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Food: A sigh of relief

CPI inflation got the respite from a considerable correction in food inflation led by seasonality factors and better arrival statistics of TOP vegetables (Tomato, Onion and Potato). The high frequency price data for Mar'25 is also on the downside. Notably, few broad items of CPI are also in deflation, which has not been observed in the recent past. For core, the stickiness is transient and largely a "gold-led" phenomenon. Excluding gold, personal care and effects inflation was largely capped. Even household goods and services inflation were stable, thus not pointing to immediate demand side pressure. With the current print in line, we believe CPI would undershoot RBI's target in Q4, thus opening more policy space by RBI in terms of easing, to support growth. We expect CPI to be at 4.6% (RBI: 4.8%) in FY25 with Q4 now at 3.8% (RBI: 4.4%).

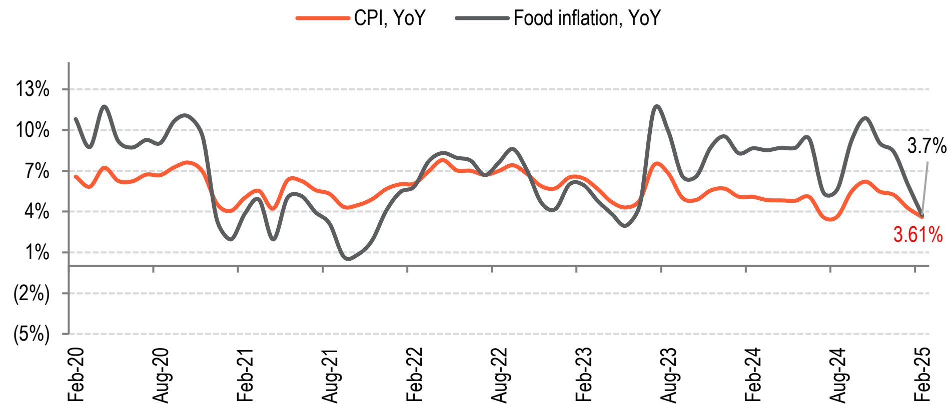
Food comforted headline

CPI inflation was at its lowest since Jul'24: CPI inflation softened significantly to 3.6% in Feb'25 compared to 4.3% in Jan'25 (BoB est.: 4.1%), on YoY basis. 6 out of 12 broad categories of food showed softening. Among them, the slowing down of vegetable inflation was noteworthy. Since May'23, it is for the first time that the YoY series of vegetable inflation went into negative territory. It declined by -1.1% in Feb'25 compared to 11.3% in Jan'25. This is led by better arrivals of winter harvest, which has supported prices. Apart from this inflation of protein-based items, also softened. Meat and fish inflation edged down to 2.1% in Feb'25 from 5.3% in Jan'25. Eggs inflation went into negative territory falling by -3% in Feb'25 compared to 1.3% in Jan'25. The fear of bird flu in few pockets has contributed towards the same. Inflation of pulses also inched down to -0.3% in Feb'25 compared to 2.5% in Jan'25. Notably, 4 out of 12 broad food and beverages (F&B) items have registered a negative print, which was not visible in earlier months (only Spices was in the deflation territory). Now 9 out of 12 broad items of F&B are under 6% tolerance band.

On a sequential basis, a major slump was visible in the case of vegetable inflation series followed by eggs and pulses.

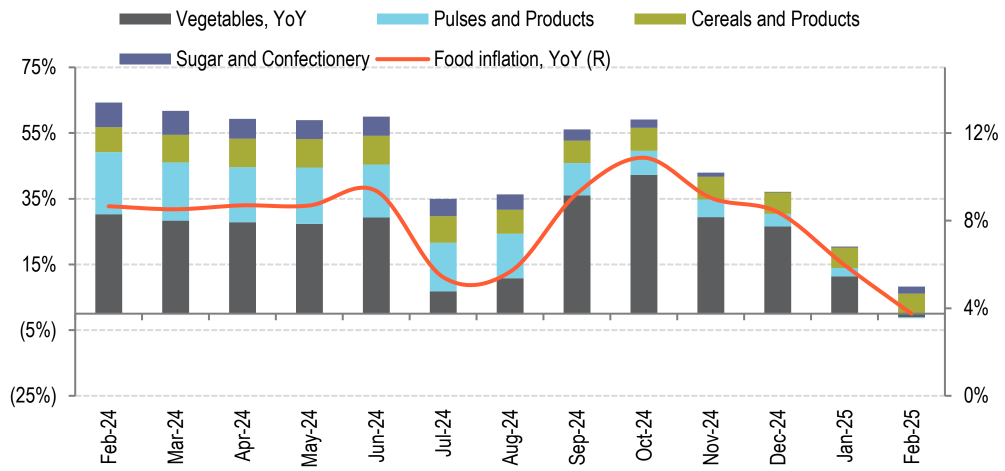
Importantly, CPI excluding vegetables and pulses, the items which have seen significant decline in the series have also been at 4%. The outlook for food inflation remains supportive as of now. However, upside risks remain from higher-than-normal temperatures in few TOP (Tomato, Onion and Potato) producing States such as Maharashtra, West Bengal, Rajasthan, MP and Bihar (IMD data). Apart from this, the trajectory of oils and fats have been in double digits for some time now, as international prices are still elevated driven by lower output in Southeast Asian producing countries (FAO data). Global wheat prices are also seeing some upside pressure on account of unfavourable crop conditions in Europe, Russia and US. However, the pass through to domestic prices is likely to be limited.

Figure 1: Food inflation moderated significantly



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) inched up to 4%, on YoY basis. The major push came from miscellaneous items. It rose by 4.8% in Feb'25 from 4.3% in Jan'25. Within this, personal care and effects rose by 13.6% from 10.6%, driven by higher international gold prices housing. Notably, personal care and effects excluding gold has just gone up by 4.2% in Feb'25. So even the increase in core is not broad based and is largely contained. It is a transient phenomenon In fact, inflation in household goods and services have largely remained stable at 2.9%. Some momentum was visible in case of health and transport and communication.

On a sequential basis, core firmed up by 0.5% led by miscellaneous inflation especially personal care and effects (on MoM basis, gold prices went up by 6.8% -World Bank data). Going forward, the outlook on core doesn't pose much of a risk as the firmness was attributable to sudden overshot of safe-haven demand for gold. The transcript of Q3 financial results of companies have also reflected that despite some pass through of input prices to consumers, they were largely rangebound. Going forward, the impact of global inflationary risks does pose some degree of uncertainty in terms of higher commodity prices. However, since energy prices and the dollar (off late) is in check, so we do not see much of a concern on core inflation front.

Fuel and Light inflation is in the deflation territory at -1.3%, on YoY basis and on MoM basis has risen at a softer pace by 0.1%, as Kerosene prices have risen at a slower pace than last month.

Way forward: Headline CPI got the necessary comfort from food inflation at a crucial juncture when uncertainty on global inflation predominated. High frequency retail price data is still showing deceleration in Mar'25. Our in-house BoB ECI is tracking at 1.4%, on YoY basis for the first 11 days of Mar'25. The trajectory of TOP (Tomato, Onion and Potato) albeit being in the negative territory has shown some degree of upward correction. However, this would not be a cause of concern as of now since there is still a considerable gap between retail and wholesale prices for these items which hints at further transmission of lower wholesale prices to retail. Hence, overall, we believe CPI is likely to undershoot RBI's target of 4.4% in Q4, which will open more policy space for easing by RBI. We do not see major risks lurking for food inflation. However, one needs to be vigilant on account of hotter than expected summer, stickier international edible oil prices and risks from global inflationary policies. As of now, the tide is in favour of a lower headline print emanating from a better Rabi harvest, better supply management strategies of the government, rangebound commodity prices, benign energy price outlook and lesser dependence of CPI basket in terms of imported commodities. *Overall, we expect CPI to settle at 4.6% in FY25, with our Q4 number at 3.8%.*

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