India: May’25 CPI cools to sub 3% and validates front loading of rate cut

12th June 2025

Fig 1: CPI fell sharply to 2.82% in May’25; % y/y

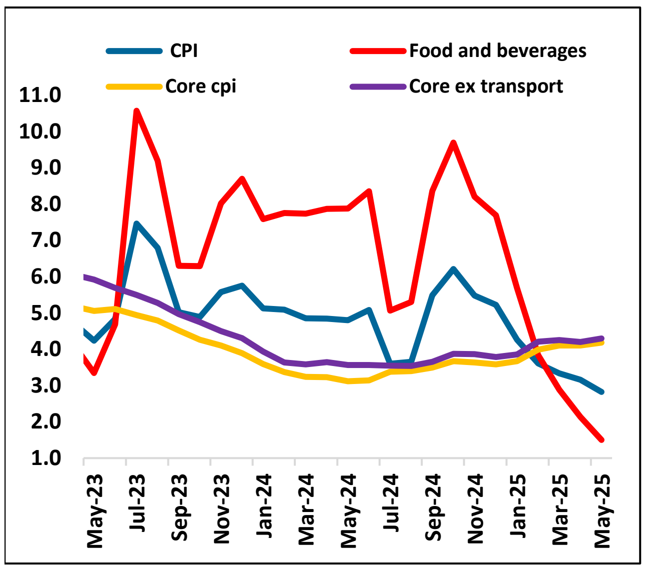


Fig 2: CPI ex-veggies too fell to 4% in May’25; % y/y

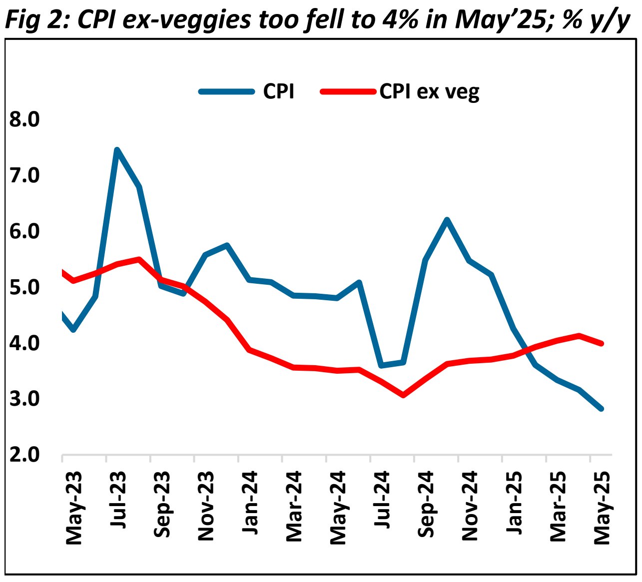
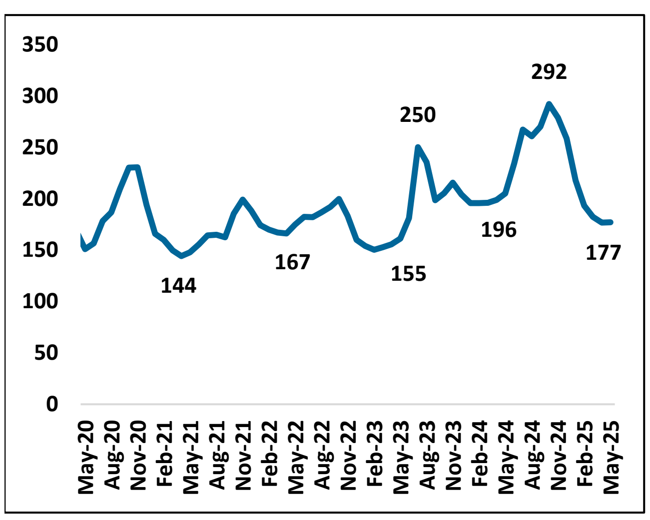


Fig 3: Vegetable Index remained flat in May after slipping to 23-month lows in April’25



Source: CEIC, UBI Research

May’25 CPI cooled more than expected to 2.82%, lowest since April’19

The Consumer Prices Index (CPI) inflation for the month of May’25 has fallen sharply to 2.82%, its lowest level since April’19, vis-à-vis 3.16% in April’25 and much below our as well as consensus estimate (*pl refer our CPI data preview*). The key source of data surprise has come from sharper than expected cooling in food inflation especially cereals and pulses while vegetables inflation has seen a first uptick after six months of continued correction. Core CPI has however edged up to 4.18% in line with our projection from 4.10% in April’25 *(refer fig 1)*. Fuel CPI is almost flat at 2.8% vis-à-vis 2.9% in April. CPI excluding vegetables inflation is back to 4% levels from 4.13% last month (*refer fig 2*).

Food inflation fell to ~6 years low of 1.5%

The fall in headline inflation has been led by a significant moderation in food inflation which has fallen to the lows of 1.5% y/y after a gap of 72 months having seen a recent peak of 9.7% in October’24. The crusade against inflation is now led by cereals and pulses inflation (m/m) as against vegetables inflation earlier which saw an uptick after 6 months of consistent slide. The inflation rate for cereals has reached a 39-month low of 4.77% y/y, whereas the pulses CPI continues to be in negative zone and has fallen to its lowest since Sept’18 to -8.22%. The fall in cereals specially is driven by the undisrupted supply of food grains in the market coupled with ample stock of rice and wheat with the govt. The rice and wheat stocks with govt as of May’25 is 38 million ton (MT) and 36.9 MT respectively, 23% and 17% higher respectively than same period last year (*refer fig 5*). On-the-ground prices collected from the Department of Consumer Affairs also indicate the continued falling trend in the first fortnight of June in cereals and pulses prices and strengthening of vegetables prices (*refer fig 4)*. However, in May, the vegetable index remained flat at 177 (*refer fig 3*) even as m/m vegetables inflation has gone up from -3.02% in April to 0.11% in May. Sequentially, inflation in segments like meat & fish, eggs, milk, edible oils, vegetables, sugar, non- alcoholic beverages and prepared meals has risen, while categories such as cereals, fruits, pulses and spices have moderated m/m.

Import duty on edible oils has been reduced by the government on 30th May 2025 from 20% to 10% which is expected to be passed on to the retail consumer and thus correct the retail prices of edible oils in next few weeks. Besides, monsoon has hit Kerala five days ahead of the normal and has since advanced to many parts of the country. During May, the country received 106% more than the LPA rainfall and for June, IMD has predicted monsoon to be in active phase though heatwave conditions are also likely to continue over northwest India in the first half of the month. Above normal rainfall for the season coupled with slashed import duty on edible oils bode well for the food inflation in coming months. However, risks remain from any weather disruption (floods / drought) which may result in an adverse inflation scenario.

Fig 4: On-the-ground food prices show mixed trend in different segments

% Change in Price (m/m)	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25**
Cereals	0.64	-0.40	-1.67	-0.42	0.55	0.82	-0.32	-0.17	0.02	-0.03	-0.94	-0.55	-0.01
Pulses	2.56	1.86	-1.09	-0.59	0.02	-0.24	-1.47	-2.37	-4.02	-2.95	-2.18	-1.44	-1.00
Oils	0.49	-0.14	-1.92	1.73	8.53	3.59	1.06	0.09	0.18	0.32	0.28	0.22	0.42
Vegetables*	16.61	29.43	-7.09	0.42	13.52	-4.03	-8.58	-22.87	-15.48	-6.38	-5.80	0.07	5.28
Milk	0.55	0.34	0.02	-0.89	0.09	-0.02	0.22	-0.24	-0.60	-0.02	0.58	0.41	0.22
Sugar	0.49	0.18	-0.09	-0.25	0.40	0.11	-0.53	-0.13	1.05	0.91	0.40	0.28	0.09

OPT (Onion, Potato & tomato)* * till 11th June’25* *Source: MCA*

Core inflation edged up as expected

Uncertainty over global tariffs and geo-political tensions have contributed to the sharp rally in gold prices during the past 12 months giving a return of almost 30% y/y. This rally has been instrumental in pulling up the core inflation in recent months: core inflation has gone up by almost 106 bps from 3.12% in May’24 to 4.18% in May’25. Interestingly, core-ex gold has continued to remain flat at 3.3% (*refer fig 6)*. Core CPI ex-transport is at 4.29% vis-à-vis 4.20% in April’25. Personal care inflation has gone up from 12.95% in April to 13.5% in May (*refer fig.7*).

In its June’25 MPC meeting, FY26 inflation forecast was revised downward by 30bps to 3.7%. While we acknowledge rising downside risks to our 4% CPI forecast for FY26, we are closely watching monsoon distribution (spatial & temporal) and its impact on food inflation as the latter has played spoilsport in inflation dynamics in recent years. With frontloaded policy boost of 50bps repo rate cut and 100 bps CRR cut, we retain our call on terminal repo rate of 5.5% which was affirmed by the shift in policy stance back from “accommodative” to “neutral”.

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Fig 5: Wheat and Rice stocks remain adequate thereby providing inflation cushion (million tonnes)

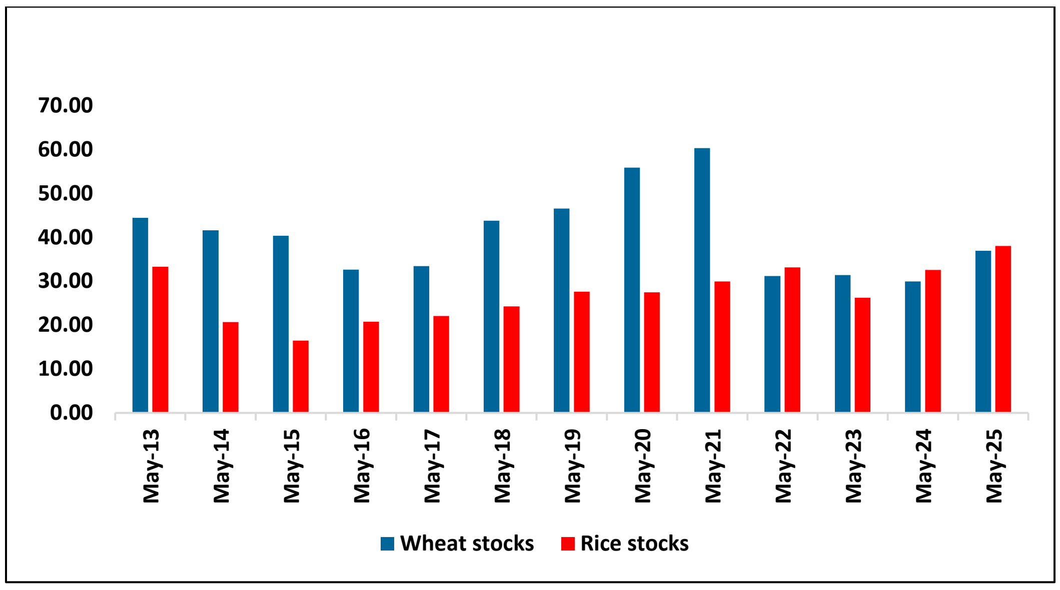

Fig 6: Most of the core CPI sub-segments still remain close to or sub 5% except for personal care, % y/y

% y/y	Pan; tobacco; and intoxicants	Clothing	Footwear	Housing	Household goods and services	Health	Transport and comm.	Recreation and amusement	Education	Personal care and effects
May-24	3.03	2.83	2.17	2.56	2.51	4.20	0.97	2.57	4.07	7.67
Jun-24	3.08	2.77	2.05	2.69	2.39	4.13	0.97	2.33	3.57	8.23
Jul-24	3.02	2.76	1.99	2.68	2.33	4.06	2.60	2.20	3.54	8.44
Aug-24	2.71	2.75	2.10	2.66	2.43	4.10	2.71	2.37	3.85	8.00
Sep-24	2.51	2.80	1.98	2.72	2.55	4.09	2.71	2.37	3.79	9.00
Oct-24	2.50	2.79	2.15	2.81	2.65	3.96	2.77	2.42	3.90	10.99
Nov-24	2.35	2.78	2.20	2.87	2.82	4.01	2.70	2.65	3.89	10.42
Dec-24	2.49	2.83	2.08	2.71	2.81	4.05	2.64	2.70	3.95	9.76
Jan-25	2.30	2.72	2.08	2.82	2.86	3.97	2.76	2.69	3.83	10.63
Feb-25	2.44	2.77	2.02	2.91	2.80	4.12	2.93	2.69	3.83	13.63
Mar-25	2.48	2.71	1.96	3.03	2.68	4.26	3.36	2.46	3.98	13.50
Apr-25	2.08	2.70	2.07	3.06	2.51	4.25	3.67	2.51	4.13	12.95
May-25	2.41	2.80	2.18	3.16	2.00	4.34	3.85	2.45	4.12	13.49

Fig 7: Core CPI edged up to 4.18% even as core ex-gold CPI remained flat at 3.3%, % y/y

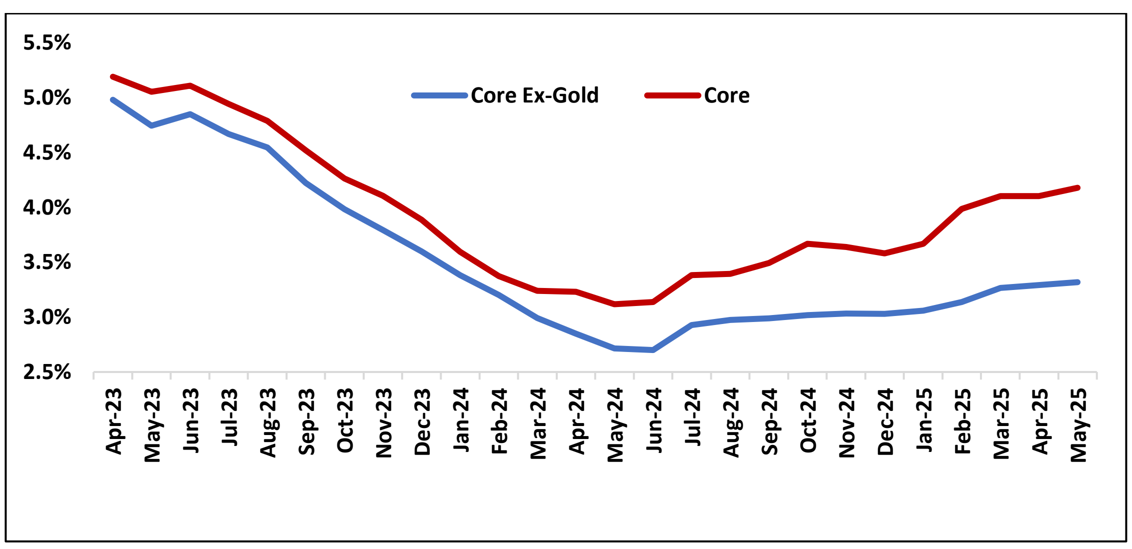

Fig 8: Headline CPI fell sharply to 2.82% y/y in May'25

% Y/y	Headline CPI	o/w Food & Beverages	Cereals	Pulses	Vegetables	Fuel	Core
Apr-24	4.8	7.9	8.6	16.8	27.8	-4.0	3.2
May-24	4.8	7.9	8.7	17.1	27.4	-3.7	3.1
Jun-24	5.1	8.4	8.8	16.1	29.3	-3.6	3.1
Jul-24	3.6	5.1	8.1	14.8	6.8	-5.5	3.4
Aug-24	3.7	5.3	7.3	13.6	10.7	-5.3	3.4
Sep-24	5.5	8.4	6.8	9.8	36.0	-1.3	3.5
Oct-24	6.2	9.7	6.9	7.4	42.2	-1.7	3.7
Nov-24	5.5	8.2	6.9	5.4	29.4	-1.8	3.6
Dec-24	5.2	7.7	6.5	3.8	26.6	-1.3	3.6
Jan-25	4.3	5.7	6.2	2.5	11.3	-1.5	3.7
Feb-25	3.6	3.8	6.1	-0.3	-1.1	-1.3	4.0
Mar-25	3.3	2.9	5.9	-2.7	-7.0	1.4	4.1
Apr-25	3.16	2.14	5.35	-5.23	-10.98	2.92	4.10
May-25	**2.82**	**1.50**	**4.77**	**-8.22**	**-13.70**	**2.78**	**4.18**

Source: CEIC, UBI Research

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