

B2K Economy Bytes

CPI Inflation Trends May 2025

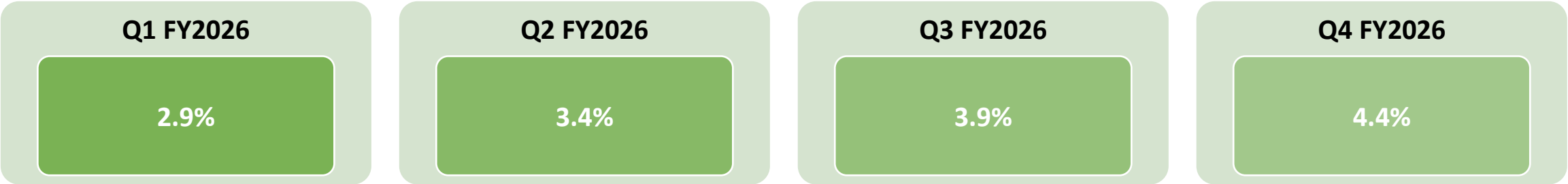


CPI Inflation at 75-month Low

May 2025: CPI inflation fell by 34 basis points over April to 2.82%, largely due to softening food prices and global commodity prices.

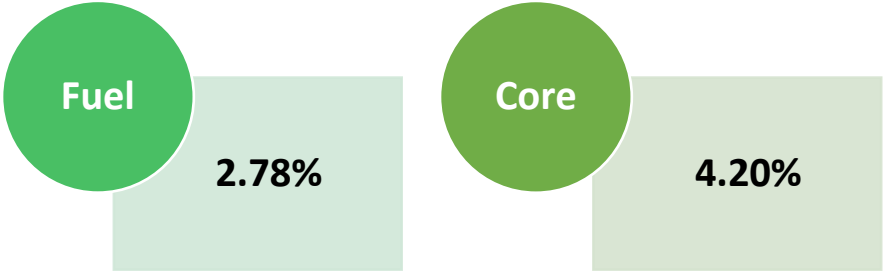
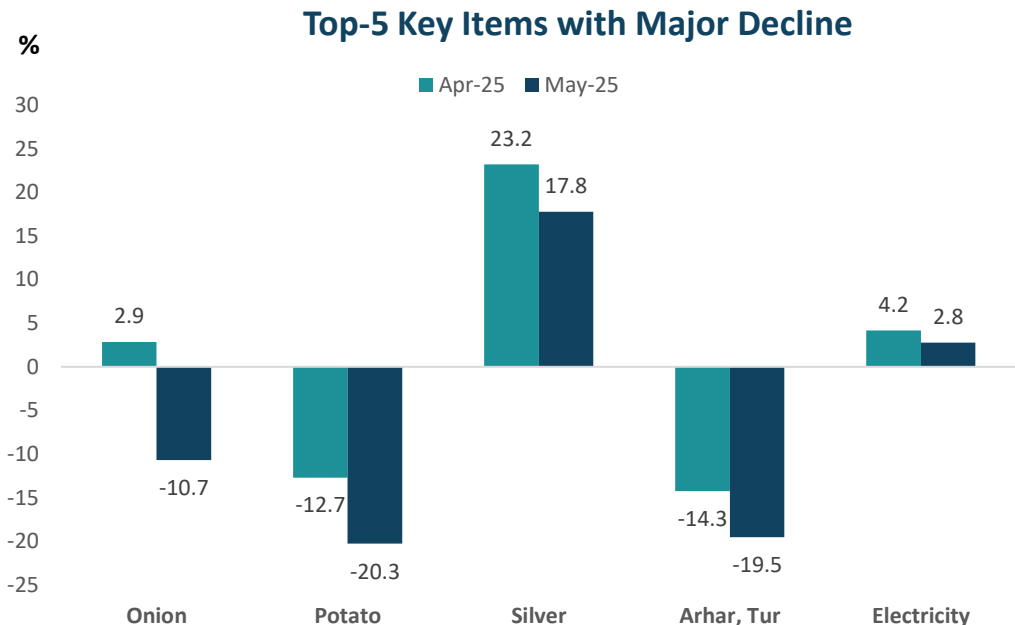
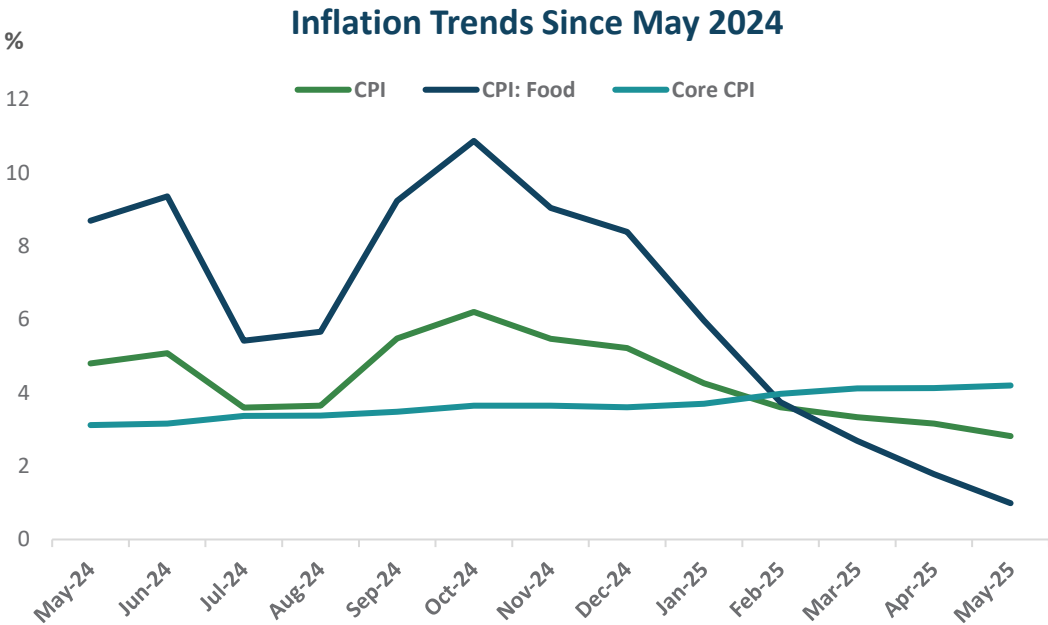


CPI Forecast by RBI: RBI lowered its annual CPI inflation estimates by 30 bps to **3.7% for FY2026** in its June MPC, which is well below the median target of 4%.



Note: Data for May 2025 is provisional, Source: RBI, Ministry of Statistics and Implementation (MoSPI)

Core Up, Food Down



Softening Food Prices Drive the Decline

CPI Inflation Rates -Year on Year Changes

CPI and Key Components	FY2025	Q1 FY2025	Q2 FY2025	Q3 FY2025	Q4 FY2025	Apr-25	May-25
Food and Beverages	6.71%	8.04%	6.23%	8.53%	4.13%	2.14%	1.50%
Pan; tobacco; and intoxicants	2.68%	3.03%	2.74%	2.45%	2.50%	2.08%	2.41%
Clothing and Footwear	2.72%	2.77%	2.70%	2.73%	2.66%	2.67%	2.67%
Housing	2.76%	2.65%	2.69%	2.80%	2.92%	3.06%	3.16%
Fuel and Light	-2.49%	-3.76%	-4.06%	-1.61%	-0.48%	2.92%	2.78%
Miscellaneous	4.10%	3.45%	3.93%	4.26%	4.73%	5.02%	5.06%
CPI: General	4.63%	4.91%	4.24%	5.63%	3.73%	3.16%	2.82%
CPI: Food	7.29%	8.92%	6.75%	9.43%	4.13%	1.78%	0.99%

- In May 2025, the CPI inflation rate reached its lowest level since February 2019. A sharp fall in food prices, particularly onions, potatoes, and arhar resulted in food inflation dropping below 1% levels, the lowest since November 2021.
- Among commodity group wise, inflation in pulses and products fell by -2.98% in May over April, followed by vegetables (-2.72%) and fruits (-1.17%).
- Core inflation remained firm at 4.2% moving slightly higher from April levels, while fuel inflation eased marginally in May.
- The first two months data for FY2026 aligns with the RBI's quarterly estimates of 2.9% for Q1FY2026.
- Easing inflationary pressures are conducive to the RBI's recent policy actions of reducing rates to support growth, while upside risks limit scope for further easing.
- We expect the inflation to increase moderately in the near term due to seasonal factors and remain below 4% in June 2025.

Key Factors Shaping Inflation Outlook

Potential Upsides

Any unfavourable weather conditions such as erratic, excess or deficient monsoon rainfall could adversely impact agriculture activities, reduce output and disrupt food supplies leading to higher food prices.

Recent increases in Minimum Support Prices (MSP) for major crops could raise procurement prices and stoke food inflation.

Escalation in tariffs or trade barriers could raise the cost of imported commodities, contributing to domestic inflation.

Prolonged or intensified geopolitical conflicts can disrupt global supply chains, leading to higher costs for imported goods such as crude oil and edible oil.

Frontloading of rate cuts- including 100 bps reduction in CRR and 50 bps cut in repo rate in June MPC meeting is aimed to boost liquidity in the banking system and increase credit demand in the economy. This could potentially lead to higher inflation.

Consumer spending and borrowing could receive a major boost in the coming months leading to a rise in core inflation which has remained steady and below 4% levels since December 2023.

Potential Downsides

Projection of an above-normal monsoon is favourable for the agriculture season, while record production in wheat and pulses in the Rabi season ensures adequate food supply, which is likely to keep food inflation benign.

Recent fall in international commodity prices, especially crude oil is expected to keep underlying price pressures subdued.

Slowdown in global growth and weak economic activity could dampen demand for commodities, resulting in lower input costs and further easing in prices.

Inflation expectations, particularly among rural households is likely to moderate further due to falling food inflation.

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The B2K team has experienced domain experts and industry practitioners who have provided such services and implemented solutions across institutions in different countries. As such, team members are experts in regulatory and management practices in these areas and have helped many clients in adopting best practices.

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