

# CPI Inflation Inches Closer to Target, Aided by Moderation in Food Prices

February 12, 2025 | Economics

## Moderation in Food Inflation Cools Headline Number

In January, the CPI inflation moderated to 4.3% from 5.2% in December, primarily due to a slowdown in food inflation. Inflation in food and beverages fell to 5.7% in January from 7.7% in December. Meanwhile, core inflation continues to remain subdued at 3.7%, staying below the 4% mark over the past year. The fuel and light category continued to remain in deflation territory. While the recent depreciation of the rupee could exert pressure via imported inflation, the relatively low core inflation should help mitigate any significant concerns.

The inflation rate for vegetables continued to ease, dropping to 11.3% in January from 26.6% in December. Vegetable inflation has been a significant contributor to overall CPI inflation in the recent months, averaging ~27% since January 2024. In fact, just by excluding vegetables, CPI inflation averaged at 3.6% since January 2024, well below the RBI's target of 4%. In addition to the decline in vegetable inflation, ongoing deflation in spices (-6.8% YoY) and a fall in inflation of pulses (2.6% YoY), eggs (1.3% YoY) and cereals (6.2%) have further contributed to the overall decrease in food inflation. Inflation in sugar continues to remain muted at 0.3%, despite slight uptick compared to last month. On the other hand, inflation in edible oil (15.6%) and fruits (12.2%) have seen an increase in the month of January.

Robust Kharif production along with good progress of rabi sowing have brightened the outlook of food inflation. As of end January 2025, rabi sowing of food grains is up 2.1% compared to last year led by higher sowing of cereals (2% YoY) and pulses (2.2% YoY). However, sowing of edible oil seeds have lagged by 1.8% compared to last year. Reservoir levels continue to remain healthy. As of 6<sup>th</sup> February, reservoir levels nationwide were at 61% of full capacity and 19% above the long-term average. Healthy reservoir levels will also provide the essential cushion for Kharif sowing in FY26, if the monsoon lags. We expect food prices will continue to ease in the coming months driven by seasonal correction in prices. However, it will be essential to monitor the double-digit inflation in edible oil. Contribution of edible oil prices to food inflation has averaged ~1.13% over the past three months. Contraction in rabi sowing of oil seeds and rise in global edible oil prices amid hike in customs duty can keep inflation in edible oils elevated. Furthermore, it will also be essential to closely monitor weather-related disruptions, such as heatwaves, whose frequency has increased in the recent years.

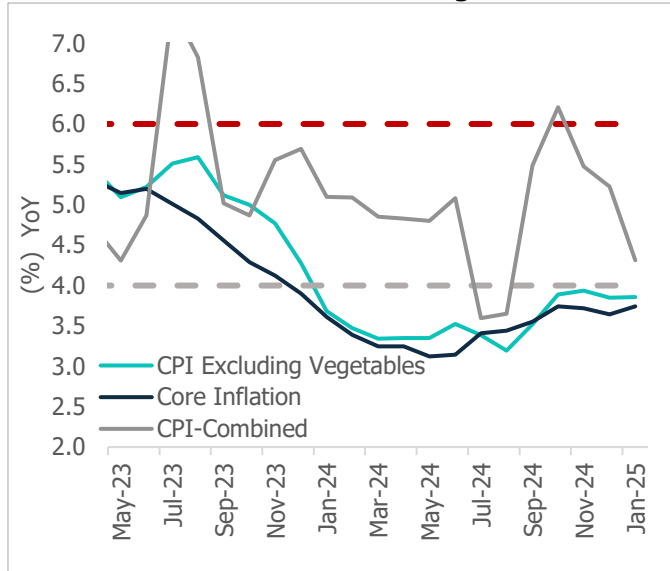
## Monitoring External Developments is Crucial

On the external front, while Brent crude oil prices remain subdued, the growth in industrial metal prices continues to exert upward pressure on global commodity prices. In January, Bloomberg commodity prices rose by 4.1% YoY, exiting six months of deflation primarily due to strong momentum of certain base metals like copper, aluminium, tin and zinc. Rise in base metal prices have kept industrial metal prices elevated despite fall in ferrous metal prices. Concerns over global demand and the anticipated increase in US crude oil production have kept global oil prices within a range, with monthly averages fluctuating between USD 75-80 per barrel in recent months. In January, Brent crude prices fell by ~1% YoY.

Going ahead, it is crucial to monitor geopolitical developments and global trade uncertainties closely, as these could significantly influence global commodity markets and supply chains. Even though, global commodity prices have risen in January, it is unlikely to pose a threat as growth in China's economy remains subdued. Indian rupee has

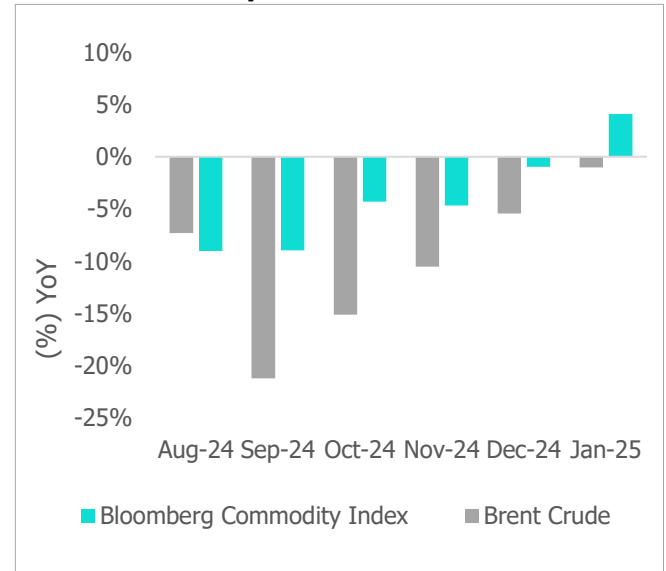
depreciated by ~4% in H2 FY25 so far against USD. While the depreciation of the rupee could exert pressure via imported inflation, the relatively low core inflation should help mitigate any significant concerns.

### CPI Inflation Inches Closer to Target



Source: MOSPI, CareEdge

### Global Commodity Prices Exit Deflation



Source: Refinitiv, Bloomberg, CareEdge

### 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>
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	-1.3	4.2	5.2
Jan-25	5.7	2.3	2.7	2.8	-1.4	4.3	4.3

Source: MOSPI

### Way Ahead

We believe that the outlook of food inflation has brightened due to good agricultural production resulting in seasonal correction of food prices. However, given our import dependence on edible oil, it would be crucial to monitor inflation in this category. 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. It would be crucial to monitor external risks from geopolitical conflicts and policy uncertainties. Going ahead, we expect inflation

to average 4.4% and 4.5% in Q4FY25 and FY26 respectively. The moderation in inflationary pressure should support another 25-bps rate cut in April MPC meeting.

## 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

Connect:



Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

## About Us:

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd (previously known as CARE Risk Solutions Pvt Ltd), (II) CARE ESG Ratings Ltd, (previously known as CARE Advisory Research and Training Ltd) and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd.

## Disclaimer:

This report is prepared by CARE Ratings Limited (CareEdge Ratings). CareEdge Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CareEdge Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CareEdge Ratings has no financial liability whatsoever to the user of this report.