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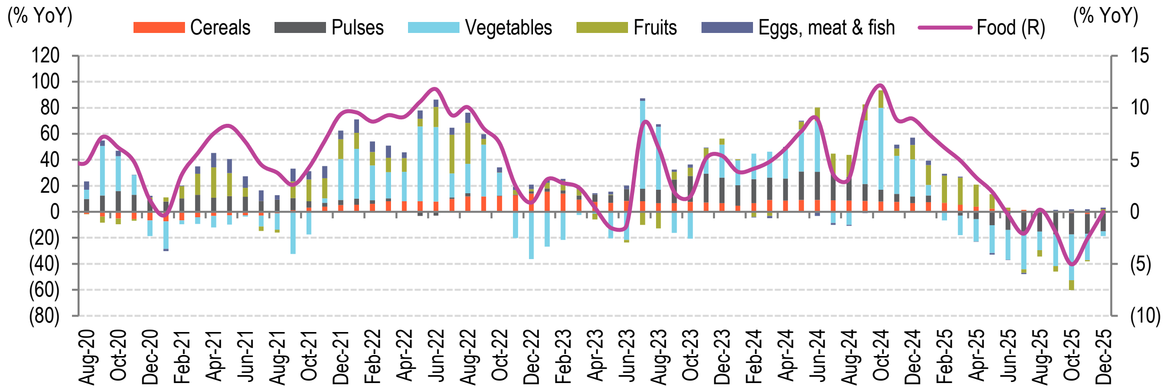
WPI out of deflation

WPI inflation eased to 0.8% in Dec'25 versus 2.6% increase in Dec'24. Inflation was higher than (-) 0.3% decline in Nov'25. Compared with last year (Dec'24), softening in prices was helped by food and manufactured product inflation. Fuel inflation was slightly higher than last year. Core inflation also inched up to 2% in Dec'25 from 0.7% in Dec'24. Within food, vegetable, fruits, spices and eggs, meat and fish helped drag the index down, while milk inflation increased. Food grain inflation remains muted, led by pulses. Amongst cereals, wheat prices fell more steeply in Dec'25, and paddy price index also cooled. Under manufactured products, softness in inflation was driven by items like food, textiles, wearing apparels, computers/electronics, and chemical/leather products. Slower pace of deflation in fuel inflation was driven by mineral oil index. However, globally, prices of oil have come down in Jan'26 so far. Other commodity prices (lead, zinc, aluminium) are also noting downside pressures. However, a depreciating rupee may increase the cost of imported goods higher. Any escalation in tensions between US and Iran may also push commodity prices upwards and add to upside risks to inflation.

Food inflation continues to support headline WPI:

Headline WPI inflation rose to 8-month high of 0.8% in Dec'25. However, this is still lower than 2.6% registered in Dec'24. Compared to last year (Dec'24), food inflation was flat (0%) versus 8.9% increase in last year. Vegetable inflation index declined for the 11th consecutive month in Dec'25, and fell by (-) 3.5%, versus 28.6% increase recorded during the same period last year. This was helped by decline in index for potato, onion, tomato, cabbage, and pumpkin. Index for spices and condiments (-10.9% versus -3.2% in Dec'24) remains in contraction for the 17th consecutive month in Dec'25. That of food grain inflation also declined in Dec'25 (-3.6% versus 6.4%), led by dip in inflation index for pulses (-13.9% versus 5.0%). Cereals also registered deflation, mainly due to movement in wheat inflation (-1.6% versus 7.5% in Dec'24). Paddy inflation also noted considerable deceleration (0.1% versus 6.9%). Comparing cereal prices on a global level (World Bank's pink sheet) shows that domestic paddy prices are following international trend. Paddy prices internationally have fallen by (-) 22% in Dec'25, versus (-) 19.5% decline noted in Dec'24. However, pace of decline in internation wheat prices appears to be slowing (-3.4% versus -11.7%). Inflation index for fruits (2% versus 11.2%) and eggs, meat and fish (1.1% versus 5.4%) remained muted compared with last year. On the other hand, index for milk (3.2% versus 2.1%) prices inched up.

Figure 1: Food inflation flat in Dec'25



Source: CEIC, Bank of Baroda Research

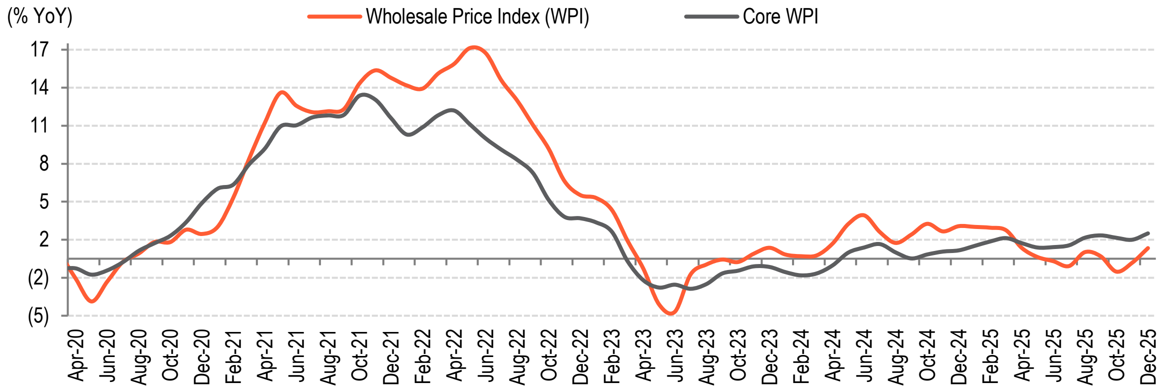
Fuel and power inflation remains low:

Deflation in fuel and power segment slowed as the index fell by (-) 2.3% in Dec'25, after declining by (-) 2.6% in Dec'24, and was unchanged from Nov'25 (-2.3%). Compared to the previous year, the slowdown in pace of decline was broad-based. Inflation index for mineral oil segment registered (-) 3.3% fall compared with (-) 3.8% dip last year in Dec'24. Coal inflation also inched up (1% versus -0.8%). Electricity index in contrast eased at an accelerating pace (-1.8% versus -0.6%). Internationally, crude oil prices have fallen at a faster pace in Dec'25 (-15.7%) compared with last year (-5.4% in Dec'24). Pressure on domestic prices could be a result of depreciating rupee (-5.6% in Dec'25 versus -2% in Dec'24). Domestically, within mineral oils, inflation index for petroleum coke, Kerosene and ATF noted the most increase from last year. In Jan'26 so far, pace of decline in international brent prices has increased (~-20%), as there remain concerns regarding oversupply from Venezuela. However, prices may begin going up if tensions between US and Iran escalate further. Pressure on rupee may also exert some upward pressure on fuel inflation.

Core WPI remains sticky:

Core inflation remains higher at 2% in Dec'25, up from 0.7% last year (Dec'24). It is also up from 1.5% last month (Nov'25). Manufactured product inflation however eased, to 1.8% in Dec'25 from 2.1% last year during the same period. However, it inched up from 1.3% last month (Nov'25). Of the 22 commodity sub-indices, 11 indices rose at a slower pace in Dec'25 than Dec'24 led by—food, tobacco, leather/chemicals/rubber & plastic products, textiles, wearing apparels, computer/electronics and motor vehicles. In contrast items like textiles, basic metals and electrical equipment registered higher inflation than last year. Deflation in basic metals continued for the 3rd consecutive month in Dec'25 but was at a slightly faster pace (-0.1% versus -1.2% in Nov'25). Inflation for key metals shows that index for copper rose at faster pace (13.5% versus 12.8%), and that of Lead fell at a slower pace (-0.6% versus -1%). On the other hand, price index of Zinc (0.3% versus 7.2%) and Aluminium (8.6% versus 11.3%) recorded moderation. In comparison, international prices are showing a mixed trend. Prices of Copper (32.2% versus 6.1%) have risen notably. However, prices of Lead have declined (-2.5% versus -1.8%), and that of Zinc (4.4% versus 21.3%) and Aluminium (13.2% versus 16.4%) are showing moderation.

Figure 2: Core inflation remains elevated



Source: CEIC, Bank of Baroda Research

Conclusion:

- Headline WPI inflation rose to 8-month high of 0.8% in Dec’25. However, this is still lower than 2.6% registered in Dec’24.
- Compared to last year (Dec’24), food inflation was flat (0%) versus 8.9% increase in last year. Vegetable inflation index declined for the 11th consecutive month in Dec’25.
- Cereals also registered deflation, mainly due to movement in wheat inflation (-1.6% versus 7.5% in Dec’24). Paddy inflation also noted considerable deceleration (0.1% versus 6.9%).
- Deflation in fuel and power segment slowed as the index fell by (-) 2.3% in Dec’25, after declining by (-) 2.6% in Dec’24, and was unchanged from Nov’25 (-2.3%).
- Inflation index for mineral oil segment registered (-) 3.3% fall compared with (-) 3.8% dip last year in Dec’24. Coal inflation also inched up (1% versus -0.8%). Electricity index in contrast eased at an accelerating pace (-1.8% versus -0.6%).
- Core inflation remains higher at 2% in Dec’25, up from 0.7% last year (Dec’24).
- Manufactured product inflation however eased, to 1.8% in Dec’25 from 2.1% last year during the same period. This was led by—food, tobacco, leather/chemicals/rubber & plastic products, textiles, wearing apparels, computer/electronics and motor vehicles.
- When compared with data for the previous month (Nov’25), we note that in Dec’25 price pressures appear to be inching up with headline inflation rising from (-) 0.3% in Nov’25 to 0.8% in Dec’25.
- Mostly this is due to reduced pace of decline in food inflation (0% versus -2.6%), led by upside pressures visible in vegetables (onion, tomato, peas), and fruits.
- Within food grains, cereals and pulses inflation fell at a slower pace.
- Deflation in mineral oil index has also slowed, and coal prices have inched up.
- Core inflation also has ticked higher to 2% in Dec’25 from 1.5% in Nov’25, along with acceleration in manufactured product inflation (1.8% versus 1.3%). This was driven by inflation of basic metals, other manufacturing, electrical and machinery equipment.

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