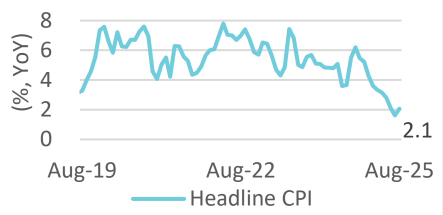
ECONOMY RELEASE

MACRO MUSINGS

Headline CPI



CPI and key components

%YoY	May-25	Jun-25	July-25	Aug-25
Headline CPI	**2.8**	**2.1**	**1.6**	**2.1**
Food	1.5	-0.2	-0.8	0.0
Fuel & Light	2.8	2.6	2.7	2.4
Core CPI	4.3	4.4	4.1	4.1
Core Core CPI (ex-commodities)	3.5	3.5	3.2	3.1

CPI rises but stays benign

CPI rose to 2.1% YoY in August (from 1.6% in June), in line with market expectations. Key trends: i) Food inflation was flat (0%) after two months of contraction as vegetables' deflation eased a bit (from -21% to -16%). ii) Core CPI stayed stable at 4.1% YoY; super core (ex-gold, silver, etc), however, eased further to 3.1% YoY.

Overall, though reported CPI may rise over coming quarters (as vegetable prices normalise), the inflation dynamic remains quite benign. Good monsoon too augurs well. However, uncertainties prevail around the growth outlook. GST cut may partially offset some of the tariff impact, but may not deliver a sustained revival in demand. The RBI must ease further.

CPI rises on softer vegetable declines

CPI rose to 2.1% YoY in August, up from 1.6% in June, broadly in line with market expectations. The increase was primarily driven by easing vegetables deflation, from -21% YoY in July to -16% YoY in August. This shift resulted in overall food inflation flattening after two months of contraction. Excluding vegetables, CPI remained benign at 3.6% YoY. Within the food basket, cereals (~20% weight) recorded further disinflation, easing to 2.7% YoY in August from 3% in July, aided by an above-normal monsoon across central and north-western regions.

Core inflation stable; gold-led price pressures persist

Core inflation remained stable at 4.1% YoY in August; excluding commodities (gold, silver, petrol and diesel), inflation eased further to 3.1% YoY in August from 3.2%—remaining below 4% for the past 22 months. Within commodities, inflation was primarily driven by gold, which rose sharply from 36% YoY in July to 40.3% in August, reflecting strong global safe haven demand amid heightened geopolitical and economic uncertainties. Among core goods, personal care prices accelerated (15.1% in July to 16.6% in August), whereas other categories—including education, healthcare, clothing and transport—recorded softer price momentum. Overall, core inflation remains subdued, highlighting muted demand conditions.

Benign inflation outlook through FY26

Underlying inflationary pressures remain soft and are expected to stay subdued through the year. Food inflation remains contained owing to a good monsoon and weak growth holding down core inflation. Although reported inflation might rise temporarily in the last quarter, due to a low base, the underlying trend would continue to be benign. On the growth front, however, risks are tilted to the downside. Externally, tariffs could dampen global activity, with adverse spillovers for India's exports and employment. Domestically, income and credit dynamics remain weak. Surely, GST cuts may offer a partial relief by supporting consumption, but broader demand is likely to stay sluggish. Against this backdrop, an accelerated pace of monetary easing appears warranted.

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Exhibit 1: India CPI by component

Component (New Base: 2012)	Weight	Aug-25	Jul-25	Jun-25	May-25	Apr-25	Mar-25	Feb-25	Jan-25	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24
CPI	**100**	**2.1**	**1.6**	**2.1**	**2.8**	**3.2**	**3.3**	**3.6**	**4.3**	**5.2**	**5.5**	**6.2**	**5.5**	**3.7**
Core CPI	**47**	**4.1**	**4.1**	**4.4**	**4.3**	**4.1**	**4.1**	**4.0**	**3.7**	**3.6**	**3.7**	**3.7**	**3.5**	**3.4**
Core CPI (ex commodities)	**44**	**3.1**	**3.2**	**3.5**	**3.5**	**3.4**	**3.4**	**3.3**	**3.2**	**3.2**	**3.2**	**3.2**	**3.2**	**3.2**
Food, beverages & tobacco	**46**	**0.0**	**-0.8**	**-0.2**	**1.5**	**2.1**	**2.9**	**3.8**	**5.7**	**7.7**	**8.2**	**9.7**	**8.4**	**5.3**
Cereals and products	10	2.7	3.0	3.7	4.8	5.3	5.9	6.1	6.2	6.5	6.9	6.9	6.8	7.3
Milk and products	7	2.6	2.7	2.8	3.1	2.7	2.6	2.7	2.8	2.8	2.9	3.0	3.0	2.9
Vegetables	6	-15.9	-20.7	-18.9	-13.7	-11.0	-7.0	-1.1	11.3	26.6	29.4	42.2	36.0	10.7
Oils and fats	4	21.2	19.2	17.8	17.9	17.4	17.1	16.4	15.6	14.6	13.3	9.5	2.5	(0.9)
Meat and fish	4	1.5	-0.6	-1.6	-0.4	-0.4	0.3	2.1	5.3	5.3	4.7	3.2	2.7	4.3
Fuel & light	**7**	**2.4**	**2.7**	**2.6**	**2.8**	**2.9**	**1.4**	**-1.3**	**-1.5**	**-1.3**	**-1.8**	**-1.6**	**(1.4)**	**(5.3)**
Housing	**10**	**3.1**	**3.2**	**3.2**	**3.2**	**3.1**	**3.0**	**2.9**	**2.8**	**2.7**	**2.9**	**2.8**	**2.8**	**2.7**
Clothing, bedding & footwear	**7**	**2.3**	**2.5**	**2.6**	**2.7**	**2.7**	**2.6**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**
Miscellaneous	**28**	**5.0**	**5.0**	**5.5**	**5.1**	**5.0**	**5.0**	**4.8**	**4.3**	**4.2**	**4.3**	**4.3**	**4.0**	**3.9**
Transport and communication	9	1.9	2.1	3.9	3.8	3.7	3.3	2.9	2.8	2.6	2.7	2.7	2.8	2.7
Medical care	6	4.4	4.6	4.4	4.3	4.3	4.3	4.1	4.0	4.0	4.0	4.0	4.1	4.1
Education, stationery etc.	4	3.6	4.1	4.4	4.1	4.1	4.0	3.8	3.8	3.9	3.9	4.0	3.8	3.9
Personal care and effects	4	16.6	15.1	14.8	13.5	12.9	13.5	13.6	10.6	9.7	10.4	11.0	9.0	8.0
Household requisites	4	2.5	2.6	2.6	2.5	2.5	2.7	2.8	2.9	2.8	2.8	2.7	2.5	2.4
Recreation and amusement	2	2.2	2.4	2.5	2.4	2.5	2.4	2.7	2.7	2.7	2.6	2.5	2.3	2.4

Source: CSO, Nuvama Research

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