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Macroeconomics | First cut

Further downtick

June 2025

Retail inflation drops further on the back of broad-based easing

The Consumer Price Index (CPI)-based inflation dropped to 2.8% in May, the lowest reading since February 2019, from 3.2% in April as food inflation continued to decline.

Fuel and core inflation also softened.

Food inflation fell to 1%, the lowest since October 2021, from 1.8% in April. Fuel inflation reversed trend and eased marginally to 2.8% from 2.9%.

Core inflation eased to 4.18% from 4.23% in April. Core inflation remained below its trend level (measured by the decadal average[1]) of 4.9%.

Among food items, pulses, vegetables and spices saw deflation, while cereals recorded lower inflation. According to Crisil Intelligence — Research's Thali Index released last week, the cost of both vegetarian and non-vegetarian thalis in May fell ~6% each on-year largely due to lower vegetable prices.

The Ministry of Agriculture's Third Advance Estimates has indicated a robust rabi harvest with record wheat production. The India Meteorological Department (IMD) has forecast above-normal monsoon of 106% of the long period average (LPA). The rains would have a positive impact on the upcoming kharif season. Both the above will keep food inflation in check this fiscal, provided there are no monsoon disruptions. Though the monsoon has lost some momentum in June, with all-India cumulative rainfall deficiency at 34% of LPA, it is the rains in July and August that matter the most for kharif crops.

On the energy front assuming no sustained impact of geopolitical tensions, Brent crude oil prices are projected to remain subdued, ranging between $65 and $70 per barrel in the current calendar year, which should help contain non-food inflation.

Given the current inflation trajectory, we expect headline inflation to average 4% this fiscal, from 4.6% last fiscal. Lower inflation keeps the window open for one more repo rate cut by the Reserve Bank of India (RBI) apart from the 100 basis points cut announced so far.

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[1] *Fiscal 2016-25 average*

Data highlights

- CPI inflation slowed to 2.8% in May from 3.2% in April
- Food inflation eased significantly to 1% from 1.8% in April
- Fuel[2] inflation eased slightly to 2.8% from 2.9%
- Core CPI[3] inflation fell a tad to 4.18% from 4.23%

Food inflation dips further

- Food inflation dropped for the seventh straight month to 1%, the lowest reading since October 2021. Vegetables and foodgrains nudged the gauge lower. Sequentially, food prices were broadly stable, edging 0.1% lower on-month (seasonally adjusted)
- Vegetable inflation declined to -13.7% from -11% in the previous month, the lowest reading since December 2022. This was led by a sharp deflation in potato (-20.3% vs -12.7%), onion (-10.7% vs 2.8%) as well as tomato prices (-26.2% vs -33.3%). Vegetables excluding the above three also saw continued deflation (-11% vs -10.3%). Sequentially, vegetable prices were down by a seasonally adjusted 0.4% on-month
- Fruit inflation eased for the second consecutive month to 12.7% from 13.9%
- Inflation in foodgrains (pulses plus cereals) eased further to a 42-month low of 2% (vs 3.1% in April)
  - Deflation in pulses rose further to -8.2% (vs -5.2%) driven by a steeper decline in tur (-19.5% vs -14.3%) and moong (-4.0% vs -3.3%) prices
  - Cereals inflation eased to 4.8% from 5.3%, driven by rice (3.9% vs 4.5%) and wheat (6.4% vs 7.5%) from non-PDS sources
- Sugar inflation decelerated to 4.1% (vs 4.6%) after rising for the past five months
- However, some food categories resisted the overall downward trend in food inflation
  - Edible oils inflation, which has been a key pressure point for food inflation in the past few months, saw a moderate increase to 17.9% from 17.4%. The halving in basic customs duty on key crude edible oils to 10%, should provide some relief
  - On-year prices of spices continued to fall, but at a reduced pace, due to waning base effect (-2.8% vs -3.4%)

Fuel inflation declines slightly

- Fuel inflation declined slightly to 2.8% from 2.9%, led by easing inflation in electricity (the category with the highest weight in the fuel index) even as LPG inflation accelerated

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[2] Refers to CPI fuel and light
[3] CPI, excluding food and beverages, and fuel and light

- Electricity inflation fell significantly (2.8% vs 4.2%)
- LPG inflation inched up to 5.8% from 4.5% in the previous month driven by the price hike of Rs 50/cylinder effective April 8

Core inflation eases marginally

- Core inflation eased slightly to 4.18% from 4.23% previously, driven by slowing inflation in some key categories, even as inflation in others remained steady or rose
- Inflation in household goods and services declined significantly to 2% from 2.5% previously
- On the other hand, inflation in personal care and effects picked up significantly to 13.5% from 12.9% on the back of accelerating gold inflation (32.2% vs 30.9%)
- Transport and communication inflation rose slightly to 3.8% from 3.7%, driven by rising inflation in petrol (0.3% vs 0.1%), mobile phone charges (10.5% vs 10.3%) and bus or tram fare (2.5% vs 2.4%). Health inflation saw a marginal uptick as well, to 4.34% from 4.25%
- Inflation remained broadly unchanged in education (4.1%)

Inflation breather for the rural poor

The effect of inflation varies across income groups since the share of spending on food, fuel and core categories differs for classes. Essential items, such as food and fuel, take up a greater share of the consumption basket for lower-income households.

Inflation in April affected various income groups in urban and rural areas as follows:

- Rural inflation eased to 2.6% from 2.9% in April, while urban inflation inflation eased to 3.1% from 3.4%
- The richest segments (top 20%) in both rural and urban areas faced a higher burden than their poorer counterparts as core items (the category having the highest inflation rate in May) comprised a larger portion of their consumption baskets
- The poorer segments are now seeing a lower inflation rate than the richest, in contrast to the trend seen in fiscal 2025 (refer to the table below)

CPI inflation across income classes (% on-year)

Income segment	May		April		FY25	
	Rural	Urban	Rural	Urban	Rural	Urban
Top 20%	2.9	3.1	3.1	3.4	4.9	4.1
Middle 60%	2.5	2.8	2.8	3.1	5.1	4.4

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Bottom 20%	2.3	2.5	2.7	3.0	5.1	4.4

Note: With data from the National Sample Survey Organisation (NSSO), Crisil has mapped the expenditure baskets of three broad income groups — bottom 20%, middle 60% and upper 20% of the population — with inflation trends. The table presents the average inflation faced by each income class.

Source: NSSO, National Statistical Office, CEIC, Crisil

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