

# Headline Inflation Eases Further Aided by Moderation in Food Prices

January 13, 2025 | Economics

## Moderation in Food Inflation Cools Headline Number

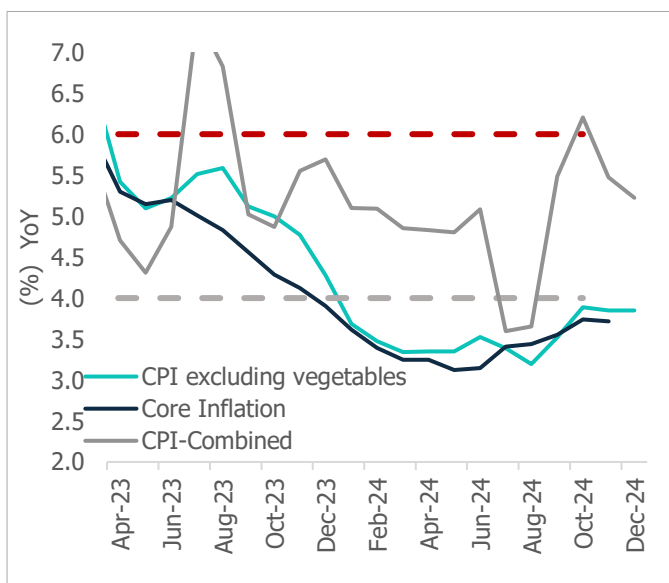
In December, the CPI inflation moderated to 5.2% from 5.5% in November, primarily due to a slowdown in food inflation. The inflation rate for vegetables continued to ease, dropping to 26.6% in December from 29.4% in November. The arrival of fresh harvests has led to a seasonal correction in food prices. Vegetable inflation has significantly contributed to overall CPI inflation in recent months, averaging ~ 36% since September. Just by excluding vegetables, CPI inflation stood at 3.9%, below the RBI's target of 4%. In addition to the decline in vegetable inflation, ongoing deflation in spices (-7.4% Y-o-Y) and a fall in inflation of pulses (3.8% Y-o-Y) and sugar (0.31% Y-o-Y) have further contributed to the overall decrease in food inflation. However, the inflation for edible oils (14.6% Y-o-Y) has increased, remaining in double-digit territory for the past two months.

Meanwhile, core inflation remains subdued, staying below the 4% mark over the past year. The fuel and light category continued to remain in deflation territory. However, within the miscellaneous category, inflation in personal care items remained high (9.7% Y-o-Y).

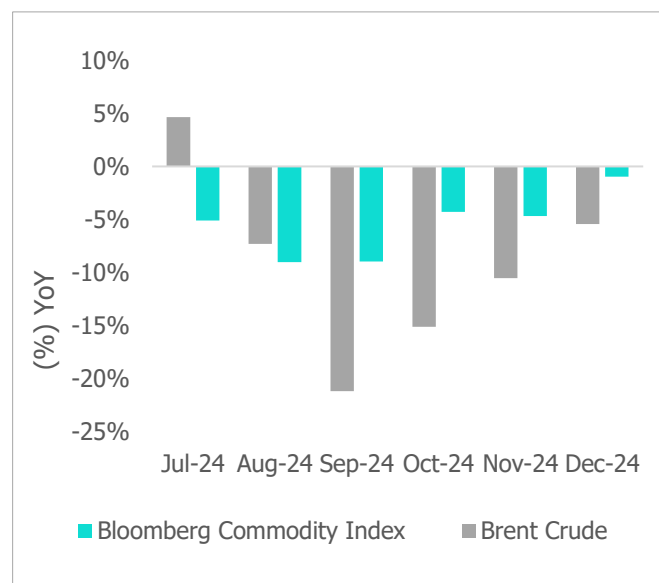
## Inflation Outlook Brighter but External Risks Remain

The outlook for agriculture remains positive, with good Kharif production. Prospects for Rabi sowing also remain conducive with healthy reservoir levels. As of 9<sup>th</sup> January, reservoir levels nationwide were at 59% of full capacity and 21% above the long-term average. Rabi sowing has progressed well so far in this season and is up 0.5% compared to last year as of end December. As a result, inflationary pressures within the food basket should continue to ease. However, given our import dependence for edible oil, it would be crucial to monitor inflation in this category amidst high global edible oil prices and the recent hike in import duty on this item.

## Food Inflation Stays Elevated Despite Moderation      Softer Commodity Prices to Ease Inflationary Pressures



Source: MOSPI, CareEdge



Source: Refinitiv, Bloomberg, CareEdge

Subdued global commodity prices amid concerns over global demand should further support the moderation of headline inflation going forward. In December, the Bloomberg commodity price index declined by 1% YoY, and Brent crude prices fell by 5.4% YoY. However, it is crucial to monitor geopolitical developments closely, as these could significantly influence global commodity markets and supply chains. Managing food inflation is crucial, as it directly impacts household inflation expectations. Weather related disruptions also need to be monitored closely.

### Component-Wise Retail Inflation (% Y-o-Y)

	Food & Beverages	Pan, Tobacco & Intoxicants	Clothing & Footwear	Housing	Fuel & Light	Miscellaneous	Headline Inflation
<b>Weight</b>	<b>45.86</b>	<b>2.38</b>	<b>6.53</b>	<b>10.07</b>	<b>6.84</b>	<b>28.32</b>	<b>100</b>
Jan-24	7.6	3.3	3.4	3.2	-0.6	3.8	5.1
Feb-24	7.8	3.1	3.1	2.9	-0.8	3.6	5.1
Mar-24	7.7	3.1	3.0	2.7	-3.4	3.5	4.9
Apr-24	7.9	3.0	2.9	2.7	-4.0	3.5	4.8
May-24	7.9	3.0	2.7	2.6	-3.7	3.4	4.8
Jun-24	8.4	3.1	2.7	2.7	-3.6	3.4	5.1
Jul-24	5.1	3.0	2.7	2.7	-5.5	3.8	3.6
Aug-24	5.3	2.7	2.7	2.7	-5.3	3.9	3.7
Sep-24	8.4	2.5	2.7	2.7	-1.3	4.0	5.5
Oct-24	9.7	2.5	2.7	2.8	-1.7	4.3	6.2
Nov-24	8.2	2.3	2.7	2.9	-1.8	4.3	5.5
Dec-24	7.7	2.5	2.7	2.7	-1.4	4.2	5.2

Source: MOSPI

### Way Ahead

We believe that the outlook of food inflation has brightened but it continues to remain elevated. As a result, the government may consider supply-side measures to stabilise food prices. Given our import dependence on edible oil, it would be crucial to monitor inflation in this category amidst high global prices and the recent hike in import duty on this item. Looking ahead, the arrival of the fresh harvest will continue to ease some of the pressure on food prices. Additionally, the rabi sowing has progressed well amid comfortable reservoir levels.

Expected moderation in inflation in coming months, will allow the MPC to consider a policy rate cut amid slowing growth. We anticipate that headline inflation will fall below 5% by Q4 FY25, driven by a moderation in food inflation. This would create an opportunity for the MPC to consider a 25-bps reduction in policy rates in the February meeting. We expect inflation to average 4.8% and 4.5% in FY25 and FY26 respectively.

## Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Sarbartho Mukherjee	Senior Economist	sarbartho.mukherjee@careedge.in	+91 - 22 - 6754 3493
Akanksha Bhende	Associate Economist	akanksha.bhende@careedge.in	+91 - 22 - 6754 3424
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

## CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

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