth in Q4-FY25. The data for Q1-FY26 real GDP growth is due in end-August and will be available for MPC to consider in its October meeting. In case of any undershoot or continued weakness in high frequency data, the MPC has policy space for further rate cut(s) in the current cycle to the tune of 25-50bps. But it might prefer to exercise caution, particularly amid MPC forecasts of headline inflation breaching 4% in Q4-FY26. Core inflation is likely to rise as economic activity picks up in H2-FY26 as a result of the lagged impact of growth-supportive policy measures. With the front-loading of easing in June, the MPC is likely to wait and watch until its meeting in October or December before it acts again, in the event that it deems necessary to do so. On a different note, the RBI Governor stated in his interview that changes to the liquidity framework could be released by end-July, though no major changes are expected.

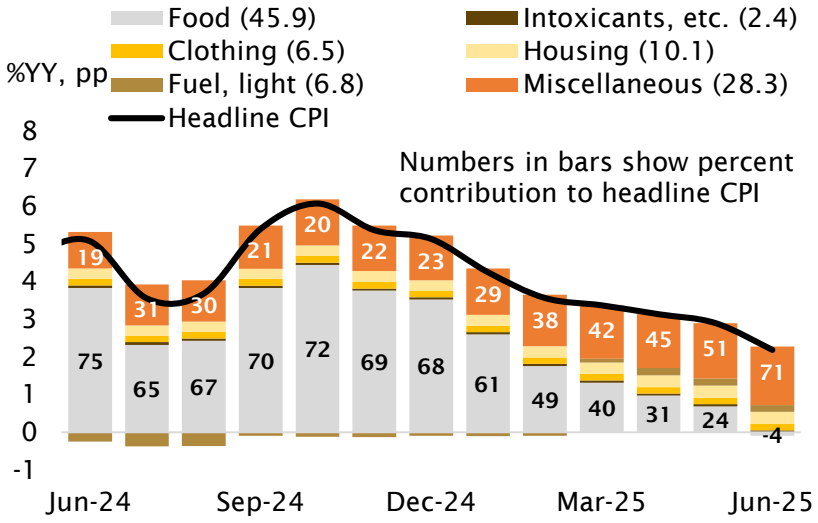
CPI inflation has been consistently surprising on downside; WPI remained in deflation in June

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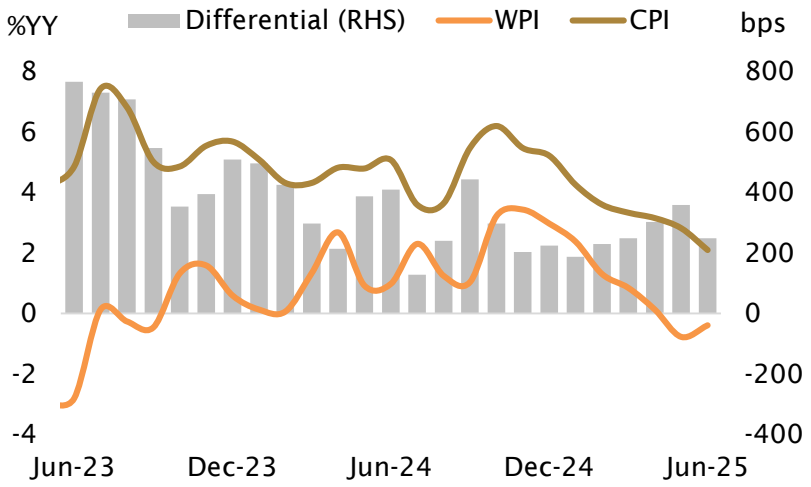
Inflation has been consistently surprising on downside

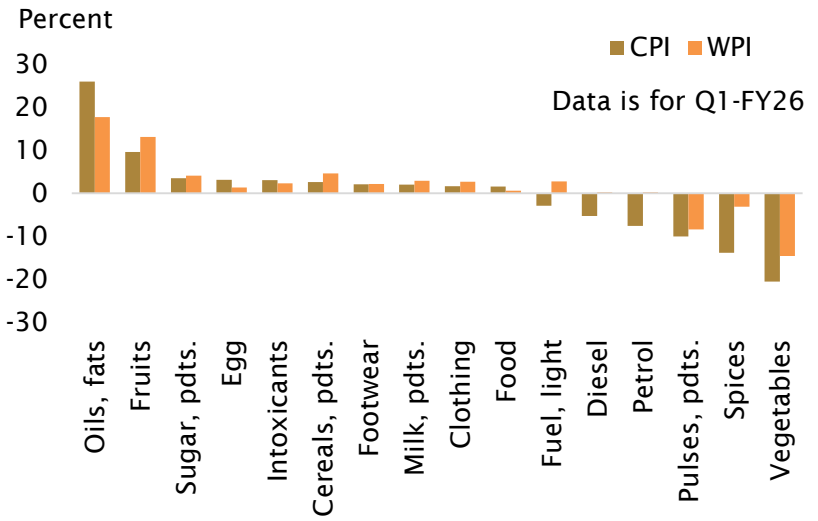


Misc. (mainly services) added 70% to inflation in June



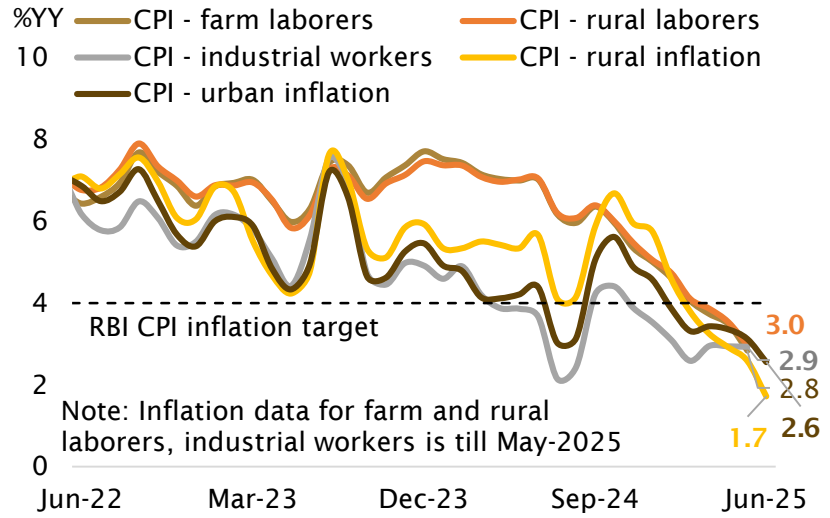
WPI stayed in deflation for second month in June but at shallower rate; edible oils CPI-WPI differential high in Q1-FY26



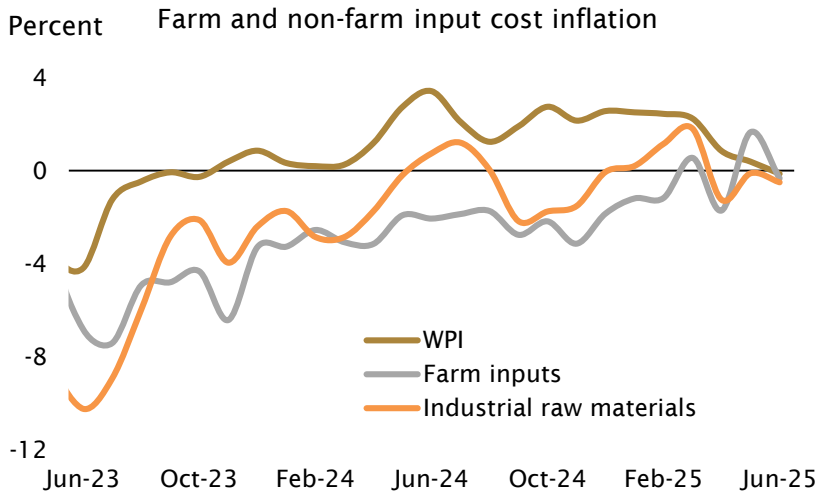


Measures of inflation across groups remains below 4%; input costs in deflation; housing inflation rising but muted

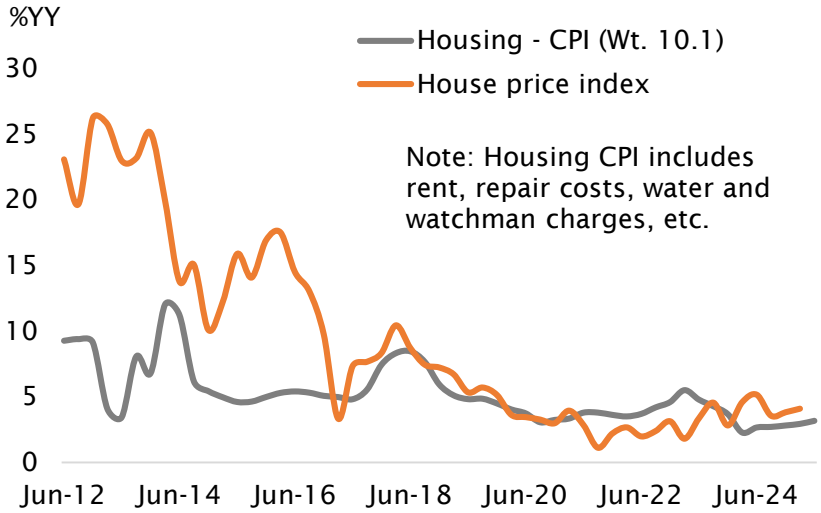
Various measures of inflation across groups sub-4%



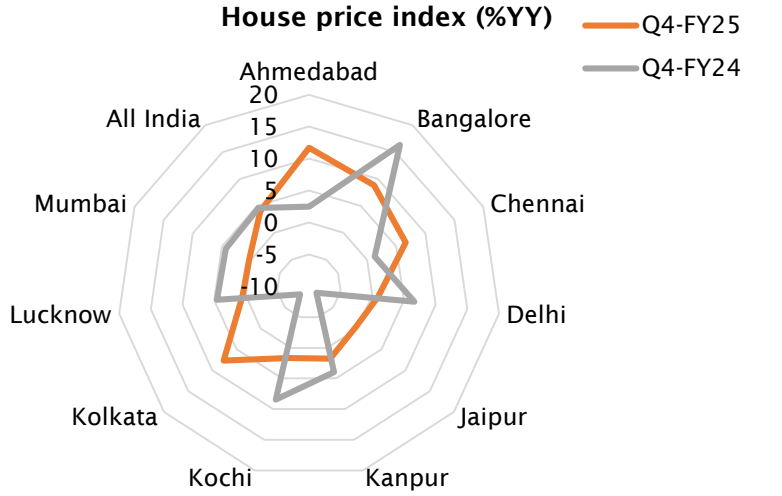
Both farm, non-farm input costs in deflation



Housing CPI slowly rising but remains sub-4%



Ahmedabad led gains in Q1-FY26; Bangalore in Q1-FY25



Annexure: Inflation in top 25 states sorted by nominal gross state domestic product (GSDP) in FY24

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CPI inflation has eased to below RBI's 4% target across most states, with Telangana posting deflation for first time since early 2019. But there are exceptions. Inflation remains above the RBI's upper band of 6% in Kerala and above 4% in Goa, Punjab, and J&K. Latest data shows that rural inflation in these states is higher than in the urban areas.

		CPI Inflation												
		Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
1	Maharashtra	4.5	3.3	3.3	5.0	5.4	4.9	4.2	3.4	3.1	3.9	3.6	3.3	2.5
2	Gujarat	5.2	3.2	3.3	6.0	6.4	5.7	4.9	3.8	3.0	2.6	2.5	2.7	2.0
3	Tamil Nadu	4.8	3.0	3.3	5.2	6.3	5.0	5.2	5.0	4.0	3.8	3.4	2.8	2.2
4	Karnataka	6.0	3.6	3.0	4.9	6.0	5.1	5.1	5.0	4.5	4.4	4.3	3.5	2.7
5	Uttar Pradesh	5.4	4.6	4.9	6.7	7.4	6.5	6.3	4.6	3.6	3.0	2.5	2.2	1.5
6	West Bengal	4.0	3.6	3.7	4.3	4.6	5.0	4.8	3.4	3.1	3.2	3.2	2.5	1.4
7	Rajasthan	5.8	2.6	3.1	5.3	6.0	4.8	4.4	3.9	3.0	2.7	2.2	2.3	1.6
8	Andhra Pradesh	5.8	3.4	3.0	4.8	6.1	5.0	4.3	4.1	2.4	2.5	2.6	1.7	0.0
9	Telangana	5.5	2.9	2.0	4.4	5.5	4.3	3.1	2.2	1.3	1.1	1.3	0.6	-0.9
10	Madhya Pradesh	4.9	3.0	3.2	6.0	7.0	6.0	5.7	4.4	3.3	3.1	2.6	3.1	1.8
11	Delhi	2.2	2.1	2.5	3.7	4.0	2.7	2.5	2.0	1.5	1.5	1.8	2.1	1.9
12	Kerala	5.9	4.5	4.2	5.5	6.5	6.3	6.4	6.8	7.3	6.6	6.0	6.5	6.7
13	Haryana	5.4	4.6	4.1	6.3	6.8	5.3	6.0	5.1	4.3	3.9	3.5	3.7	3.1
14	Odisha	7.2	4.9	5.6	6.7	7.5	6.8	7.0	5.7	3.8	3.3	2.5	2.3	0.5
15	Punjab	3.9	3.0	2.9	5.3	5.7	4.7	5.1	4.3	3.5	3.7	4.1	5.2	4.7
16	Bihar	6.4	5.9	6.6	7.5	7.8	7.5	7.4	5.1	4.5	3.1	2.9	1.5	0.7
17	Assam	5.7	5.1	5.0	4.9	5.9	5.2	5.5	4.6	4.2	3.7	2.9	2.4	1.8
18	Chhattisgarh	5.3	2.2	3.8	7.5	8.8	8.3	7.6	5.8	4.9	4.3	3.1	3.3	2.3
19	Jharkhand	5.1	1.8	2.9	5.2	5.5	5.4	4.5	2.6	2.6	2.1	2.2	2.1	1.0
20	Uttarakhand	2.9	3.0	2.4	4.7	6.3	5.3	6.1	4.9	4.0	3.8	3.8	3.5	3.4
21	Himachal Pradesh	3.9	2.8	2.7	4.6	5.8	5.1	5.0	4.2	3.3	3.2	2.7	2.9	3.0
22	Jammu and Kashmir	4.5	3.6	3.4	5.1	5.5	5.2	5.4	4.9	4.2	4.0	4.2	4.6	4.4
23	Goa	1.6	1.8	3.0	4.3	4.7	4.6	4.4	4.6	4.6	5.6	6.5	7.1	5.2
24	Tripura	3.2	3.5	6.9	6.0	5.6	5.6	5.1	2.7	2.5	3.0	3.6	2.3	3.4
25	Chandigarh	3.8	2.4	3.4	4.9	6.2	5.7	6.1	5.1	3.4	3.4	3.3	3.5	2.9

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