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Food pacifying CPI

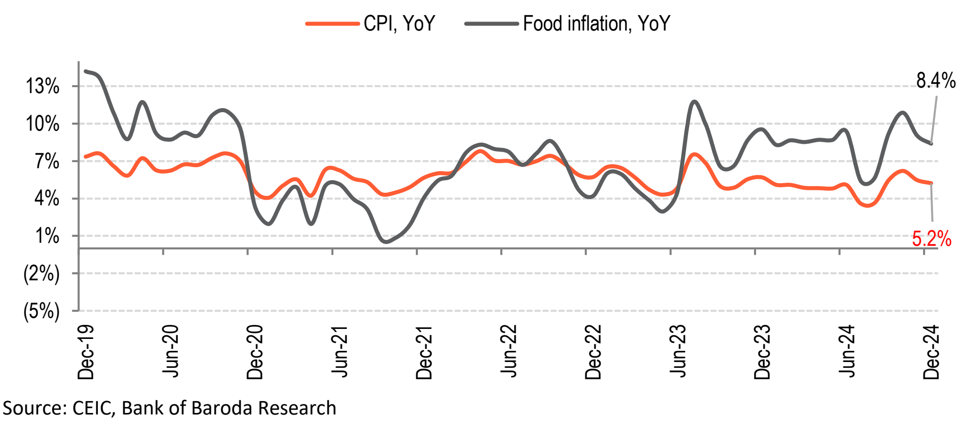
CPI showed some softening led by food inflation. Reversal in TOP (Tomato, Onion and Potato) trajectory has provided the desired comfort. Core (CPI excl. food and fuel) also softened led by range-bound global commodity prices. In Q4, albeit some unfavourable basis, we expect the downtrend in vegetable inflation will pull down headline CPI. Outlook of food inflation seems favourable as mandi arrivals statistics of perishables have improved in harvesting months. Rabi sowing data also remains promising for cereal inflation going forward. Key risks to overall inflation outlook stem from a depreciating INR which might escalate risks of imported inflation. Apart from this, any volatility in energy prices on account of ongoing sanctions might feed into higher intermediate input prices and hence to overall inflation print. On the policy front, RBI is likely to be watchful in its Feb'25 meeting. It will closely evaluate the Budget, and its policies redirected especially towards fueling consumption demand before taking any call on rates. Policy space opens only in H1FY26 as global environment also hints at a stickier financial condition amidst anticipation of US President elect's upcoming policies.

Food inflation providing some breather

CPI inflation sees some moderation: CPI inflation moderated to 5.2% in Dec'24 (BoB est.: 5%) compared to 5.5% in Nov'24, on YoY basis. This comes in the wake of an elevated base and food inflation losing steam. Food inflation went down by 65bps to 8.4% in Dec'24 from 9% in Nov'24. The major correction has emanated from vegetables (26.6% in Dec'24 from 29.4% in Nov'24), pulses (3.8% from 5.4%) and cereals (6.5% from 6.9%). Improvement in mandi arrival statistics (of TOP vegetables: Tomato, Onion and Potato), bumper Kharif harvest and favourable global commodity prices have resulted in the same.

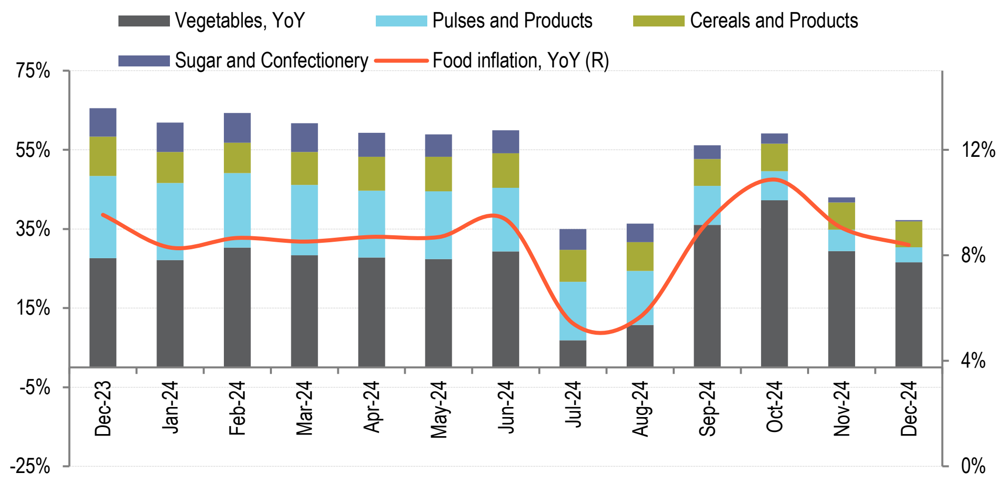
Apart from seasonal blip in prices of Eggs (6.9% from 4.8%), meat and fish (5.3% from 4.7%) which is a usual phenomenon, food prices have remained broadly contained. On a sequential basis, 8 out of 12 broad categories of food and beverages inflation have shown moderation in Dec'24. Going forward, correction in food inflation is likely to continue. In Jan'25 (first 12 days), food prices are showing considerable correction especially there has been continued decline in prices of TOP vegetables which is likely to keep a lid on food inflation, going forward. Our BoB ECI is running lower at 4.7% in Jan'25 (YoY).

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) inched down to 3.6%. Core inflation moderated to 3.6% in Dec'24 from 3.7% in Nov'24, on YoY basis. There has been a usual seasonal moderation in housing component of Core. Apart from this, miscellaneous component edged down led by personal care and effects (9.7% in Dec'24 from 10.4% in Nov'24), on account of softening in gold prices. Going forward, the demand picture is likely to improve with Union Budget's expected focus on improving consumption demand of the economy. However, fine balancing of revenue spending will keep core inflation largely capped.

Fuel and Light inflation inched up both on a sequential and YoY basis as kerosene prices picked up in Dec'24.

Way forward: Headline CPI got the desired comfort from a moderation in food inflation especially vegetable inflation. The trajectory of vegetable inflation is continuing its downtrend in Jan'25 as well (first 12 days). If the same pace continues, CPI is likely to head lower in the coming months. We expect it to be in the range of 4.2-4.5% In Q4. The only strain emanate from a depreciating INR which might increase the risk of imported inflation. Global commodity prices are largely range bound however, with ongoing US sanctions against Russia some upheaval in energy prices might be witnessed. This might increase the intermediate input costs.

Upcoming Budget holds the key. Policies may be expected to improve the food supply chain so that impact of adverse climate related shocks on inflation is mitigated to some extent.

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