

**CPI INFLATION COOLS DOWN TO A 6+-YEARS LOW : SANS A LA TOMATINA SITUATION GOING AHEAD, INFLATION CAN RAPIDLY DESCEND TOWARDS JAN'2019 LOW (1.97%) BY JULY 2025 PAVING WAY FOR SOME MORE RATE EASING BY RBI, BEYOND THE RECENT 50 BPS (JUSTIFIED NOW IN FULL WITH THE INFLATION NUMBERS!) WHILE FASTER TRANSMISSION IS ON THE CARDS BY BANKS**

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CPI inflation moderated to 2.82% in May, much below the consensus estimates (2.98%, SBI-2.93%) and a 75-month low driven chiefly due to softening food items, particularly vegetables and pulses which declined by 13.7% and 8.2% respectively. This, together with easing spices/meat & fish prices was however somewhat offset by elevated levels of fruits, Personal care and effects. The positive development on headline front gets a tad masked though with the somewhat sticky nature of core inflation which edged up to 4.2%, second-highest in last 19 months. **However, headline inflation sans a la tomatina could rapidly descend towards 2% or below by July. We expect CPI Inflation average at 3.3%-3.5% for FY26 (RBI:3.7%), in turn allowing the Central Bank some elbow room to navigate the evolving landscape with forbearance.**

The imported inflation for May reached 6.3%, with oils and fats contributing to the buildup the most. Interestingly, with just 36.4% weight in the overall basket, the imported inflation accounts for half of the total weighted contribution (1.41%) in current month's CPI while the rest 63.6% of the basket accounts for the remaining half of CPI.

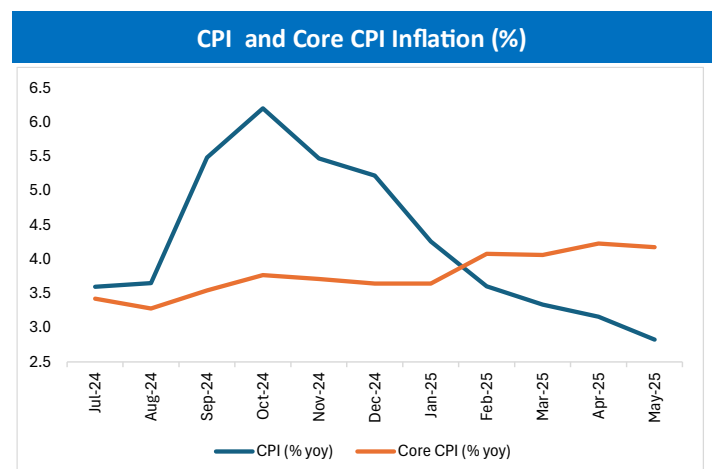
Deciphering the state-wise inflation trends, the number of states/UTs inflation above 4% has declined to 6 in May 2025, as against 32 States/UTs that had inflation above 4% as in October 2024. During Oct-24 to May-25, overall All India inflation declined by 3.38%, except Goa, where inflation increased by 2.09%. Inflation in bigger states continue to outstrip the all India inflation rate of the same month.

We expect CPI inflation to remain below 4% till Q3 FY26 while it may show some increase in the last quarter of the current fiscal. The benign inflationary expectations justify RBI's quest to support the momentum in capital formation for more durable growth. **The rate transmission should be faster by banks, for both resources as also on assets front, given this penchant for frontloading growth with Indian banking likely to undergo a metamorphosis, tilting to adopt aspects of Developed Economies where savings & checking accounts are meant for transactional purpose, necessitating a refresh on ALM front. We expect a pause in rate action here onwards till the Dec'25 policy though a lot will depend upon incoming data.**

While the US headline CPI remained muted and came in at 0.1% MoM and 2.4% YoY the crucial news is that the "sticky" components continue to be, well, sticky! Sticky components make up about 70% of the Headline and flexible components make up about 30%. So, the Sticky inflation components are still running at a rate of about 3.2% YoY, and Flexible prices are roughly unchanged. It appears that inflation components are not severely impacted by tariffs. Chances of an earlier rate cut rose slightly in the wake of the CPI data. Markets were pricing in a 57.1% chance of a quarter point cut by the Fed in Sep.

### CPI INFLATION MODERATED TO 75-MONTH LOW TO 2.8% IN MAY'25

- ◆ India's CPI inflation moderated to 75-month low of 2.82% in May'25 due to continued decline in some of the food items particularly vegetables and pulses. Vegetable prices continued its southward trend and decline by 13.7% in May. Pulse prices declined by 8.2% while spices and meat & fish prices also exhibited decline in May.
- ◆ Fruits inflation, though still at elevated level, moderated slightly in May to 12.7%. Oil & fat CPI is also at elevated level and in May it was 38-month high at 17.9%. Personal care and effects CPI is also in double digits and stood at 13.5%.



Source: SBI Research

## CPI CORE INFLATION IS MORE THAN 4%

- While overall CPI inflation is moderating continuously since Oct'24, the core inflation (CPI excluding food and fuel) is remained sticky. While it edged up from a low of 3.3% (in Aug'24) though it remained below 4% mark till Jan25. However, since Feb'25 it was more than 4% and in the month of May it stood at 4.2%, second-highest in last 19 months.
- The imported inflation for May reached 6.3% with oils and fats contributing to the buildup. Interestingly, with 36.4% weight in the overall basket, the imported inflation accounts for half of the total weighted contribution 1.41% in current months CPI. The rest 63.6% of the basket accounts for the remaining half.

## STATE-WISE INFLATION

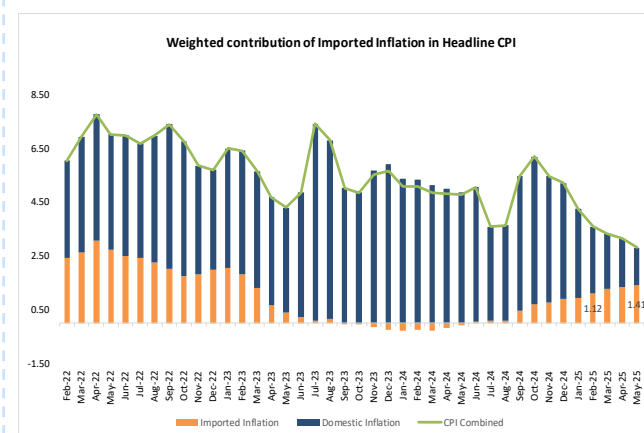
- If we look the State-wise Inflation, in October 2024, there were 32 States/UTs out of 35, has inflation above 4%. While, in May 2025, the number of states/UTs inflation above 4% has declined to 6. During Oct-24 to May-25, overall All India inflation declined by 3.38%, expect Goa, where inflation increased by 2.09%, all other states inflation has declined.
- Inflation in bigger states continue to outstrip the all India inflation rate of the same month. Among the States, Goa clocked the highest inflation rate of 6.82% in May followed by Kerala 6.46%.
- There are 18 states, where inflation in rural areas is higher than the all India rural inflation. Similarly, there are 19 states where urban inflation is higher than all India urban inflation.

## WAY FORWARD

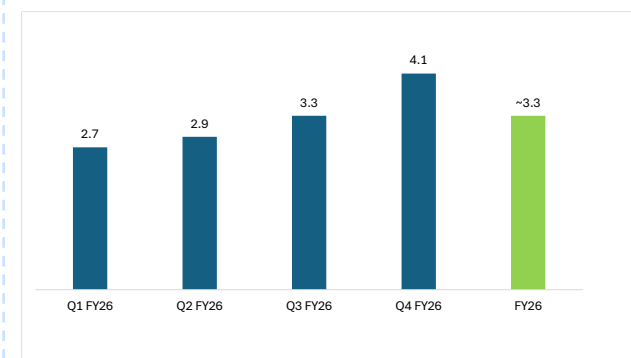
- While till Q3 FY26, we expect CPI inflation to remain less than 4%, it may only increase in the last quarter of the current fiscal. **We expect average CPI inflation for FY26 would be around 3.3%-3.5% (RBI:3.7%) as against FY25 average of 4.6%.**
- Given this benign inflation expectations on back of 50 bps rate cut recently in June policy, the current focus of RBI is to support the momentum in capital formation for more durable growth. We expect a pause in rate action here onwards till the Dec'25 policy though a lot will depend upon incoming data.

State-wise Inflation Movement					
State	Oct-24	Jan-25	Apr-25	May-25	Change
Andhra Pradesh	6.17	4.08	2.65	1.69	-4.48
Assam	5.88	4.61	2.85	2.37	-3.51
Bihar	7.89	5.06	2.90	1.52	-6.37
Chhattisgarh	8.84	5.79	3.09	3.31	-5.53
Delhi	4.01	2.02	1.77	2.07	-1.94
Goa	4.73	4.64	6.54	6.82	2.09
Gujarat	6.33	3.82	2.51	2.67	-3.66
Haryana	6.76	5.10	3.51	3.67	-3.09
Himachal Pradesh	5.84	4.19	2.66	2.89	-2.95
Jammu and Kashmir	5.50	4.87	4.25	4.55	-0.95
Jharkhand	5.53	2.56	2.18	2.28	-3.25
Karnataka	5.96	5.03	4.26	3.19	-2.77
Kerala	6.52	6.76	6.04	6.46	-0.07
Madhya Pradesh	7.03	4.42	2.63	3.06	-3.97
Maharashtra	5.38	3.39	3.61	3.21	-2.17
Manipur	9.69	7.41	3.47	3.03	-6.66
Meghalaya	4.31	3.79	4.09	3.44	-0.87
Mizoram	4.05	3.73	3.28	2.94	-1.11
Nagaland	4.74	5.06	2.97	3.18	-1.56
Odisha	7.51	5.68	2.50	2.28	-5.23
Punjab	5.74	4.28	4.09	5.21	-0.53
Rajasthan	5.99	3.86	2.16	2.38	-3.61
Sikkim	3.88	3.00	3.01	2.63	-1.25
Tamil Nadu	6.32	4.99	3.41	2.81	-3.51
Telangana	5.50	2.22	1.26	0.55	-4.95
Tripura	5.57	2.71	3.57	2.25	-3.32
Uttar Pradesh	7.36	4.59	2.51	2.25	-5.11
Uttarakhand	6.28	4.90	3.76	3.47	-2.80
West Bengal	4.63	3.38	3.16	2.45	-2.17
<b>All India</b>	<b>6.21</b>	<b>4.26</b>	<b>3.16</b>	<b>2.82</b>	<b>-3.38</b>

Source: SBI Research Note: Red : State > All India Green: State< All India



## CPI Inflation Projections (%)



Source: SBI Research

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