

HEADLINE CPI INFLATION SET TO BREACH THE LOWEST EVER HISTORICAL PRINT IN JULY 2025.... COULD A RATE CUT BY 25 BPS BE AN ADRENALINE BOOST TO INVIGORATE GROWTH AMIDST ALL THE TRADE MELEE?

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India's CPI inflation moderated to 77-month low of 2.10% in June'25, vis-a-vis 2.82% in May'25 and 5.08% in June'2024. The decline is mainly due to decline in food inflation, which is also at 77-month low of -0.20%, led by continued decline in food items particularly vegetable, pulses and spices.

However, the imported inflation has again risen for the month of June 2025, making it the 13th consecutive straight monthly rise. The rise in gold and silver prices have contributed the most to build-up in imported inflation. The overall share of imported inflation in total CPI inflation buildup now stands at 71% in June'25 up from 50% in May.

The impact of the trade tariffs on inflation, particularly the domestic inflation part consisting of 75% weight in overall basket can be further deflation in domestic relative prices. The sectors that are at risk of major impact include Clothing and footwear and household items consisting of electronic and manufacturing items. Share of these two items is close to 10.3% in CPI basket.

An analysis done using Threshold diffusion indices (which capture the dispersion of price increases in CPI basket beyond the specified y-o-y thresholds of 4% and 6%) indicates that Threshold diffusion indices continued to remain well below the 50-level mark (18 in the case of more than 6% and 32 in the case of more than 4%), indicating that the extent of price increases across a majority of the CPI items continued to remain muted.

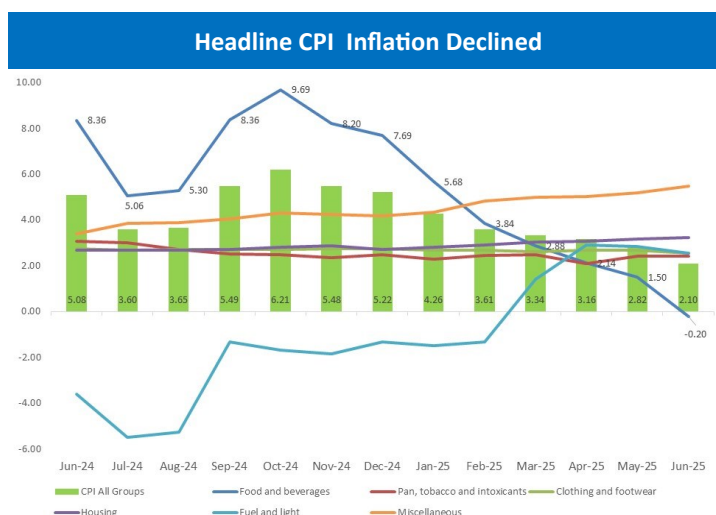
Internationally, Global commodity prices have been decelerating in the past four months. All the major components are in the negative territory, apart from fertilizer and precious metals.

We examined spatial convergence across states to assess whether there exists regional dispersion—a phenomenon indicative of greater price alignment and effective macroeconomic transmit particularly given the multiple overlapping shocks. Using a cross-sectional β -convergence approach, we test the hypothesis that states with larger initial deviations from the all-India inflation rate exhibit greater reductions in those deviations over time. We found that a negative and statistically significant β coefficient confirms the presence of spatial inflation convergence—suggesting that inflation rates in states with initially wider gaps are moving closer to the national trend.

With a firmly benign inflationary trend envisaged going ahead, notwithstanding the tumult on part of trade led restrictions and non-linear pass-through of such vagaries, the plot seems to be spiced with a further 25 bps rate cut (sooner than later) to give an adrenaline boost to the economic juggernaut as global developments necessitate us to build today for tomorrow.

CPI INFLATION MODERATED TO 77-MONTH LOW TO 2.10% IN JUNE'25

- ◆ India's CPI inflation moderated to 77-month low of 2.10% in June'25, compared to 2.82% in May'25 and 5.08% in June'2024. The decline is mainly due to decline in food inflation, which is also at 77-month low of -0.20%, led by continued decline in food items particularly vegetable, pulses and spices. Vegetable prices continued its southward trend and decline by -19.0% in June. Pulse prices declined by -8.2% while spices and meat & fish prices also exhibited decline in May.
- ◆ Fruits inflation, though still at elevated level, moderated slightly in June to 12.59%. Oil & fat CPI is also declined a little to 17.75%.



Source: SBI Research

- ◆ However, inflation on 'housing', 'fuel & light' and "misc items' not declined during the last 12 months. Housing inflation has increased by 68 bps to 3.24%, fuel & light inflation by 622 bps to 2.55% and Misc inflation by 207 bps to 2.55%.
- ◆ Among Misc items, personal care items price has increased by 7.09% to 14.76% during the last 12-months.

THRESHOLD DIFFUSION INDEX

- ◆ Threshold diffusion indices capture the dispersion of price increases in CPI basket beyond the specified y-o-y thresholds of 4% and 6%. Data indicate that Threshold diffusion indices continued to remain well below the 50-level mark (18 in the case of more than 6% and 32 in the case of more than 4%), indicating that the extent of price increases across a majority of the CPI items continued to remain muted.

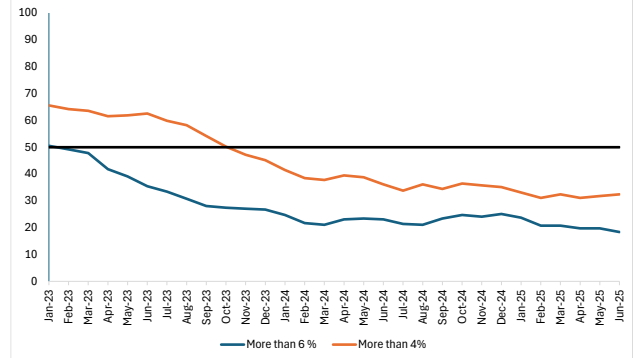
CPI-WPI DIVERGENCE

- ◆ WPI inflation remained within a narrow range of 2-3% during Oct'24 to Mar'25, as the softening in food inflation was offset by a pick-up in non-food manufactured products inflation and a narrowing of deflation in the fuel group. During the same period CPI inflation hovering in the wide range of 3-6%. However, during Jun'25 while CPI inflation soften to 2.1% The WPI inflation plunged into negative territory, and hence the divergence between both is still there.
- ◆ Similar sub-groups/items across CPI and WPI also exhibited diverse inflation movements. While WPI inflation in food sub-groups such as cereals, pulses, fruits, oils and fats, and vegetables ruled above corresponding CPI groups/subgroups, those in sugar, milk and egg prices were higher in the CPI than in the WPI. Similarly, inflation in clothing, and pan, tobacco and intoxicants was higher in the CPI measure vis-à-vis the WPI. On the other hand, fuel and light recorded a deflation in WPI but tad positive in WPI. Likewise, petrol and diesel recorded a lower rate of deflation in the CPI vis-a-vis WPI.

GLOBAL COMMODITY PRICES

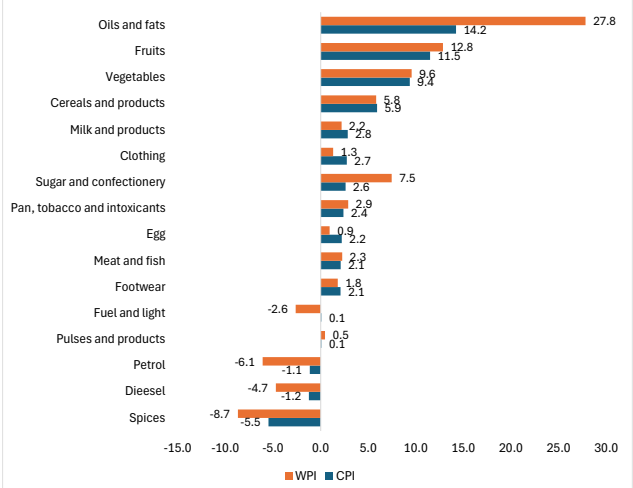
- ◆ Global commodity prices has been decelerating in the past four months. All the major components are in the negative territory, apart from fertilizer and precious metals.
- ◆ Precious metals prices has increased by 40.4% yoy in June 2025 from 35.76% yoy in May 2025. In particular, gold price has increased by 44% yoy in June from 40.8% yoy in the previous month, while silver price increased by 21.7% yoy compared to 11.6% yoy in May 2025.

Diffusion index (CPI Headline by Thresholds)



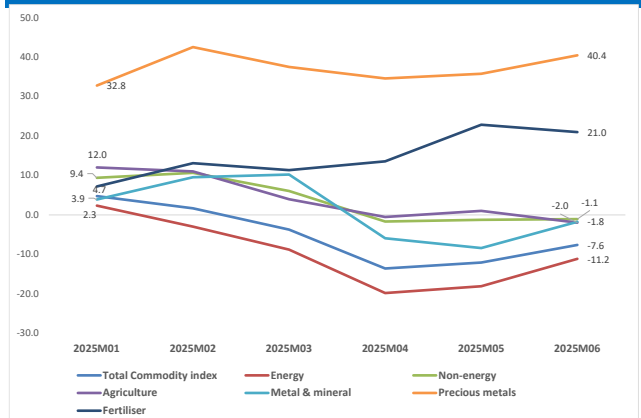
Source: SBI Research

CPI-WPI Divergence: Select Commodities (Average during Sep'24—Jun'25)



Source: SBI Research

Global Commodity Prices (%)



Source: SBI Research

- Overall, though both energy and non-energy price have declined in June, the pace of reduction has eased.

IMPORTED INFLATION AND IMPACT OF TRADE WARS

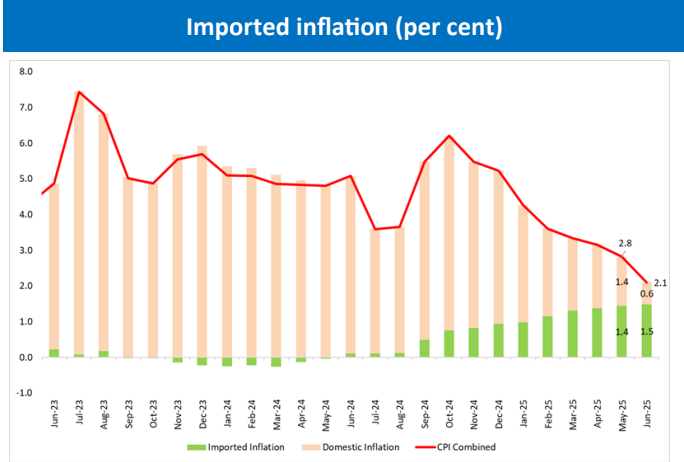
- The imported inflation has again risen for the month of June 2025, making it 13 consecutive straight monthly rises. The rise in gold and silver prices have contributed the most to build-up in imported inflation. The overall share of imported inflation in total CPI inflation buildup now stands at 71% in June up from 50% in May.
- The impact of the trade tariffs on inflation, particularly the domestic inflation part consisting of 75% weight in overall basket can be further deflation in domestic relative prices. The sectors that are at risk of major impact include Clothing and footwear and household items consisting of electronic and manufacturing items. Share of these two items is close to 10.3% in CPI basket.

SPATIAL CONVERGENCE IN INFLATION

- We examine spatial convergence across states to assess whether there exists regional dispersion—a phenomenon indicative of greater price alignment and effective macroeconomic transmit particularly given the multiple overlapping shocks. Using a cross-sectional β -convergence approach, we test the hypothesis that states with larger initial deviations from the all-India inflation rate exhibit greater reductions in those deviations over time. Specifically, we estimate the following regression:

$$\ln\left(\frac{\pi_{i,t} - \pi_{N,t}}{\pi_{i,0} - \pi_{N,0}}\right) = \alpha + B \ln(|\pi_{i,0} - \pi_{N,0}|) + \varepsilon_t$$

- Here, the dependent variable captures the proportional change in the absolute deviation of a state's inflation rate from the national average, while the independent variable reflects the initial magnitude of that deviation. **A negative and statistically significant β coefficient confirms the presence of spatial inflation convergence—suggesting that inflation rates in states with initially wider gaps are moving closer to the national trend.** This outcome has important policy implications, reflecting enhanced price stability, improved market integration, and the effectiveness of nationwide inflation management efforts.



Source: SBI Research

WAY FORWARD

- We believe that the upcoming July 2025 CPI inflation data is set to breach the lowest ever historical print. We expect average CPI inflation for FY26 would be around 3.0%-3.2% (RBI:3.7%) as against FY25 average of 4.6%.
- Given this benign inflation expectations on back of 50 bps rate cut recently in June policy, the current focus of RBI is to support the momentum in capital formation for more durable growth. As also noted by the MPC in its resolution, the MPC decided to remain data-dependent to chart the future course of monetary policy and strike the appropriate growth-inflation balance.
- With a firmly benign inflationary trend envisaged going ahead, notwithstanding the tumult on part of trade led restrictions and non-linear pass-through of such vagaries, the plot seems to be spiced with a further 25 bps rate cut (sooner than later) to give an adrenaline boost to the economic juggernaut as global developments necessitate us to build today for future.

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