India: August'25 CPI clocks below expectations; Next print seen easing to sub 2% opening door for further rate cut(s)

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Fig 1: CPI increases to 2.07% in August'25; % y/y

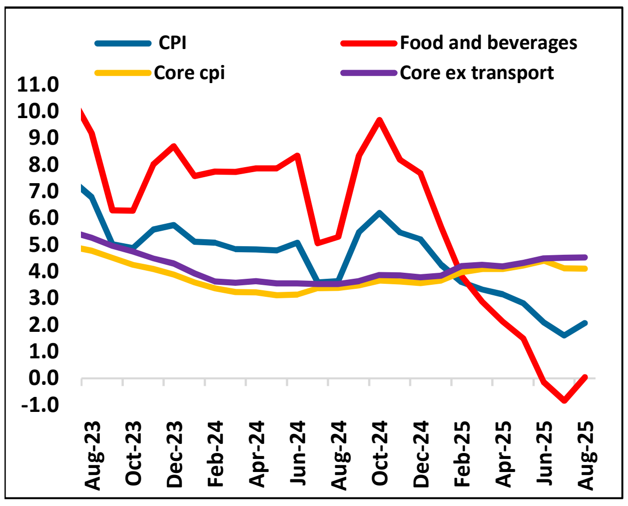

Fig 2: CPI ex-veggies remains almost flat at 3.7% in August'25; % y/y

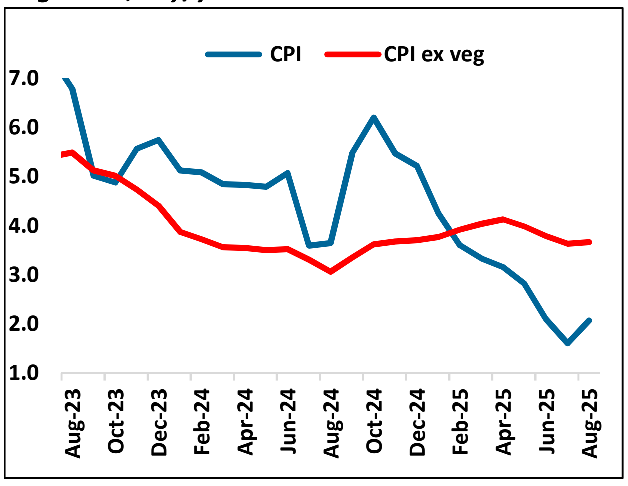

Fig 3: Rainfall surplus continues to be satisfactory; rainfall deviation (cumulative from 1st June, % of long period avg)

	11-Sep-24	31-Jul-25	31-Aug-25	11-Sep-25
All India	8	6	6	8
N. West India	4	21	27	34
Central India	19	23	9	11
South India	25	-2	9	7
East & N. East India	-16	-22	-18	-20

Fig 4: Flood like situation in some parts of the country may be a cause of concern; rainfall deviation (cumulative from 1st June, % of long period avg)

States	11-Sep-25
Rajasthan (Pulses, Coarse Cereals, Oil seeds)	71
Punjab (Wheat, Rice, Cotton)	53
Haryana (Wheat, Rice, coarse Cereals)	44
Gujarat (Oil seeds, Cotton, Pulses)	29
Madhya Pradesh (Rice, Pulses, Coarse Cereals, Oil seed)	22
Telangana (Rice, Cotton, Pulses, Cotton)	20
Karnataka (Pulses, Coarse Cereals)	13
Maharashtra (Pulses, Coarse Cereals, Oil Seeds, Sugarcane, Cotton)	7
Andhra Pradesh (Rice)	4
West Bengal (Rice, Pulses, Potatoes, Oilseeds, Wheat)	1
Tamilnadu (Rice, Pulses)	0
Uttar Pradesh (Wheat, Rice, Pulses, Coarse Cereals, Sugarcane)	-2
Chhattisgarh (Rice, Wheat, Coarse Cereals)	-2
Odisha (Rice, Pulses, Coarse Cereals, Cotton, Potato, Oilseeds)	-4
Bihar (wheat, Rice)	-31

Source: CEIC, UBI Research

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August'25 CPI recovers as expected from July lows on increasing food prices

The Consumer Prices Index (CPI) inflation for the month of August'25 spiked from July'25 low of 1.61% (revised) to 2.07% but much below our expectation of 2.54% (*pl refer our CPI preview*) vis-à-vis consensus estimate of 2.1%. The main driver of the spike was increase in food prices especially vegetables, though the increase was lower than expected. Food inflation has edged up to slightly positive zone while clocking 0.05% as against -0.84% in July'25 and core CPI has remained almost flat at 4.11% from 4.13% in July (*pl refer fig 1*) despite increase in gold prices during the month; core-ex-gold CPI however, has slipped to 3.03% from last month's 3.15%.

Monsoon surplus has picked up again during the month of September till date clocking 8% as on 11th Sept from 6% as of end August (*pl refer fig 3*). However, spatial distribution remains uneven with north western region maintaining a surplus of 34% and south India 7% while eastern region is still in a deficit of 20%. Crop sowing though has progressed satisfactorily so far with overall gain of 2% led by coarse cereals (7%), rice (5%), sugar (3%) and pulses (2%). Sowing in both oilseeds and cotton is still 3% below last year. Main crop producing states of North Indian region Rajasthan, Punjab and Haryana are grappling with extreme floods (*pl refer fig 4*) with Rajasthan recording a rain surplus of 71% over the long period average (LPA). We are closely watching the progress of monsoon and its distribution (spatial as well as temporal) as still one month of monsoon is pending for any unfavourable impact on food inflation and our projections.

Food inflation inches up after clocking a multi-year low last month

Y/y food inflation went up from -0.84% last month to 0.05% in August'25 vis-à-vis 5.3% in August'24. The jump is attributed to strengthening food prices across most of the sub-segments during the month though seasonal sharp spikes are still missing this year especially in pulses. Pulses inflation made a 90-month low of -14.53% as against -13.8% in July, seven straight months of being in negative zone and is further expected to continue to be in deflation for the next couple of months. Sequentially, pulses, meat & fish, eggs and spices segments stayed in deflation while all other food segments recorded increase during the month. For the month of September so far, OTG (on the ground) prices as collected from the Department of Consumer Affairs indicate mix price trends (*pl refer fig.5*), specifically, tomato prices show good correction of 13% from August levels. Y/y vegetables inflation has stayed in deflationary zone at -15.92% as against -20.65% in July, with vegetable prices continuing to lag historical trends as m/m vegetables inflation has clocked 3.35% vis-à-vis 11.69% last month. CPI ex-veggies however, has remained almost flat at 3.7% from 3.6% last month (*refer fig 2*). The vegetables index has gone up to 219 levels, slightly up from July reading of 212. Cereals inflation y/y has dropped to a 44-month low of 2.7% even as OTG prices of cereals have slightly risen during the month of August.

Fig 5: On-the-ground food prices, show mix trends across segments with vegetables again on a slide; %, m/m

% Change in Price (m/m)	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25*
Cereals	0.55	0.82	-0.32	-0.17	0.02	-0.03	-0.94	-0.55	0.09	0.23	0.26	0.37
Pulses	0.02	-0.24	-1.47	-2.37	-4.02	-2.95	-2.18	-1.44	-1.35	-1.21	-0.77	-0.60
Oils	8.53	3.59	1.06	0.09	0.18	0.32	0.28	0.22	0.66	1.77	2.47	0.52
Vegetables*	13.52	-4.03	-8.58	-22.87	-15.48	-6.38	-5.80	0.07	10.46	11.95	9.30	-6.07
Milk	0.09	-0.02	0.22	-0.24	-0.60	-0.02	0.58	0.41	0.05	0.12	0.05	0.24
Sugar	0.40	0.11	-0.53	-0.13	1.05	0.91	0.40	0.28	0.13	0.09	0.57	0.39

**OPT (Onion, Potato & tomato)* *Source: MCA*

*** till 11th September'25*

Core inflation almost unchanged

Core inflation remained almost unchanged from 4.13% in July to 4.11% in August vis-à-vis our projection of 4.25% and 3.4% in August'24 despite a good increase in gold prices during the month which drove personal care inflation from 15.12% in July to an all-time high of 16.61% in August (*refer fig 6*). More importantly, core-ex-gold has edged down from 3.15% last month to 3.03% in August (*refer fig 7*) indicating gold is the prime factor keeping core CPI at relatively higher levels.

We hold onto our call of token 25-50bps rate cut(s) in H2-FY26 the final leg of the policy easing cycle. The tentative timing expected is October or possible delay till December if the MPC intends to assess clearly the inflation impact of GST (as it kicks in from October CPI print due in November) and other risks like weather disruptions (impact of floods on food inflation) among others. While the inflation impact of GST reform may be one-off, we have maintained our view that the inflation numbers are already trailing MPC's projections for coming qtrs. by 30-50bps (excluding GST impact), with a worsening growth outlook seen post frontload in Q1. That said, we estimate a direct impact of GST reforms on inflation of ~130 bps. However, we see only partial passthrough with inflation impact seen at ~60bps *(our conservative estimate for change in annual CPI assuming anti-profiteering steps are effective)*.

Fig 6: Personal care CPI at all time high even as all other core CPI sub-segments still sub 5%; % 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
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	2.75	2.18	3.16	2.51	4.34	3.85	2.45	4.12	13.54
Jun-25	2.41	2.64	2.23	3.18	2.56	4.38	3.90	2.50	4.37	14.81
Jul-25	2.45	2.58	2.17	3.17	2.61	4.57	2.12	2.38	4.11	15.12
Aug-25	2.49	2.42	2.00	3.09	2.54	4.40	1.94	2.20	3.60	16.61

Fig 7: Core CPI almost flat at 4.1% while core ex-gold cools down to 3.03%, % y/y

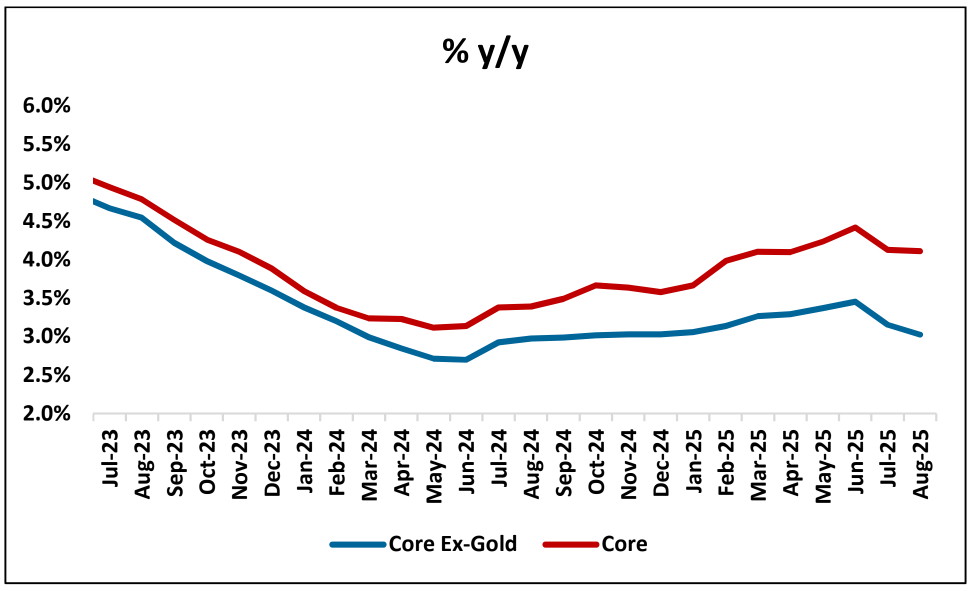

Fig 8: Headline CPI inches up to 2.07% y/y in August'25

% 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	3.2	2.1	5.3	-5.2	-11.0	2.9	4.1
May-25	2.8	1.5	4.8	-8.2	-13.7	2.8	4.2
Jun-25	2.1	-0.2	3.7	-11.8	-18.9	2.6	4.4
Jul-25	1.61	-0.84	3.03	-13.76	-20.65	2.67	4.13
Aug-25	**2.07**	**0.05**	**2.70**	**-14.53**	**-15.92**	**2.43**	**4.11**

Source: CEIC, UBI Research

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