Crisil
a company of S&P Global

Macroeconomics | First cut

Inflation falls below 4% bound; IIP darts up

March 2025

Food drives descent, but core soars to a 15-month high

Consumer Price Index (CPI) inflation dipped below the Reserve Bank of India's (RBI) 4% target to a seven-month low of 3.6% in February from 4.3% in January, driven by a slide in food inflation to 3.7%, the lowest reading since May 2023.

While the on-month momentum in a number of food categories slowed, a high base effect also played a role in lowering food inflation. Prices of vegetables, eggs, pulses and spices fell on-year while many others saw softer inflation.

However, a lift in edible oils inflation to a 34-month high of 16.4% and fruits inflation to decadal high of 14.8% capped the downside.

On the other hand, core inflation crossed 4% for the first time since November 2023 and touched 4.1% (vs 3.6% in January), as surging gold and silver prices pushed up inflation in the personal care and effects category.

Over the coming months, we expect food inflation to remain soft, supported by healthy crop output, benign global prices and a high base of this year. Meanwhile, a mild bump-up from a low base and the weaker rupee could impact non-food inflation. We expect the headline inflation to average 4.4% next fiscal compared with an estimated 4.7% this fiscal, driven by softer food inflation. Weather shocks and a sharper depreciation in the rupee, which could impose further pressure on imported inflation, are downside risks to the forecast.

Lower inflation and fiscal consolidation give the Monetary Policy Committee (MPC) of the RBI headroom for further rate cuts. Hence, we forecast another 50-75 basis points (bps) of rate cuts by the MPC over the next fiscal.

Data highlights

- CPI inflation decelerated to 3.6% in February from 4.3% in January
- Food inflation softened to 3.7% from 6%, the lowest print since May 2023

- Fuel[1] inflation remained negative at -1.3%
- Core CPI[2] inflation rose 50 bps to 4.1%

Food inflation eases further

- Food inflation declined for the fifth straight month to 3.7% in February from 6% in January, led by an on-month decline in food prices and a high base effect. On a sequential basis (seasonally adjusted), food prices were down 0.8%, largely due to the sharp correction in prices of vegetables
- Vegetable inflation dropped to a 21-month low of -1.1% from 11.3% in the previous-month. The fall in vegetables inflation was led by potatoes (26.4% vs 49.6%), tomatoes (-28.5% vs -7%), leafy vegetables (-2.3% vs 0.7%) and brinjal (-13.2% vs -9.9%). Meanwhile, onions inflation rose due to an adverse base, even as prices eased on-month (30.4% vs 16.4%). Vegetables prices declined sequentially as well, by a seasonally adjusted 4.5%
- Pulses inflation eased for the ninth straight month to -0.3% from 2.5%, driven by deflation in tur (-5.8% vs -0.5%) and moong (-1.3% vs -0.2%)
- Cereals inflation moderated a tad to 6.1% from 6.2%, led by softer inflation in rice from non-public distribution system (PDS) sources (5.3% vs 5.8%). This was offset by a rise in both non-PDS (9.2% vs 8.8%) and PDS wheat (9/9% vs -0.8%).
- Edible oil inflation accelerated for the 13th straight month to 16.4% (vs 15.6%), facing pressure from elevated global prices. As per the Food and Agriculture Organisation, global edible oils prices rose 29.1% on-year in February (vs 24.9% in January). Since India imports edible oils, the rupee's depreciation over the past couple of months has also impacted domestic edible oils prices
- A few other categories too experienced some upside. Fruit inflation accelerated for the fourth straight month to 14.8% from 12.2%.
- Sugar inflation rose for the first time in eight months to 2.2% from 0.3%
- Deflation in spices slowed to -5.8% from -6.8% primarily due to a waning supportive base effect

Fuel prices decline

- Fuel inflation remained negative for the 18th straight month at -1.3% (vs -1.5%).
- Liquified petroleum gas prices declined 9.3% on-year, same as the previous month. The high base effect for this item is expected fade from March since the Rs 100/cylinder subsidy commenced in March 2024
- Inflation in electricity, which has the highest weight in fuel inflation, inched up to 5.3% from 5.2%

[1] Refers to CPI fuel and light
[2] CPI, excluding food and beverages, and fuel and light

Core rises on ‘personal care and effects’

- Core inflation rose to a 15-month high of 4.1% from 3.6%, led by the personal care and effects category
- Inflation in personal care and effects rose to 13.6% from 10.6%, driven by gold (35.6% vs 26.4%) and silver (30.9% vs 24.9%). The segment has seen the highest inflation among core categories this fiscal, and led the rise in core inflation (see the box ‘Gold fever drives up core inflation’ for details)
- That said, core inflation excluding gold, silver and other ornaments rose as well, to 3.2% from 3%. This was driven by hardening inflation essentials such housing (2.9% vs 2.8%) and health (4.1% vs 4%)

Big reprieve for the poorest

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

- Rural inflation (3.8% vs 4.6%) saw a sharper fall relative to urban (3.3% vs 3.9%) since the weight of food is higher in the rural CPI basket
- Softening food inflation meant the inflation gap between the relative poorest and relative richest narrowed sharply to 0.3 percentage points in February against 0.7 percentage points in January
- The poorest segments (bottom 20%) in both rural and urban areas saw the largest repreive in inflation rates compared with their richer counterparts as food inflation eased

CPI inflation across income classes (% on-year)

Income segment	February		January		FY24	
	Rural	Urban	Rural	Urban	Rural	Urban
Top 20%	3.9	3.3	4.6	3.9	5.4	5.1
Middle 60%	3.7	3.1	4.7	4.0	5.6	5.4
Bottom 20%	3.6	2.9	4.6	4.0	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

Gold fever drives up core inflation

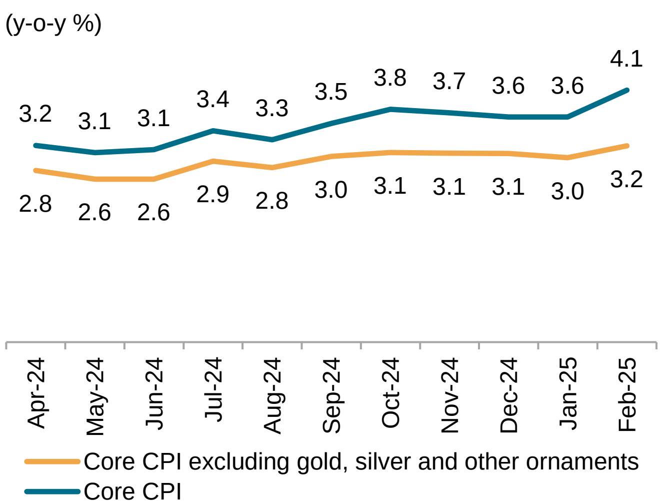
Core inflation has averaged 3.5% (vs 4.3% in fiscal 2024) so far this fiscal (April-February average), a record low. In fact, most key core categories have remained below their pre-pandemic five-year averages.

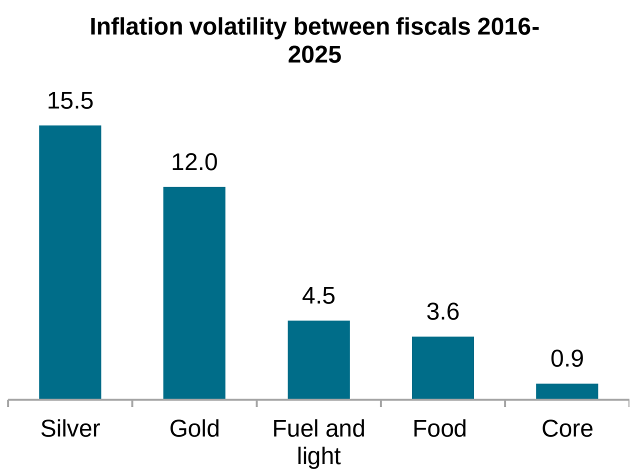
The notable exception to this is the personal care and effects category, which surged to 9.5% so far this fiscal compared with the pre-pandemic 4.8%. The personal care and effects category has 8.2% weight in the core index, yet its contribution to core inflation has been far higher this fiscal, at ~22%. This category has primarily been influenced by the surge in gold prices. Inflation in silver and other ornaments has risen this fiscal as well.

Gold prices surged 23.7% on-year this fiscal (vs 15.1% last fiscal), driving up inflation in personal care and effects. Core inflation typically strips out volatile items such as food and fuel and is a measure for underlying demand driven inflation. Global uncertainty in the past few months has increased demand for gold as it is seen as a safe asset. Inflation volatility in gold (as measured by standard deviation) was higher than food and fuel between fiscals 2015 and 2025. Hence, in times of uncertainty and gold price volatility, core inflation can be measured excluding precious metals.

The rise in core inflation in the past few months has been relatively muted if we exclude gold, silver and other ornaments. Core inflation averaged 3.8% so far in the second half of this fiscal (October-February average) compared with 3.3% in the first half. Core excluding precious metals and ornaments averaged 3.1% compared with 2.8%.

Core inflation excluding precious metals remains relatively subdued





Note: Inflation volatility is measured as standard deviation

Source: National Statistical Office, CEIC, Crisil

IIP growth picks up in January

The Index of Industrial Production (IIP) picked up to 5.0% in January from 3.5% in December (revised up from 3.2%). The uptick was driven by improving output growth in mining and manufacturing.

Among major industrial sectors, accelerating output growth in primary goods and a much lower contraction in consumer non-durables output boosted the IIP. A moderation in government capex growth in the month was reflected in a moderating output growth in capital goods as well as infrastructure and construction goods.

January's IIP pick-up ties in with the NSO's expectations of faster gross domestic product (GDP) growth in the fourth quarter of this fiscal (7.6% vs 6.2% in the previous quarter). The NSO's latest GDP estimate[3] stands at 6.5% for fiscal 2025.

The latest IIP data indicates low-value consumption at the beginning of the fourth quarter, with easing food inflation and improving rural demand. On the other hand, elevated interest rates and tight credit conditions remain a drag on consumer durables. Meanwhile, investment-related goods slowed in the month amid moderating government capex.

Going forward, we expect consumption to improve further next fiscal, driven by budgetary support (in the form of income tax relief and increased allocations for key asset and employment-generating schemes), easing inflation and RBI's interest rate cuts. We expect a normal monsoon, which should continue supporting agricultural incomes and ease food inflation. Lower crude prices are also expected to support growth.

However, the fiscal impulse to growth is expected to moderate further next year given fiscal consolidation. Investment prospects hinge on a pick-up in private capex.

We expect the economy to maintain its 6.5% GDP growth rate in fiscal 2026.

Impact of the escalating trade tensions on global growth and direct impact from US tariff hikes impose downside risks for the growth forecast.

Data highlights

- IIP grew 5.0% on-year in January, up from 3.5% in December. The index picked up 1.5% on-month after seasonal adjustments
- The on-year uptick in IIP was driven by accelerating growth in mining (4.4% vs 2.7%) and manufacturing (5.5% vs 3.4%). On the other hand, output growth in electricity moderated (2.4% vs 6.2%)
- Across use-based sectors, the IIP strengthened on the back of better performance of primary goods (5.5% vs 3.8%) and consumer non-durables (-0.2% vs -7.5%). On the other hand, intermediate goods (5.2% vs 6.4%),

[3] *second advance estimate*

infrastructure and construction goods (7.0% v 7.4%), consumer durables (7.2% vs 8.3%) and capital goods (7.8% vs 10.4%) recorded moderating output growth

Consumption-oriented sectors show mixed picture

- Consumer non-durables exhibited a significant improvement in performance (-0.2% vs -7.5% in the previous month), driven by tobacco products (16.0% vs 7.6%) and food products (0.6% vs -5.0%). This reflects tailwinds from easing food inflation and improving rural demand. However, IIP remained negative, driven by pharmaceutical products (-0.7% vs -9.7%)
- Growth in consumer durables output moderated further (7.2% vs 8.3%) because of decelerating output growth in apparel (2.9% vs 5.3%) and furniture (16.5% vs 21.1%). However, automobile production improved marginally (1.8% vs -1.9%)

.

Export-oriented industrial goods pick up ahead of tariff uncertainty

- Among industrial goods, primary goods rose (5.5% vs 3.8%), led by output growth in coke and refined petroleum products (8.5% vs 3.9%) as well as mining (4.4% vs 2.7%)
- Export-oriented sectors turned in an improved performance, reflecting the pick-up in non-oil non-gold merchandise exports (14.4% in nominal terms vs 8.3%) in the month. Output growth picked up for fabricated metals (10.5% vs 9.0%), other non-metallic mineral products (10.2% vs 3.3%) and textiles (3.3% vs 1.4%) while the contraction in pharmaceuticals output narrowed (-0.7% vs -9.7%)
- Capital goods output moderated (7.8% vs 10.4%), led by falling output growth in machinery and equipment (4.7% vs 10.6%) and electrical equipment (21.7% vs 40.5%)
- Infrastructure and construction goods output growth moderated a tad (7.0 vs 7.4%)
- January saw a significant on-year moderation in government capex growth (22.0% vs 69.8% in the previous month), driving moderating output growth of infrastructure and capital goods
- The output growth of intermediate goods moderated as well (5.2% vs 6.4%), led by falling output growth of wood and wood products (8.2% vs 17.7%)

Analytical contacts

Dharmakirti Joshi
Chief Economist, Crisil Ltd
dharmakirti.joshi@crisil.com

Dipti Deshpande
Principal Economist
dipti.deshpande@crisil.com

Pankhuri Tandon
Senior Economist
pankhuri.tandon@crisil.com

Sharvari Rajadhyaksha
Economic Analyst
sharvari.rajadhyaksha@crisil.com

Bhavi Shah
Economic Analyst
bhavi.shah@crisil.com

Media contacts

Ramkumar Uppara
Media Relations
Crisil Limited
M: +91 98201 77907
ramkumar.uppara@crisil.com

Roma Gurnani
Media Relations
Crisil Limited
M: +91 70662 92142
roma.gurnani1@ext-crisil.com

Sanjay Lawrence
Media Relations
Crisil Limited
M: +91 89833 21061
sanjay.lawrence@crisil.com

About Crisil

Crisil is a global, insights-driven analytics company. Our extraordinary domain expertise and analytical rigour help clients make mission-critical decisions with confidence.

Large and highly respected firms partner with us for the most reliable opinions on risk in India, and for uncovering powerful insights and turning risks into opportunities globally. We are integral to multiplying their opportunities and success.

Headquartered in India, Crisil is majority owned by S&P Global.

Founded in 1987 as India's first credit rating agency, our expertise today extends across businesses: Crisil Ratings, Crisil Intelligence, Crisil Coalition Greenwich and Crisil Integral IQ.

Our globally diverse workforce operates in the Americas, Asia-Pacific, Europe, Australia and the Middle East, setting the standards by which industries are measured.

For more information, visit Crisil.com

Connect with us: LinkedIn | Twitter