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Food-driven Inflation softening continues

BoB Essential Commodities Index (BoB ECI) has been in deflation territory for 5th consecutive month in a row, declining by -1%, on YoY basis in Sep'25 and at a steeper pace by -3.8% (first 6 days of Oct'25). The broader comfort came in from a sharp deflation in TOP (Tomato, Onion and Potato) trajectory. The Tomato witnessed sharp downward correction in Sep'25. The buoyant arrival statistics are supporting prices. Government's astute supply management strategies and improved logistics also contributed to the same. Apart from this, global food prices remained in favour. We expect CPI to be ~ 1.2% in Sep'25. The tail of CPI is heavily tilted on the downside with GST rate cuts being passed on to consumers. The coming months will give clarity to the extent of pass-through. However, majority of the auto, FMCG and e commerce platforms have already announced the same. Based on the evolution of food inflation trajectory and Q3 being the quarter corresponding with the arrival of fresh harvest, we expect some undershooting of headline CPI trajectory in FY26 compared to RBI's forecast.

To get an idea about the calculation of the index, refer to our [previous edition](#) of BoB ECI.

Price picture using BoB Essential Commodity Index:

- BoB ECI remained in the deflation territory for 5th consecutive month in a row in Sep'25. On YoY basis, it continued to decline by -1% in Sep'25. 9 out of 20 commodities in the index witnessed deflation with the sharpest pace being observable for TOP vegetables (Tomato, Onion and Potato). For Onion, the trajectory has witnessed the strongest pace of deflation since Dec'20. An elevated statistical base can also be a contributing factor coupled with buoyant arrival statistics (**Table 2**). For Potato as well, the deflation pace is significant with retail price falling by -30.9% in Sep'25, the strong double-digit decline is continuing for six months in a row. For Tomato, where we had seen an upward correction in trajectory in Aug'25 again fell sharply in Sep'25 (-8.3%, YoY). The CPI weighted trajectory for TOP in Sep'25 based on retail prices have fallen on an aggregate basis by -29.5%. Among other items, edible oils which were exhibiting stickiness lost some momentum especially for Mustard, Soya and Sunflower oil. The international prices of these items especially for soyabean oil remained favourable supported by elevated supplies from Argentina. Among pulses, maximum decline is visible for Gram dal.
- **Sequential picture:** BoB ECI declined by -0.3% in Sep'25, on MoM basis. On a seasonally adjusted MoM as well, BoB ECI has fallen by -0.3%. Thus, inflation is losing steam.

The sequential picture also mirrors the YoY data with loss of momentum seen for TOP vegetables. Here the sharpest sequential decline was seen in the Tomato trajectory. Other than vegetables, retail prices of some components of edible oils (mustard, soya and groundnut

oil) and pulses (masoor and gram dal) have softened. In fact, the production data for pulses have remained slightly better than last year albeit Arhar trailing behind last year.

- **Oct'25 trend:** For the first 6 days, the deflation trend continues at a sharper pace as BoB ECI is tracking at -3.8%, and by -0.4%, on YoY and MoM basis, respectively. The deflationary spiral for TOP trajectory cumulatively continues from Mar'25 onwards. The question is how long?

Figure 1: On YoY basis, BoB ECI declined by -1% in Sep'25 and by another -3.8% in Oct'25

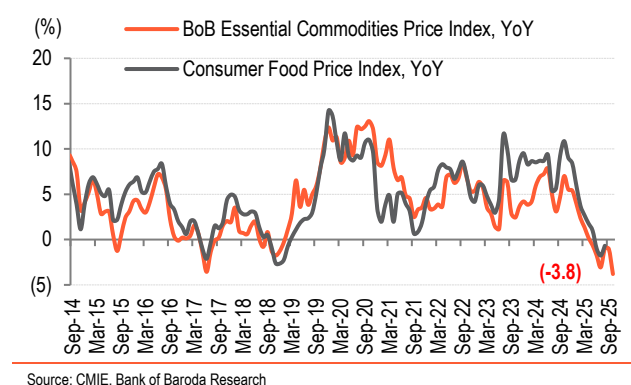


Figure 2: On MoM basis as well, loss of momentum is seen

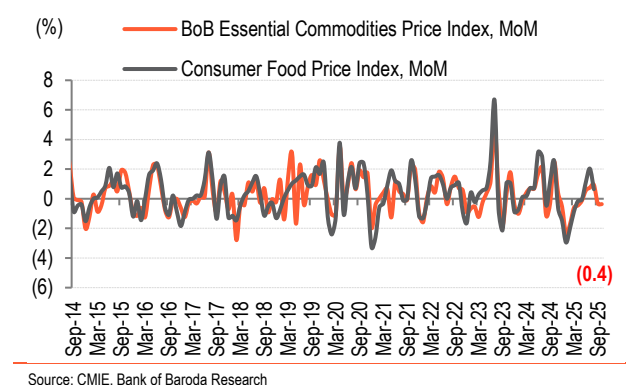


Table 1. Price moderation is seen in major items

Retail Price of major essential commodities, (% YOY)	Wts in CPI	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
Cereals											
Rice	4.4	-1.6	-2.9	-3.4	-4.1	-4.7	-5.1	-4.3	-2.3	-1.2	-1.7
Atta (Wheat)	2.6	3.9	5.2	5.2	3.9	2.5	1.7	2.5	3.4	3.3	1.8
Edible Oils											
Mustard oil (Packed)	1.3	24.3	24.8	25	25.1	25.5	24	29.6	34.0	29.8	16.1
Soya oil (Packed)	0.7	17.5	18.8	19.3	18.9	19.3	19.5	20.6	23.6	20.3	8.0
Sunflower oil (Packed)	0.7	25	26.3	29	29.6	30.7	30.4	34.2	34.0	30.7	16.6
Groundnut oil (Packed)	0.3	1.6	1.4	0.8	0.4	0.2	0.2	0.8	2.2	2.0	-2.6
Vegetables											
Tomato	0.6	-5.3	-28.9	-33.5	-34.4	-28.5	-24	-36.3	4.8	-8.3	-40.0
Onion	0.6	3.2	11.3	5.8	-5.7	-15	-26.1	-35.9	-37.5	-46.2	-51.3
Potato	1	34.8	16.4	2.1	-11	-16.3	-20.3	-30.1	-31.5	-30.9	-32.5
Pulses											
Urad dal	0.3	0.6	-1.1	-3.1	-4.5	-6.5	-8.5	-9.4	-8.9	-8.4	-8.9
Moong dal	0.3	-2.3	-3.1	-4.1	-4.9	-5.6	-6.6	-6.6	-5.2	-4.4	-5.1
Masoor dal	0.3	-5	-5.1	-5.4	-5.8	-6	-6.7	-5.6	-1.4	-0.2	-0.6

Gram dal	0.1	11.7	9.2	6	3.8	1.8	-1.7	-3.2	-2.9	-6.2	-8.5
Tur/Arhar dal	0.8	1.1	-5.4	-10.3	-14.6	-18.9	-23.8	-28.3	-29.0	-29.3	-29.5
Miscellaneous											
Salt pack	0.2	-2.7	-4.4	-5.3	-4.9	-4.9	-4.9	-5.3	-4.1	-2.3	-3.2
Vanaspati (Packed)	0.1	18.2	20	21.6	22	22.8	23.5	24.1	26.6	24.8	14.1
Gur	0.1	3.6	3.2	3.1	3.2	2.8	2.4	1.8	2.7	3.8	2.9
Milk	6.4	0.5	0	-0.2	0.2	0.3	0	-0.5	-0.2	0.9	0.7
Sugar	1.1	0.2	1.4	2.7	3.2	2.9	2.7	2.5	3.1	3.8	3.4
Tea loose	1	-3.5	-3.5	-3.6	-3.4	-3.5	-3	-1.9	0.9	1.8	0.2

Source: CMIE, Bank of Baroda Research, Note: Green represents inflation rate below 4%

Prices are comforting:

We expect CPI in Sep'25 to be at ~1.2%. It has also the advantage of a favourable statistical base. Headline CPI is largely experiencing a food driven downward spiral. This is supported by robust arrival statistics of TOP vegetables. As per UPAJ data, arrival statistics for TOP cumulatively have risen by 10.3% in FYTD26 (till 6 Oct) compared to -15.4% in the same period of the previous year. The coming months also coincide with harvesting period of these vegetables. Hence, we expect prices to drop even further. The gap between retail and wholesale prices for tomato and Potato is still higher than historical average, thus it indicates that some pass-through of lower wholesale prices will be visible in retail print.

How are the risks distributed?

World Bank data has shown that food prices remained on the lower side. However, prices of metals and minerals and energy prices showed some hardening bias on account of the impact of elevated tariff rates. Thus, intermediate input cost is showing some stiffening. However, the immediate pass-through to CPI is limited. For CPI, the tail is heavier on the downside. The GST rate cut has already been passed on to consumers as announced by majority of auto, FMCG and e-commerce platforms. However, it depends a lot on the extent of pass-through which will be clear in the coming months. We expect the usual gold-driven volatility in core to persist on account of increase in international gold prices (8.9% & 36.3%, MoM & YoY respectively, in Sep'25). Excl. Gold, core is largely to be in the range of 3.1-3.5%.

For food inflation, risks are on the downside. In fact, one needs to monitor the downward spiral in TOP trajectory which will pose considerable downside risk to inflation. The coming months will also be the month of harvest of all these crops, so arrivals are expected to be on the upside.

Table 2. Arrival statistics in major TOP producing States have shown improvement

Arrival, in tonnes	Apr'25	May'25	Jun'25	Jul'25	Aug'25	Sep'25
Tomato						
Andhra Pradesh	27,118	78,419	92,561	65,080	27,900	34,970
Gujarat	28,914	30,556	32,680	32,635	28,177	34,966
Karnataka	20,760	40,731	95,443	75,370	50,928	30,137
Madhya Pradesh	3,816	4,631	6,169	5,941	6,012	8,915
Odisha	4,211	3,677	4,206	4,173	3,634	4,185

Arrival, in tonnes	Apr'25	May'25	Jun'25	Jul'25	Aug'25	Sep'25
Onion						
Gujarat	2,19,369	1,85,689	1,08,222	56,821	48,445	60,151
Karnataka	12,155	11,947	10,851	10,240	6,865	6,899
Madhya Pradesh	2,99,206	2,87,017	2,63,438	3,06,311	3,06,718	3,97,113
Maharashtra	5,62,496	7,05,322	6,98,288	6,78,255	6,90,103	6,69,704
Rajasthan	58,068	50,793	30,372	26,081	29,738	27,457
Potato						
Bihar	6,696	6,897	5,923	4,980	3,545	401
Gujarat	66,827	62,177	61,507	68,929	64,996	68,092
Madhya Pradesh	26,357	27,009	20,910	24,869	22,015	24,672
Uttar Pradesh	10,40,913	8,53,180	7,80,066	9,15,615	9,20,288	9,38,339
West Bengal	52,337	53,776	47,047	52,250	48,964	46,154

Source: UPAJ, Bank of Baroda Research

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