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Inflation: A sigh of relief amidst turmoil

Food driven respite again provided CPI the desired band of comfort. The major correction continued from the trajectory of vegetable inflation. In Apr'25 as well, high frequency price data is showing softening albeit at a softer pace. Our in-house BoB ECI is running at 0.2%. Going forward, the outlook on food inflation seems favourable from better Kharif production in place and Rabi statistics. Apart from these, better arrivals from TOP vegetables (tomato, onion and potato) also hint at softer inflation going forward. Commodity price cycle is also in favour. So is wholesale inflation, which shows less scope of pass-through to consumers from producers. However, some upside risks cannot be ruled in totality. On the domestic front, heatwave conditions need to be monitored closely. Apart from this, risk of imported inflation from a stringent tariff policy globally, also persists, albeit much less risk to CPI. Thus, we believe the current fiscal number which has come below RBI's forecast gives more flexibility for a softer policy, going ahead.

Food continued to pull down headline

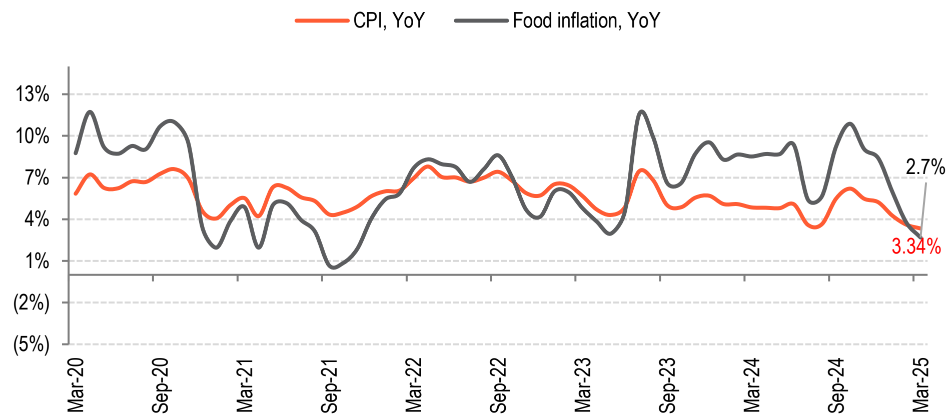
CPI reached its lowest since Aug'19: CPI inflation softened significantly to 3.3% in Mar'25, on YoY basis compared to 4.9% inflation seen in Mar'24. With this, the FY25 average inflation stands at 4.6%, lower than RBI's forecast of 4.8%. So, let's understand the underlying dynamics.

For Mar'25, the sharp downward correction came in from food inflation. The consumer food price index moderated to its lowest since Nov'21 to 2.7% in Mar'25 compared to 8.5% in Mar'24. 6 out of 12 broad categories of food showed softening. Among them, the major comfort came from vegetable inflation which went into a sharp deflation territory declining by -7% in Mar'25 compared to 28.3% in Mar'24. For the second successive month in a row, vegetable inflation is in a deflation territory. Other than vegetables, inflation in the pulses category has seen considerable loss of momentum. It also went into deflation of -2.7% in Mar'25, mirroring the same second month in a row trend as vegetable inflation. Better production coupled with government's efforts of addressing supply side bottlenecks have resulted in the same. Protein based items also witnessed significant moderation in inflation as the fear of bird flu in few pockets may have contributed towards the same. Cereal prices remained comfortable, softening to 5.9% in Mar'25, led by favourable international prices. Needless to mention, there are some items where some stickiness in inflation still prevails such as edible oils (double digit inflation since past 4 months). Primarily, global factors are into play such as dry weather conditions in Argentina impacting supply dynamics and keeping international prices sticky. The result is some degree of pass-through to domestic prices. Even extremely hot summer is keeping inflation of fruits trajectory elevated at 16.3% in Mar'25 (highest since Sep'14).

Food inflation on a seasonally adjusted basis as well has fallen by -0.8%, on MoM basis, compared to the unadjusted series showing -0.9% decline. So the fall in food inflation is not much of a seasonal phenomenon this month.

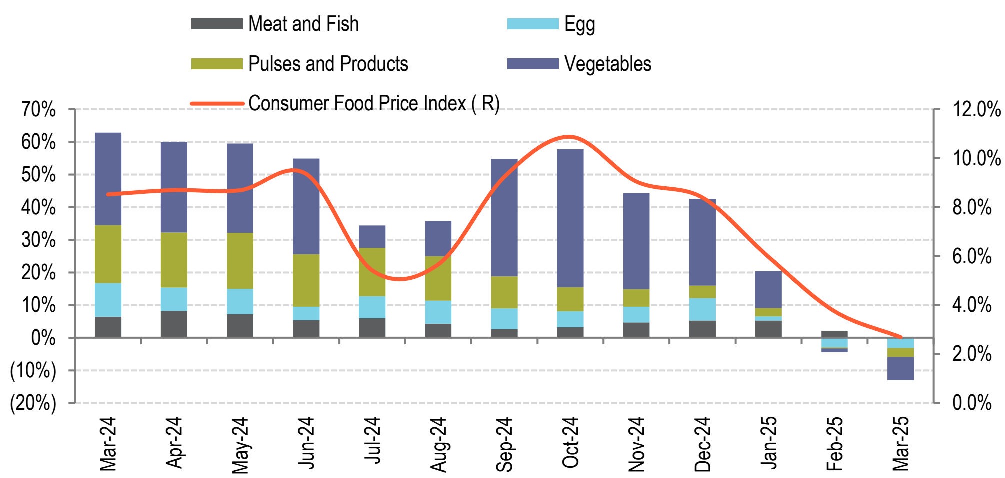
The outlook on food inflation seems to be favourable buoyed by good Kharif production and better Rabi harvest. The continued efforts of the government for better supply chain management such as adequate buffer, stockholding centers, cold storage facilities and other infrastructure is expected to address post-harvest difficulties in an efficient manner, thus keeping price on check. However, what needs to be monitored at this current juncture is the impact of adverse climate conditions on food inflation. Harvest season is over for Potato and for Onion its nearing its end in May. Hence extreme heat conditions already prevalent in majority of the Onion producing States need to be monitored with caution. Already, heat wave alert is ongoing in States such as Gujarat, Madhya Pradesh and Rajasthan, which are major Onion producing States. Hence, one needs to be watchful of these patterns and the likely reversal in the trajectory of vegetable inflation.

Figure 1: Food inflation moderated considerably



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 4.1%, on YoY basis compared to 3.2% on Mar'24. Among major sub-components, housing, transport and communication (base effect), health and education inflation, remained sticky. However, some consumer-oriented services such as household goods and services, recreation and amusement, showed a softening bias. Going forward, core inflation is likely to remain sticky. This might be on account of some revival in demand from green shoots of recovery in the rural sector and few segments of urban demand. However, a lot hinges on how the global tariff policies will shape up macro numbers. Commodity price cycle especially energy prices is still in favour. Thus overall, we do not expect much upheaval albeit some stickiness.

Fuel and Light inflation rose from the deflation territory witnessed over the past 18 months to post an inflation of 1.5% in Mar'25. Going ahead, the recent increase in LPG price which has a weight of 1.28% in the fuel and light basket of CPI, is likely to push up this component slightly higher by ~10bps, ceteris paribus.

Way forward: Headline CPI is getting repeated relief from food inflation. The outlook also remains bright with improved Rabi sowing and better Kharif production in place. High frequency price data for Apr'25 also hints at some degree of softening, albeit at a softer pace than Mar'25. What needs to be watched at this current juncture is the pass-through of global tariff policies on inflation front. Apart from external factors, on the domestic front, the key watchable will be the evolution of climate related disruptions. Already IMD had warned of heatwave conditions in major Onion and Tomato producing States. So, one needs to be vigilant of the same and on policy front, bias should lean towards improving supply chain dynamics and logistics. Core is on the stickier side. However, the subcomponents which basically reflect the demand driven thrust towards CPI such as household goods and services, clothing and footwear and personal care and effects are largely capped. Rangebound currency and no untoward pressure towards commodity price cycle will further ensure no major upheaval in core inflation in the near term. Most importantly, WPI remains largely contained, which would also provide breather in terms of no major pass-through by producers to consumers.

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