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Macroeconomics | First cut

Inflation and IIP soften

February 2025

Falling food prices cool headline inflation

Consumer Price Index (CPI) inflation softened sharply to 4.3% from 5.2% in December due to easing food inflation.

Food inflation, dipped for the third straight month to a five-month low of 6% from 8.4%. Within food, the easing was led by vegetables inflation, which corrected to 11.3% (from 26.6%), and foodgrains inflation, which eased to 5.5% (from 5.9%).

On the other hand, fruits and edible oils inflation rose. Edible oils have emerged as a pressure point recently, impacted by high global prices and import duties. In January, inflation in this category surged to 15.6%, a 33-month high. Since ~60% of edible oil is imported, a weakening currency also adversely impacts its price.

Non-food inflation (fuel plus core) inched up to a 13-month high of 3.2% but remained in the comfort zone. Core inflation was up 10 basis points (bps) to 3.7%. Fuel inflation was broadly stable compared with December, remaining negative for the 17th straight month, primarily due to retail fuel price relaxations by the government in September 2023 and March 2024

In fiscal 2026, food inflation is expected to ease further supported by a healthy rabi crop, assuming normal southwest monsoon that benefits the kharif crop and expectations of soft global food prices. A high base for food inflation this fiscal will also provide some relief. Non-food inflation could see some more hardening lifted by a low base this fiscal and some impact of a weaker rupee. A sharper-than-expected weakening in the rupee, price shock to global oil prices due to any geopolitical turmoil and risks from climate change could impose upside pressures on the forecast.

Data highlights

- CPI inflation eased to 4.3% in January from 5.2% in December
- Food inflation decelerated to 6% from 8.4%
- Fuel[1] inflation was broadly steady at -1.4%

[1] *Refers to CPI fuel and light*

- Core CPI[2] inflation rose marginally to 3.7% from 3.6%

Food inflation moderates

- Food inflation eased to 6% in January from 8.4% in December, led by softer inflation in vegetables, pulses and cereals. The CPI food price index eased sequentially for the third straight month on a seasonally adjusted basis. In January, food prices declined 1.8% on-month (seasonally adjusted), sharper than the 0.2% decline in December
- Vegetable inflation eased sharply to its lowest value since August 2024 (11.3% vs 26.6%). Sequentially, vegetable prices were down 6.1% (seasonally adjusted). Among the key TOP[3] vegetables, inflation eased to a five-month low of -7% in tomatoes (vs 31.4%) and a ten-month low in potatoes (49.6% vs 68.2%). On the other hand, inflation rose in onions (16.4% vs 10.9%). Non-TOP vegetable inflation eased to 5.6% (vs 22%), led by softer inflation in leafy vegetables (0.7% vs 17.1%), brinjal (-9.9% vs 13.6%), garlic (30.6% vs 58.3%), etc.
- Foodgrain inflation hit a 30-month low of 5.5% (vs 5.9%), as inflation eased in both pulses (2.6% vs 3.8%) and cereals (6.2% vs 6.5%)
  - On-year fall in prices of tur (-0.5% vs 1.5%), moong (-0.2% vs 0.2%) and masur (-0.6% in both January and December) pulled down pulses inflation
  - Cereals inflation was influenced by softer inflation in rice from non-public distribution system (PDS) sources, which eased to a 30-month low (5.8% vs 6.9%). That said, inflation rose in non-PDS wheat (8.8% vs 7.8%)
- Edible oil inflation rose to 15.6% from 14.6%. Within edible oils, the key drivers of higher inflation were refined oil (20.9% vs 19.4%) and mustard oil (19.1% vs 18.7%)
- Fruit inflation rose to 12.2% from 8.6%, driven by hardening inflation in apples (8% vs 3.1%) and bananas (8% vs 5.8%)
- Spices inflation picked up but remained negative at -6.8% (vs -7.4%) due to a waning supportive base effect even as prices fell on-month

Fuel inflation remains negative

- Fuel prices recorded an on-year decline for the 17th straight month in January. Prices fell 1.4% on-year in January, similar to the 1.3% decline in December
- Liquified petroleum gas prices fell 9.3% on-year, unchanged from December
- Inflation in electricity inched up 10 bps to 5.2%
- The pace of deflation picked up in PDS kerosene (-7% vs -5.2%), while it slowed in non-PDS kerosene (-2.6% vs -3.1%)

[2] CPI, excluding food and beverages, and fuel and light
[3] Tomatoes, onions, potatoes. These are the most commonly consumed vegetables in India

Core inflation rises a tad

- Core inflation inched up to 3.7% from 3.6%
- Inflation in housing, which has the highest weight in core, rose to 2.8% from 2.7%. Among other essentials, inflation softened in education (3.8% vs 3.9%), while it remained steady in health (4%)
- Personal care and effects saw the sharpest rise in inflation to 10.6% from 9.8%. This category has primarily been influenced by swings in gold inflation in the fiscal. In January, gold inflation accelerated to 26.4% from 24.1%
- Transport and communication inflation rose 20 bps to 2.8%, led by rising inflation in diesel for vehicles (-2% vs -2.1%) and bus and tram fares (1.6% vs 0.9%)

Rural inflation remains higher than urban

The effect of inflation varies across income groups since the share of spending on food, fuel and core categories differs for classes. Essential items, such as food and fuel, take up a greater share of the consumption basket for lower-income households.

Inflation in January affected different income groups in urban and rural areas as follows:

- Rural inflation (4.6%) continued to be high compared with urban inflation (3.9%); hence, rural residents faced a higher inflation rate across income segments
- Softening food inflation over the past few months has augured well for the poor as these items occupy a greater share of their consumption basket. The poor saw the largest reprieve in inflation burden from December to January
- The inflation gap between the poorest and richest income classes narrowed significantly relative to December in both rural and urban areas (see the table below)

CPI inflation across income classes (% on-year)

Income segment	January		December		FY24	
	Rural	Urban	Rural	Urban	Rural	Urban
Top 20%	4.6	3.9	5.5	4.5	5.4	5.1
Middle 60%	4.7	4.0	5.8	4.9	5.6	5.4
Bottom 20%	4.6	4.0	5.9	5.1	5.6	5.6

Note: With data from the National Sample Survey Organisation (NSSO), Crisil has mapped the expenditure baskets of three broad income groups — bottom 20%, middle 60% and upper 20% of the population — with inflation trends. The table presents the average inflation faced by each income class.

Source: NSSO, National Statistical Office, CEIC, Crisil

IIP growth moderates in December

The Index of Industrial Production (IIP) moderated to 3.2% in December, from 5.0% in November (revised down from 5.2%). The moderation was driven by worsening peformance in consumer-oriented sectors, while output growth picked up for most industrial goods.

The slowdown in IIP growth was driven by worsening performance in consumption-orientated goods. Declining exports were an additional drag. Limited support came from government capital expenditure (capex) as infrastructure and construction goods slowed.

Despite moderating in December, IIP growth was better in the third quarter (3.9% average), than in the second quarter (2.7%). This aligns with the first advance estimate for gross domestic product (GDP) which forecasts stronger growth in the second half of this fiscal (6.8%) compared to the first half (6%).

Fiscal consolidation, elevated interest rates and prolonged high food inflation have weighed on the economy this fiscal. Investment growth has been sluggish given lower government capex and subdued private investments. Indeed, the National Statistical Office's first advance estimates indicate a growth moderation to 6.4% from the robust 8.2% last fiscal.

Based on the first advance estimates, growth is expected to quicken in the second half (6.8% vs 6.0% in the first half)[4]. Agricultural growth is likely to improve as higher reservoir levels bode well for the rabi output. This, along with easing food inflation and a revival of government capex is likely to support growth.

Reflecting this, IIP growth has been better in the third quarter (3.9%) than in the second (2.7%). However, this month's data shows much room for improvement, with consumer sentiment still lacklustre as reflected in worsening performance of both consumer durables and non-durables. Elevated interest rates and tight credit conditions have dragged growth so far.

Crisil expects 6.5% GDP growth next fiscal, slightly up from 6.4% this fiscal. Besides budgetary support (not least in the form of income tax relief), the RBI's interest rate cuts, lower crude oil prices and a normal monsoon are expected to support growth.Given fiscal consolidation, investment prospects hinge on a pick-up in private capex. Escalating geopolitical tensions from US tariff hikes have intensified downside risks for India's exports

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Data highlights

- IIP grew 3.2% on-year in December, down from 5.0% in November. However, the index contracted 0.1% on-month after seasonal adjustments

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[4] *As per the first advance estimates released by the National Statistics Office*

- The on-year downtick in IIP was driven by moderating manufacturing output growth (3.0% vs 5.5% in the previous month) while output growth in electricity (6.2% vs 4.4%) and mining (2.6% vs 1.9%) picked up
- Across use-based sectors, the moderation was primarily driven by worsening performance in consumer-orientated sectors. Consumer non-durables saw a steep contraction in output (-7.6% vs 0.4%) while growth in consumer durables output moderated sharply (8.3% vs 14.1%). Output growth picked up for capital goods (10.3% vs 8.8%), intermediate goods (5.9% vs 4.8%) and primary goods (3.8% vs 2.7%). Output growth in infrastructure and construction moderated somewhat (6.3% vs 8.1%).

Worsening performance in consumer-oriented sectors

- Consumer non-durables output contracted sharply (-7.6% vs 0.4% in the previous month), driven by food products (-5.5% vs -3.3%) and pharmaceutical products (-9.5% vs 2.9%)
- Growth in consumer durables output moderated sharply (8.3% vs 14.1%) as the impact of elevated interest rates and credit tightening continued to bite. Bank credit for personal loans saw a sharp decline in December (12% vs 17.4% in the previous month). The slowdown in growth was broad-based, driven by automobiles (-1.8% vs 5.2%), computer, electronic and optical products (2.6% vs 18.7%), wearing apparel (5.4% vs 7.9%) and furniture (22.1% vs 50.1%)
- The RBI's latest Consumer Confidence Survey for January highlighted weakening consumer sentiments in urban areas, which may have contributed to weak demand for consumer goods.

Industrial goods perform well; while investment goods present a mixed picture

- While December saw a sharp on-year pick-up in government capex (69.8% vs 3.7% in the previous month), its impact seems to have been limited
  - Capital goods output picked up (10.3% vs 8.8%), led by increased production growth in machinery and equipment (10.5% vs 7.9%)
  - However, infrastructure and construction goods output exhibited moderating growth (6.3% vs 8.1%)
- Intermediate goods output saw an uptick (5.9% vs 4.8%), led by a steep increase in output of wood and wood products (17.2% vs 8.9%)
- Output of primary goods also rose (3.8% vs 2.7%), led by growth across mining, electricity, and coke and refined petroleum products
- Export-oriented sectors continued to see lacklustre performance in line with the continued contraction in merchandise export growth in December (-1.0% vs -5.1%). Output growth moderated for textiles, wearing apparel, basic metals, fabricated metals and other non-metallic mineral products, while it contracted for pharmaceutical products

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