

5 Jun 2025

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Inflation might dip below 3%

BoB Essential Commodities Index (BoB ECI) entered the deflation territory, the sharpest fall noticed since Jan'19. It declined by -0.6%, on YoY basis, in May'25. The major downward correction was visible in the case of vegetables and pulses, supported by better production. The outlook for inflation remains favourable largely led by food. The expectation of above normal monsoon also bode well. However, the spatial distribution of rainfall requires close monitoring. The excess rainfall has already been witnessed in major Onion and Potato producing States. Some sequential buildup in prices of Tomato and Potato has also been noticed in May'25. However, favourable base, upbeat arrivals of TOP (Tomato, Onion and Potato) and moderation in international gold prices will keep a lid on headline CPI. We expect to settle it at 2.7% in May'25. This is expected to give further policy space to RBI in the current cycle.

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 entered deflation territory in May'25. On YoY basis, it declined by -0.6%, the first ever negative print in the series since Jan'19. 10 out of 20 commodities in the index witnessed deflation with the sharpest pace being observable for TOP vegetables (Tomato, Onion and Potato). The retail price of Tomato has been in deflation territory for 5th month in a row, albeit at a softer pace. The prices of Potato and Onion have also declined at a sharp double-digit pace by -16.3% and -15% respectively in May'25. Among pulses as well, most of the sub-components are witnessing successive periods of deflation. For Masoor dal, the deflation in retail prices has been 10th month in a row. The retail price of Tur/Arhar has witnessed the maximum decline by -18.9% in May'25, on YoY basis. This is followed by Urad and Masoor dal. This is supported by better production and higher imports. In FY25, imports of pulses firmed up by 46.3%. Among cereals, the retail price of rice fell at a sharp pace by -4.5% in May'25. The retail price of Atta also moderated to 2.5%. For miscellaneous items such as gur, tea loose and salt pack there was broad based softening. For Edible oils, some stickiness is witnessed, led by an unfavourable base. For these items the sequential momentum gives better picture. Even milk prices inched up due to the increase in prices by companies over rising procurement cost.
- **Sequential picture:** BoB ECI declined by -0.1% in May'25, on MoM basis. On a seasonally adjusted MoM, it has fallen at a sharp pace by -0.5%.

The major sequential loss of momentum was visible for edible oil components especially for mustard, soya and sunflower oil. This is supported by favourable international prices, where similar softening is observed, driven by rising supplies from South America.

Is there any sequential buildup in prices? Some crawling back of prices is visible for Tomato where the retail price has risen by 9.9% in May'25, on MoM basis. For Potato as well prices have risen by 3% against earlier month's decline of -1.3%. Onion prices have still been capped, noting a sequential decline of -3.5% albeit at a softer pace than -9.8% seen in Apr'25. Thus, the TOP trajectory needs to be closely monitored for any reversal, amid early arrival of monsoon and likely impact on supply chains.

- **May'25 trend:** For the first 4 days, the trend continues as BoB ECI is tracking at -0.1% and -1.8% on MoM and YoY basis, respectively.

Figure 1: On YoY basis, BoB ECI declined by -0.6% in May'25, at a sharper pace compared to Apr'25

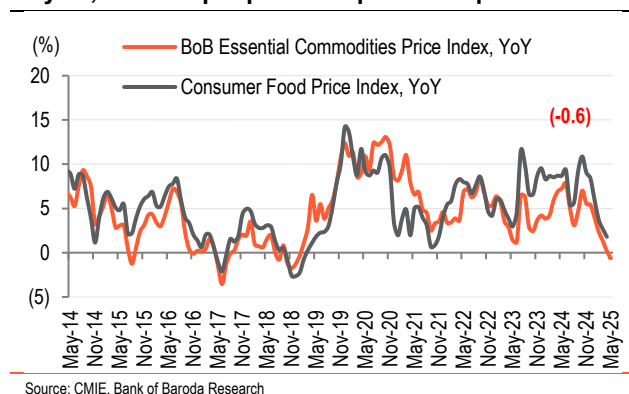


Figure 2: On MoM basis, it declined by -0.1%

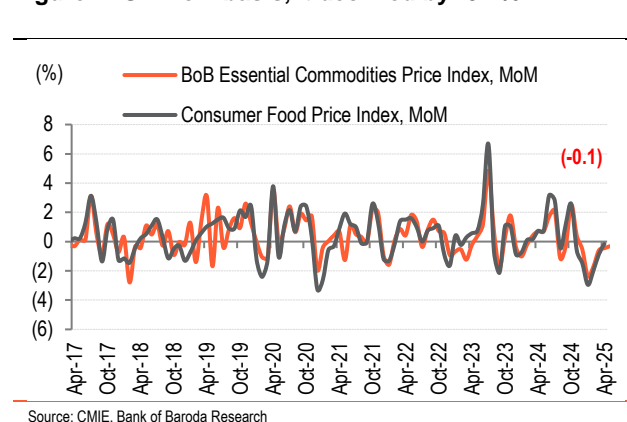


Table 1. Price moderation is seen in major items

Retail Price of major essential commodities, (% YOY)	Wts in CPI	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Cereals												
Rice	4.4	9.1	5.1	2.6	1.9	1.2	-0.5	-1.6	-2.9	-3.4	-4.1	-4.7
Atta (Wheat)	2.6	2.9	1.7	1.4	2.5	2.5	3	3.9	5.2	5.2	3.9	2.5
Edible Oils												
Mustard oil (Packed)	1.3	-2	-0.8	3.8	17.2	20.9	23	24.3	24.8	25	25.1	25.5
Soya oil (Packed)	0.7	-6.1	-7.5	-3.1	9.3	14.4	16.2	17.5	18.8	19.3	18.9	19.3
Sunflower oil (Packed)	0.7	-8.4	-6.6	-2.5	11.9	19.7	23.8	25	26.3	29	29.6	30.7
Groundnut oil (Packed)	0.3	-1.6	-3.8	-4.4	-0.4	1	1	1.6	1.4	0.8	0.4	0.2
Vegetables												
Tomato	0.6	-40	-50	16.6	115.2	33.7	22.4	-5.3	-28.9	-33.5	-34.4	-28.5
Onion	0.6	64.9	50.3	53	44	-4.4	-1.2	3.2	11.3	5.8	-5.7	-15.0

Retail Price of major essential commodities, (% YOY)	Wts in CPI	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Potato	1	55.1	53.1	49.4	50.2	49.2	52.3	34.8	16.4	2.1	-11	-16.3
Pulses												
Urad dal	0.3	11.9	8.9	6.1	4.9	2.1	0.8	0.6	-1.1	-3.1	-4.5	-6.5
Moong dal	0.3	7.1	4.5	1.6	0.3	-0.6	-1.9	-2.3	-3.1	-4.1	-4.9	-5.6
Masoor dal	0.3	1.5	-2	-4.3	-4.8	-4.3	-5	-5	-5.1	-5.4	-5.8	-6
Gram dal	0.1	18.9	17.1	15	14.5	14	12.6	11.7	9.2	6	3.8	1.8
Tur/Arhar dal	0.8	24.6	19.8	12	7.4	4	2.5	1.1	-5.4	-10.3	-14.6	-18.9
Miscellaneous												
Salt pack	0.2	2.3	-0.4	-1.3	-1.3	-0.9	-1.3	-2.7	-4.4	-5.3	-4.9	-4.9
Vanaspati (Packed)	0.1	-2.9	-4.5	-2.5	7.2	12.7	15.8	18.2	20	21.6	22.0	22.8
Gur	0.1	6.8	5.6	3.6	3.9	3.9	4.2	3.6	3.2	3.1	3.2	2.8
Milk	6.4	2.8	2.1	0.9	0.5	0.5	0.9	0.5	0	-0.2	0.2	0.3
Sugar	1.1	4.2	3.7	2.8	2	0.7	0	0.2	1.4	2.7	3.2	2.9
Tea loose	1	-0.2	-3.3	-4.1	-3.7	-3.5	-3.2	-3.5	-3.5	-3.6	-3.4	-3.5

Source: CMIE, Bank of Baroda Research, Note: Green represent moderation in prices , Commodities where price change is more than 6% on YoY basis, have been marked in red.

CPI to give breather to RBI:

We expect CPI in May'25 to come in at 2.7%. The broader comfort will be provided by food inflation. Even globally, food and energy prices remain in favour. Q1FY26 also has the advantage of a favourable base for inflation print. Thus, inflationary pressure is still residing on the downside. The volatile TOP prices are still holding ground supported by better production. As per UPAJ data, arrival statistics for TOP cumulatively have risen by 26.4% in May'25 compared to -16.1% in May'24, on YoY basis. The gap between retail and wholesale prices of tomato and potato is still higher, which suggests that some pass through of lower wholesale prices will be visible in retail print in the near term. Thus, supply dynamics remains favourable for a lower inflation print in the near term. A moderation in gold price in May'25 would also largely cap core inflation. In May'25, international gold prices have softened by 2.9%, on MoM basis compared to the 7.9% increase seen in Apr'25.

How are the risks distributed?

The fine print of food inflation needs vigilance. World Bank data has shown that some upticks in metal prices are visible, especially aluminum, copper and zinc, primarily on account of frontloading of demand due to tariff limbo. Further, even though domestic demand conditions have largely been supportive, a better monsoon, higher MSP augers well. Hence some pressure on core inflation cannot be ruled out.

The earlier than anticipated arrival of monsoon and its spatial distribution needs to be monitored closely as these perishable items have the Cobweb impact on prices. These volatile TOP prices are already showing some degree of monthly buildup in prices. Especially for Potato and Onion producing

States, rainfall has been in excess or large excess. Thus, vigilance is required for any weather-related disruption on prices in the coming days.

Table 2. Rainfall situation in major TOP producing States and arrival statistics

Arrival, in tonnes	Feb'25	Mar'25	Apr'25	May'25	Rainfall status (cumulative)
Tomato					
Andhra Pradesh	5,707	7,925	27,118	78,419	Large Deficient
Gujarat	27,627	31,329	28,914	30,556	Deficit
Karnataka	23,364	15,669	20,760	40,731	Deficit
Madhya Pradesh	3,203	1,384	3,816	4,631	Large Excess
Odisha	4,590	4,591	4,211	3,677	Large Deficient
Onion					
Gujarat	3,84,410	2,90,176	2,19,369	1,85,689	Deficit
Karnataka	43,487	7,347	12,155	11,947	Deficit
Madhya Pradesh	73,107	76,289	2,99,206	2,87,017	Large Excess
Maharashtra	5,37,212	5,83,587	5,62,496	7,05,322	Deficit
Rajasthan	21,286	43,987	58,068	50,793	Large Excess
Potato					
Bihar	8,324	7,145	6,696	6,897	Excess
Gujarat	65,823	80,929	66,827	62,177	Deficit
Madhya Pradesh	33,811	20,781	26,357	27,009	Large Excess
Uttar Pradesh	12,65,349	13,27,576	10,40,913	8,53,180	Deficit
West Bengal	54,456	57,844	52,337	53,776	Large Excess

Source: UPAJ, IMD, Bank of Baroda Research

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