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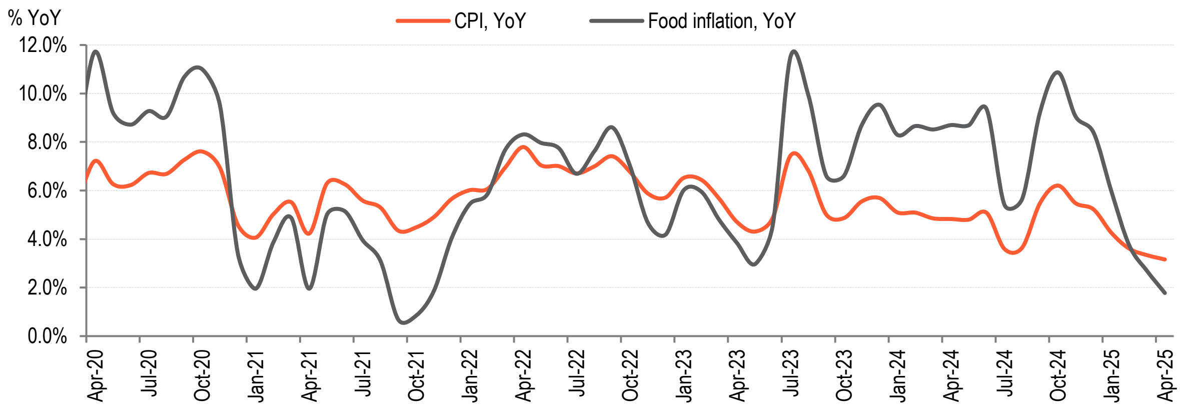
Inflation eases further

CPI inflation moderated to 3.2% in Apr'25 from 4.8% in Apr'24 driven by lower food inflation. At 1.8%, food inflation eased to a 43-month low. Within food, prices of vegetables and pulses declined sharply. Significant moderation was also visible in other categories of food, including in cereals and eggs and meat categories. In May'25 as well, daily price data suggests further moderation in underlying price pressures. Prices of edible oils have remained elevated, but should see some softening momentum going ahead. Global commodity prices have remained soft, which should help keep a lid on core inflation. With domestic inflationary pressures in check, policy space for further monetary easing remains in place. We expect RBI to lower rates by another 50bps this year. This will be contingent on evolving monsoon conditions as well as external stimuli.

Food inflation continues to decelerate

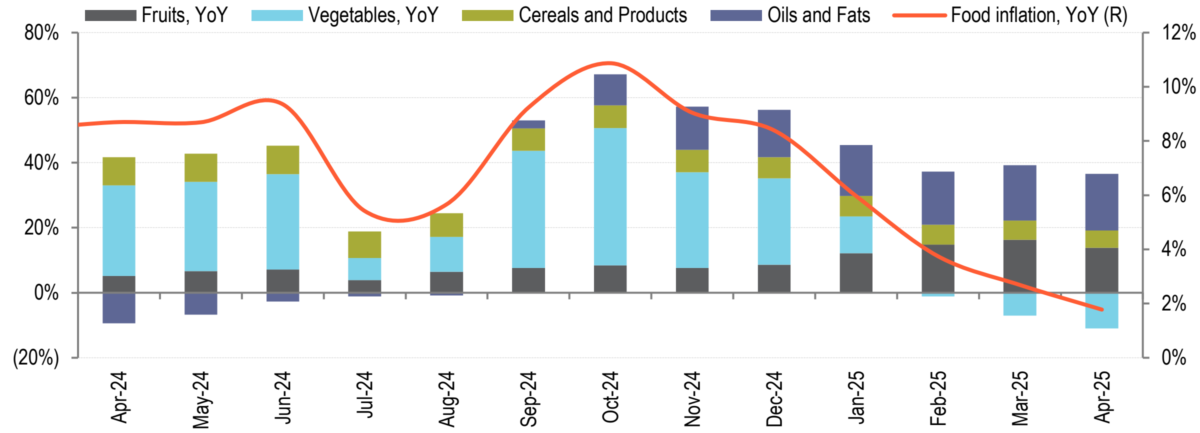
CPI at a ~6-year low: CPI inflation decelerated further to 3.2% in Apr'25 from 3.3% in Mar'25, and 4.8% in Apr'24. This can be explained by a continued correction in food prices, particularly large declines in prices of vegetables and pulses. Food inflation eased to 1.8% in Apr'25, a level last seen in Oct'21. Within food, vegetable prices declined sharply by 11%, after increasing by 27.8% in Apr'24. Similarly, prices for pulses declined by 5.2% in Apr'25, compared with an increase of 16.8% in the same period last year. Barring oils and fats and fruits, all other categories of food inflation also witnessed a considerable moderation when compared with Apr'24. On the other hand, inflation in oils and fats inched up to 17.4% in Apr'25, in stark contrast to a sharp 9.4% decline seen in Apr'24. On similar lines, prices of fruits remained elevated and increased by 13.8% in Apr'25 versus 5.2% in the same period last year.

Figure 1: Food inflation moderated considerably



Source: CEIC, Bank of Baroda Research

Figure 2: …led by sharp decline in prices of vegetables and pulses



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) inched up to 4.1%, on YoY basis compared to 3.2% on Apr'24. Within core, sharp upward momentum was visible in case of personal care and effects (12.9% in Apr'25 versus 7.4% in Apr'24) and transport and communication (3.7% in Apr'25 versus 1.1% in Apr'24) segment. Higher gold prices along with hike in telecom tariffs can explain the increase. Inflation in other sub-components softened, led by household goods and services.

Fuel and light inflation rose by 2.9% in Apr'25 compared with a decline of 4% in Apr'24 due to a hike in LPG prices.

Way forward: The successive easing in inflation prints can largely be traced back to a moderation in food inflation. Decline in vegetables and pulses (combined weight of over 8%) has helped in keeping the headline print below RBI's target of 4% for the 3rd consecutive month in Apr'25. On the other hand, inflation in oils and fats has remained elevated due to higher edible oil prices. Going ahead, the outlook for food inflation is positive. Prospects of an above normal monsoon and absence of untoward weather conditions so far, suggest that food inflation should remain in check. In fact, high frequency price data for May'25 suggests a further easing in prices of pulses, vegetables and rice. Edible oil prices are also expected to ease amidst reports of improved production. Core inflation though elevated, is likely to stabilize at current levels, supported by a benign global commodity price cycle. Further, with the US showing a softer stance on tariffs, external headwinds have also been minimized to a large extent. This backdrop suggests that inflation should evolve broadly in line with RBI's projections with a possible downward bias. Hence, the RBI is likely to focus on growth and a further 50bps reduction in repo rate is likely. The next rate cut is expected in Aug'25, as the RBI awaits more clarity on how the monsoon situation plays out.

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