Feb 12, 2025

Retail Inflation eases to 4.31% y-o-y in Jan’25;

Key takeaways

- India’s CPI inflation eased to 4.31% y-o-y in Jan’25 compared to 5.22% in Dec’24 mainly due to seasonal easing in vegetable prices. The inflation print is below median market estimate of 4.6%.
- Core inflation (Excluding food & fuel) rose to 3.66% in Jan’25 but this is well below 4%.

Retail Inflation eased to 4.31% y-o-y in Jan’25:

India’s retail (CPI) inflation eased to 4.31% y-o-y in Jan’25 from 5.22% y-o-y in Dec’24, supported by easing in “Food and beverages” inflation to 5.68% in Jan’25 from 7.69% in Dec’24.

The moderation in food inflation is mainly due to seasonal easing in vegetable price inflation to 11.35% y-o-y in Jan’25 from 26.56% in Dec’24. Vegetable inflation alone averaged more than 25% y/y in 2024. Excluding vegetables, headline inflation would be 3.8% in Jan’25.

However, India continues to be a net importer of edible oils due to inadequate domestic production and its contribution to food inflation in January was 34.02%.

- Cereal prices eased to 6.24% y-o-y in Jan’25 compared to 6.51% y-o-y in Dec’24.
- Protein prices also eased to 3.47% y-o-y in Jan’25 compared to 3.88% in Dec’24.
- On the ‘fuel & light’ front, the disinflation trend continued with contraction of 1.38% y-o-y in Jan’25 compared to 1.33% in Dec’24. Expectations of additional supply from US could keep oil prices range-bound.
- Core inflation (CPI excl. food and fuel) on the other hand rose to 3.66% in Jan’25 (Prior: 3.58%), driven by rise in Housing price inflation and the Miscellaneous category. However, this is well below 4%.

Rural inflation eased to 4.64% in Jan’25 from 5.76% in Dec’24 and urban inflation eased to 3.87% in Jan’25 compared to 4.58% in Dec’24. Higher rural inflation can be attributed to higher weight for food as well as logistical and infrastructural constraints in rural areas.

Fig 1: CPI Inflation (% y-o-y)

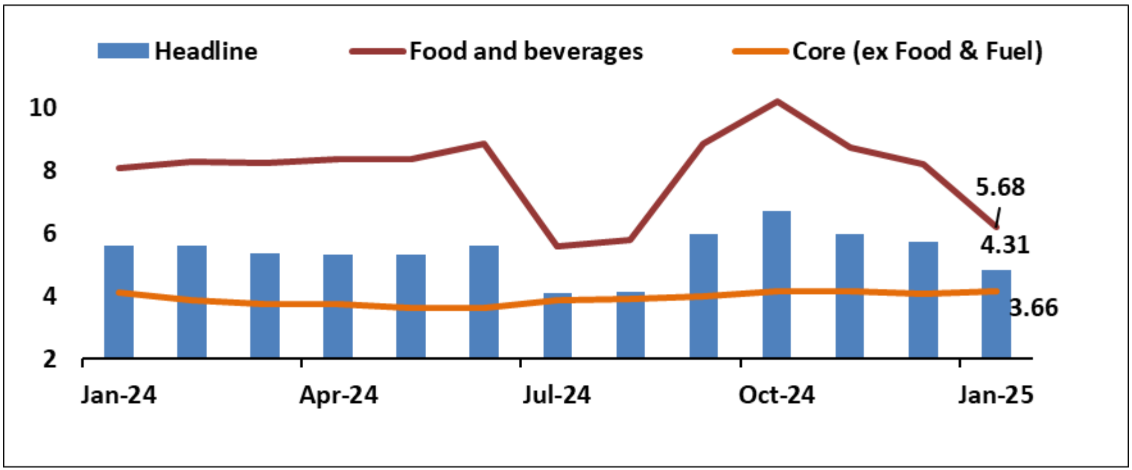
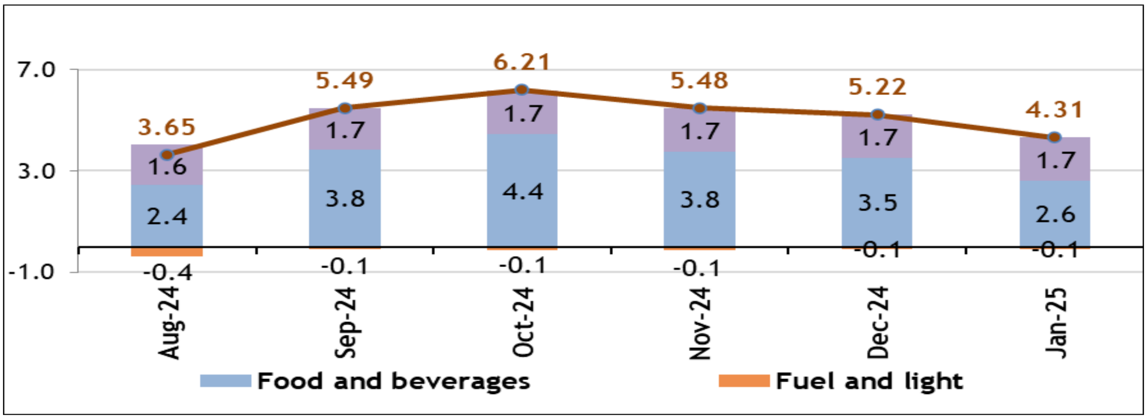


Fig 2: Contribution to Headline inflation



As shown in Fig 2 food inflation contributed 60.5% to the overall headline inflation for Jan'25 with fuel & light component contributing the remaining 39.5%.

Table 1: CPI Inflation (% y.o.y)

CPI Inflation (% y.o.y)					
	Weight	Jan-24	Nov-24	Dec-24	Jan-25
Headline	100	5.10	5.48	5.22	4.31
Food and beverages	46	7.58	8.20	7.69	5.68
Cereals and products	10	7.83	6.88	6.51	6.24
Protein	13	6.10	3.96	3.88	3.47
Fruits	3	8.59	7.68	8.60	12.22
Vegetables	6	27.10	29.33	26.56	11.35
Fuel and light	7	-0.60	-1.83	-1.33	-1.38
Core (ex Food & Fuel)	47	3.59	3.64	3.58	3.66
Pan, tobacco and intoxicants	2	3.28	2.35	2.49	2.30
Clothing and footwear	7	3.37	2.75	2.74	2.68
Housing	10	3.20	2.87	2.71	2.76
Miscellaneous	28	3.82	4.26	4.19	4.35
of which: Transport & Comm.	9	1.96	2.64	2.64	2.76

Fig 3: Statewise Retail inflation (y-o-y %)

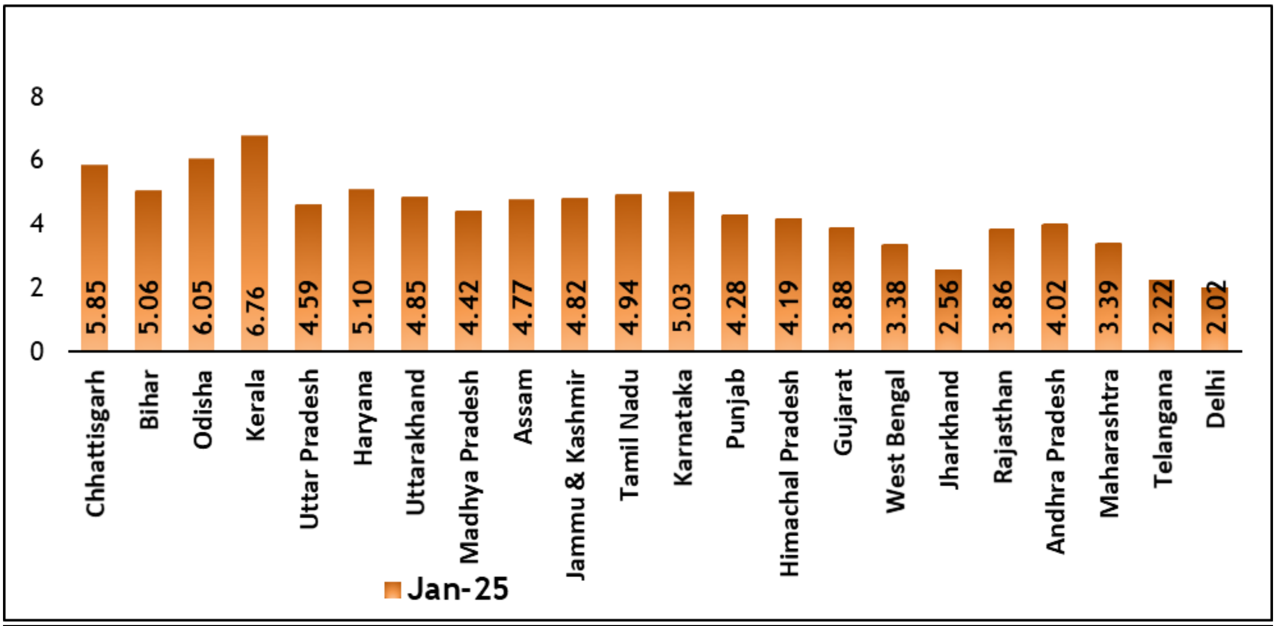
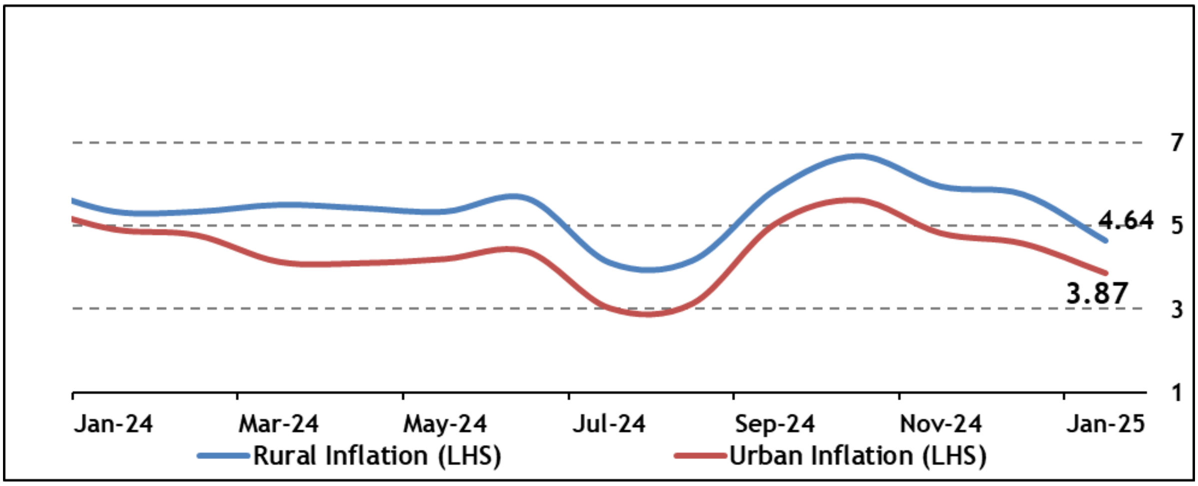


Fig 4: Rural and Urban inflation (%, y-o-y)



- Average CPI inflation for Q4FY25 is likely to be below 4.5%. This increases the odds of another 25-bps rate cut either in April or June MPC meeting.
- In a repo rate cut scenario, Repo linked loans will see further rate cuts and this could lower interest income for banks
- Deposit rates are expected to decline only slowly due to competition among banks to mobilize resources. However, small savings rates could be cut for better monetary policy transmission which augurs well for bank deposit growth. Slowdown in equity markets will also aid deposit growth.
- Bond market is not reflecting the fall in inflation because of the impact of liquidity tightness that has kept yields rigid. When liquidity increases, fall in inflation and rate cuts will be transmitted to bond market as well.
- The CPI inflation trajectory strengthens the outlook for a benign interest rate scenario.

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