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# INFLATIONARY TRENDS OF SELECTED ESSENTIAL COMMODITIES WITH SPECIAL REFERENCE TO CITY OF HYDERABAD

**MOHAMED ZAHEERUDDIN**  
**RESEARCH SCHOLAR**  
**RAYALASEEMA UNIVERSITY**  
**KURNOOL**

**Dr. MOHAMMED OSMAN AHMED**  
**PRINCIPAL**  
**PRESIDENCY SCHOOL OF MANAGEMENT STUDIES**  
**HYDERABAD**

## ABSTRACT

*Inflation has become one of the most talkable term in today's economy. In past few years a huge economic disturbances has affected the world to great extent negatively. India, being one of the developing countries in the world has suffered extensively in this downturn situation. Inflation in India has affected badly to the most categories of households, resulting the Government, policy formulators and marketers with sleepless nights. This makes an urging situation for the in-depth reasoning of causes and effects of inflation and enabling a controllable mechanism for the same. The present paper aims to study the inflation and its trends of certain selected essential commodities in India referring to city of Hyderabad in Telangana state, for the period of 2012-13 to 2016-17.*

## KEYWORDS

developing countries, essential commodities, inflation.

## JEL CODES

B22, E3, E31.

## INTRODUCTION

Inflation is the most challenging phenomenon that a country can think of, in recent days this has created many sleepless nights to the policy formulators at higher end. Inflation is a situation of continuous rise in general price level of goods and services, resulting the decrease in the purchasing power of the people, case in point, Rupees hundred can buy four kilograms of rice in current period, if the price of the rice is doubled in the next period, the same hundred rupees can buy only two kilograms.

The causes for Inflation are many viz., due to international trade and finance relations, no proper measurement technique of inflation, and climatic conditions in the country and so on. Whatever may be the reason for inflation, it affects the progress, development and economic sector of a country in general and the vulnerable group of residents in particular. Even insignificant level of inflations also negatively affects the growth levels (Cecchetti, 2000).

## REVIEW OF LITERATURE

### THEORIES OF INFLATION

Inflation in general is the rise in the prices of goods and services and gradual decrease in the purchase power of the consumer. The cause for the inflation may be understood through its theories propounded by different economist.

Keynes (1936) in his theory of inflation administered demand as the major source causing the price rise. According to him when the supply of the commodity is in short the demand of the product rises resulting the increase in price. On contrary in 1950's the group of economist focused on the other reason for inflation is due to the increase in the production cost. The increase in cost of production is majorly the result of increase in labor union (Slichter 1954 and Takami 2014). Demand pull inflation occurs due to the excessive demand for goods and services and cost push inflation results from the increase in the cost of production or decrease in supply of goods and services with demand remaining same.

Milton Friedman (1963) on the other hand advocated monetarism explaining money supply is the only reason for the decrease in the purchasing power and increase in the price of commodity. The Fiscal policies of a country play a major role for the regulation and control of inflation. This theory has been mostly accepted and supported by a group of economist called monetarist (Phillip C. 1987). Another reason in trends of inflation, recently found is marketer/market forces (Vatiero M. 2009), here situation of the market decides the price of the product, where a group of marketers decides the price of the commodity. The aim of marketers is their own profit motive from the high income consumers leaving ill-treated the low and middle income consumer groups. A new inflation discussion field in macroeconomics level is structural theory, which advocates that the reason for inflation is due to the changes in the economy at country or even global level (McCallum, 1987). When a country undergoes a growth stage resulting in the fast economic development will lead to increase in the cost of living inevitably resulting inflation.

## MEASUREMENT OF INFLATION

Inflation in India is measured through three major indicators viz., Wholesale price index (WPI) Consumer Price Index (CPI) and GDP deflator (Patnaik.I. et.al 2011). Index measures a cluster of similar variables over distinct situations and time. WPI is the measure of inflation under which the prices are considered at wholesale and producer level. Under WPI the weekly basis, market prices are measured clustering the products in to various groups and sub groups. The initial WPI setup was established in 1942 with 23 commodities for which 1939 prices are considered as base, it can be stated that 1939 stood base year to measure the trend of inflation. After many amendments at present (mid of 2017) there are 697 commodities included in the basket of WPI and the base year considered is 2011-12. The basket items of WPI includes food products, non-food products, minerals, natural gas, fuel & power and other manufactured items.

**TABLE 1: WHOLESALE PRICE INDEX SERIES FROM HISTORY TO PRESENT**

WPI Year	Base Year	No. of items in Index
Jan-1942	1939	23
1952	1952-53	112
1969	1961-62	139
1977	1970-71	360
Mid 2017	2011-12	697

Source: Wholesale Price Index (Base: 2011-12 = 100), Office of the Economic Adviser, Department of Industrial Policy & Promotion Ministry of Commerce & Industry Government of India New Delhi, p-4.

The WPI is considered as a suggestive measure of inflation but still major issues such as service and non-tradable commodities ignorance, wholesale price average combined with market prices, Government prices and Minimum support prices creating chaos, are needed to be concerned (OEA 2008).

CPI on the other hand comprises with a basket of household consumed goods and also services. CPI in India is categorized in to certain categories as industrial workers, rural consumers and urban consumers (combined called as all consumers) which are compiled regularly whenever needed. These consumers are targeted group of population in certain period. CPI is considered as most crucial as of which even Government and Central Bank uses it as a tool to assess inflation and maintaining stability levels of country's economy (MOSPI 2015).

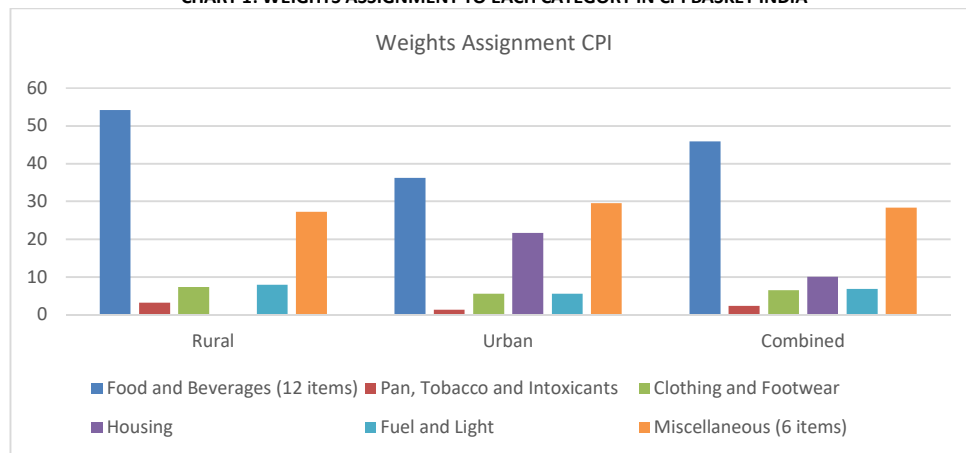
The commodities in CPI basket are grouped in to six major categories viz., food & beverages, pan tobacco & intoxicants, clothing & footwear, housing, fuel and light and miscellaneous, which are again sub grouped in to 23 sections. The weights assigned to each category of the basket can be observed in the below table.

**TABLE 2: WEIGHTS ASSIGNMENT TO EACH CATEGORY IN CPI BASKET INDIA**

Group/category code	Category	Rural	Urban	Combined
1	Food and Beverages (12 items)	54.18	36.29	45.86
2	Pan, Tobacco and Intoxicants	3.26	1.36	2.38
3	Clothing and Footwear	7.36	5.57	6.53
4	Housing	-	21.67	10.07
5	Fuel and Light	7.94	5.58	6.84
6	Miscellaneous (6 items)	27.26	29.53	28.32
<b>All Groups</b>		<b>100</b>	<b>100</b>	<b>100</b>

Source: Ministry of Statistics and Programme Implementation (MOSPI), 2015, central statistics office, national accounts division, prices and cost of living unit.

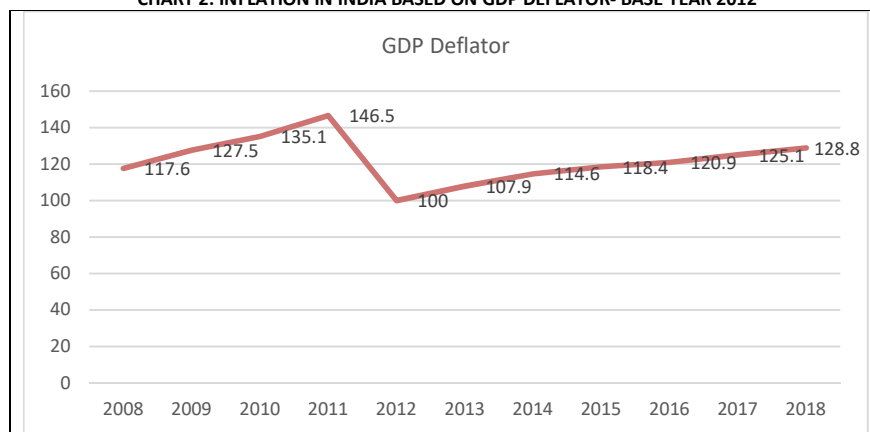
**CHART 1: WEIGHTS ASSIGNMENT TO EACH CATEGORY IN CPI BASKET INDIA**



The CPI basket in the above table and chart depicts, more weights are assigned to Food products in all the rural, urban and combined consumers (54.18, 36.29 and 45.86 out of 100) the second preferential weight has been assigned to miscellaneous category with 6 items which includes household goods and services, health, transport & communication, recreation & amusement, education and personal care and effects (MOSPI 2015) with a weight of 27.26, 29.53 and 28.32 out of 100. Then other ranking preference is housing, fuel and light, clothing and lastly pan, tobacco & intoxicants. It can be brought to an observation the importance of food commodities for a common man in his living.

Other than WPI and CPI is GDP deflator which indicates inflation under which a base year inflation itself is considered as base for measuring trend, in other words base year itself will be equal to 100. In GDP deflator no specific baskets of certain goods and commodities are considered rather basket will be tailor made from year to year based on people investment and consumption configurations. GDP deflator in some instances closely relates to WPI as it is implemented using WPI series at large (Nadhanel and Pattnaik 2010).

**CHART 2: INFLATION IN INDIA BASED ON GDP DEFLATOR- BASE YEAR 2012**



Source: Ministry of Statistics and Implementation Programme (MOSPI).

Assessed from: tradeeconomics.com

### IMPORTANCE OF THE STUDY

Inflation being affecting the growth, development of the country and its people's living, it is more important to control over it. The policy makers, marketers and Government are the most considerable people who has ability to regulate inflation. To cope with the inflationary situation it is important to understand its trends. The present study attempts to trace the trends of inflation over the selected years which may elevate the reasons to occur and helps to control over it in the future.

**OBJECTIVES OF THE STUDY**

1. To understand the inflation, its aspects and reasons for its cause.
2. To examine the trends of inflation of selected essential commodities in the study area.

**SCOPE OF THE STUDY**

The study aims to analyze the inflation and its trends in the specific essential commodities in the city of Hyderabad. By observing the trend, it traces out the reasons for the cause of inflation, which may be helpful for the policy formulators and marketers to take precautionary steps over to control.

**RESEARCH METHODOLOGY**

The study is conducted in the city of Hyderabad which is chosen purposefully, as Hyderabad is one of the popular city in India with a diverse blend of not only local people but also migrated from different states too with a total population of 39,43,323 and households of 8,37,927 (Andhra Pradesh census 2011). The trend of inflation is traced out by using trend percentile and Laspeyres index for ten selected commodities chosen randomly under the group of Food category sub grouping in to general food items, vegetables and fruits over the period of five years.

**RESULT AND DISCUSSIONS**

Inflation though studied and measured in any modus the major affected segment in a country is common public who buys and consumes the commodities and services. The CPI, WPI and Deflator all the inflationary measures assigns more weights to the consumer foods items, hence the present paper is conducted to study the trend of inflation in certain selected essential commodities under food and fuel category.

**TABLE 3: SAMPLE COMMODITIES COLLECTED FOR ANALYSIS**

GROUP NO.	GROUPS	SL.NO.	COMMODITY
I	GENERAL PROVISIONS	1	Wheat
		2	Gram Dal
		3	Sunflower Oil
		4	Rice (Gr-I)
II	VEGETABLES	5	Potatoes
		6	Tomatoes
		7	Cauliflower
III	FRUITS	8	Banana
		9	Apple
IV	FUEL	10	Petrol

Ten commodities under four distinct groups have been tested as a sample to assess the inflationary trend in Hyderabad city considering the monthly average prices collected from various sources, which includes; wheat, gram dal, sunflower oil and rice under general provisions group; potatoes, tomatoes and cauliflower under group of vegetables; banana and apple in fruit group and petrol under fuel category. The sample commodities selected, monthly retail average prices are collected, have been compiled and measured to the yearly average for the period of five years starting from 2012 to 2017. The yearly averages are then trended to study the changes in the general price levels and assess the inflation.

**TABLE 4: YEARLY AVERAGE PRICES OF SELECTED COMMODITIES PER UNIT/KG IN CITY OF HYDERABAD**

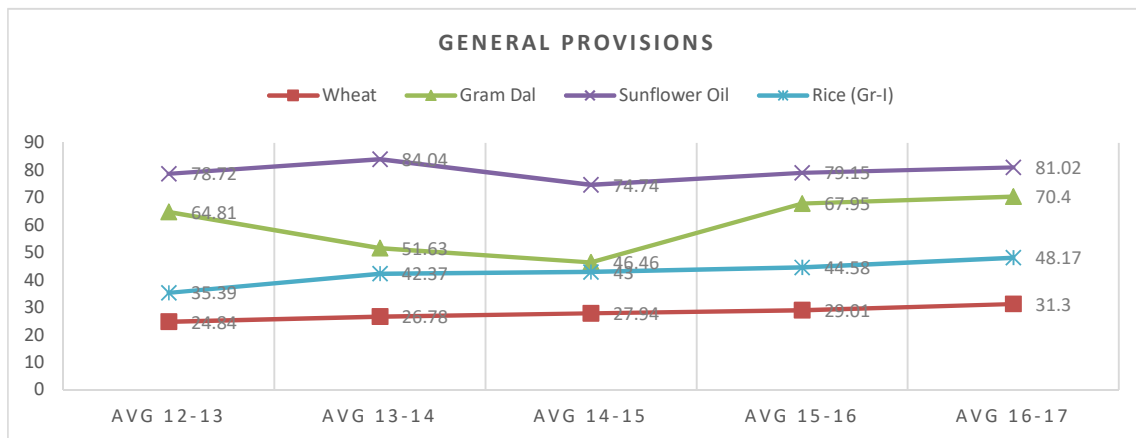
GROUP NO.	GROUP	Sl. No	COMMODITY	AVG 12-13 (Rs.)	AVG 13-14 (Rs.)	AVG 14-15 (Rs.)	AVG 15-16 (Rs.)	AVG 16-17 (Rs.)
I	General Provisions	1	Wheat	24.84	26.78	27.94	29.01	31.3
		2	Gram Dal	64.81	51.63	46.46	67.95	70.4
		3	Sunflower Oil	78.72	84.04	74.74	79.15	81.02
		4	Rice (Gr-I)	35.39	42.37	43	44.58	48.17
II	Vegetables	5	Potatoes	15.76	19.84	23.48	20.59	21.42
		6	Tomatoes	14.13	21.67	18.01	21.29	14.5
		7	Cauliflower	16.33	17.08	17.33	21	21
III	Fruits	8	Banana	34.72	36.69	39.44	38.49	24.66
		9	Apple	112.2	172.4	153.88	154.64	134.7
IV	Fuel	10	Petrol	75.64	74.81	71.72	67.82	69.94
<b>TOTAL</b>				<b>472.5</b>	<b>547.31</b>	<b>516</b>	<b>544.52</b>	<b>517.11</b>

Source: Annual publication on price statistics, Directorate of Economic and Statistics, Government of Andhra Pradesh and Telangana- Hyderabad.

Also accessed from: rythubazar information systems and National Horticulture Board.

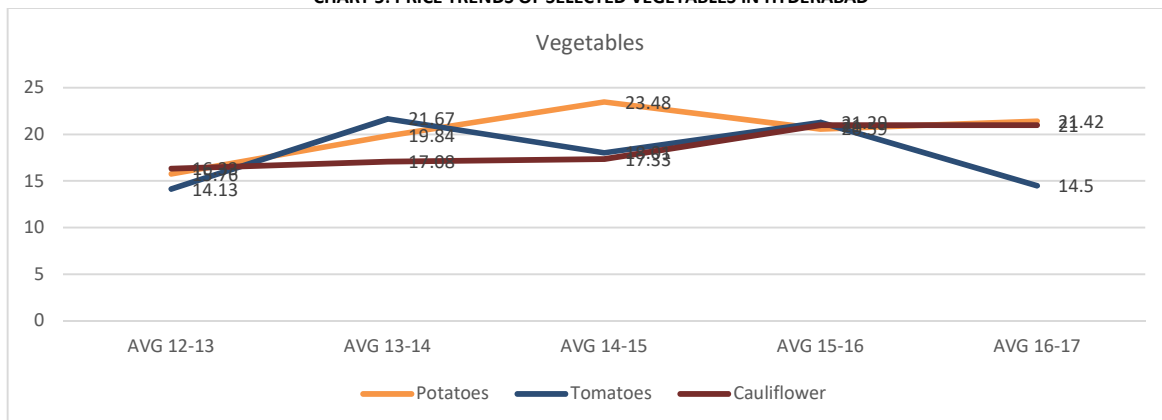
The commodities that have been selected for the analysis are mostly under the food category. The first group of general provisions includes four commodities where wheat prices shows the increasing trend over the study period from rupees 24.84 to 31.3 from year 2012-13 to year 2016-17 respectively. The Gram dal and sunflower oil shows a low price trend only during the period of 2014-15 otherwise also has an increase over the study period. The rice which is the major food component in south India has showed a continuous increase from rupees 35.39 per kilogram to rupees 48.17 from year 2012-13 to 2016-17. The commodities selected under general provisions are the most central commodities consumed daily by almost all people and the same shows a continuous increase trend may affect the major segments of population consumption patterns.

CHART 4: PRICE TRENDS OF SELECTED GENERAL PROVISION COMMODITIES IN HYDERABAD



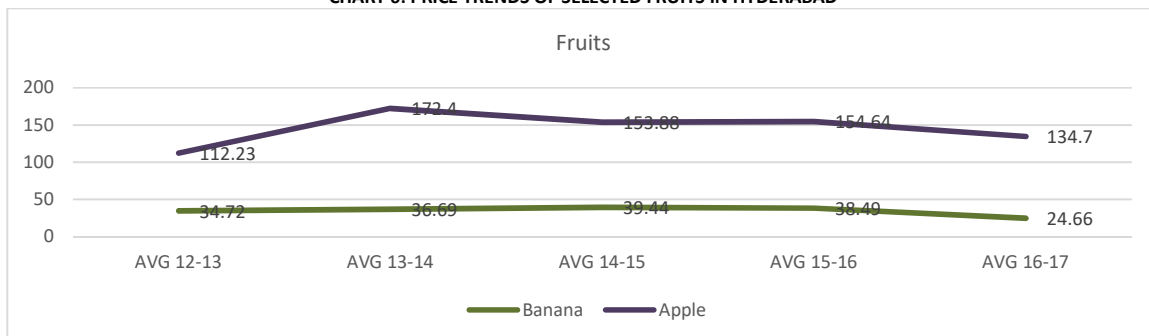
Under the group of vegetables three viz. potatoes, tomatoes and cauliflower has been studied which are assumed to be the mostly consumed vegetable in Hyderabad. Potatoes and tomatoes prices are frequently fluctuating throughout the period whereas cauliflower price tends to continuous increase from 16.33 rupees to 21.00 rupees from 2012-13 to 2016-17.

CHART 5: PRICE TRENDS OF SELECTED VEGETABLES IN HYDERABAD



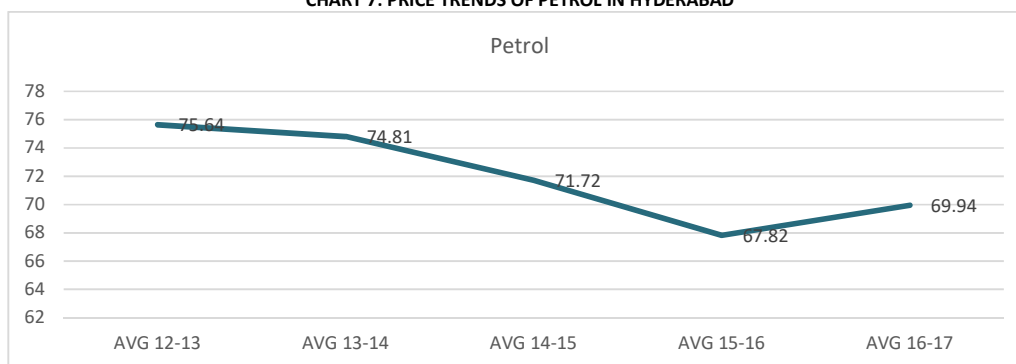
The fruits selected for the study are two only, which very commonly used in every household namely banana and apple. Banana is consumed/purchased in dozen (12 pieces) in Hyderabad, the highest price of banana is in year 2014-15 reached 39.44 rupees which can be seen that each piece cost more than three rupees approximately. Apple is the most expensive under the category of fruits which is consumed in kilograms and the analysis shows that apple even reached to 172.4 rupees in the year 2013-14 and lowest rupees 112.23 is in the year 2012-13.

CHART 6: PRICE TRENDS OF SELECTED FRUITS IN HYDERABAD



The petrol, which is under non-food essential commodity, is presumed to be the most vital part of every one's life. Petrol/diesel under fuel category is the element which has critical impact on other items too, being the mode of transport ingredient if, petrol price increases will not only have direct influence on consumer expenses but also affects the prices of other commodities transported by using fuel as medium.

CHART 7: PRICE TRENDS OF PETROL IN HYDERABAD



The study period shows the price of petrol on an average has a gradual reduce from rupees 75.64 to 69.94 in year 2012-13 to 2015-16 respectively, but again shows an increase trend in year 2016-17 and stood at rupees 69.97 per liter.

**INFLATION INDEX**

The trend of inflation during the study period has been carried out by using the Laspeyres index, which is the most commonly used index to arrive the GDP, WPI and CPI at country level. The following is the model used to ascertain the trend analysis:

$$\text{Laspeyres Index} = \frac{\sum p_1 q_0}{\sum p_0 q_0} \times 100$$

In which:

$p_1$  = current year price,  $p_0$  = base year price,  $q_1$  = current year quantity,  $q_0$  = base year quantity

TABLE 5: INFLATION TRENDS SELECTED COMMODITIES IN CITY OF HYDERABAD- BASE YEAR 2012-2013

GROUP NO.	GROUP	Sl. No	COMMODITY	BASE YEAR 12-13	13-14	14-15	15-16	16-17
I	General Provisions	1	Wheat	100.00	107.8	112.4	116.7	126.0
		2	Gram Dal	100.00	79.66	71.69	104.8	108.6
		3	Sunflower Oil	100.00	106.7	94.94	100.5	102.9
		4	Rice (Gr-I)	100.00	119.7	121.5	125.9	136.1
II	Vegetable	5	Potatoes	100.00	125.8	148.9	130.6	135.9
		6	Tomatoes	100.00	153.3	127.4	150.6	102.6
		7	Cauliflower	100.00	104.5	106.1	128.6	128.6
III	Fruits	8	Banana	100.00	105.6	113.5	110.8	71.03
		9	Apple	100.00	153.6	137.1	137.7	120.0
IV	Fuel	10	Petrol	100.00	98.90	94.82	89.66	92.46
TOTAL				100.00	115.8	109.1	115.2	109.4

CHART 8: INFLATION TRENDS SELECTED COMMODITIES IN CITY OF HYDERABAD- BASE YEAR 2012-2013

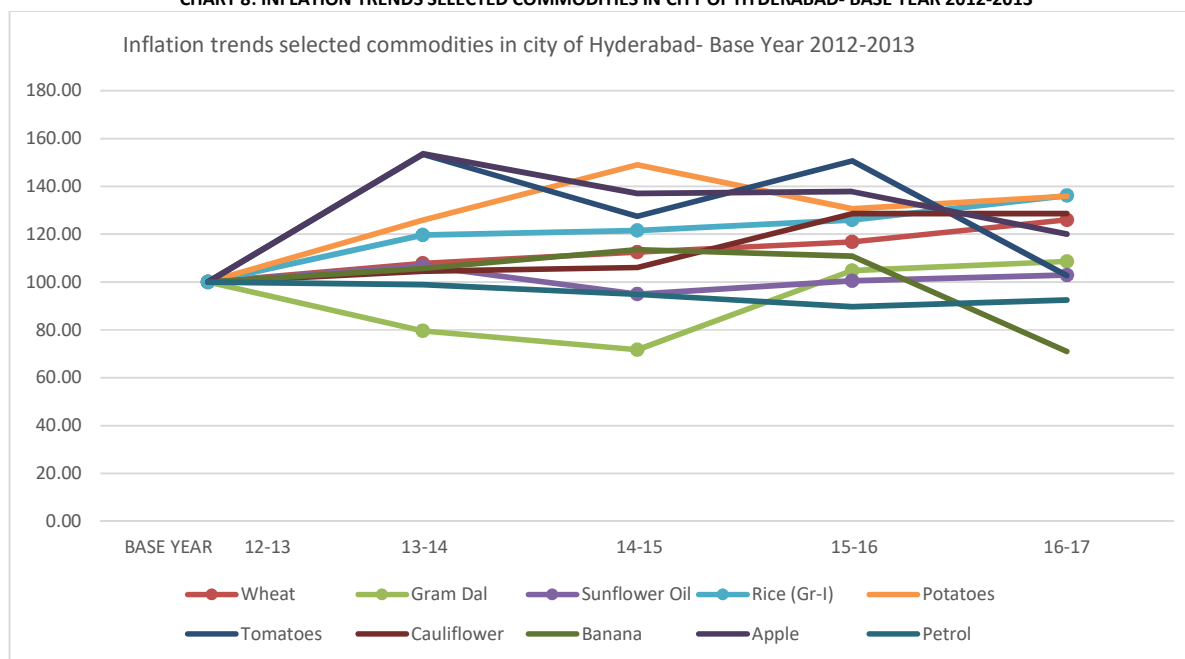


CHART 9: INFLATION TRENDS IN TOTAL - BASE YEAR 2012-2013



The inflationary trend has been studied by considering year 2012- 13 as a base year, as the CPI index at present also considers 2012 as a base year (MOSPI 2015) and the prices of the sample commodities collected are also consumer retail prices which is a part of CPI basket. By observing the trend of inflation compared to 2012 almost all the commodities has an increasing trend showing the positive/plus changes, except the trend of petrol. When it come to inflation in total of all sample commodities it may be noted that in year 2013-14 has reached the peak level of inflation during the study period with a total of 115.82 showing an increase of 15.82 compared to base year. Again the prices of commodities are stable to an extent and inflation is decreased with 6.63 points and stood at 109.19. In year 2015-16 the inflation again roused to 115.23 with increase of 15.23 compared to base year. In year 2016-17 the inflation stood at 109.43 still with an increase trend over base year with 9.43.

### SUGGESTIONS AND CONCLUSIONS

World food prices are roughly doubled since 2006 and most spectators guess still it will be high-as stated by United Nations Food and Agriculture Organization (Marktanner.M and Noiset L.P 2013), The present paper made an attempt to understand how the food prices are being high most of the time in Hyderabad, India. Among the inflation indicators CPI may be considered as the most suitable as it reflects the consumption of households in specific, the retail prices are deliberated in the index basket which are paid by the real time consumer's pocket. The analysis has been done by a sample of food category and fuel category where in the Indian CPI basket weighs 45.86% for food and 6.84% for fuel, which is equal to 52.7% more than half of the daily basic consumables of a common man. Being the most crucial basic needs of a common man still the inflation shows the increasing trend during the study period. It can be acceptable that agricultural products supply and demand depends on the uncontrollable natural climatic factors but still there is a need to crave a strategic plan by the policy formulators to regulate the prices in long run to avoid worst situations. Though the international oil prices are deflated during the period of study showing a recessive trend in international market (OPEC 2017), still the petrol prices does not show the relevant decrease in the Indian market economies this urges for the implementation of a sturdy remedy.

### LIMITATIONS

The study is conducted based on the secondary published sources of data, which may be lineated to unreliable factors. On the other hand, inflation is a continuous economic phenomenon, which needs an extensive study for the purpose of trend learning; the study based on five years may arrive with deviated results if conducted in the long run.

### SCOPE FOR FURTHER RESEARCH

Inflation is the situation of rising prices hence most affected segment is general public/consumers, wherein the consumers lose their purchasing power. The present paper focuses on the trend analysis of the inflation but affect of inflation on the consumers can be further studied in detail.

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