

Dec'24 CPI inflation down to a four-month low of 5.2%

Deceleration was broad-based

- **Headline CPI inflation** came down to a four-month low of 5.2% YoY in Dec'24 vs. 5.5% in Nov'24. The deceleration was broad-based. Food inflation eased to a four-month low of 8.4% (vs our forecast of 8.8%) and core inflation stood at 3.6% from 3.7% in the previous two months (vs our forecast of 3.8%). On a sequential basis, inflation declined 0.6% in Dec'24. The inflation number was slightly lower than the market consensus of 5.3% and our forecast of 5.4%. In 3QFY25, inflation stood at 5.6% vs. 4.2%/5.4% in 2QFY25/3QFY24.
- **Food inflation** came down to 8.4% YoY in Dec'24 (lowest in four months) vs. 9.0% in Nov'24. Details suggest that lower food inflation (vs last month) was mainly driven by the 30-month lowest increase in cereal prices, 25-month lowest increase in pulse prices, and some moderation in vegetable prices (26.6% in Dec'24, lowest in four months). On the other hand, prices of oil & fats went up sharply to a 32-month high of 14.6% in Dec'24. Additionally, prices of protein-based items (eggs, meat & fish, and milk products) also went up during the month. CPI, excluding veggies, stood at a 10-month high of 3.7% in Dec'24. Notably, the prices of fuel and light items continued to contract in Dec'24 (-1.4% YoY in Dec'24 vs -1.8% in Nov'24).
- **Other details suggest that:** 1) Services stood at 3.5% YoY in Dec'24, similar to Nov'24, while goods inflation came down to a four-month low of 5.7% in Dec'24; 2) CPI, excluding veggies (weight 94%), stood at a 10-month high of 3.7% YoY; 3) Imported inflation jumped to a 22-month high of 5.4% in Dec'24, while domestically generated inflation came down to 5.2%, lowest in four months (vs 5.6% in Nov'24) (*Exhibit 3*); 4) Standard core inflation (excluding food & energy) stood at 3.9% YoY in Dec'24, similar to Nov'24; and 6) Details confirm that 29% of the CPI basket posted 5%+ inflation in Dec'24 (vs 28% in Nov'24).
- **Going forward**, we see headline inflation at ~4.8% vs the RBI forecast of 4.5% in 4Q (depends on vegetables to a great extent), easing further toward 4% in 2QFY26 and lower in 2HFY26. With weak growth and continued fiscal deficit consolidation, headline inflation forecasts of 4-4.5% suggest that rate cut has a high probability in Feb'25.

- **CPI inflation down to a four-month low:** Headline CPI inflation came down to a four-month low of 5.2% YoY in Dec'24 vs. 5.5% in Nov'24. The deceleration was broad-based. Food inflation eased to a four-month low of 8.4% (vs our forecast of 8.8%) and core inflation stood at 3.6% from 3.7% in the previous two months (vs our forecast of 3.8%) (*Exhibit 1*). On a sequential basis, inflation declined 0.6% in Dec'24. The inflation number was slightly lower than the market consensus of 5.3% and our forecast of 5.4%. In 3QFY25, inflation stood at 5.6% vs. 4.2%/5.4% in 2QFY25/3QFY24.
- **Food inflation came down to 8.4%:** Food inflation came down to 8.4% YoY in Dec'24 (lowest in four months) vs 9.0% in Nov'24. Details suggest that the lower food inflation (vs last month) was mainly driven by the 30-month lowest increase in cereal prices, 25-month lowest increase in pulse prices, and some moderation in vegetable prices (26.6% in Dec'24, lowest in four months). On the other hand, prices of oil & fats went up sharply to a 32-month high of 14.6% in Dec'24. Additionally, prices of protein-based items (eggs, meat & fish, and milk products) also went up during the month. CPI, excluding veggies, stood at a 10-month high of 3.7% in Dec'24 (*Exhibit 2*). Notably, the prices of fuel & light items continued to contract in Dec'24 (-1.4% YoY in Dec'24 vs. -1.8% in Nov'24).
- **Other details suggest that:** 1) Services stood at 3.5% YoY in Dec'24, similar to Nov'24, while goods inflation came down to a four-month low of 5.7% in Dec'24; 2) CPI, excluding veggies (weight 94%), stood at a 10-month high of 3.7% YoY; 3) Imported inflation jumped to a 22-month high of 5.4% in Dec'24, while domestically generated inflation came down to 5.2%, lowest in four months (vs. 5.6% in Nov'24) (*Exhibit 3*); 4) Standard core inflation (excluding

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food & energy) stood at 3.9% YoY in Dec'24, similar to Nov'24; and 6) Details confirm that 29% of the CPI basket posted 5%+ inflation in Dec'24 (vs. 28% in Nov'24) (Exhibit 4).

- **Our view:** Going forward, we see headline inflation at ~4.8% vs the RBI forecast of 4.5% in 4Q (depends on vegetables to a great extent), easing further toward 4% in 2QFY26 and lower in 2HFY26. With weak growth and continued fiscal deficit consolidation, headline inflation forecasts of 4-4.5% suggest that rate cut has a high probability in Feb'25.

Exhibit 1: Retail inflation came down to a four-month low of 5.2% in Dec'24 vs. 5.5% in Nov'24...

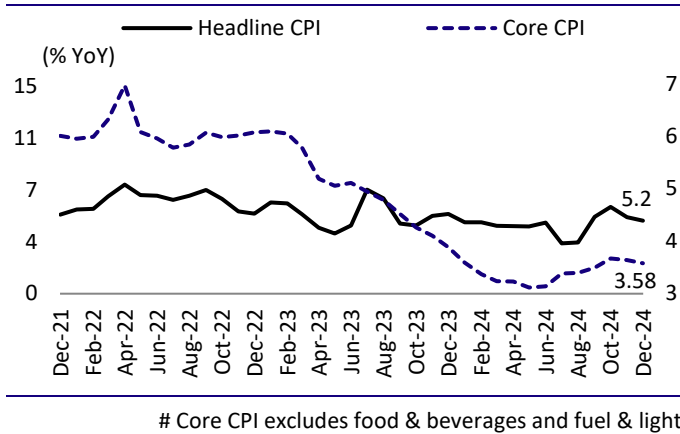


Exhibit 2: ...mainly led by a lower food inflation

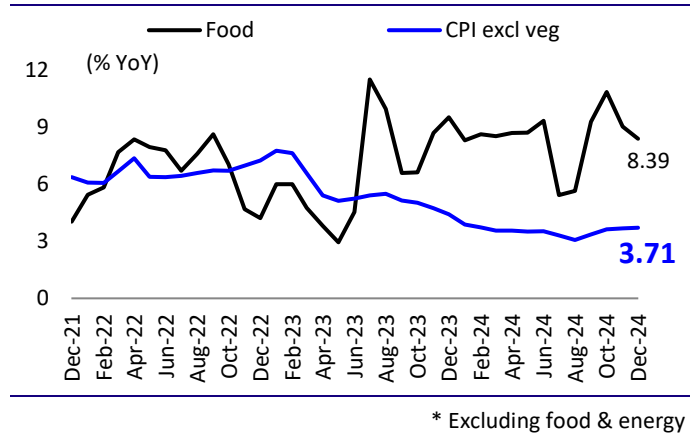


Exhibit 3: Imported inflation jumps to a 22-month high of 5.8% in Dec'24

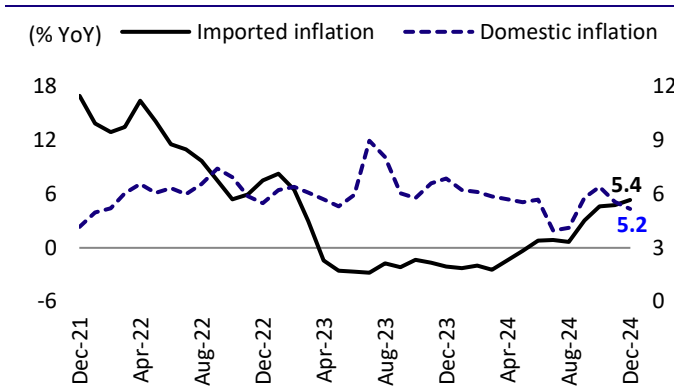


Exhibit 4: 29% of the CPI basket recorded more than 5% inflation in Dec'24

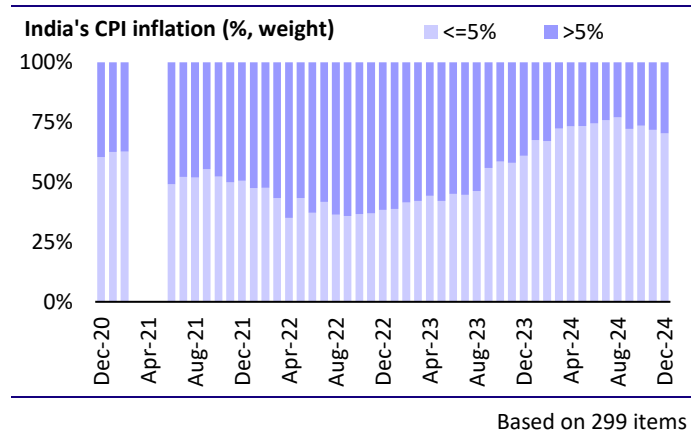


Exhibit 5: CPI and its key components

	FY24	Apr-Dec'23	Apr-Dec'24	Dec-23	Oct-24	Nov-24	Dec-24
Overall CPI	5.4	5.5	4.9	5.7	6.2	5.5	5.2
Food and beverages	7.0	6.8	7.6	8.7	9.7	8.2	7.7
Cereal and products	10.7	11.7	7.6	9.9	6.9	6.9	6.5
Pulses and products	15.2	14.0	11.4	20.7	7.4	5.4	3.8
Meat and fish	2.3	1.7	5.2	1.1	3.2	4.7	5.3
Milk and products	6.5	7.4	2.9	5.1	3.0	2.9	2.8
Vegetables	14.9	11.0	25.4	27.6	42.2	29.4	26.6
Pan, tobacco, and intoxicants	3.6	3.8	2.7	3.6	2.5	2.3	2.5
Fuel and light	1.2	2.2	-3.2	-1.0	-1.7	-1.8	-1.4
Housing	3.9	4.2	2.7	3.6	2.8	2.9	2.7
Clothing and footwear	4.7	5.2	2.7	3.6	2.7	2.7	2.7
Miscellaneous	4.5	4.7	3.9	4.1	4.3	4.3	4.2
Transport and communication	1.9	2.0	2.1	2.0	2.8	2.7	2.6
Core CPI*	4.3	4.6	3.4	3.9	3.7	3.7	3.6

*Excluding food & beverages and fuel & light

Source: Central Statistics Office (CSO), MOFSL

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