FIRST LIGHT

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RESEARCH

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Inflation is still in a comfort zone

SUMMARY

INDIA ECONOMICS: CPI

CPI got the sigh of relief in Aug'25 as well, broadly led by food. The food price index remained in the deflation territory for 3rd straight month in a row. The sequential loss of momentum also testified that the disinflation pace is gaining ground. The broad comfort came from vegetables and pulses. Our in-house BoB ECI is running at -0.9% in Sep'25 (first 10 days of the month). Even rain related disruption has not impacted the supply dynamics of TOP (Tomato, Onion and Potato). Core inflation has also remained stable. Core excl. gold is benign. Thus, we may see episodes of disinflation in the coming days as government support through lower indirect tax rates is likely to be passed on to actual numbers sooner, if not later. We expect CPI in FY26 to settle at 3.1%, with risks titled to the downside.

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CPI

12 September 2025

Inflation is still in a comfort zone

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Food continued to keep headline rangebound

CPI remained comfortable: CPI inflation reading came in at 2.1% in Aug'25, on YoY basis (in line with BoB forecast of 2%), compared to 3.7% inflation seen in Aug'24. The print is comforting even when this month does not have the advantage of a higher base. The fine prints show that food index remained in deflation territory for 3 consecutive months in a row, falling by -0.7% in Aug'25 compared to 5.7% in Aug'24. The underlying components of food inflation showed that 5 out of 10 broad categories recorded disinflation, while 3 of them remaining in deflation territory (vegetables, pulses and spices, having a combined weight of 10.9% in CPI basket). The significant loss of momentum was also noticed in case of fruits, pulses and products. The outlook for food inflation seems favourable at the current juncture with supply dynamics remaining in favour. Cereals and pulses have already seen better sowing; thus prices would get the desired support from better production statistics.

The sequential picture of food inflation also shows loss of momentum for food inflation. The major softening is seen for vegetables, fruits, meat and fish and eggs. Even oilseeds whose prices used to be sticky due to higher international price has also moderated a tad. However, its domestic price needs to be monitored as sowing has moderated.

On a seasonally adjusted basis, consumer food price index rose by 0.8%, MoM, in Aug'25.

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