

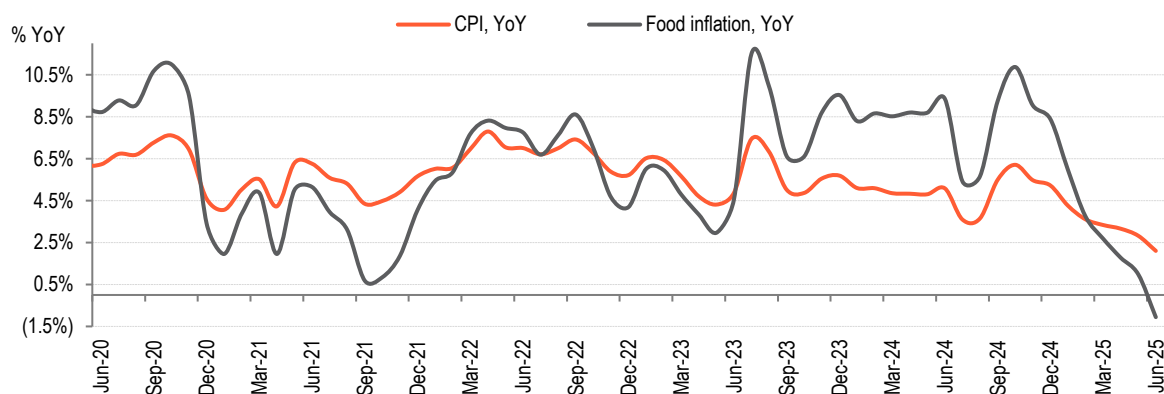
## **CPI at its lowest since Jan'19**

Headline inflation softened further to 2.1% in Jun'25. Moderation in food inflation continues to drive the downward trajectory of CPI. Within food, prices of vegetables and pulses declined sharply, even as cereals and meat prices also decelerated. With this, CPI in Q1 FY26 averaged 2.7%, lower than RBI estimate of 2.9%. With food prices showing a declining trend even in Jul'25 (BoB ECI at -3.3%), this trend is likely to continue. Food inflation trajectory looks benign, supported by ample rainfall, even though the spatial distribution of rainfall will require careful monitoring. Core inflation has remained sticky at ~4% mark. However, tariff driven commodity price shocks can tend to lead to some upward bias in core. Overall, we believe that inflation is likely to remain below RBI's target of 4% this year. Climate-related risks and US tariff policy and its likely impact on global commodity prices remain key risk to our view.

## **Food inflation drives CPI lower**

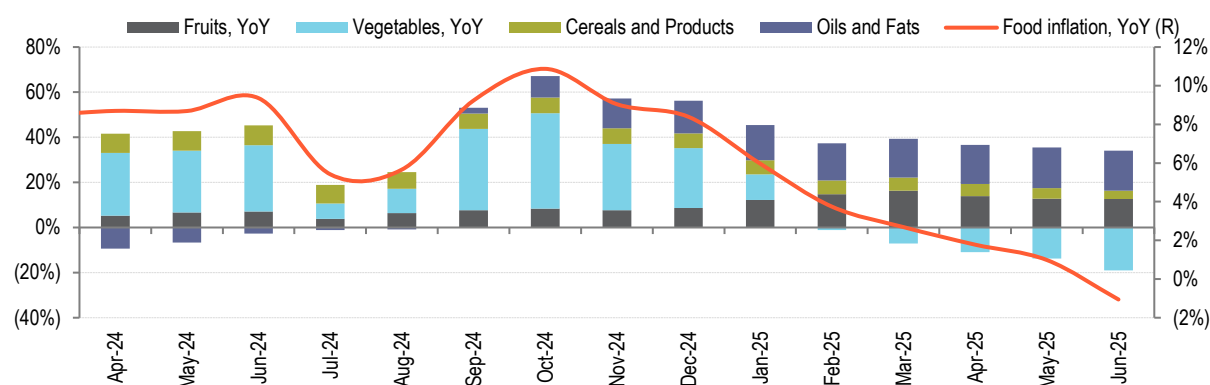
**CPI at a 78-month low:** CPI inflation moderated further to 2.1% in Jun'25, (BoB forecast: 2.6%), on a YoY basis, significantly lower than 5.1% in Jun'24. The moderation was driven by a decline in food inflation. Food CPI declined by 1.1% in Jun'25, marking the first contraction in the index since Feb'19. Within food, a sharp decline was noted in prices of vegetables (-19% in Jun'25 versus 29.3% in Jun'24) and pulses (-11.8% in Jun'25 versus 16.1% in Jun'24). Apart from these, spices and meat and fish category also witnessed deflation in Jun'25. Significant moderation was also witnessed in prices of cereals which increased at a softer pace of 3.7% in Jun'25 versus 8.8% in Jun'24. On the other hand, inflation in oils and fats (17.4%) and fruits (12.6%) remained elevated.

**Figure 1: Food prices decline for the first time since Feb'19**



Source: CEIC, Bank of Baroda Research

**Figure 2: ...led largely by a decline in vegetables and pulses**



Source: CEIC, Bank of Baroda Research

**Core inflation inched up:** Core inflation (excl. food and fuel) rose to 4.4% in Jun'25 compared with 3.1% in Jun'24. This was largely led by personal care and effects which rose by 14.8% in Jun'25 compared with 8.2% in Jun'24. Apart from this, transport and communication also showed some upward bias. Inflation rate in education and health also remained above the 4% mark.

**Fuel and Light** inflation inched up to 2.6% in Jun'25 compared with a decline of 3.6% in Jun'24. Lower global oil prices are likely to keep inflation in this category largely range-bound despite and adverse base.

**Way forward:** CPI inflation has moderated significantly in Q1 FY26 to 2.7% versus 3.7% in Q4 FY25, and 4.9% in Q1 FY25. This was led by a broad-based deceleration in food inflation (0.6% in Q1FY26 versus 8.9% in Q1FY25). Core inflation has inched up from 3.2% in Q1FY25 to 4.3% in Q1 FY26. The outlook on inflation is positive supported by normal monsoon and a softer global commodity price cycle. Monsoon has progressed well and is 10% above LPA as of 13 Jul 2025. This has also been reflected in kharif sowing, which is 6.2% higher than last year. Importantly, sowing of important crops such as rice and pulses has progressed well, which augurs well for future supplies. Reservoir storage too has improved lately, which again signals price stability in the long run. Given the current trend in prices, we expect inflation to undershoot RBI's trajectory in H1. BoB's in house essential commodity index is tracking at -3.3% in Jul'25, after declining in each of the last two months. Core inflation has inched up lately but is likely to stabilize going forward, supported by lower global commodity prices. However, recent tariffs announced by the US including commodity specific tariffs as well as country specific tariffs can push prices upwards. This can have a spillover impact on domestic inflation as well. For food inflation as well, excess rainfall in key-producing states can lead to sudden price spikes, especially for perishables and will hence require careful monitoring.

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