

SBI RESEARCH

Same, Same But Different!

Inter-regional Inflationary Disparity Warrants Novel Steps For Convergence... Drivers of higher inflation in select states call for attention to Details

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- ❑ Even with a benign inflation trajectory unfolding (a 7-months low of 3.6% in Feb'25) that augurs well both on softening food and beverages prices front as also the roadmap of interest rates pivot, the divergence of inflationary trends amongst states, coupled with the prevailing duality between the rural and urban inflation presents a somewhat inexplicable issue
- ❑ During FY13 to FY25 (till Feb), inflation in 18 states remained all India average. However, on a positive note, inflation across the states appears to be synchronizing between 3-6%, a sharp reversal from 6-12% embraced by many states in FY14
- ❑ To derive the regional disparity in inflation amongst 35 states/UTs for a region wise analysis, the region inflation index was estimated based on the weighted average of State CPI index, with weight as population share. The region-wise index share CAGR growth during FY12 to FY25 (till Feb'2025) indicates that southern region has highest CAGR inflation of 6.0% in overall inflation, followed by Eastern region of 5.8%. Interestingly, Southern region have the highest CAGR inflation in Rural (6.1%) and Urban (6.0%) areas too during FY12-FY25 (till Feb'25)
- ❑ NE and Western regions have had lowest inflation against higher inflationary trends displayed by Southern and Eastern regions.... A back of the hand analysis indicated, in the Post-Pandemic period (FY21 to FY25), inflation declined by 3.4% in NE areas, while in Southern region it declined by 2.6% only
- ❑ Primary trends suggest higher taxes levied on petrol/diesel, liquor, as also registration charges for automobiles and flats by the Southern states could be the driver of higher inflations.... Going by the share of sales tax collection by states, Southern states hold the highest share of 30%, followed by Northern region
- ❑ The region wise analysis of retail prices shows that southern states display a higher trend in prices for items like vegetables, cereals and most of the pulses
- ❑ Reading between the lines, We believe that migration of labour from low-income states to high income states in search of employment opportunities is resulting in higher inflation in high income states than lower income states as vouched by food inflation across cohort of high income / middle income and low-income states suggesting higher purchasing power anchors higher inflation
- ❑ CPI inflation may come down to 3.9% in Q4 FY25 and average to 4.7% in FY25. Based on this trend, we expect FY26 inflation may come 4.0-4.2% and core inflation in the range of 4.2% to 4.4%.... With benign inflation this month and going forward, we expect a cumulative rate cut over the cycle could be at least 75 basis points, with successive rate cuts in next policy April and August 2025. With an intervening gap in Aug'25, the rate cuts cycle could restart from Oct'25

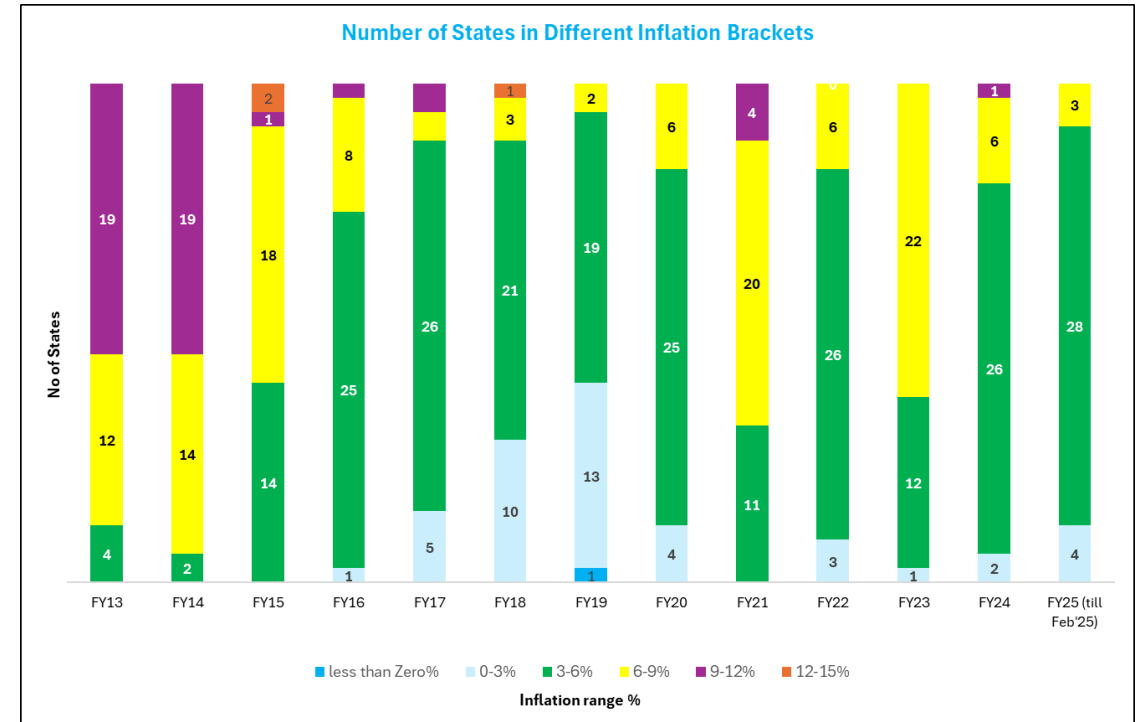
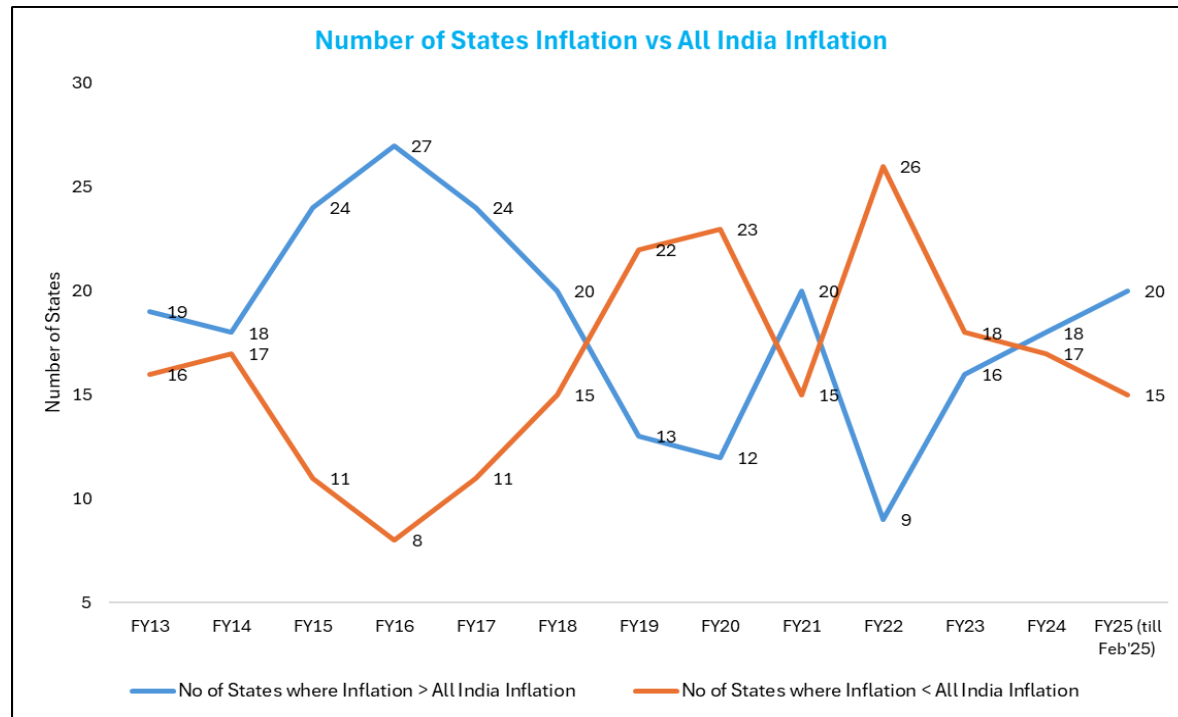
- India's CPI inflation moderated to 7-month low of 3.6% in Feb'25 due to easing in food and vegetable prices. However, if we look at the State-wise data, inflation in bigger states continues to outstrip the all-India inflation rate of the same month
- Among the States, Kerala clocked the highest inflation rate of 7.3% in Feb, followed by Chhattisgarh 4.9%
- There are 9 States among major states, where inflation in rural areas is higher than the all-India rural inflation. Similarly, there are 8 States where urban inflation is higher than all India urban inflation
- Rural inflation continued to outpace urban inflation which is mainly due to the higher food prices and the rural basket of food items weight (54.2%) is higher than the urban weights (36.3%)

State-wise Inflation Rates: February 2025						
States	Rural	Urban	Overall	Urban minus Rural	Overall minus Rural	Overall minus Urban
Andhra Pradesh	2.1	3.0	2.4	0.8	0.3	-0.5
Bihar	4.3	5.2	4.5	0.8	0.1	-0.7
Chhattisgarh	5.6	3.8	4.9	-1.8	-0.7	1.1
Delhi	2.6	1.5	1.5	-1.1	-1.1	0.1
Gujarat	3.1	2.8	3.0	-0.3	-0.1	0.2
Haryana	4.5	4.0	4.3	-0.6	-0.3	0.3
Himachal Pradesh	3.3	3.2	3.3	-0.1	0.0	0.1
Jharkhand	2.5	3.0	2.7	0.5	0.2	-0.3
Karnataka	4.6	4.5	4.5	-0.1	-0.1	0.0
Kerala	8.0	5.9	7.3	-2.1	-0.7	1.4
Madhya Pradesh	4.1	2.5	3.4	-1.6	-0.7	0.9
Maharashtra	2.2	3.5	3.1	1.3	0.8	-0.4
Odisha	4.3	2.8	3.9	-1.6	-0.4	1.1
Punjab	4.3	2.6	3.6	-1.7	-0.8	1.0
Rajasthan	3.4	2.5	3.0	-0.9	-0.3	0.6
Tamil Nadu	4.1	4.0	4.1	-0.2	-0.1	0.1
Telangana	0.5	2.0	1.3	1.6	0.8	-0.7
Uttar Pradesh	3.8	3.1	3.6	-0.7	-0.2	0.5
Uttarakhand	3.4	5.0	4.0	1.6	0.6	-1.0
West Bengal	3.1	3.0	3.1	-0.1	0.0	0.1
All India	3.79	3.32	3.61	-0.5	-0.2	0.3

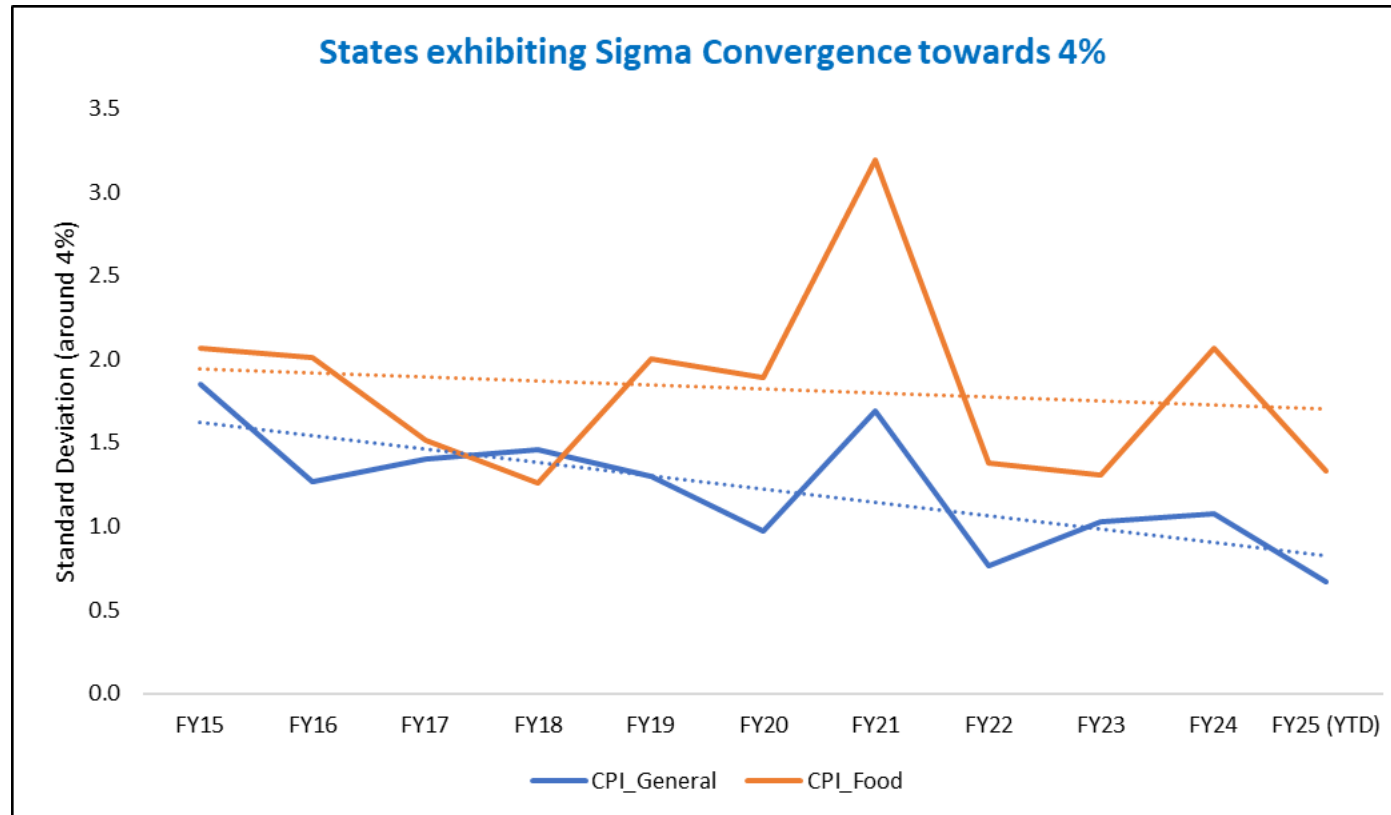
- Among all the 35 States/UTs, during the period FY13 to FY25, Tamil Nadu inflation is higher than all India inflation in 9 years, out of the last 13-years
- While, Gujrat and Punjab has lower inflation than all India inflation in 9 years from the last 13 years

State-Wise Average CPI Inflation													
State	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25 (Till Feb'2025)
A & N Islands	5.2	6.6	6.7	6.4	6.2	3.6	6.9	6.5	6.3	5.2	6.1	3.4	2.8
Andhra Pradesh	9.8	9.9	5.5	7.4	5.2	3.4	1.1	3.5	9.0	5.2	7.6	5.5	4.5
Assam	9.7	9.0	6.0	4.8	2.6	4.4	5.9	6.0	8.5	3.2	6.5	4.6	5.1
Bihar	11.2	11.2	6.7	4.5	3.9	2.7	3.9	2.2	7.3	3.8	5.7	5.8	6.2
Chandigarh	9.7	6.9	6.4	3.6	3.9	3.8	4.0	4.8	4.8	4.8	5.9	4.3	4.3
Chhattisgarh	9.8	10.7	6.4	6.8	3.5	2.7	2.4	2.5	8.0	4.2	4.7	3.4	5.9
D & N Haveli	5.8	8.5	4.3	5.3	5.6	2.8	1.8	4.7	4.2	6.9	6.4	6.5	4.9
Daman and Diu	8.6	10.8	7.0	9.2	5.0	6.5	-1.9	0.8	6.9	6.0	5.6	4.8	4.9
Delhi	9.3	9.3	5.6	4.9	5.3	4.8	2.7	3.7	3.3	5.4	4.0	2.6	2.4
Goa	6.9	10.5	6.5	4.7	5.1	3.8	2.6	4.3	6.9	4.2	3.2	3.0	3.3
Gujarat	8.7	8.7	5.5	4.9	5.1	2.6	2.5	3.7	5.9	4.9	6.9	5.7	4.5
Haryana	8.5	8.5	5.6	4.0	4.4	4.1	2.9	4.3	5.9	5.6	7.5	6.6	5.2
Himachal Pradesh	9.3	9.7	6.2	4.3	4.6	4.6	0.5	3.5	5.2	6.0	4.5	5.0	4.1
Jammu and Kashmir	8.1	8.0	6.0	6.0	5.3	6.8	5.3	4.3	6.3	6.5	6.3	4.2	4.4
Jharkhand	10.8	10.3	4.7	5.1	5.3	3.9	3.7	4.1	6.0	3.7	6.2	5.7	3.9
Karnataka	9.8	10.8	6.5	6.7	4.4	3.0	3.3	5.6	5.8	5.6	5.5	5.8	4.9
Kerala	8.8	9.6	7.3	4.2	4.3	6.0	4.9	6.1	6.0	4.0	5.8	5.0	5.7
Lakshadweep	7.8	5.7	7.6	5.1	1.1	5.0	5.7	8.3	11.1	2.3	7.3	3.6	2.9
Madhya Pradesh	9.7	9.8	5.5	4.4	3.5	2.7	3.5	5.5	7.6	5.9	7.5	4.4	4.8
Maharashtra	8.8	8.3	5.5	4.4	4.4	4.1	3.1	4.4	6.8	5.2	7.3	5.1	4.1
Manipur	3.5	5.5	4.7	5.1	10.1	12.4	8.7	6.9	6.7	1.4	1.4	10.0	6.5
Meghalaya	10.5	7.4	12.3	7.5	0.6	1.5	2.2	2.8	9.2	3.0	4.3	4.1	3.9
Mizoram	8.4	9.8	6.5	4.0	2.1	1.9	2.5	5.1	10.3	5.7	7.9	4.4	3.3
Nagaland	7.2	8.7	10.5	5.8	5.1	3.4	6.0	3.8	4.8	4.8	6.0	3.4	3.9
Odisha	9.5	9.8	6.8	6.4	4.9	2.2	2.6	4.6	7.9	3.1	6.0	6.5	6.1
Puducherry	7.4	10.1	6.9	8.4	1.3	2.3	4.2	6.2	8.4	4.8	6.2	5.3	4.8
Punjab	9.5	8.5	5.7	3.5	4.4	3.7	3.8	5.0	5.3	4.4	6.1	5.5	4.1
Rajasthan	10.3	8.8	6.6	5.7	5.4	3.2	2.3	5.3	4.4	4.2	6.9	6.4	4.4
Sikkim	8.0	7.3	6.2	7.0	9.9	4.0	3.9	3.2	7.1	6.6	6.8	3.5	2.5
Tamil Nadu	10.9	9.5	6.2	5.7	3.9	4.9	3.7	5.7	7.5	5.2	6.0	5.4	4.6
Telangana	11.9	9.2	4.7	5.5	6.1	3.9	2.6	4.5	8.7	6.4	8.6	6.4	3.8
Tripura	3.2	11.4	13.0	2.7	4.1	3.4	4.3	6.3	9.5	3.2	7.0	6.1	4.7
Uttar Pradesh	11.0	9.4	5.9	4.1	4.3	2.4	3.8	5.9	6.1	5.1	7.1	5.8	5.4
Uttarakhand	10.1	7.9	5.0	3.2	3.7	3.9	4.0	5.9	8.1	5.1	6.5	5.5	4.2
West Bengal	10.9	10.3	5.4	3.5	5.0	3.7	5.1	4.6	8.7	5.1	7.1	4.5	3.9
All India	9.9	9.4	5.9	4.9	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.7

- ❑ If we look the Region/State-wise average inflation data for the period FY13 to FY25 (till Feb), there are on an average 18 states inflation is always above the all-India inflation number
- ❑ In recent years inflation across the states synchronized between 3-6%, while in FY14 inflation in many states was in the range of 6-12%



- ❑ **Retail inflation among Indian States are converging toward 4% target level – as revealed using Sigma-Type Methodology**
- ❑ The absolute difference of inflation values are taken from 4% across States and years. The falling dispersion of derived inflation values across time reflects sigma convergence
- ❑ Both CPI general and CPI Food are converging, however, the rate of converging is steeper in general CPI. Food inflation converges at a tepid rate following the volatility in components – mainly vegetables.



YTD – FEB'24

- ❑ To see the regional disparity in inflation, we mapped all the 35 States/UTs into 6 regions (South, North, East, Central and NE)
- ❑ The region inflation index was estimated based on the weighted average of State CPI index, with weight as population share (2024, As per the Report of the Technical Group on Population Projections for India and States 2011-2036) of each state/UT in India
- ❑ **The region-wise index share CAGR growth during FY12 to FY25 (till feb'2025) indicate that southern region has highest CAGR inflation of 6.0% in overall inflation, followed by Eastern region of 5.8%**
- ❑ Southern region also have the highest CAGR inflation in Rural (6.1%) and Urban (6.0%) areas too during FY12-FY25 (till Feb'25)

Geographical distribution of inflation_CAGR%(FY12-FY25)			
	Combined	Rural	Urban
South	6.0	6.1	6.0
North	5.7	5.9	5.4
East	5.8	5.8	5.7
Central	5.6	5.7	5.6
West	5.4	5.7	5.3
NE	5.8	5.9	5.6
All India	5.7	5.9	5.6

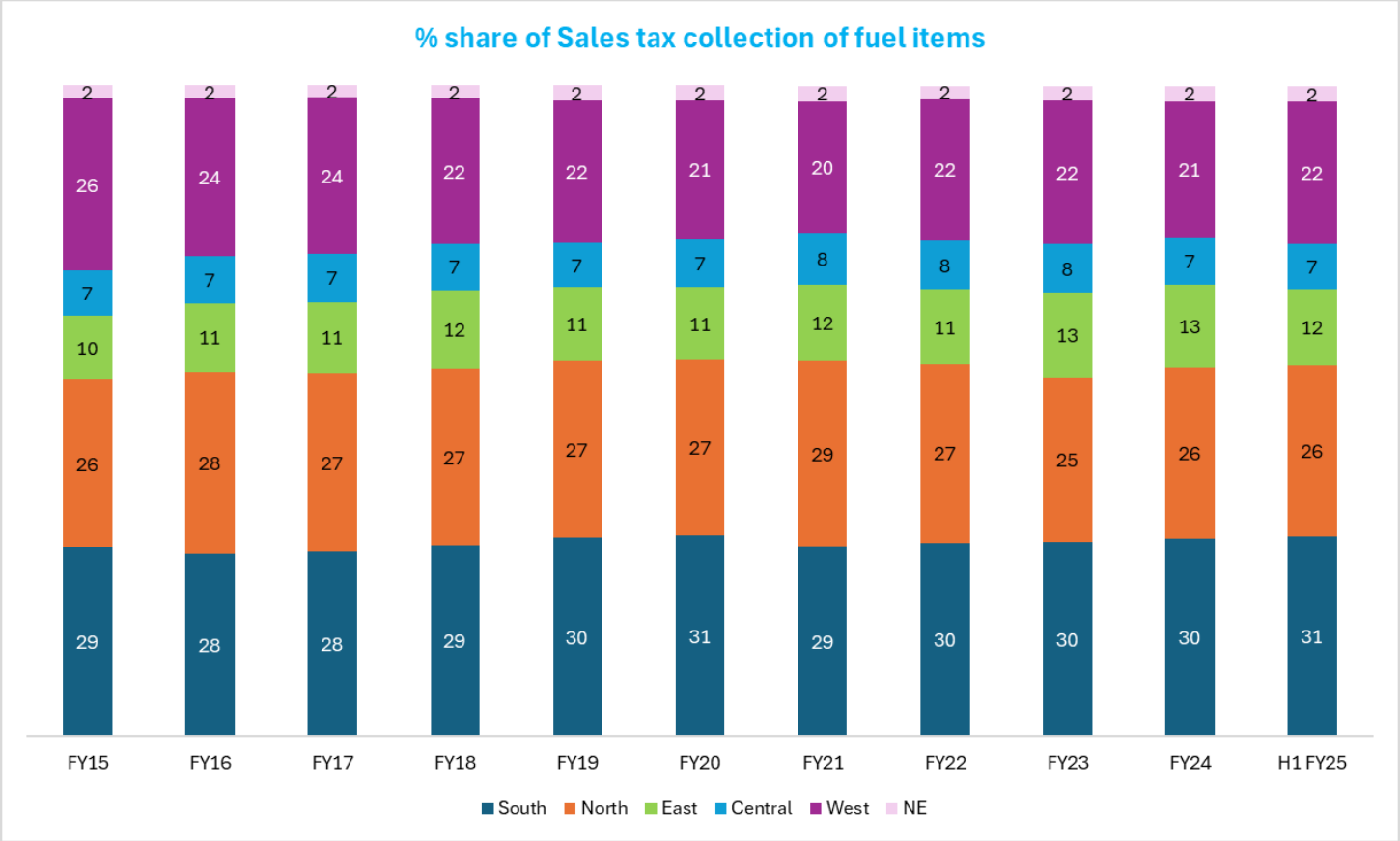
Regional Disparity in Retail CPI Inflation since FY13

- ❑ Southern and Eastern region has highest inflation, while NE and Western region has lowest inflation
- ❑ If we compare from Post-Corona period (FY21 to FY25), inflation declined 3.4% in NE areas, while in Southern region it declined by 2.6%
- ❑ **It is believed that Southern states levies higher taxes on petrol/diesel, liquor, and registration charges for automobiles and flats, and migration etc**

Region-Wise Calculated CPI Inflation (YoY %)															
YoY%	Weights	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Change (FY25 over FY21)
South	19.60	10.2	9.9	6.1	6.1	4.6	4.1	3.1	5.2	7.3	5.3	6.5	5.6	4.7	-2.6
North	30.25	10.4	9.1	6.0	4.4	4.6	3.1	3.4	5.4	5.6	5.0	6.8	5.7	4.9	-0.7
East	22.49	10.8	10.6	6.1	4.5	4.6	3.1	4.1	3.6	7.7	4.1	6.3	5.5	5.1	-2.5
Central	8.43	9.7	10.0	5.7	5.0	3.5	2.7	3.2	4.7	7.7	5.5	6.8	4.1	5.1	-2.6
West	14.47	8.8	8.5	5.5	4.6	4.7	3.6	2.9	4.2	6.5	5.1	7.1	5.3	4.2	-2.3
NE	3.65	8.6	8.9	7.2	4.9	3.3	4.5	5.6	5.7	8.3	3.2	6.1	5.0	4.9	-3.4
All India	100.00	9.9	9.4	5.9	4.9	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.7	-1.5
Wighted Contribution															
South	19.60	2.0	1.9	1.2	1.2	0.9	0.8	0.6	1.0	1.5	1.1	1.3	1.1	0.9	-0.5
North	30.25	3.2	2.8	1.9	1.4	1.4	1.0	1.0	1.7	1.7	1.5	2.1	1.8	1.5	-0.2
East	22.49	2.4	2.4	1.4	1.0	1.0	0.7	0.9	0.8	1.7	0.9	1.4	1.2	1.2	-0.6
Central	8.43	0.8	0.8	0.5	0.4	0.3	0.2	0.3	0.4	0.6	0.5	0.6	0.3	0.4	-0.2
West	14.47	1.3	1.2	0.8	0.7	0.7	0.5	0.4	0.6	0.9	0.7	1.0	0.8	0.6	-0.3
NE	3.65	0.3	0.3	0.3	0.2	0.1	0.2	0.2	0.2	0.3	0.1	0.2	0.2	0.2	-0.1
All India	100.00	9.9	9.4	5.9	4.9	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.7	-1.5

Source: SBI Research

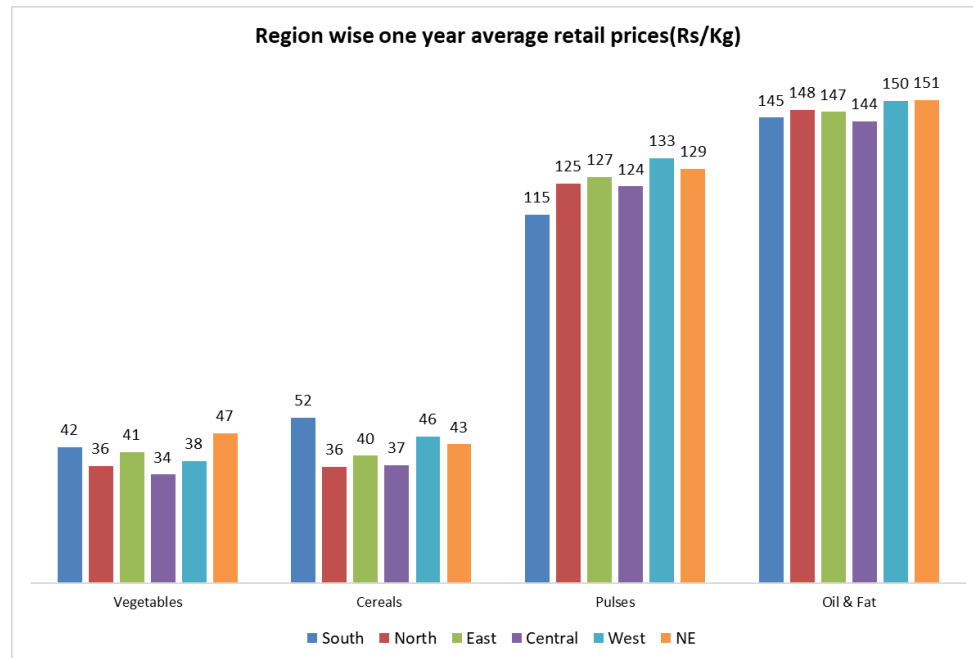
❑ If we look at the share of sales tax collection by states, it indicate that Southern states hold the highest share of 30%, followed by Northern region



Rates of State's Sales Tax/VAT		
State/UT	Petrol	Diesel
Andhra Pradesh	31% VAT + Rs.4/litre VAT+Rs.1/litre Road Development Cess and Vat thereon	22.25% VAT + Rs.4/litre VAT+Rs.1/litre Road Development Cess and Vat thereon
Assam	24.77% or Rs.18.80 per litre whichever is higher	22.19% OR Rs. 14.60 per litre whichever is higher Rebate of Rs. 1.50 per litre subject to minimum tax of Rs. 14.60 per litre
Bihar	23.58% or Rs 16.65/Litre whichever is higher (30% Surcharge on VAT as irrecoverable tax)	16.37% or Rs 12.33/Litre whichever is higher (30% Surcharge on VAT as irrecoverable tax)
Chhattisgarh	24% VAT + Rs.2/litre VAT	23% VAT + Rs.1/litre VAT
Delhi	19.40% VAT	Rs.250/KL air ambience charges + 16.75% VAT
Goa	21.5% VAT + 0.5% Green cess	17.5% VAT + 0.5% Green cess
Gujarat	13.7% VAT+ 4% Cess on Town Rate & VAT	14.9% VAT + 4 % Cess on Town Rate & VAT
Haryana	18.20% or Rs.14.50/litre whichever is higher as VAT+5% additional tax on VAT	16.00% VAT or Rs.11.86/litre whichever is higher as VAT+5% additional tax on VAT
Himachal Pradesh	17.5% or Rs 13.50/Litre- whichever is higher	13.90% or Rs 10.40/Litre- whichever is higher
Jammu & Kashmir	24% MST+ Rs.2/Litre employment cess, Rebate of Rs.4.50/Litre	16% MST+ Rs.1.00/Litre employment cess , Rebate of Rs.6.50/Litre
Jharkhand	22% on the sale price or Rs. 17.00 per litre , which ever is higher + Cess of Rs 1.00 per Ltr	22% on the sale price or Rs. 12.50 per litre , which ever is higher + Cess of Rs 1.00 per Ltr
Karnataka	29.84% sales tax	18.44% sales tax
Kerala	30.08% sales tax+ Rs.1/litre additional sales tax + 1% cess , Social security cess Rs.2 per litre	22.76% sales tax+ Rs.1/litre additional sales tax + 1% cess , Social security cess Rs.2 per litre
Madhya Pradesh	29 % VAT + Rs.2.5/litre VAT+1%Cess	19% VAT+ Rs.1.5/litre VAT+1% Cess
Maharashtra	25% VAT+ Rs.5.12/Litre additional tax	21% VAT
Odisha	28% VAT	24% VAT
Punjab	Rs.2050/KL (cess)+ Rs.0.10 per Litre (Urban Transport Fund) + 0.25 per Litre (Special Infrastructure Development Fee)+16.58% VAT plus 10% additional tax or Rs.14.93/Litre whichever is higher	Rs.1050/KL (cess) + Rs.0.10 per Litre (Urban Transport Fund) +0.25 per Litre (Special Infrastructure Development Fee) + 13.1% VAT plus 10% additional tax and or Rs.10.94/Litre whichever is higher
Rajasthan	29.04% VAT+Rs 1500/KL road development cess	17.30% VAT+ Rs.1750/KL road development cess
Tamil Nadu	13% + Rs.11.52 per litre	11% + Rs.9.62 per litre
Telangana	35.20% VAT	27% VAT
Uttar Pradesh	19.36% or Rs 14.85/Litre whichever is higher	17.08% or Rs 10.41/Litre whichever is higher
Uttarakhand	16.97% or Rs 13.14 Per Ltr whichever is greater	17.15% or Rs 10.41 Per Ltr whichever is greater
West Bengal	25% or Rs.13.12/litre whichever is higher as sales tax+ Rs.1000/KL cess(20% Additional tax on VAT as irrecoverable tax)	17% or Rs.7.70/litre whichever is higher as sales tax + Rs 1000/KL cess (20% Additional tax on VAT as irrecoverable tax)

Source: PPAC

- The region wise analysis of retail prices shows that southern states showing a higher trend in prices for items like vegetables, cereals and most of the pulses



Region wise one year average retail prices(Rs/Kg)							
Items	South	North	East	Central	West	NE	All India
Potato	41	28	33	30	35	35	31
Onion	46	42	45	38	40	53	41
Tomato	41	45	50	35	41	60	42
Rice	55	41	42	39	48	45	44
Wheat	44	29	32	32	41	41	34
Gram dal	94	88	89	89	93	97	89
Tur/ Arhar dal	167	155	158	157	164	156	156
Urad dal	137	124	128	117	137	128	124
Moog Dal	122	115	119	112	124	122	116
Masoor dal	97	93	89	90	94	97	92
Ground nut oil	194	201	199	194	199	165	192
Mustard Oil (Packed)	168	151	153	149	163	160	155
Vanaspatti (Packed)	132	135	136	126	142	143	132
Sunflower+soya (Refined oil)	118	130	127	126	125	149	127

Source: Department of consumer affairs

- Interestingly, High income states have an average food inflation CAGR% of 5.26%, above national level CAGR% of 5.18 from FY14
- Middle income group have an average CAGR% of 5.03% - and lower-income group's average CAGR is at 4.95% during the same period
- This shows the purchasing power of higher income groups has higher inflation
- We believe that migration of labour from low-income states to high income states in search of employment opportunities is resulting in higher inflation in high income states than lower income states

Percapita income and migration of labours Vs Food inflation in major states			
Income group (based on average percapita GSDP of 21 states)	States	Average Per Capita GSDP (Rs.) (FY14 to FY24)	CAGR% of food inflation(FY14 to FY25)
High Income(Net migration: 9 Mn)	Goa(3.2)	431447	4.76
	Haryana(-2.8)	243429	5.05
	Telangana	233004	5.71
	Karnataka(0.8)	231202	5.32
	Tamil Nadu(3)	219993	5.43
	Kerala(-0.3)	216964	5.29
	Maharashtra(5.1)	212245	5.25
Middle Income(Net migration: -3.2 Mn)	Gujarat(1.5)	209425	5.10
	Uttarakhand(-1.5)	204834	5.15
	HP(-0.4)	200007	4.38
	Andhra Pradesh(1.2)	170909	5.20
	Punjab(0.2)	165297	4.89
	Rajasthan(-3)	122707	5.10
	Odisha(-1.2)	113924	5.38
Low Income(Net migration: -30 Mn)	Chhattisgarh(-2.8)	113364	4.34
	West Bengal(2.5)	112288	5.32
	Madhya Pradesh(-4.5)	101524	5.09
	Assam(0.8)	94734	5.01
	Jharkhand(-4.9)	79622	4.79
	Uttar Pradesh(-14.8)	70682	5.23
	Bihar(-7)	44370	4.87
All India		141994	5.18
Source: Economic Survey (2016-17), MOSPI, Figures in parenthesis represents Net migration at State Level (2016 in Mn), Negative figures represent net outflow movement of labour			

- ❑ CPI inflation may come down to 3.9% in Q4 FY25 and averaged to 4.7% in FY25. Based on this trend, we expect FY26 inflation may come 4.0-4.2% and core inflation in the range of 4.2% to 4.4%.
- ❑ With benign inflation this month and going forward, we expect a cumulative rate cut over the cycle could be at least 75 basis points, with successive rate cuts in next policy April and August 2025. With an intervening gap in Aug'25, the rate cuts cycle could restart from Oct'25.

**Disclaimer:**


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