

Inflation expected to moderate

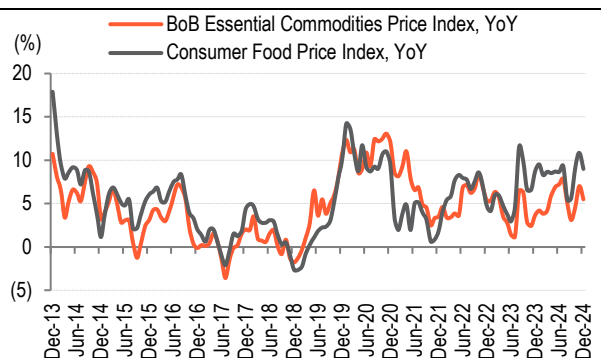
In Dec'24, BoB ECI witnessed a significant correction on a sequential basis and declined by 0.5%. On a YoY basis, there was a marginal correction due to base effect. Sequentially, we see a sharp correction in prices of vegetables, i.e. tomato, onion and potato. This is likely to get reflected in the CPI print for Dec'24. We expect CPI to moderate to 5% in Dec'24 from 5.5% in Nov'24. The outlook on inflation looks positive as prices of tomato, onion and potato witnessing even further correction. In fact, prices of these products has declined in the range of 9.8%-22.7% in Jan'25 (1-5 Jan'25). With mandi arrivals picking up, prices are expected to moderate further in the coming months. Global edible oil prices have also stabilized and are likely to see some correction. Further, abundant domestic supply is likely to keep cereals and pulses inflation continued. However, pressure can emanate from the rapid depreciation in the domestic exchange rate which can lead to higher imported inflation.

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:

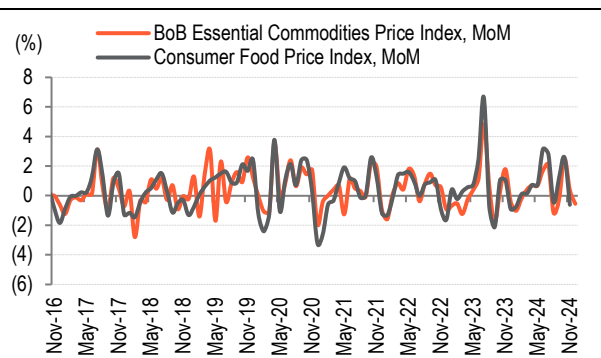
- BoB ECI showed softening price pressures in Dec'24. On YoY basis, it moderated to 5.4% from 5.5% in Nov'24. Out of the 20 commodities in the index, 12 commodities noted inflation below 4%. Amongst major categories, softening prices of vegetables, especially tomato and onion contributed majorly to the moderation in inflation. Notably, onion prices declined for the second straight month in Dec'24. Similarly, tomato prices moderated to 22.4% after increasing by 33.7% in Nov'24. On the other hand, prices of potato and edible oils accelerated reflecting a negative base effect. While potato prices rose by over 50% in Dec'24, price increase in edible oils categories for items such as mustard and sunflower oil was over 23%.
- On a sequential basis, BoB ECI saw a sharp correction with the index declining by 0.5% in Dec'24. This followed a 0.4% increase in Nov'24. On a sequential basis, prices of all TOP vegetables (tomato, onion and potato) declined, with tomato and onion leading with a fall of 12.8% and 11.9% respectively. The decline in potato prices was much more muted at 2.4%. However, a pickup in mandi arrivals of TOP vegetables suggests that prices are likely to see further correction in the coming days. Even for edible oils, there is some correction in prices on a MoM basis. In fact, prices of mustard oils have declined in Dec'24, while for sunflower oil there has been a significant correction from 6.6% in Nov'24 to 3.4% in Dec'24.
- In Jan'25 (1-3 Jan'25), BoB ECI has declined further by 1.5% suggesting a further correction in price pressures even this month.

Figure 1: On YoY basis, BoB ECI moderated to 5.4% in Dec'24 from 5.5% in Nov'24



Source: CMIE, Bank of Baroda Research

Figure 2: On MoM basis, it edged down by 0.4% in Nov'24 from 2.5% seen in Oct'24



Source: CMIE, Bank of Baroda Research

Table 1. Price moderation is seen in major items

Retail Price of major essential commodities (% YOY)	Wts in CPI	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Milk	6.4	3.5	3.0	2.6	2.8	2.1	0.9	0.5	0.5	0.9
Rice	4.4	13.8	13.5	12.8	9.1	5.1	2.6	1.9	1.2	-0.5
Atta (Wheat)	2.6	4.7	4.7	4.6	2.9	1.7	1.4	2.5	2.5	3.0
Mustard oil (Packed)	1.3	-11.5	-9.0	-3.3	-2.0	-0.8	3.8	17.2	20.9	23.0
Sugar	1.1	5.7	5.2	4.9	4.2	3.7	2.8	2.0	0.7	0.0
Tea loose	1.0	1.3	1.8	0.7	-0.2	-3.3	-4.1	-3.7	-3.5	-3.2
Potato	1.0	38.9	41.7	45.8	55.1	53.1	49.4	50.2	49.2	52.3
Tur/Arhar dal	0.8	29.7	30.2	27.0	24.6	19.8	12.0	7.4	4.0	2.5
Soya oil (Packed)	0.7	-11.3	-9.2	-6.8	-6.1	-7.5	-3.1	9.3	14.4	16.2
Sunflower oil (Packed)	0.7	-16.6	-13.7	-9.5	-8.4	-6.6	-2.5	11.9	19.7	23.8
Onion	0.6	41.4	43.4	57.9	64.9	50.3	53.0	44.0	-4.4	-1.2
Tomato	0.6	40.4	38.7	28.3	-40.0	-50.0	16.6	115.2	33.7	22.4
Urad dal	0.3	15.0	14.7	13.8	11.9	8.9	6.1	4.9	2.1	0.8
Moong dal	0.3	9.9	9.0	8.7	7.1	4.5	1.6	0.3	-0.6	-1.9
Masoor dal	0.3	0.5	1.0	2.5	1.5	-2.0	-4.3	-4.8	-4.3	-5.0
Groundnut oil (Packed)	0.3	0.3	-0.4	-0.8	-1.6	-3.8	-4.4	-0.4	1.0	1.0
Salt pack	0.2	2.7	2.3	2.7	2.3	-0.4	-1.3	-1.3	-0.9	-1.3
Gram dal	0.1	14.5	14.9	17.6	18.9	17.1	15.0	14.5	14.0	12.6
Vanaspati (Packed)	0.1	-5.1	-4.5	-3.7	-2.9	-4.5	-2.5	7.2	12.7	15.8
Gur	0.1	8.5	7.9	7.2	6.8	5.6	3.6	3.9	3.9	4.2

Source: CMIE, Bank of Baroda Research | Note: Figures in red indicate price change of over 6%

So where is CPI print headed?

Based on this we expect CPI inflation at 5% in Dec'24. This will take the Q3 average to 5.6%, marginally lower than RBI's estimate of 5.7%. The outlook on inflation seems favourable as high frequency price data for Jan'25 indicates that the trend of correction in prices has set in. In fact, prices of tomato, onion and potatoes have declined by 22.7%, 16.3% and 9.8% respectively in Jan'25 (1-5 Jan'25), which bodes well for the food inflation trajectory. This in turn reflects a pickup in mandi arrivals. In fact, mandi arrivals for tomato, onion and potato have increased by 36.8%, 20.1% and 15.3% respectively in Dec'24 on a YoY basis. Prices of pulses and cereals too have remained lower, which is positive for the inflation outlook. Globally, edible oil prices are likely to have peaked and some correction seems inevitable, which should also be reflected in domestic prices going ahead. This suggests that the inflation trajectory is likely to evolve broadly in line with RBI's estimates. However, the rupee depreciation can lead to imported inflation which can manifest itself into higher core inflation. Further, disruptions to global trade due to higher US protectionism can also lead to higher global commodity prices which also remains a key risk.

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For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com