

Food Inflation in India

Dr Aowte Yasmeen Khalid¹

¹Head, Department of Business Economics, R.P. Gogate College of Arts and Science and
R.V. Jogalekar College of Commerce, Ratnagiri, Maharashtra India
Email yasmeenmaam@rediffmail.com tel 09423292430

Abstract. India has high inflation rate of around 9 per cent and consumer price Index (CPI) is currently flashing at more than 10 per cent. Prices of onions, vegetables and other staples are rising even faster food price index shows they jumped almost 17% last financial year. In the past two years, wholesale prices of food have risen by nearly 40 per cent, and retail prices have gone up even faster. In spite of robust monsoons and bumper crop, prices of food items are artificially high. Hemmed in from all sides, an average middle class person is pained by the inexplicable market prices. Vegetables cost 30% more than last year. The immediate reason for the spurt in the prices of specific food items is hoarding, the growing penetration of big corporates in the food economy

Key words: Inflation, Wholesale Price Index, Commodity Price Index, Food Inflation.

1. Introduction:

In mainstream economics, the word “inflation” refers to a general rise in prices measured against a standard level of purchasing power. Previously the term was used to refer to an increase in the money supply, which is now referred to as expansionary monetary policy or monetary inflation. Inflation is measured by comparing two sets of goods at two points in time, and computing the increase in cost not reflected by an increase in quality. There are, therefore, many measures of

inflation depending on the specific circumstances. (Source: Wikipedia).

1.1 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. 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.

1.2 Commodity Price Index (CPI)

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. Economists say that India should adopt CPI for inflation calculation as it is the one that shows price rise that end consumers would experience

2. Indian economy and Inflation:

Hide and seek is the name of the game when it comes to inflation in India in the past two years. In India, inflation has become smart political excuse to high growth, which neither seems high nor steady. Certainly,

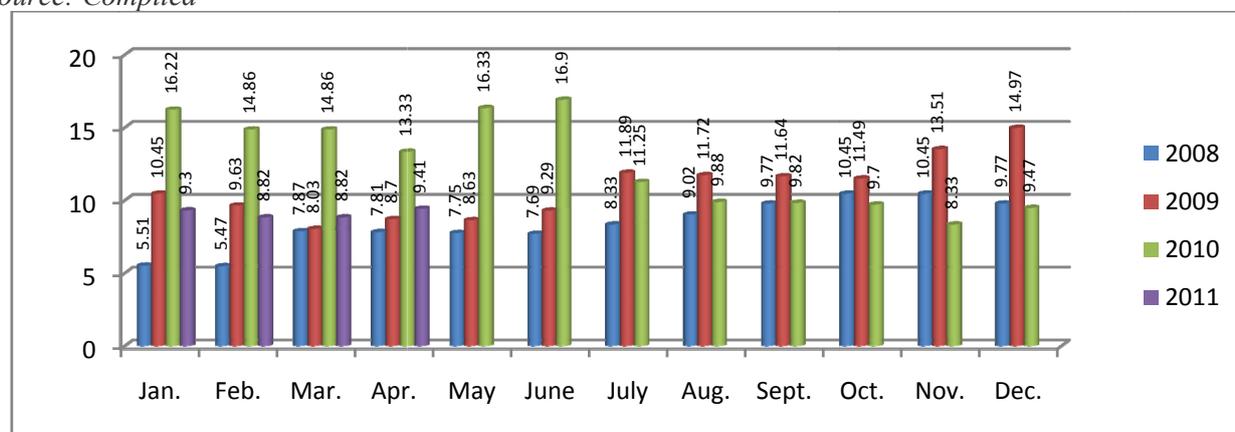
global issues have made their contribution to add to the woes, Indian economy has been facing, however, sudden outbreak of scams, fresh highs of corruption level and lack of policy reforms from the UPA government for faster economic growth have caused inexplicable consequences on Indian growth mechanism as well as budget of an individual.

India has high inflation rate of around 9 per cent and consumer price Index (CPI) is currently flashing at more than 10 per cent. Prices of onions, vegetables and other staples are rising even faster. The latest data of the government food price index shows they jumped almost 17% last financial year. Situation on dining table has changed; food is eating people in India instead of people eating food. Moreover, consistent rise in government borrowings and high purchasing power have added fuel to the fire.

Table 1: Annual changes in Consumer Price Index (CPI)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2008	5.51	5.47	7.87	7.81	7.75	7.69	8.33	9.02	9.77	10.45	10.45	9.77
2009	10.45	9.63	8.03	8.70	8.63	9.29	11.89	11.72	11.64	11.49	13.51	14.97
2010	16.22	14.86	14.86	13.33	16.33	16.9	11.25	9.88	9.82	9.70	8.33	9.47
2011	9.30	8.82	8.82	9.41	--	--	--	--	--	--	--	--

Source: Compiled



3. Food Inflation:

In the past two years, wholesale prices of food have risen by nearly 40 per cent, and retail prices have gone up even faster. This has been much faster than the non-food inflation rates. In the past year, inflation has moved across food items, with wheat, sugar, edible oils and vegetables experiencing price spikes at different times, but always within very high average food inflation. In spite of robust monsoons and bumper crop, prices of food items are artificially high the following table describes it all:

Table 2: Movement of vegetable prices for last seven months

Prices in rupees/kg	Cauli flower	Green peas	garlic	Leafy veggies	cabbage	tomato	French beans	Onions	Lady fingers
Dec 10	60	120/160	280/450	10	30	50	80	70/80	60/80
March 11	08	20/25	50/60	3/4	10	10/15	60	8/10	35/40
June 11	60	60	100/250	10	30	20/32	80	15	60

Source: Times of India, Wed, June 22 2010

After a brief respite lasting three months, prices of vegetables and essential items are back to high of 2010. The new spiral has no ostensible reason, or excuse, like shortfall in production or increase in rain. In fact the great mismatch between food production and pricing begs the question whether the prices are still being artificially rigged at the retail end. Retail cartels are forcing the manufacturers to print higher MRPs on their packs so they could mark up their profits. The reality seems to reflect in the sale of perishable and non-perishable items.

Table 3: WPI Inflation (year-on-year)

	2006-07	2007-08	2008-09	2009-10
All Commodities	6.51	4.82	8.03	3.57
Food	7.99	5.97	9.07	14.52

Source: Office of the Economic Adviser, Ministry of Commerce and Industry, GoI

As per the latest data, overall WPI Inflation stood at 8.4% in December 2010. In the week ending 22nd January 2011, food inflation stood at 17.05%.

Agricultural Minister Shri Sharad Pawar himself admitted to a bumper crop harvest of pulses in June 2010, common varieties of dal like Moong and Tuvar continue to be priced at an astronomical Rs 80-100 per kg. Chillies and Garlic Commission confirms that the country is witnessing a bumper crop of garlic last year's shortage when prices had hit Rs 280-450. Yet after a brief dip to regular levels of Rs 50-60 in March 11, garlic once again sells for 100-250 and despite a continuing ban on export of sugar, this item sells for Rs 35 to 38 per kg. Chillies and Garlic Commission confirms that there has been a bumper crop of garlic and the wholesale price is Rs 45-50 per kg for good quality pods. However the customers across different localities are paying up to 200% more, one must attribute this yawning gap to local retailers. They feel people have been buying at such high rates so they continue to make their profit margin. Some semblance of nationalisation will set in owing to competition.

Hemmed in from all sides, an average middle class person is pained by the inexplicable market prices. Consumers feel normalisation of food prices in March barely lasted for three months. Once again costs of daily essentials are a burning issues putting pressure on the budget of a common man. Prices of leafy vegetables, bunches of spinach, fenugreek coriander are sold at Rs 10 each, pulses at a high of 60-80 Rs despite a record production. Prices of edible oils are rising month after month. Sunflower oil costs Rs 130 per litre, turmeric at Rs 34 per 100 grams Zeera at Rs 20 per 100 grams and coriander seeds at Rs 35 per quarter. Vegetables cost 30% more than last year.

4. Food Production and Inflation

Food demand in an economy like ours naturally grows over time. In order to keep pace with population growth, food production also needs to grow. However, in India, food production and availability have not grown commensurately. In 2008-09, annual per capita cereal availability in India was only around 165 kg, which was that of the same level as in 2000- Widespread hunger and malnutrition is the reality of India. India continues to be home to around 25% of the world's hungry population currently estimated at 925 million by the UN World Food Programme. Nearly half of India's children under three years of age continue to remain malnourished, as per the National Family Health Survey, alongside half of pregnant mothers who are anaemic. Food price inflation is making matters worse for these sections by squeezing their consumption levels.

Agriculture and Food Processing Industries Minister Sharad Pawar released the third advance estimates of crop production for 2010-11. As per latest estimates, India has produced the highest-ever food grains of 235.88 million tonnes in 2010-11, surpassing the earlier record of 234.47 million tonnes achieved in 2008-09. In the previous year, the country produced 218.11 million tonnes.

In 2010-11, production of wheat and pulses production is also estimated to be an all time record at 84.27 million tonnes and 17.29 million tonnes, respectively, Ministry of Agriculture data say Despite a setback in the production of rice, due to drought in some of the major rice producing areas in the country, food grains production reached the record level owing to significant improvement in production of wheat, pulses and coarse cereals.

Contributed by steady increase in production of soyabean and an increase of 2.62 million tonnes over its production during 2009-10, the oilseeds production, estimated at 30.25 million tones, is also an all time record. Cotton production has increased to 33.93 million bales in 2010-11 from the 24.23 million bales in 2009-10, while sugarcane production, which had attained a record level of 355.52 million tonnes in 2006-07 and declined in subsequent years, has again started witnessing increasing trend with an estimated production

of 340.55 million tonnes in the current year and 17.2 million tonnes of pulses — which had never crossed the 15 million tonne-mark in the past — apart from 94.5 million tonnes of rice and 84 million tonnes of wheat. Maize production was 30 million tonnes.

The year 2010-11 is expected to yield the third highest production of rice in the 14-year period, with 94.11 million tons, the highest production of wheat with 84.27 million tons, and the second highest production of coarse cereals with 40.21 million tons. Total cereals are to be the second highest ever in the 14-year period with production estimated at 218.59 million tons. Total pulses are expected to be 17.29 million tons, the highest in the 14-year period

5. Then, Why Food Inflation?

When reports say godowns are overflowing with food grains, and there is no room to store the *Khariff* harvest in September, a common man fails to understand the logic behind the high food prices despite the authorities having admitted a bumper harvest.

This signals a systematic failure in regulating black marketers. The fact that common terms of consumption are now traded on the stock markets also a definite factor influencing price rise. It is high time govt authorities turned their attention to the grave crisis of food prices apart from spiralling costs of daily essentials. Adulteration & contamination are also assuming serious proportions

There are four main reasons. The immediate reason for the spurt in the prices of specific food items, like onions today or earlier in the case of sugar and pulses, is hoarding. Trader cartels, encouraged by an inept Government, are mainly responsible for this. Assured of inaction, hoarders are creating artificial shortages and fleecing people from time to time.

Secondly, the growing penetration of big corporates in the food economy, international trade in food items and speculative futures trading in agricultural commodities has weakened the government's capacity to control food prices. The share of corporate retail in food distribution has tripled over the past four years. The Government has manipulated trade policies to allow big traders to make huge profits through export and import of essential food items like wheat, sugar and onions. On the other hand, the PDS has been weakened considerably through targeting. In most states, the role of the ration shops, state agencies like the NAFED etc. and consumer cooperatives in food distribution, has been whittled down. Therefore, the profit margins of private traders have also increased, reflected in growing gaps between wholesale and retail prices as well as farm gate and wholesale prices.

There are medium and long-term reasons too. Our agriculture is in a crisis. We are not producing enough to meet the needs of a growing population. The peasantry continues to be in distress, with 2.5 lakh farmers committing suicide over the past 15 years. State intervention in raising agricultural productivity has been weakened. The Government is more interested in handing over this role to big agribusinesses and retail giants like Walmart and Monsanto in the name of a 'second green revolution'. That will further marginalize the small peasants.

Finally, the cuts in subsidies and price hikes of inputs like diesel and fertiliser are also contributing to food inflation. The deregulation of petrol prices has led to very steep hikes in the recent weeks.

6. How to control inflation?

Food inflation is now morphing into a structural feature and is being driven by rising food demand in a fast-growing economy plagued by a creaky food supply chain, endemic inefficiencies and poor infrastructure in the critical agricultural sector. "This year, inflation seems to be driven by demand factors, despite higher supply levels," This is in contrast to the fact that in the last fiscal, inflation was mostly driven by a deficient monsoon, leading to scarcity of certain food products like pulses, cereals and sugar.

There exists a huge gap between the price received by the producer and the price paid by the consumer. This gap needs to be filled by creating transport and storage infrastructure to the required extent. The government needs to regulate the functioning of the agriculture markets.

A long chain of intermediators benefit from the gap between the price the farmer gets and the price the consumer pays. Besides these intermediators have no stake in the supporting the farmer with required inputs or giving him timely and useful market information.

If the logistics and storage side is not addressed adequately by the Government at the centre and the states the food inflation will continue to rise even may touch again to very alarming rate and generate tremendous disaffection.

Food scarcity could be tackled effectively if half of the states in the country would touch the productivity level achieved by Punjab, the country's food bowl. Punjab's food grain yield is pegged at 4,231 kg per hectare against the national average of 1,909 kg per hectare. For stepping up farm productivity and production, it is necessary to increase investment in water management and rural infrastructure, Subbarao said. About 60 percent of the country's farm land relies on rain water for irrigation.

India cannot import food as it has to feed around 1.2 billion people. Our food prices are lower than that of world prices. The country cannot import food and sell them here unless it subsidizes. Subsidizing food on a large scale is unimaginable.

There exists a paradoxical situation of subsidizing farmers for producing food and subsidizing consumers so that that they get food at lower price. It is simply unsustainable. Focus should also be there in reducing risks due to poor monsoon. Primary articles inflation has been an issue due to surging demand and supply shortage more focus needs to be there on mounting acreage/arable land and productivity in agriculture.

Higher claims on subsidies (food, fertilizer and oil), pressures to increase social spending in the background of several State elections and absence of one-offs like the 3G bounty (which accounted for almost 1.3 per cent of GDP in 2011) would be the challenges the finance minister has to compete with. India's food inflation accelerated to a one-month high and services growth quickened, bolstering the case for more interest-rate increases.

7. References:

- [1] Archana Aroor, Mumbai Govt monitoring sugar prices; Food Bill to be finalised in two days: Friday, July 01, 2011 08:00 IST <http://www.fnbnews.com>.
- [2] CPI(M) (2011) What is causing food inflation in India? Viewed on Thu, 2011-02-03 12:13
- [3] Jayati Ghosh,(2011) Food inflation in India March 16th, 2011 JNU, New Delhi viewed on 16th March 2011 <http://www.eastasiaforum.com>.
- [4] Prabhudatta Mishra and Pratik Parija - Food Inflation in India Seen Accelerating as Farmers' Costs, Oil Increase May 20, 2011 11:19 AM GMT+0530
- [5] Pratik Parija and Prabhudatta Mishra -Inflation in India May Quicken on Forecast for Deficient Monsoon Rainfall Jun 22, 2011 1:25 PM GMT+0530
- [6] Food inflation, Times of India, Wed, June 22 2010
- [7] <http://www.inflation.eu/inflation.../India/...inflation/cpi-inflation-india-2011.aspx>
- [8] <http://www.tradingeconomics.com/india/inflation-cpi>
- [9] <http://www.commodityonline.com/.../Inflation-worries-to-haunt-India-in-2011--Assocham-35071-3-1.html>
- [10] <http://www.worldjute.com/inflation.html>