

## Inflation might align to RBI's target

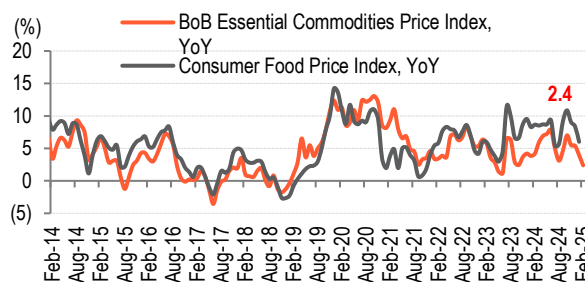
BoB Essential Commodity Index (BoB ECI) continued its deceleration in Feb'25 as well, moderating to 2.4%, on YoY basis. The major downward correction was visible in case of vegetables such as Tomato and Potato. Inflation in major categories of pulses have also remained in check supported by a better supply side dynamics. The slashing of milk prices will further lend support to overall CPI print. The global volatility in major asset prices such as gold, base metals has not yet fed into inflation, as energy prices have largely remained on the lower side. We expect CPI to settle at 4.1% in Feb'25. However, we completely do not rule out any upside pressure on food prices arising from stickier edible oil prices globally, inflationary tariff policies worldwide and anticipation of hotter summer.

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:

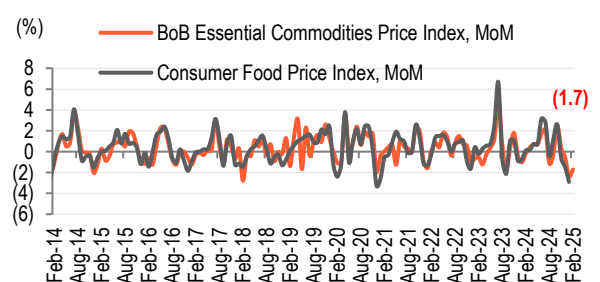
- BoB ECI showed considerable moderation in Feb'25. On YoY basis, it inched down to 2.4% in Feb'25 compared to 4% in Jan'25. This is the lowest number recorded since Oct'23. 12 out of 20 commodities in the index witnessed a deceleration in inflation. In fact, for vegetables such as tomato and potato, there has been further downward correction in prices. For Tomato, retail prices fell by -28.9% which is the sharpest decline since Jul'24. For Onion, however, some stickiness prevails. Amongst other commodities, moderation was witnessed in case of pulses, especially Tur, which fell by -5.4% in Feb'25 compared to 1.1% seen in Jan'25. The cut in milk prices was also reflected in the series. 7 out of 20 commodities noted deflation in Feb'25.
- BoB ECI declined by 1.7% in Feb'25, on MoM basis. However, much of the decline is attributable to the usual seasonal phenomenon, especially attributable to bounty winter arrivals. On a seasonally adjusted basis, BoB ECI has declined at a less sharp pace by -0.9% in Feb'25. Sequentially, support was provided on account of loss of momentum in inflation of major pulses and falling trajectory of TOP vegetables (Tomato, Onion and Potato). It may be mentioned here that albeit deflation, the pace of it has been less compared to Jan'25, so that may be monitored in the coming days. BoB ECI in Dec'24 (first 5 days) eased further to 1.3% on YoY basis and by -0.6% on MoM basis. The sequential momentum of softening of vegetable prices is continuing in Mar'25 as well, albeit at a slower pace which will require close vigilance.

**Figure 1: On YoY basis, BoB ECI moderated to 2.4% in Feb'25 from 4% in Jan'25**



Source: CMIE, Bank of Baroda Research

**Figure 2: On MoM basis, it declined by -1.7% in Feb'25 from -2.4% in Jan'25**



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	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
<b>Cereals</b>										
Rice	4.4	12.8	9.1	5.1	2.6	1.9	1.2	-0.5	-1.6	-2.9
Atta (Wheat)	2.6	4.6	2.9	1.7	1.4	2.5	2.5	3	3.9	5.2
<b>Edible Oils</b>										
Mustard oil (Packed)	1.3	-3.3	-2	-0.8	3.8	17.2	20.9	23	24.3	24.8
Soya oil (Packed)	0.7	-6.8	-6.1	-7.5	-3.1	9.3	14.4	16.2	17.5	18.8
Sunflower oil (Packed)	0.7	-9.5	-8.4	-6.6	-2.5	11.9	19.7	23.8	25	26.3
Groundnut oil (Packed)	0.3	-0.8	-1.6	-3.8	-4.4	-0.4	1	1	1.6	1.4
<b>Vegetables</b>										
Tomato	0.6	28.3	-40	-50	16.6	115.2	33.7	22.4	-5.3	-28.9
Onion	0.6	57.9	64.9	50.3	53	44	-4.4	-1.2	3.2	11.3
Potato	1	45.8	55.1	53.1	49.4	50.2	49.2	52.3	34.8	16.4
<b>Pulses</b>										
Urad dal	0.3	13.8	11.9	8.9	6.1	4.9	2.1	0.8	0.6	-1.1
Moong dal	0.3	8.7	7.1	4.5	1.6	0.3	-0.6	-1.9	-2.3	-3.1
Masoor dal	0.3	2.5	1.5	-2	-4.3	-4.8	-4.3	-5	-5	-5.1
Gram dal	0.1	17.6	18.9	17.1	15	14.5	14	12.6	11.7	9.2
Tur/Arhar dal	0.8	27	24.6	19.8	12	7.4	4	2.5	1.1	-5.4
<b>Miscellaneous</b>										
Salt pack	0.2	2.7	2.3	-0.4	-1.3	-1.3	-0.9	-1.3	-2.7	-4.4
Vanaspati (Packed)	0.1	-3.7	-2.9	-4.5	-2.5	7.2	12.7	15.8	18.2	20
Gur	0.1	7.2	6.8	5.6	3.6	3.9	3.9	4.2	3.6	3.2
Milk	6.4	2.6	2.8	2.1	0.9	0.5	0.5	0.9	0.5	0
Sugar	1.1	4.9	4.2	3.7	2.8	2	0.7	0	0.2	1.6
Tea loose	1	0.7	-0.2	-3.3	-4.1	-3.7	-3.5	-3.2	-3.5	-3.5

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

### So where is CPI print headed?

Feb'25 continued to witness softening of prices across the board. The main contribution was one of the sharp downward corrections in vegetable prices. As per UPAJ data, TOP arrival statistics from Dec'24, which is generally the start of the harvesting season, have risen by 16.5% (Dec-Feb'25 over Dec-Feb'24) compared to the same period of the previous year. The most notable improvement in arrivals statistics is seen for Tomato and Potato. Ideally, the same trend should continue till Jun and Mar respectively, as the harvesting period for these two vegetables persists till these months. The wholesale prices of these vegetables have also fallen considerably, hence some degree of passthrough in terms of softening of retail prices is yet to occur. The month of Feb also saw cut down in milk prices and moderation in Kerosene prices, which will feed into headline CPI numbers. We expect CPI to settle ~ 4.1% in Feb'25.

**Key upside risks to our forecast:**

The global volatility in major asset classes, such as currency and gold, has not yet fed into inflation, especially since crude prices have remained on the lower side. However, with tariffs taking shape, base metal prices might witness some momentum. In Feb'25 itself some frontloading of demand for this segment has kept their prices elevated (copper and zinc). Another key risk from global prices is stickier edible oil prices, which will continue to translate into higher food inflation. Other pressures may emanate from excessive hot summers which might pose some supply side disruptions. However, government efforts to support prices of such perishables in terms of logistics will keep prices in check. There has already been above normal temperature recorded in places such as Maharashtra, Odisha and Bihar (as per IMD) which are major producers of Onion, Tomato and Potato, respectively. Even for wheat crops as well, these temperature conditions should be closely monitored.

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