

Inflation seen trending lower

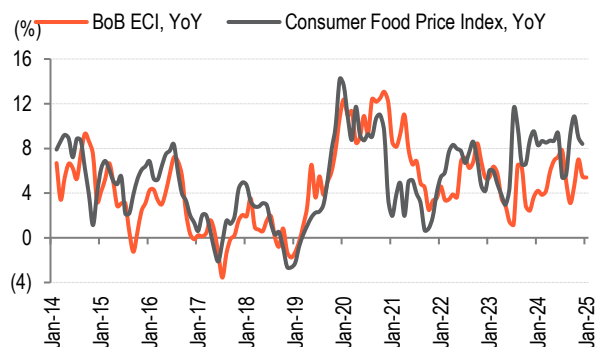
BoB's Essential Commodity Index (ECI) exhibited a further downward momentum in Jan'25, dipping to 4% on a YoY basis, moderating from 5.4% in Dec'24. On a sequential basis, the index declined sharply by 2.4%, after a fall of 0.5% in Dec'24. The decline was largely led by lower prices of vegetables, with tomato, onion and potato prices declining steeply. Edible oil prices were also lower. We thus expect a significant moderation in headline CPI in Jan'25. CPI inflation is expected in the range of 4.5-4.7%. The inflation outlook is evolving broadly in line with estimates, with significant support stemming from easing prices of vegetables. Global prices of edible oils too have softened, which is positive for domestic inflation trajectory. Prospects of higher production due to improvements in sowing of pulses (up by 2.3%) and wheat (up by 2.8%) in the ongoing rabi season, bodes well for domestic availability of these crops. Recent announcements in the Budget targeted at easing the supply-side issues related to oilseeds, pulses and vegetables and fruits should aid in preventing the sporadic food-price shocks which tend to unhinge the inflation outcome.

For detailed methodology please refer to our [previous edition](#) of BoB ECI.

Price picture using BoB Essential Commodity Index:

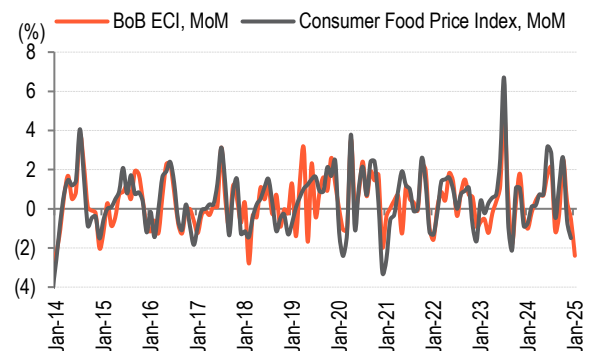
- In Jan'25, BoB ECI showed a considerable moderation on both YoY and MoM basis. On a YoY basis, BoB ECI decelerated to a 6-month low of 4%, marking a significant correction from 5.4% in Dec'24. Out of the 20 commodities in the index, 14 commodities noted price increase of below 4%. Amongst major items, prices of vegetables continued to trend lower. Within the TOP (Tomato, Onion and Potato) vegetables, prices of tomato declined by 5.3%, compared with a 22.4% increase in Dec'24. Potato prices also eased to 34.8% in Jan'25 after increasing by an average rate of over 50% in the last 6 months. However, onion prices showed an uptick and rose by 3.2%, after declining in the last two-months. This can be explained by a negative base effect. Similarly, prices of edible oils also saw some upward momentum due to an adverse base effect.

Figure 1: On YoY basis, BoB ECI moderated to 4% in Jan'25 from 5.4% in Dec'24



Source: CMIE, Bank of Baroda Research

Figure 2: On MoM basis, it declined by 2.4% compared with a decline of 0.5% in Dec'24



Source: CMIE, Bank of Baroda Research

- On a sequential basis, BoB ECI declined by 2.4%, marking the sharpest pace of decline in the index since Feb'18. This followed a drop of 0.5% in the index in Dec'24. On a sequential basis, prices of all TOP vegetables (tomato, onion and potato) have seen sizeable declines, led by tomato (-34.1%), onion (-21%) and potato (-15.9%). With steady mandi arrivals, further correction cannot be ruled out. Even for edible oils as well, correction in prices is apparent on a MoM basis. In fact, prices of mustard oil and groundnut oil have declined in Jan'25, while for sunflower oil there has been a significant correction from 3.4% in Dec'24 to 0.5% in Jan'25.
- In Feb'25 (1-3 Feb'25), BoB ECI has declined further by 1.1%.

Table 1. Broad-based moderation in underlying price pressures

Retail price (% YoY)	Wts in CPI	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Milk	6.4	3.5	3.0	2.6	2.8	2.1	0.9	0.5	0.5	0.9	0.5
Rice	4.4	13.8	13.5	12.8	9.1	5.1	2.6	1.9	1.2	-0.5	-1.6
Atta (Wheat)	2.6	4.7	4.7	4.6	2.9	1.7	1.4	2.5	2.5	3.0	3.9
Mustard oil (Packed)	1.3	-11.5	-9.0	-3.3	-2.0	-0.8	3.8	17.2	20.9	23.0	24.3
Sugar	1.1	5.7	5.2	4.9	4.2	3.7	2.8	2.0	0.7	0.0	0.2
Tea loose	1.0	1.3	1.8	0.7	-0.2	-3.3	-4.1	-3.7	-3.5	-3.2	-3.5
Potato	1.0	38.9	41.7	45.8	55.1	53.1	49.4	50.2	49.2	52.3	34.8
Tur/Arhar dal	0.8	29.7	30.2	27.0	24.6	19.8	12.0	7.4	4.0	2.5	1.1
Soya oil (Packed)	0.7	-11.3	-9.2	-6.8	-6.1	-7.5	-3.1	9.3	14.4	16.2	17.5
Sunflower oil (Packed)	0.7	-16.6	-13.7	-9.5	-8.4	-6.6	-2.5	11.9	19.7	23.8	25.0
Onion	0.6	41.4	43.4	57.9	64.9	50.3	53.0	44.0	-4.4	-1.2	3.2
Tomato	0.6	40.4	38.7	28.3	-40.0	-50.0	16.6	115.2	33.7	22.4	-5.3
Urad dal	0.3	15.0	14.7	13.8	11.9	8.9	6.1	4.9	2.1	0.8	0.6
Moong dal	0.3	9.9	9.0	8.7	7.1	4.5	1.6	0.3	-0.6	-1.9	-2.3
Masoor dal	0.3	0.5	1.0	2.5	1.5	-2.0	-4.3	-4.8	-4.3	-5.0	-5.0
Groundnut oil (Packed)	0.3	0.3	-0.4	-0.8	-1.6	-3.8	-4.4	-0.4	1.0	1.0	1.6
Salt pack	0.2	2.7	2.3	2.7	2.3	-0.4	-1.3	-1.3	-0.9	-1.3	-2.7
Gram dal	0.1	14.5	14.9	17.6	18.9	17.1	15.0	14.5	14.0	12.6	11.7
Vanaspati (Packed)	0.1	-5.1	-4.5	-3.7	-2.9	-4.5	-2.5	7.2	12.7	15.8	18.2
Gur	0.1	8.5	7.9	7.2	6.8	5.6	3.6	3.9	3.9	4.2	3.6

Source: CMIE, Bank of Baroda Research | Note: Figures in red indicate price change of over 6%

So where is CPI print headed?

The inflation outlook is increasingly looking comfortable led by a broad-based softening in underlying price pressures. Prices of vegetables which had contributed to the sharp uptick in food inflation are witnessing a seasonal correction due to steady arrivals. Edible oil prices are also moderating due to softer global prices. Even for cereals such as pulses and rice, the moderation in prices has been sustained owing to higher domestic production. As such, we expect the inflation trajectory to evolve broadly in line with expectations, with a possible downward bias. This along with a significant improvement in domestic liquidity conditions is likely to give the RBI room to cut rates when it meets this week.

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