

7 Apr 2025

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Inflation: not much of a worry

BoB Essential Commodities Index (BoB ECI) continued its deceleration in Mar'25, edging down by 1.4%, on YoY basis. The major downward correction was visible in the case of vegetables and pulses. Other than this, even retail prices of miscellaneous items such as salt, milk and tea are also softening. The same momentum is maintained in Apr'25, albeit at a softer pace. The current juncture thus opens more room for RBI for monetary easing. We expect CPI to be ~3.6% in Mar'25, with this our full year estimate stands at 4.6%. Thus, we believe some undershooting of inflation (RBI's target of 4.8% in FY25) will give more headroom to RBI to give growth the required impetus in terms of lower borrowing cost and conducive liquidity conditions. For Inflation, however, some caution is required on evolution of food prices amidst above normal temperature in major parts of the country.

To get an idea about the calculation of the index, refer to our [previous edition](#) of BoB ECI.

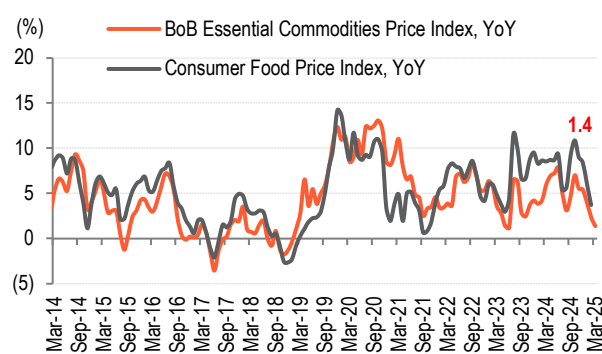
Price picture using BoB Essential Commodity Index:

- BoB ECI continued to show moderation even in Mar'25. On YoY basis, it inched down to 1.4% in Mar'25 compared to 2.4% in Feb'25. This is the lowest number recorded since Jun'23. 9 out of 20 commodities in the index witnessed deflation with the sharpest pace being observable for Tomato (-33.5% fall in retail prices recorded in Mar'25, on YoY basis). Major categories of pulses also noticed significant deflation with Tur/Arhar dal at -10.3% followed by Masoor at -5.4% in Mar'25. The price of other categories of pulses fell in the range of -3 to -4%. Among cereals, the retail price of rice fell at a sharp pace compared to last month by -3.4% in Mar'25. For miscellaneous items such as salt pack and tea loose, deflation is reigning in Mar'25. What has been a cause of concern is the elevated retail price of edible oils led by Sunflower oil (29% in Mar'25), Mustard oil (25%) and Soya Oil (19.3%). The Food and Agriculture Organisation (FAO) report has pointed out that the increase is primarily on account of some increase in international prices of components of edible oil. This is led by firm demand from major countries such as Brazil and US. On the supply side, dry conditions in Argentina have impacted international soybean prices. Thus, some pass through is seen in domestic prices for these components of edible oil. Notably, the stickiness in edible oil prices has continued for 6 months in a row now and needs to be carefully monitored in the near term. Also, palm oil, which is not a component of our BoB ECI due to unavailability of data, has witnessed momentum in Mar'25. This is on account of seasonal factors impacting output in Southeast Asian producing countries.
- Talking about the prices of TOP (Tomato, Onion and Potato) vegetables, Tomato prices as mentioned earlier noted steep fall. Onion prices are also falling and remain below 6%. For Potato, the retail prices went for a low single digit after a span of 14 months. Thus, overall

TOP prices remain supportive and hint at lower inflation going ahead, if the same trend persists.

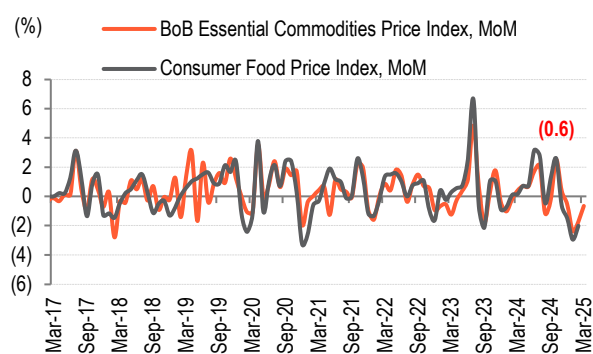
Sequential picture: BoB ECI declined by -0.6% in Mar'25, on MoM basis. On a seasonally adjusted MoM, it has fallen at a less sharp pace by -0.2%. The most notable decline was seen in the case of TOP vegetables, albeit at a softer pace than Feb'25. So, this needs to be monitored closely in the coming months. Other than this, better sowing has supported softer prices of major components of pulses. Broadly 60% of the food items in this index have shown a loss of momentum in prices. In Apr'25 as well (first 6 days), the trend continues.

Figure 1: On YoY basis, BoB ECI moderated by 1.4% in Mar'25



Source: CMIE, Bank of Baroda Research

Figure 2: On MoM basis, it declined by -0.6%



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	Mar-25
Cereals											
Rice	4.4	12.8	9.1	5.1	2.6	1.9	1.2	-0.5	-1.6	-2.9	-3.4
Atta (Wheat)	2.6	4.6	2.9	1.7	1.4	2.5	2.5	3	3.9	5.2	5.2
Edible Oils											
Mustard oil (Packed)	1.3	-3.3	-2	-0.8	3.8	17.2	20.9	23	24.3	24.8	25.0
Soya oil (Packed)	0.7	-6.8	-6.1	-7.5	-3.1	9.3	14.4	16.2	17.5	18.8	19.3
Sunflower oil (Packed)	0.7	-9.5	-8.4	-6.6	-2.5	11.9	19.7	23.8	25	26.3	29.0
Groundnut oil (Packed)	0.3	-0.8	-1.6	-3.8	-4.4	-0.4	1	1	1.6	1.4	0.8
Vegetables											
Tomato	0.6	28.3	-40	-50	16.6	115.2	33.7	22.4	-5.3	-28.9	-33.5
Onion	0.6	57.9	64.9	50.3	53	44	-4.4	-1.2	3.2	11.3	5.8
Potato	1	45.8	55.1	53.1	49.4	50.2	49.2	52.3	34.8	16.4	2.1
Pulses											
Urad dal	0.3	13.8	11.9	8.9	6.1	4.9	2.1	0.8	0.6	-1.1	-3.1

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	Mar-25
Moong dal	0.3	8.7	7.1	4.5	1.6	0.3	-0.6	-1.9	-2.3	-3.1	-4.1
Masoor dal	0.3	2.5	1.5	-2	-4.3	-4.8	-4.3	-5	-5	-5.1	-5.4
Gram dal	0.1	17.6	18.9	17.1	15	14.5	14	12.6	11.7	9.2	6.0
Tur/Arhar dal	0.8	27	24.6	19.8	12	7.4	4	2.5	1.1	-5.4	-10.3
Miscellaneous											
Salt pack	0.2	2.7	2.3	-0.4	-1.3	-1.3	-0.9	-1.3	-2.7	-4.4	-5.3
Vanaspati (Packed)	0.1	-3.7	-2.9	-4.5	-2.5	7.2	12.7	15.8	18.2	20	21.6
Gur	0.1	7.2	6.8	5.6	3.6	3.9	3.9	4.2	3.6	3.2	3.1
Milk	6.4	2.6	2.8	2.1	0.9	0.5	0.5	0.9	0.5	0	-0.2
Sugar	1.1	4.9	4.2	3.7	2.8	2	0.7	0	0.2	1.4	2.7
Tea loose	1	0.7	-0.2	-3.3	-4.1	-3.7	-3.5	-3.2	-3.5	-3.5	-3.6

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

CPI well aligned to RBI's forecast in FY25:

We expect Mar'25 to come at 3.6%, with this our full year estimate of CPI stands at 4.6%, lower than RBI's 4.8% estimate for FY25. We believe that the probability of undershooting RBI's forecast is higher. This will build space for RBI for monetary easing and give growth the desired push. The current volatility in the global macro and policy space also supports a softer interest rate regime. Our analysis suggests the downside risks to growth of ~ 20bps for a 10% fall in exports to the US, in the base case ([Report](#)). Global commodity prices are also softening, especially energy prices amidst demand concerns. All this hint at risks to inflation are limited from global dynamics. Thus, the current situation warrants softer policy when inflation is in stride and growth requires support. We expect a 25bps cut in the upcoming policy. The only upside risk to inflation in the coming months will be the evolution of food prices. An extremely hot summer hints at caution.

How are the risks distributed?

Despite repeated downward correction in vegetable prices, watchfulness is required for any likely reversal in their trajectories. IMD has already warned of above normal temperatures from Mar-May. **Table 2** clearly reflects that major TOP producing States are either facing above normal temperatures or heatwave alert. The earlier episodes of inflation have also seen price shock of perishables. Especially prices of Potato and Onion needs monitoring as their harvesting cycle is nearing its end in Mar and May respectively. Thus, potential upside risks persist. However, adequate buffer, stockholding centers and improved logistics would cap the same. As per UPAJ data, TOP arrival statistics have been supportive. It increased by 18.5% between Jan-Mar'25 compared to same period of the previous year.

Table 2. Heatwave conditions in major TOP producing States and arrival statistics in Mandi

Arrival, in tonnes	Jan'25	Feb'25	Mar'25	Temperature conditions
Tomato				
Andhra Pradesh	5,507	5,707	7,925	Above normal
Gujarat	27,996	27,627	31,329	Appreciably above normal
Karnataka	30,250	23,364	15,669	-
Madhya Pradesh	4,957	3,203	1,384	Heatwave alert
Odisha	4,252	4,590	4,591	Appreciably above normal
Onion				
Gujarat	2,86,173	3,84,410	2,90,176	Appreciably above normal+ Heatwave alert
Karnataka	70,766	43,487	7,347	-
Madhya Pradesh	83,958	73,107	76,289	Heatwave alert
Maharashtra	7,52,325	5,37,212	5,83,587	Above normal
Rajasthan	30,242	21,286	43,987	Appreciably above normal+ Heatwave alert
Potato				
Bihar	6,325	8,324	7,145	Above normal
Gujarat	66,728	65,823	80,929	Appreciably above normal+ Heatwave alert
Madhya Pradesh	46,879	33,811	20,781	Heatwave alert
Uttar Pradesh	12,62,944	12,65,349	13,27,576	Heatwave alert
West Bengal	64563.68	54456.05	57843.55	Above normal

Source: UPAJ, IMD, Bank of Baroda Research

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