



INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS AND MANAGEMENT

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FOOD INFLATION IN INDIA- WHERE ARE THE PRICES HEADING?

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ABSTRACT

Since November 2009, inflation has been moving northwards on the back of surging prices of fuel, commodity, fruits and vegetables. This consistently rising inflation has resulted in a growing concern among policy makers, industry captains, bankers as well as the common man. On June 12 2010, inflation shot through the roof of touch an 11 year high of 16.9%. The calendar year 2009 also saw inflation at a negative rate, ironically, food inflation roaring to its maximum level. Inflation slid to 8.15% in August from July's uncomfortably high of 9.78% but the finance minister is justified to feel the heats not yet off on price. It's just as well that India has launched a new series of WPI which measures the prices of a basket of wholesale commodities. A makeover long overdue, the new index has an updated base year of 2004-05 and covers a large number of items. According to the new index,, inflation has declined on account of falling prices of food items such as vegetables, fruits, cereals and pulses. New inflation series has 241 more items than the old series that has 1993-94 as base year which only reflects price rise in 435 articles. By all indications as a more refined socio-economic reflector, it will offer a clearer view of living costs. Any inflation tracking device must account for a better off India's changing production and consumption trends. Accordingly, manufacturing goods and fuel get more weightage while primary articles including food see some downgrading. Things ranging from edible and non edible items widely used by the middle class such as soft drinks and ice creams to Televisions, washing machines, gold, silver, computers, dish antenna and micro ovens enter the basket while old and outmoded articles like type writers make an exit. Food inflation fell to 12.63% for the week ended on June 26 on cheaper potatoes and onions but it brought little relief to consumers as fuel inflation shot up to 18.02% keeping the pressure on overall prices. Food inflation was 12.92% and fuel inflation was 12.09% in June.

KEYWORDS

Wholesale price index, Consumer price index, food inflation.

INTRODUCTION

Since November 2009, inflation has been moving northwards on the back of surging prices of fuel, commodity, fruits and vegetables. This consistently rising inflation has resulted in a growing concern among policy makers, industry captains, bankers as well as the common man. On June 12 2010, inflation shot through the roof of touch an 11 year high of 16.9%. The calendar year 2009 also saw inflation at a negative rate, ironically, food inflation roaring to its maximum level. The wholesale food prices in India touched a 10 year high with food inflation coming at 19.95% for the week ended December 5, 2009. This article looks back into the spiraling food inflation in 2009, its implications, reasons and solutions.

WHOLESALE PRICE INDEX (WPI)

It was introduced in the year 1907, which is calculated on the basis of average rate of change in the wholesale market. A set of 435 commodities are used for wholesale price Index based inflation calculations. The base year for WPI calculation is 1993-94. It is available at the end of every week (generally Friday) for a period of one year.

The Government will adopt revised WPI besides considering actual prices. Instead of current 435 commodities, the revised WPI will have 980 commodities included in it. This will be rationalized by incorporating new items, removing unimportant items and amalgamating similar items. The base year will be revised to 2004-05 from the current base year of 1993-94. This new wholesale price index would give a more accurate figure for inflation.

COMMODITY PRICE INDEX (CPI)

The WPI based inflation rate, which is measured on point-to-point basis, is somewhat different from that of CPI based inflation. It is a statistical time series value based on the weighted average rate of change in prices of a set of goods and services purchased by consumer. CPI is more comprehensive and it catches the inflation value from the end consumer side rather than from wholesale side. CPI is based on monthly basis. India uses CPI, which most developed countries use CPI calculations for inflation rate.

Prices of set of 435 commodities especially dal, rice fruits and vegetable are used to calculate WPI in India. Economists say that India should adopt CPI for inflation calculation as it is the one that shows price rise that end consumers would experience. The finance minister counts it saying that in India there are four commodity price indices.

- CPI for Industrial workers
- CPI for urban non manual employees
- CPI for Agricultural laborers
- CPI for Rural laborers

In existence which makes switching over to CPI risky and complex and also CPI has too much time lag in reporting. CPI are the prices that people actually pay is fairly soft.

FOOD INFLATION IN INDIA

The table below gives the retail prices for some of the key agricultural commodities in four Indian metros. This is just to give an idea of how the prices have moved in the last one year.

Clearly, the prices of all key agricultural commodities have risen sharply. Significant price increase has been observed in commodities like arhar dal, sugar, potatoes and onions.

FOOD INFLATION FOR SELECT COMMODITIES

• Onions:	98.15 percent
• Vegetables:	65.39 percent
• Fruits:	15.19 percent
• Potatoes:	-2.94 percent
• Milk:	13.27 percent
• Eggs, meat, fish:	12.94 percent
• Cereals:	0.23 percent
• Rice:	2.86 percent
• Wheat:	(-) 6.11 percent

The key reason cited for the spiraling food price inflation is the bad monsoon in India. Monsoons have a major impact on the price levels in the country. The primary articles inflation originates in commodities whose production is affected by the monsoon like food or cash crops. Normally, food prices are at a kind of peak at the end of June, and once the rain starts, prices start moving. If monsoon is good, prices fall and vice versa. Last year food prices fell as monsoon advanced, this year it has moved up.

June is a critical month for all, Government leaders, bureaucrats, economists, policy makers, industrialists, farmers and besides, millions of ordinary Indians. During this month, the south west monsoons usually set across the country bringing the much needed rains. Last year, monsoons set in on time, but its progress was halting by the time the season ended around September, the country had experienced one of the worst monsoons over the 35 years. Crops withered across the country and agricultural production suffered a setback with a loss of over 15 million tons of food grains. If at all the exceptionally robust monsoon of 2010 is having a positive impact on food crops, the retail market remains ignorant till date. Food inflation stood at 10.35% for the week ended Aug 14 2010. Last year it was 13.45% for the same week. With festive season and incidentally both *Ramzan* and *Shravan* starting together, there are complains by both the communities regarding the rising prices of food articles. The prices are hovering to a maximum level.

In 2008, it was estimated that India loses INR 58,000 crore worth of agricultural food items due to lack of post harvesting infrastructure such as cold chains, transportation, and storage facilities. If the Government ensured proper storage facility, food inventory would have been more than sufficient leading to prices remaining under control. I am not sure if the Government is still doing enough to have proper food storage facilities in the country.

The Indian farmers are largely dependent on the four-month monsoon season during which 80% of the year's total rainfall takes place. The reason is that 60% of the country's total cropped area is not irrigated. The Government has again been talking about inclusive growth and stress on rural India. These facts don't point to any meaningful efforts to help farmers in a country where over 10,000 farmers have committed suicide over the last decade.

The per hectare agricultural yield in India is half that of China. This again points of inefficiency and the failure to help the farmers adopt latest technology in order to increase the crop output. These things have not been taken care of in the past and even when discussed, nothing substantial has been done in order to overcome these challenges. steps are to be taken in the near future to ensure minimal food wastage, high crop productivity and increase in irrigated land. if the INR 58,000 crore of food crop is not wasted on an annual basis, India's deficits could be wiped out in less then a decade without any other measures being taken. However, looking into the very near term, some ways to ease food prices would be:

Crackdown on hoarders and black marketers could help prevent prices from rising further. This step might not significantly reduce prices but will ensure that prices don't escalate further. The Government should allow the private sector to import and store the primary agricultural commodities at zero import duty. This will help ease the prices to a large extent. The Government also needs to unload the wheat inventory it has in its storage locations. This will have an immediate impact on the prices.

IMPACT OF FOOD INFLATION ON INDIAN CONSUMERS

The high food price inflation is having a significant impact on the Indian consumer in general and the Indian middle class in particular. The chart below gives the way the Indians spend.

As evident from the chart above, nearly 43% of the personal disposable income goes into food products. Unfortunately, this is the segment which is experiencing highest inflation. A high food inflation ensures that consumers have to cut back on their spending (on non-necessary items). This in turn will impact the consumption part of the GDP growth. The following table gives a section of their incomes spent of the following:

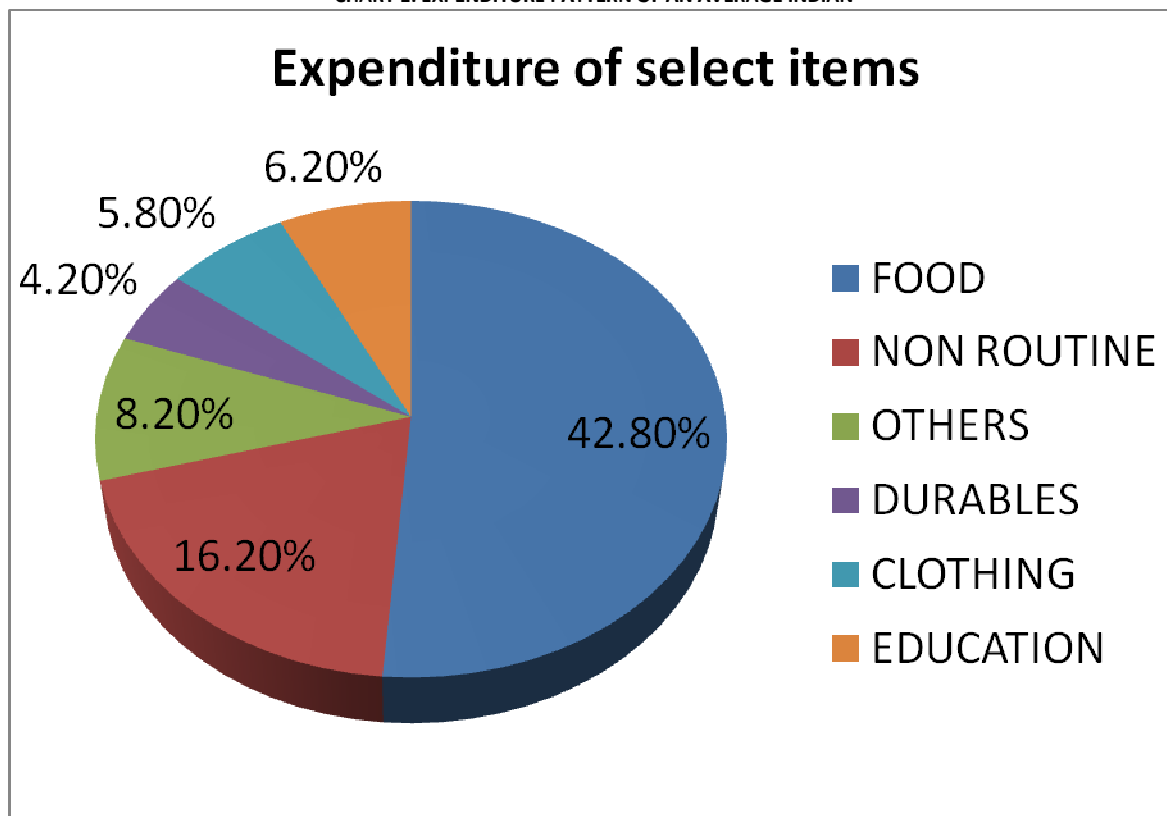
TABLE: 1 PERCENTAGE INCREASE IN THE PRICES OF SELECT COMMODITIES FOR THE YEAR 2009-10

• COMMODITIES	• PERCENTAGE
• FOOD	• 42.8%
• NON ROUTINE	• 16.2%
• OTHERS	• 8.2%
• DURABLES	• 4.2%
• CLOTHING	• 5.8%
• EDUCATION	• 6.2%
• TRANSPORT	• 8.8%
• HEALTH	• 3.9%
• HOUSING	• 3.9%

Source: compiled

Even today 43% of the incomes by the Indians is spent on food articles. Another important point to note is that a majority of Indians still don't invest in equity markets. They prefer going for fixed deposits which are currently yielding only around 8-10% annually. On the other hand, inflation for an average household is easily around 12-15% (even education, health and housing cost are going up).

CHART 1: EXPENDITURE PATTERN OF AN AVERAGE INDIAN



Thus, a large section of the population are losing out on their purchasing power without realizing about it. For those who realize this, there is only one option - to speculate in the stock markets and try to get returns which beat the annual inflation rate. In this also, most of us know how many retail investors actually make money in the markets.

Considering these factors, it is very important for the Government to try and control the inflation or at least try and ensure that these circumstances do not arise again in the future. As mentioned above, there are several ways of curbing food inflation. It is only that the Government needs to be more proactive rather than being reactive.

Food price inflation touched record heights of almost 20% in December, hurting millions of poor and middle class Indians. Within the fuel category, prices of petrol rose by 26.85%, diesel by 22.7%, and cooking gas by 14.47%. On an annual basis milk became costlier by 15.91% and fruits by 7.81%. the following table gives a clear picture of changes in the prices of selected food grains for the years 2009-10

TABLE 2: COMPARATIVE PRICES FOR SELECT COMMODITIES DURING 2009-10

• COMMODITIES	• DECEMBER-09	• DECEMBER-10
• SUGAR	• 35	• 31
• POTATOES	• 23	• 28
• ONIONS	• 21	• 70/80
• ARHARDAL	• 85	• 80
• WHEAT	• 17.5	• 22
• RICE	• 20	• 25

Source: Compiled

TABLE 3: FOOD PRODUCTION FOR SELECT YEARS 2009-10

• KHARIFF PRODUCTION	• 2009-10	• 2008-09	• DIFFERENCES
• RICE	• 69.45	• 84.58	• -15.13
• CEREALS	• 22.76	• 28.34	• -5.58
• PULSES	• 4.42	• 4.78	• -0.36
• TOTAL FOOD PRODUCTION	• 96.63	• 117.7	• -21.07
• OIL SEEDS	• 15.23	• 17.33	• -2.65
• SUGAR CANE	• 249.48	• 273.93	• -24.65

Source: Compiled

FOOD SHORTAGE CAUSES HIGH INFLATION

On one hand, increased demand for vegetables owing to *Shravan* rituals has cancelled the advantage of good monsoons as the main characters of the last; including Cauliflower, Cluster Beans, Lady’s Finger and Green Peas remain pricey at Rs 40-60 per Kg. People are purchasing a few varieties at on go and in small quantities. Unlike *Navaratri*, when vegetable prices tend to dip for it is a period of fasting, during *Shravan* most *Hindu* consumers consume vegetarian food for the month so prices that would have ordinarily come down due to good monsoon continue to remain in the range of Rs 40-60 per Kg. Garlic has become the villain of the piece having shot up from Rs 70-80 per Kg in June 2010 to Rs 100-160 per Kg in Sept 2010.

From cyclone Phyan to poor monsoons citizens have faced all sorts of reasons for continued inflation. Though the experts say that the two did not damage farm yields as is being projected, one hopes this year’s bountiful rains will mitigate the worries faced by the citizens by the end of 2010. (Bella Jaisinghani, Sunday Times August 29 2010)

TABLE 4: COMPARATIVE PRICES OF SELECT FOOD ITEMS

PRICY GREENS			
Veggies	Nov/Dec 99	June 2010	Aug 27 2010
Green Peas	114	120	60
Green Peas(frozen)	100	150	80
French beans	20	80-90	60-80
Cluster beans	60	60	40
Tomatoes	35	30	25
Onion	24	14	16
Potatoes	22	15	14
Lady's finger	60	90	48

OTHER EDIBLES			
Mutton	240	270	240
Chicken	92	105	94-115
Eggs	40-45	35	40
Moong Dal	100	100-120	108
Tuvar Dal	100	70-80	84
Chana Dal	60	50	54
Rice (Kolam)	38-42	35	36-42
Rice (Basmati)	70-75	75-80	55

Source: Compiled

Food price inflation touched record heights of almost 20% in December, hurting millions of poor and middle class Indians. Poor rains last year led to an upsurge in food inflation which continues to play havoc with the finances of ordinary Indians. According to Government figures released last year, food inflation touched 16.55 for the week ended May 22. This was the sixth consecutive week that food price inflation remained above 16% level. Food inflation fell to 12.63% for the week ended on June 26 on cheaper potatoes and onions but it brought little relief to consumers as fuel inflation shot up to 18.02% keeping the pressure on overall prices. Food inflation was 12.92% and fuel inflation was 12.09% in June

The Government on June 25 raised the prices of Petrol and diesel by up to Rs 3.50 per litre while that of LPG and kerosene were hiked by Rs 35 per cylinder and Rs 3 a litre respectively. Finance Minister Pranab Mukharjee had said that the decision would push up inflation by less than a percentage point. Within the fuel category, prices of petrol rose by 26.85% diesel by 22.7% and cooking gas by 14.47%. On an annual basis milk became costlier by 15.91% and fruits by 7.81%. India's Finance minister Pranab Mukherjee said high inflation in the country is due to shortage of supply in food items and high procurement prices of cereals. Speaking to newsmen here he said, "If, you look at the current trend in the inflationary pressure, it is not because of substantial monetary expansion but because of supply bottlenecks in respect of certain essential commodities particularly the food items,". He added that the contribution of the other items to inflation is not as high as food items. "It (food inflation) reached as high as 19.9 per cent. Gradually, it is coming down. Substantially, it (high food inflation) is because of the short supply in edible oil, pulses and sugar," Mukherjee said. He said supply of cereal is adequate, but their prices increased because remunerative procurement prices led to rise in retail prices as well.

The Finance Minister said the RBI has assured him that like last fiscal, the government's borrowing programme in the next fiscal will also be undertaken in a way that the resources for private sector does not dry up. He said the goal of fiscal consolidation and high growth are not contradictory approaches and he would like to see high nine per cent growth as soon as possible. Mukherjee also said that whenever there is a proposal for banking consolidation, it should be considered in consultation with the RBI. As regards the food items, prices of potatoes on an annual basis declined by 42.11%, onion by 8.75% and vegetables, taken together fell by 4.21%.part of the reason for further decline in food inflation is good progress of the monsoon and part is due to good winter crops which brought down prices of pulses and potatoes.

The Union Agriculture Minister Sharad Pawar on Friday July 9 2010 said that India is likely to have a bumper food grains production in the 2010-11crop year on account of good monsoon and a rise in the area under cultivation. "The way sowing operation is undergoing and reports of good monsoon from the states we are likely to have a bumper crop this year" said Pawar. He further said that decline in the prices of Agricultural commodities will bring down food inflation which is pegged at 12.63 percent at present. He believes food inflation is coming down day-by-day. The Prime Minister Dr. Manmohan Singh and his economic advisors are confident that once the monsoon sets in and following a good rabbi (winter) harvest, food price inflation will drop down to single digit.

It's not just poor monsoons in 2010 that has to be blamed for high food price inflation. Mismanagement by several Ministers in releasing food grains from overflowing state owned godowns or imposing arbitrary curbs on exports or delaying imports have also resulted in escalation of food prices. The prices of pulses shot up by more than 30%, milk prices by 20% and fruits by 15%. Surprisingly, despite last year's poor rains and high food inflation, India's Gross Domestic Product continues to expand at a brisk pace.

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