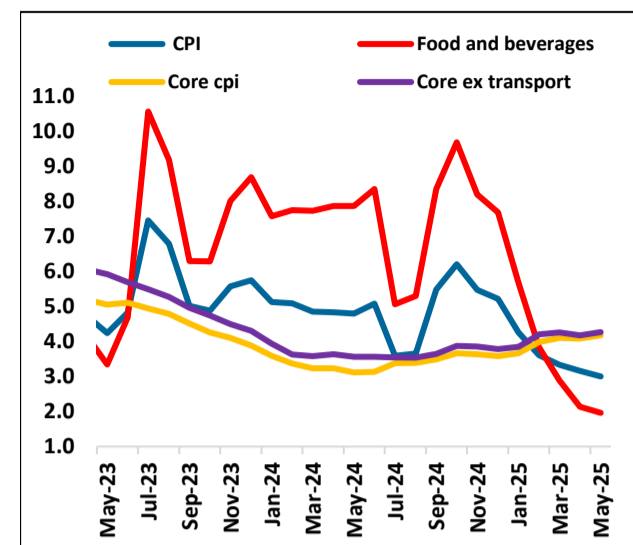
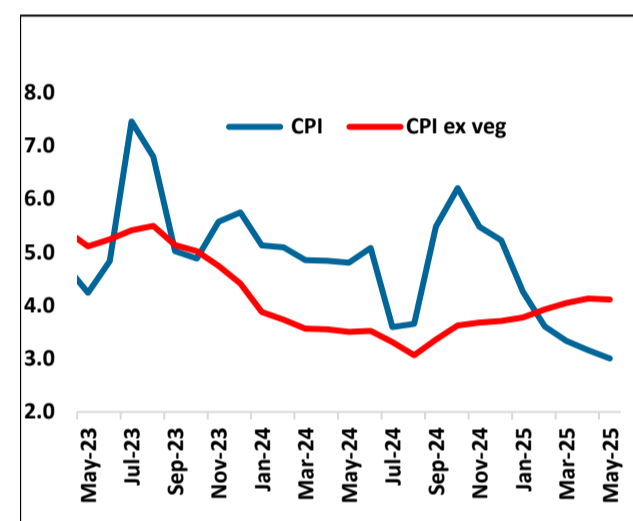


Fig 1: Moderation in headline CPI likely continued in May'25 while core CPI firms up; % y/y



Source: CEIC, UBI Research

Fig.2. CPI ex-veg inflation likely remained flat at 4.11% in May'25; % y/y



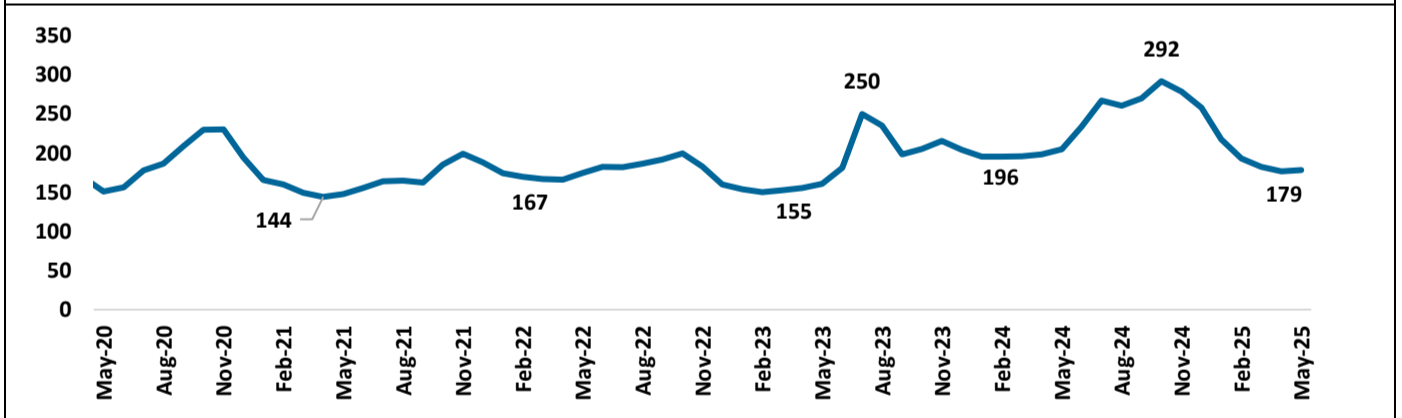
Source: CEIC, UBI Research

Note: Figures for May'25 are our projections

May'25 CPI likely clocked ~6 year low of 3.0% led by cooling cereals & pulses prices

- We estimate the headline inflation to continue to moderate to 3.0% in May'25 vs 3.16% last month mainly due to sequential moderation in prices of cereals and pulses even as most other segments started to strengthen. CPI ex-veg remained flat at 4.11% while core CPI inched up to 4.18% mainly due to unfavourable base effect (refer fig.1). That said, subdued demand pressures and contained commodity prices (except precious metals) is likely to keep core inflation in check. Core ex-gold CPI likely remained sharply lower at 3.4% even as it inched up from 3.3% in April.
- As per Ministry of Agriculture & Farmers Welfare, the area sown under rice, pulses and oilseeds this year as on 30.05.2024 is up by 15.5%, 13% and 2.4% respectively y/y and indicates that summer sowing has started on a positive note. Total area sown is 83.93 lakh hectare as against 74.72 lakh hectare last year. IMD has given a forecast of above normal rainfall for 2025 southwest monsoon. More importantly, we will watch for monsoon distribution (spatial & temporal) in order to assess impact on crop sowing, supply and food inflation.
- Food inflation which was 7.9% in May'24 and 2.14% in April'25 is expected to ease further to 1.96% in May'25 partly on back of high base effect, especially in vegetables inflation (27.4% in May'24) and partly due to softening cereals and pulses prices during the month. Y/y vegetable inflation in May likely fell to -12.63% this year with vegetables index at 179 (refer fig.3) though sequentially, m/m vegetables inflation possibly moved up for the first time after consistently falling for 6 months (our estimate: 1.35%). Y/y Cereals inflation too is expected to see a fall from 8.7% in May last year to 4.95% in May this year. Sequentially, cereals, pulses and spices inflation remained in the negative zone m/m though eggs inflation likely turned positive. On-the-ground prices of most food segments though continue to slide but the pace of correction is losing ground (refer fig.4). CPI ex-vegetables is seen flat at 4.11% in May (4.13% in April) (refer fig.2).
- Additionally, the contained MSP hike at -5.1%, lower than the range of 7-8% seen in last 3 years, is in line with our forecast of CPI inflation easing to -4% in FY26 (with sharp downside risks) from 4.6% in FY25. Crop-wise, highest YoY increase is seen in Ragi (13.9%) followed by Jowar (9.6%) and Niger seed (9.4%) followed by pulses like Tur receiving 6% hike. Meanwhile, cereals specifically paddy (-5% CPI weight) saw a subdued 3% price hike, thereby signaling that the government's MSP policy is in line with their objective to support lower food inflation.

Fig 3: Vegetables index remains almost flat even as the food CPI sees further softening



Sources: CEIC, UBI research

Note: Figures for May'25 are our projections

Fig 4: On the ground food prices still on slide though at a slower pace

% Change in Price (m/m)	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Cereals	0.20	0.64	-0.40	-1.67	-0.42	0.55	0.82	-0.32	-0.17	0.02	-0.03	-0.94	-0.55
Pulses	1.67	2.56	1.86	-1.09	-0.59	0.02	-0.24	-1.47	-2.37	-4.02	-2.95	-2.18	-1.44
Oils	-0.13	0.49	-0.14	-1.92	1.73	8.53	3.59	1.06	0.09	0.18	0.32	0.28	0.22
Vegetables*	4.06	16.61	29.43	-7.09	0.42	13.52	-4.03	-8.58	-22.87	-15.48	-6.38	-5.80	0.07
Milk	0.07	0.55	0.34	0.02	-0.89	0.09	-0.02	0.22	-0.24	-0.60	-0.02	0.58	0.41
Sugar	0.54	0.49	0.18	-0.09	-0.25	0.40	0.11	-0.53	-0.13	1.05	0.91	0.40	0.28

*OPT (Onion, potato & tomato)

Source: MCA

- Noticeably, core inflation likely firmed up further to 4.18% in the month of May vis-à-vis 4.09% in April and 3.12% in May last year (refer fig.1). Gold prices during the month have increased by almost 1.35% leading the personal care inflation to 12.78% as against 7.67% last year and 12.9% last month. Interestingly, Core ex-gold also firmed up to 3.4% from 3.3% last month. Likewise, core ex-transport has inched up to 4.27% in May from 4.18% in April.
- In the coming months, the focus is likely to remain on the spatial and temporal distribution of monsoon which will be a key driver of food inflation. Apart from this, the spillover impact of geopolitical tensions along with seasonal uptick in food prices pose mild upside risk to our forecast of 3% (vis-à-vis April MPC's forecast of 3.6%) inflation in Q1FY26. That said, downside risk remains to our -4% CPI forecast for full year FY26, with consensus aligning towards 3.5-3.8% range, yet we would like to watch for monsoon distribution and impact on food inflation before revising our numbers as the latter has played spoilsport in inflation dynamics in recent years.

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