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Food putting a brake on CPI

CPI inflation got the breather from a favourable correction in food inflation buoyed by seasonality factors and better supply side dynamics. The high frequency price data for Feb-25 is continuing to show softening in Feb'25 as well, especially for Tomato and Potato the downward fall is persisting at a steeper pace. Core is also insulated. Recent company financials again have pointed out that demand recovery has been skewed and concentrated in a few segments. Thus, we believe core inflation is likely to be capped. Thus an easing CPI print is comforting from a monetary policy standpoint as well, when global uncertainty poses some significant ambiguity in terms of currency, liquidity and upcoming monetary policy response.

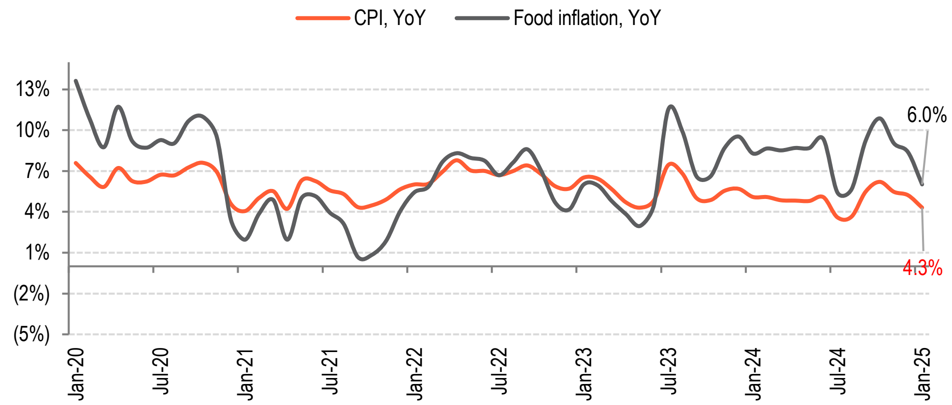
Food comforted headline

CPI inflation moderated to its lowest since Aug'24: CPI inflation softened to 4.3% in Jan'25 from 5.2% in Dec'24 (BoB est.: 4.7%), on YoY basis. The undershooting was supported by a significant correction in food inflation which went down by 237bps to 6% in Jan'25 from 8.4% in Dec'24. The major slump was noticed in the case of vegetable inflation (11.3% in Jan'25 compared to 26.6% in Dec'24). Bumper arrivals of TOP (Tomato, Onion and Potato) since Nov'24 has contributed to the same. The CPI disaggregated index of TOP has fallen by -23.9% on MoM basis, the largest sequential drop since Sep'23, in the series. Among other items of food basket whose share is significant is pulses and its downtrend persisted in Jan'25 as well (2.6% compared to 3.8% in Dec'24). Cereal inflation also softened (6.2% from 6.5% in Dec'24) as international prices were largely contained and supported by adequate domestic buffer stock. Egg inflation albeit its seasonal adjustment has shown significant easing, attributable to improved supply. On the other hand, there are a few items such as fruits (12.2% from 8.6% in Dec'24) and oils and fats (15.6% from 14.6%), which remained upbeat. For Oilseeds, despite some softening of international prices, unfavorable base came into play. The government's efforts are already continuing in the form of extending purchase under price support scheme which will be helpful in bringing down inflation on this front, in the near term.

Importantly, CPI excluding vegetables has been below the 4% mark for 13th month in a row. Now that vegetable prices are also calming, it provides RBI the breather in terms of policy space.

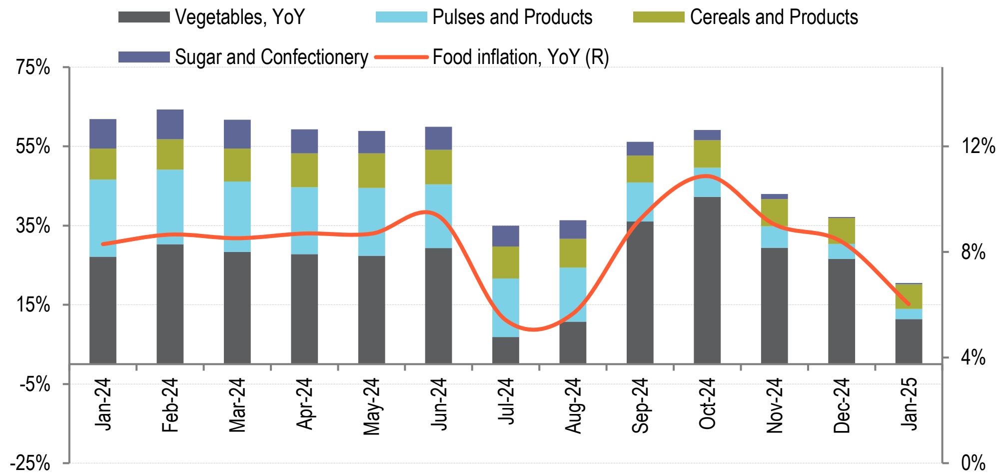
MoM picture: Much of the fall in CPI is attributable to seasonality. The seasonally adjusted Consumer Food price Index has fallen by 1.4% against the unadjusted series of -2.9%, on MoM basis. However, a closer look at the sequential picture mirrors the same YoY trend. The slump is "vegetable driven" as on a MoM basis, vegetable inflation fell by -15.7%. Pulses and oilseeds also underwent some moderation. Milk prices showed some stickiness. However, the recent reports of cuts in prices will feed into the Feb'25 prices.

Figure 1: Food inflation moderated



Source: CEIC, Bank of Baroda Research

Figure 2: …led by vegetables, pulses, amongst others



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) remained sticky at 3.6%, on YoY basis. However, core excluding pan, tobacco and intoxicants was slightly higher at 3.7%, on YoY basis. The broad underlines of core have shown little or no momentum. Housing has inched up a tad by 2.8% from 2.7% in Dec'24. The miscellaneous component of core was largely driven by personal care and effects (10.6% from 9.8%). As during the same period gold prices went up by 33% on YoY basis and by 2.3% on MoM basis. Risks to this component remain from an upside pressure on gold during the contemporary time of uncertain global policy space. Other items of core which showed moderation were health, recreation and amusement and education.

Fuel and Light inflation softened both on a sequential and YoY basis albeit some pickup in Kerosene prices.

Way forward: Headline CPI got the desired comfort from seasonal correction in food prices. Better supply management policies also came into playing in largely containing food prices. The undershooting of inflation amidst global policy uncertainty is welcoming from a monetary policy standpoint. If volatile items of CPI especially vegetable inflation continues to play in favour, alignment to the inflation target seems feasible. Our forecast also looks at progressive alignment to the 4% level.

However, upside risks emanate from a depreciating rupee which poses risks of imported inflation and bottoming out of commodity price cycle from threats of tariff imposed by the US. We expect CPI to settle at ~4.9% in FY25 and 4.6% in FY26, with risks tilted to the upside.

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