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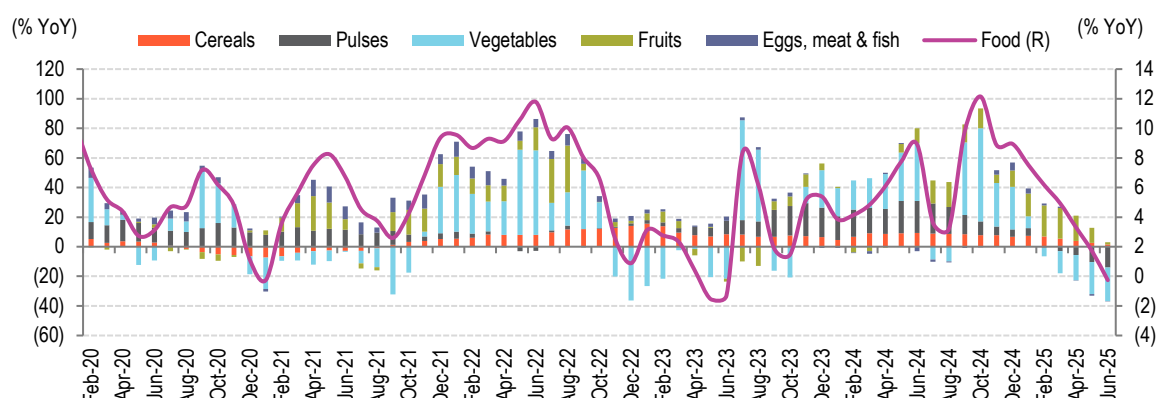
WPI slips into deflation

WPI inflation declined to (-) 0.1% in May'25—lowest in 20 months, from 3.4% in Jun'24. It was also lower when compared with last month's (May'25) increase of 0.4%. From last year, food inflation has noted significant moderation, helped by vegetables (onion, tomato, and potato, ginger), spices, pulses, paddy, and eggs, meat and fish. Fuel inflation remained in deflation for the 3rd consecutive month in Jun'25 and was also lower compared with Jun'24. Drop in mineral oil index, mirrors the trend in international oil prices. Manufactured product inflation however inched up, led by items like wearing apparels, pharma products, chemicals, other transport equipment etc. Inflation in key components under basic metals (copper and lead) noted higher inflation, while their prices internationally are down. Going forward, as tensions in the Middle East have de-escalated, oil prices have registered some relief. In addition, there appears to be increasing pressure on global growth as tariff war has been reignited. Timing of Fed rate cuts remains uncertain once again. All these factors will exert downward pressure on international commodity prices and help domestic WPI ease further.

Food inflation driving deflationary trend:

Headline WPI inflation fell to (-) 0.1% in Jun'25, following 3.4% increase in Jun'24 and 0.4% increase in May'25. This is the first negative print since Oct'23 and was led by deflation in food inflation. Food inflation declined (-) 0.3% in Jun'25 from 8.9% increase last year and 1.7% in May'25. Owing to higher base, vegetable inflation index declined for the 5th consecutive month in Jun'25, and fell by (-) 22.7% from 39.1% last year. This was helped by decline in index for potato, tomato, onion, ginger, okra, etc. Index for spices and condiments (-15.9% versus 13.1%) and eggs, meat and fish (-0.3% versus 3.1%) too declined. Index for milk (2.3% versus 4.0%) and fruits (1.6% versus 10.1%) inflation noted moderation. Food grain inflation index also fell in Jun'25 (-1.7% versus 11.6%), led by sharp decline in inflation index for pulses (-14.1% versus 21.6%). Cereal inflation too softened, mainly due to movement in paddy inflation (0.2% versus 11.9% in Jun'24). Wheat inflation eased less sharply (3.8% versus 6.2%). Comparing cereal prices on a global level (World Bank's pink sheet) shows that domestic prices are following international trend. Paddy prices internationally have fallen by (-) 33.5% in Jun'25, versus 19.3% increased noted in Jun'24. Wheat prices on the other hand are falling at a slower pace (-7.8% versus -17.7%).

Figure 1: Food inflation slips further



Source: CEIC, Bank of Baroda Research

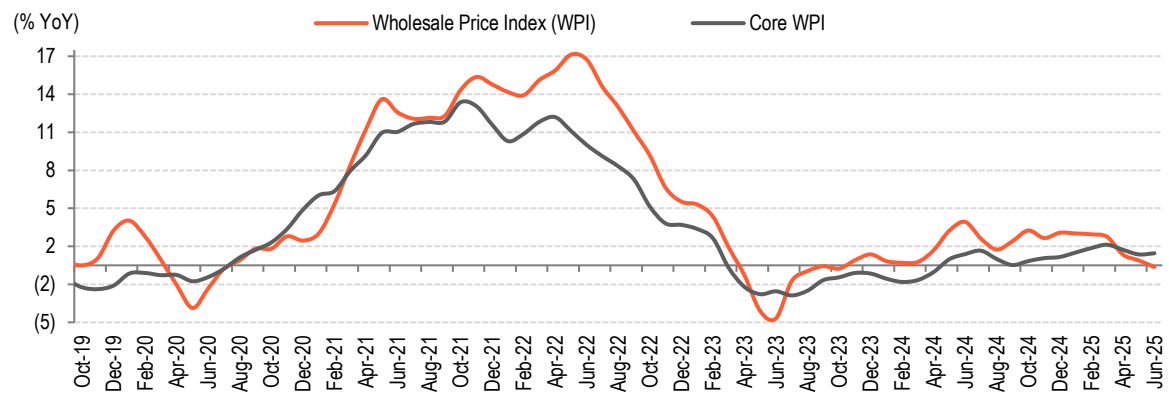
Fuel and power inflation continues to decline:

Deflation in fuel and power segment accelerated to (-) 2.7% in Jun'25, after increasing by 0.5% in Jun'24, and declining (-) 2.3% in May'25. This decline is explained by (-) 5.8% fall in mineral oil index versus 1.9% increase last year (Jun'24). In contrast, coal (0.8% versus -1.3%) and electricity (4.4% versus -2.4%) price inflation noted an increase. In case of mineral oils, the trend seen in international oil prices is similar. Brent on an average fell by (-) 15.9% in Jun'25 following 10.7% increase in Jun'24, on YoY basis. Within mineral oils, apart from items like LPG, Bitumen, and Petroleum Coke, all others noted a decrease compared with last year. In Jul'25 so far, Brent prices have fallen more sharply by (-) 19.4%, due to de-escalation in tensions in the Middle East and revival of growth fears due to re-intensification of trade war, led by the US. If this trend continues, then it may ease further pressure on fuel inflation in the coming months.

Core WPI inches up:

Core inflation rose to 1% in Jun'25, higher compared with 0.9% last year (Jun'24) and even May'25. Manufactured product inflation was up by 2% in Jun'25 (unchanged from May'25) and up from 1.5% in Jun'24. Of the 22 commodity sub-indices, 12 indices rose at a faster pace in Jun'25 than Jun'24 led by—wearing apparel, leather, chemicals, pharma products, other transport equipment, and fabricated metal products. Deflation in basic metals continued for the 3rd consecutive month in Jun'25 and it remains lower than last year. However, inflation for key metals such as, copper (10.3% versus 10% in Jun'24), and lead (1.1% versus -0.8%) is showing an upward trend over the past year. In contrast, for zinc (-0.3% versus 2.8%) and aluminium (4.7% versus 7%), inflation is softening. In comparison, international prices have shown divergent trends. As reflected in World Bank's pink sheet, prices of copper have eased to 1.9% versus 14.9% increase in Jun'24, and for lead to (-) 8.1% (1.1%). Aluminium prices have also softened to 1.1% from 14.3% last year. However, domestic Zinc prices are moving in tandem with international prices (declined by (-) 5.5% from 18.3%).

Figure 2: Core inflation is slightly higher



Source: CEIC, Bank of Baroda Research

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