

Macroeconomics | **First cut**

A comforting CPI print

May 2025

Retail inflation tracks falling food prices

The Consumer Price Index (CPI)-based inflation eased to 3.2% in April, the lowest reading since July 2019.

The decline was driven by food inflation, which fell to 1.8%, the lowest since October 2021, from 2.7% in March.

According to Crisil Intelligence — Research's Thali Index released last week, the cost of both vegetarian and non-vegetarian thalis in April fell 4% on year, largely due to lower vegetable prices.

Non-food CPI inflation rose to a 20-month high of 4.1%, led by the fuel and light category, which saw inflation rise sharply due to the liquified petroleum gas (LPG) price hike by the government. Core inflation inched up 10 basis points to 4.2% in April but remained below its trend level (measured by the decadal average¹) of 4.9%.

A record rabi harvest and robust pulses output indicated by the Union Ministry of Agriculture's Second Advance Estimates, and the forecast of a favourable monsoon for the upcoming kharif season should keep food inflation in check this fiscal.

But it is important to remember that agricultural sector performance hinges not just on the volume of rainfall but also on its temporal and spatial distribution.

Climate change has disrupted traditional monsoon patterns, leading to more frequent instances of both excessive rainfall and dry spells. Additionally, the increasing occurrence of heatwaves poses a growing threat to agricultural productivity and, by extension, food inflation. These evolving conditions warrant close monitoring.

On the energy front, Brent crude oil prices are projected to remain subdued, averaging between \$65 and \$70 per barrel in the current fiscal year, which should help contain non-food inflation.

Given the current inflation trajectory, a further 25-basis point rate cut is expected in the Reserve Bank of India's monetary policy review in June.

Data highlights

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- CPI inflation slowed to 3.2% in April from 3.3% in March
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¹ Fiscal 2016-25 average

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- Food inflation eased to 1.8% from 2.7% in March
 - Fuel² inflation accelerated to 2.9% from 1.4%, a 20-month high
 - Core CPI³ inflation inched up to 4.2% from 4.1%
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Food inflation dips

- Food inflation dropped for the sixth straight month to a near six-year low of 1.8%. Sequentially, food prices were broadly stable, edging 0.1% lower (seasonally adjusted). Vegetables, fruits and foodgrains nudged the gauge lower
- Vegetable inflation declined to a 26-month low of -11% from -7% in the previous month led by easing inflation in onion (2.9% vs 19.3%) and potato (-12.4% vs 2.4%). Tomato inflation rose but remained deflationary (-33.2% vs -35%). Sequentially, vegetable prices were down by a seasonally adjusted 3%
- Inflation in foodgrains (pulses plus cereals) eased to a 40-month low of 3.1% (vs 4.1% in March)
 - Pulses inflation declined to -5.2% (vs -2.7%) driven by softening inflation in tur (-14.3% vs -9.8%) and moong (-3.3% vs -2.3%)
 - Cereals inflation eased to 5.3% from 5.9% driven by rice (4.5% vs 4.9%) and wheat (7.6% vs 9%) from non-PDS sources
- Fruits inflation eased to 13.8% from 16.3%, after surging for four consecutive months
- Edible oils inflation, which has been a key pressure point for food inflation in the last few months, saw a moderate increase to 17.4% from 17.1%.
- However, some food categories resisted the overall downward trend in food inflation
 - Sugar inflation rose to 4.6% (vs 3.9%), although, on a seasonally adjusted basis, the price rise was moderate
 - On-year prices of spices fell, but at a reduced pace, due to waning base effect (-3.4% vs -4.9%)

Fuel inflation rises sharply

- Fuel inflation rose to 2.9% from 1.4%, its highest reading since August 2023
- LPG inflation jumped to 4.2% from -2.4% in the previous month driven by the recent price hike of Rs 50/cylinder effective from April 8
- That said, a fall in electricity inflation (4.3% vs 5.4%), the category with the highest weight in the fuel index, capped the upside to fuel inflation

² Refers to CPI fuel and light

³ CPI, excluding food and beverages, and fuel and light

Core inflation inches up

- Core inflation hardened marginally to 4.2% from 4.1% driven by rising inflation in transport and communication and education
- Transport and communication inflation rose to 3.7% from 3.4%, driven by rising inflation in petrol (0.1% vs -0.8%)
- Inflation in education hardened to 4.1% from 4% driven by tuition and other fees (5% vs 4.8%)
- Inflation remained unchanged in other essentials such as health (4.3%) and housing (3%)
- Inflation in personal care and effects eased to 12.9% from 13.5% on the back of lower gold inflation (30.9% vs 34.1%)

The rural poor see the lowest inflation rate

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 2.9% from 3.2% in March, while urban inflation was steady at 3.4%
- The richest segments (top 20%) in both rural and urban areas face a higher burden than their poorer counterparts since core items (the category having the highest inflation rate in April) comprise a larger portion of their consumption baskets
- The poorer segments now see 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	April		March		FY25	
	Rural	Urban	Rural	Urban	Rural	Urban
Top 20%	3.1	3.4	3.4	3.4	4.9	4.1
Middle 60%	2.8	3.1	3.2	3.3	5.1	4.4
Bottom 20%	2.7	3.0	3.1	3.2	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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