

Macroeconomics | **First cut**

Pouring a breather

August 2025

Food prices, core drive overall inflation slowdown

India's retail inflation rate has more than halved over the past year, slipping even below the lower end of the Reserve Bank of India's tolerance band (2%). It slid to 1.6% in July from 2.1% in June. A year ago, it stood at 3.6%. Food saw steeper deflation, while core inflation recorded a sharp decline as the impact of mobile tariff revision wore out.

Food inflation stood at -1.8%, the lowest since January 2019, further down from -1.1% in June. Healthy food production and ample foods stocks are aiding softer prices.

Core inflation, too, lent support, sharply falling to 3.9% from 4.4%, led by a substantial decrease in transport and communication inflation. Fuel inflation rose to 2.7% from 2.6%.

Deeper deflation in vegetables and pulses and easing cereal inflation provided a significant downward support. According to Crisil Intelligence's Thali Index, the cost of vegetarian and non-vegetarian thalis dropped 14% and ~13% on-year, respectively, owing to lower vegetable and broiler prices.

We expect headline inflation to average 3.5% this fiscal from 4.6% in the last. Healthy agricultural production is expected to keep food inflation in check. As of 8 August, kharif sowing is up a healthy 4.0% on-year and adequate soil moisture should benefit the rabi crop as well. Assuming geopolitical uncertainties remain under control, Brent crude oil prices are projected to remain subdued at \$60-65 per barrel in the current fiscal, which should help contain non-food inflation.

We expect another repo rate cut this fiscal. A cumulative cut of 100 basis points so far, along with adequate liquidity, has ensured a swift transmission downstream. The sharp fall in retail inflation should buoy household purchasing power, particularly in the lower income segments. The trend also creates room for further monetary policy easing, which should benefit the interest-sensitive consumption segments.

Highlights

- CPI inflation slowed to 1.6% in July from 2.1% in June
 - Food inflation eased further to -1.8% from -1.1%
-

-
- Core CPI¹ inflation cooled to 3.9% from 4.4%
 - Fuel² inflation, however, rose to 2.7% from 2.6%
-

Food inflation remains negative

- Food inflation remained negative for the second consecutive month with the pace of deflation deepening, given broad-based easing across almost all major categories. Sequentially, food prices inched up 0.1% on-month (seasonally adjusted)
- Deflation in vegetables deepened to -20.7% from -18.9%, the lowest since September 2021. This was led by sharper deflation in potato (-34.3% vs -25.3%), onion (-34.9% vs -26.6%) and tomato prices (-34.2% vs -31.5%). Vegetables, excluding the above three, also saw continued deflation (-10.7% vs -13.7%), albeit at a softer pace. That said, sequentially, vegetable prices rose by a seasonally adjusted 0.2% on-month.
- Inflation in foodgrains (pulses plus cereals) read -0.6% (vs 0.4%), driven by a downtick in both cereals and pulses
 - Cereals inflation decreased significantly to 3.0% from 3.7%, led by decline in rice (1.5% vs 2.6%) and wheat inflation (4.4% vs 5.4%) from non-public distribution system (PDS) sources
 - Deflation in pulses plunged to -13.8% (vs -11.8%), driven by a steeper decline in tur (-28.0% vs -25.1%) and moong (-5.4% vs -5.0%) prices
- Meat and fish inflation remained negative (-0.6% vs -1.6%) for the fourth month in a row
- Inflation also eased in sugar (3.3% vs 3.5%), spices (-3.1% vs -3.0%) and milk (2.7% vs 2.8%)
- On the other hand, some food categories resisted the overall downward momentum:
 - Edible oils inflation which saw a sharp and sustained rise over the past few months saw inflation accelerate to 19.2% in July (from 17.8% in June). The Food and Agricultural Organization's (FAO) Vegetable Oil Price Index shot up to a three-year high, indicating elevated global prices
 - Fruit inflation accelerated to 14.4% from 12.6%

Core inflation logs substantial decline

- Core inflation dropped to 3.9% from 4.4%, led by easing in transport and communication and education inflation even as other sub-categories registered an uptick
- Inflation in transport and communication dropped (2.1% vs 3.9%), led by a sharp easing of inflation in mobile tariffs (1.9% vs 10.6%) as the impact of the telecom tariff hikes of July 2024 has receded. Core inflation, excluding mobile tariffs, dropped at a more modest pace (4.0% vs 4.2%)
- Inflation eased in education (4.0% vs 4.4%), led by softening school and college tuition fees (4.9% vs 5.4%)

¹ CPI, excluding food and beverages, and fuel and light

² Refers to CPI fuel and light

- On the other hand, inflation picked up in personal care and effects (15.1% vs 14.8%), led by gold inflation remaining broadly steady at elevated levels (36.0% vs 35.9%). Core, excluding gold (a more reasonable metric to track the impact of demand-side factors) stood at 3.0% vs 3.4%
- Inflation picked up in health (4.6% vs 4.4%) and household goods and services (2.61% vs 2.56%)

Fuel inflation inches up

- Fuel inflation rose to 2.7% from 2.6%; inflation in firewood and chips saw a slight uptick (2.43% vs 2.37%), while there was easing in inflation in electricity (2.3% vs 2.6%) and liquified petroleum gas (6.0% vs 6.1%)

A breather for the rural low-income segments

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

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

- Rural inflation continued to ease to 1.2% in July from 1.7% in June, while urban inflation softened to 2.0% from 2.6%
- The highest-income segments (top 20%) in rural and urban areas faced a higher burden than their lower-income counterparts as core items (the category having the highest inflation rate in July) comprised a larger portion of their consumption baskets
- The lower-income segments in rural areas are seeing a much lower inflation rate than both their urban and/or higher-income counterparts (refer to the table below)

CPI inflation across income classes (% on-year)

Income segment	July		June		FY25	
	Rural	Urban	Rural	Urban	Rural	Urban
Top 20%	1.6	2.1	2.2	2.6	4.9	4.1
Middle 60%	1.0	1.4	1.5	2.0	5.1	4.4
Bottom 20%	0.8	1.0	1.3	1.6	5.1	4.4

Note: Using 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

