AN ANALYSIS OF FOOD INFLATION IN INDIA

Prof. N.P. Hariharan*

Prof. S. Siva Kumar**

Abstract

The study on effect of inflation on common man in an economy is so vital in the present situation. As the requirement of the people is ever increasing on various goods and services, the continuous increase in prices of goods and services affect their purchasing power and their life. The study on effect of inflation on common man in an economy is trying to highlight on the issue relating to the failure of the people to buy various basic needs of life. For over a long period of time, the prices of essentials, comforts and luxuries are increasing.

It is assumed that the price of the commodity will continue to maintain the upward march since the developing countries are maintaining a very strong growth momentum motivated the by robust consumption.

The paper attempts to study on the effect of inflation on poor and middle class people. The cost incurred in buying of goods and services to be analyzed. In particular, the cost of food articles, oil products and manufacturing products etc., are to be analyzed. The secondary data has been collected for analyzing the effect of inflation on a common man All the efforts taken in controlling inflationary pressure is not effective due to continuous increase in the price of oil products in abroad.

Key words:

1. Food inflation
2. Economic growth
3. Purchasing power

* Professor of Economics, VIT University, Vellore, Tamil Nadu, India.

** Assistant Professor of Economics, VIT University, Vellore, Tamil Nadu, India.

4. Natural calamities
5. Minimum Support Price

Introduction:

Inflation in Developing countries like India has become an important issue to the government and the people. In spite of many steps taken by the government in consultation with the Reserve Bank of India, India is not able to bring down the rate of inflation to the targeted level of 5% or less. . Inflation makes the life of the people miserable particularly the people belonging to poor class and lower middle class. As India wants to attain the growth rate of around 9%, the high rate of inflation is unavoidable. Economic growth is as important as stabilizing the price level. Inflation is the dominant macro economic concern of the day in not only our country but also many countries of the world.

Inflation is a double edged weapon. If there is marginal inflation in a country, say 2% or so, it may provide an extra dose of profits for the producers and manufacturers, their investments will increase resulting in greater production, employment, income and so there will be expansion in the economy. On the other hand, if there is deflation (negative inflation), investments, production, income, employment and general economic activities will contract, and the economy will move from recession to depression.

A moderate rate of inflation is expected always because it decides all the activities of the country. The growth and development of Agricultural, industrial and service sectors highly depend on the moderate rate of inflation. If the rate goes below the normal, then there would not be any production and productivity from the sectors mentioned above. As far as manufactured goods and oil inflation is concerned, it is highly demand oriented. But, it is clear from the data available that food inflation in our country is caused by supply factors i.e., short supply of agricultural goods.

Food inflation:

Food inflation refers to rise in price of food products while income, price of non food products, and other related variables remain constant.

Food inflation - one of the burning issues in India today which is affecting all sectors of our economy is a big threat to the life and livelihood of the common man in the country. Food prices are rising again, but that is hardly surprising for people who have been accustomed to double – digit inflation for more than two consecutive years, as we have in India. Since March, 2008, food inflation has remained in double digits, with no signs of slowing. The only change has been in the commodities responsible for it. These have varied from cereals to sugar and now to vegetables – onions in particular.

It is generally believed that food prices are highly sensitive to monsoon performance, but this belief has been tested over the past few years. High food inflation will reduce the real income of the poorest, who spend more of their incomes to buy food.

Agricultural goods are not cultivated in all the places of our country. Some of the states like Gujarat, West Bengal, Maharashtra etc., are highly developed in industrial activities. Some of the other states like Punjab, Hariana, Karnataka, Andhra Pradesh, Tamil Nadu etc., are highly depending on agriculture. Only those states cultivating agricultural goods can alone meet the demand from various parts of our country irrespective of the nature of activities of the people.

Whenever there is a disturbance in any form like lorry strike, workers strike, conflict between the states, natural causes etc., then there is no possibility of supplying agricultural goods to the other states and that may even lead to the rise in prices of agricultural goods in the country. So, consumers are forced to pay more for their greens.

Current scenario:

Food inflation is a significant negative feature of today's economic environment. It has a tremendous impact on quality of life, as people struggle to maintain nutritional standards that they had previously achieved or give up some other forms of consumption so as to keep themselves well – fed. For a country that legitimately believed that it has effectively dealt with its vulnerability to food shortages in the form of the Green revolution of the last 1960s and early 1970s. The current situation comes as a rude remained that solutions are rarely permanent.

Although the drivers of inflation in recent months have been energy pries and demand pressures, as reflected in the non- food manufactures products index, food prices contributed significantly in the first half of 2010 and remain uncomfortable high. When we look at the data for the last six decades, the influence of monsoon on inflation has declined to a considerable extent and the new source of inflation has emerged. Particularly, during the year 2008 – 2009, the average of food inflation in India has been higher than the average of inflation of six decades. Even it has stepped up to double digit during the same year.

As economic growth slows and inflation moves up, this two track strategy seems to be coming under pressure.

Causes of food Inflation:

1. Continuous increase in population size and shift in dietary habits towards protein foods in India is one of the causes of inflation.
2. Increase in prices of other inputs like fertilizers, seeds and others in recent times have led to inflation.
3. Continuous rise in prices of fuel which is a key input for transportation of agricultural commodities to processing or consumption centers. So, crude oil prices affect the input cost and leads to inflation to a great extent.
4. Natural factors such as unseasonal rains, cyclones, floods, droughts, pests and diseases resulted fall in the production and productivity of agricultural production in many states.
5. Increasing purchasing power of people in India is one of the leading factors of inflation.
6. Increase in Minimum Support Price of food grains in India has also caused inflation in India.

Objectives of the study:

The following are the important objectives of the study.

1. To study the relationship between population growth and price rise in our country.
2. To analyze the effect of input cost in total food grains inflation.
3. To analyze the effect of food inflation in India.
4. To analyze the effect of international factors in influencing inflation in India.
5. To compare rate of inflation at the international level.
6. To study the relationship between market forces i.e., demand and supply and inflation in our country.

Table Number 1: Size of population in India:

Census year	Size of population	Percent change (increase or decrease)
1951	361,088,000	—
1961	439,235,000	21.6%
1971	548,160,000	24.8%
1981	683,329,000	24.7%
1991	846,421,000	23.9%

2001	1,028,737,000	21.5%
2011	1,210,193,422	17.6%

Source: Census of India, 2011.

It is clear from table number 1 that the population size in India shows an increasing trend over the years. There is a four fold increase in population size from about 36 crores in 1951 to 121 crores in 2011. It has increased at a rapid speed. Even though the food production in India shows a positive signal i.e., 216.1 M.T.in 2006-07, 218.1 M.T in 2009-10 and 241.6 M.T. in 2010-11 respectively, the change in the food culture of the people resulted in high rate of inflation.

People now - a – days are very conscious of nutritional diversification. The predominance of cereals in the typical household diet gives way to greater balance and a consequent increase in the demand for proteins – pulses, milk, meat, fish and eggs, vegetables and fruit. It is no surprise that these items have been the primary causes of food inflation in the recent period.

Table Number 2: Percentage increase in Agricultural input costs and wages:

Items	**2008-09**	**2009-10**	**2010-11**
Inputs	3-19%	18-28%	3-19%
Wages	9-36%	5-30%	18-43%
Note: Input costs include Fodder, diesel oil, lubricants, fertilizer and pesticides.			

Source: RBI Bulletin – December, 2011**.**

The table number 2 reveals that there is a continuous increase in the price of agricultural inputs and wages has pushed up the food inflation to the peak. It is evident from the data that the price of inputs of various varieties has increased from 3-19% in 2008-09 to 18-28% in the year 2009-10 and again wages from 9-36% in 2008 – 09 to 18-43% in 2010-11.

Table Number 3: Food inflation during 2004 to 2012:

Government data on wholesale price index (WPI) shows that there has been a 63% increase in the price of all commodities between April 2004 and April 2012. But when it comes to food products, the index has more than doubled from 98 to 206.4. So, you are now spending at least twice the amount you spent in April 2004 just to meet your basic consumption needs.

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% change between April 2004 and April 2012

Source: Crisil and commerce and industry ministry

Commodity	% Increase
Food	110.6
Wheat	82.3
Rice	83.9
Eggs	100.2
Milk	104.6
Pulses	111.0
Potato	111.9
Vegetables	171.6
Cabbage	540.2
All Commodities	63.1

For households, especially the poor, food inflation can have the most damaging impact, given that a bulk of spending in the lower income strata is on this segment. While the poor can draw some comfort from the fact that cereal prices are not among the commodities which have seen the maximum jump, the overall increase is still over 90% with wheat and rice, on an average, seeing over 80% increase. While protein-rich items such as milk, egg, meat and fish have seen prices more than double, it is vegetables that have caused the maximum dent to the housewife's monthly budget. This segment has seen a 171% jump. So, if you spent Rs 3,000 a month on vegetables seven years ago, you would now be spending over Rs 5,000. Given that cabbage now costs six-and-a-half times more than April 2004, you can draw comfort from the fact that during this period, potato and brinjal prices have only gone up by 111% and 140%, respectively. Even fruits have seen a lower spurt of around 90% with prices of mangoes, oranges, apples and pineapple more than doubling. When it comes to spices, black pepper has seen the biggest jump (335%). Coffee makes up the top five commodities in terms of price rise with an increase of 269%.

Inflation and India:

India is one of the fastest growing economies in the world next to China. The current rate of inflation in India is worrying. As a growing economy, it depends on the developed economies for many things. Whenever the advanced economies are facing high rate of inflation, it is reflected in India.

Although we are largely insulated from global food prices (though not from crude oil prices), India did see the transmission of international trends, as domestic prices increased by more than 20%.

India's food inflation is certainly linked to global trends, particularly in relatively heavily trade commodities like sugar and oilseeds, but given the high degree of self – reliance in many other commodities domestic factors play a big role.

Table number 4: India inflationary rate (in %).

Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2011	9.35	9.54	9.68	9.70	9.56	9.44	9.22	9.78	9.72	9.73	9.34	-
2010	16.22	14.86	14.86	13.33	13.91	13.73	11.25	9.88	9.82	9.70	8.33	9.47
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
2008	5.51	5.47	7.87	7.81	7.75	7.69	8.33	9.02	9.77	10.45	10.45	9.70

Source: Ministry of Commerce and Industry, Government of India.

The table number 4 reveals that, the average rate of inflation is high in the all the years i.e., 2008 to 2011. But particularly during the year 2009 and 2010, the average rate of inflation is very high and even touched the double digit (16.22%). The high inflationary rate is very much associated with food inflation in India.

Food prices in international market:

The world economy is itself facing problems with food prices. International food prices have been increasing much faster than domestic prices. More worryingly, global prices are increasing for almost all food groups, in some cases even reaching the peaks of 2008. There is no sign of these cooling, with international food prices expected to continue their upward movement even this year.

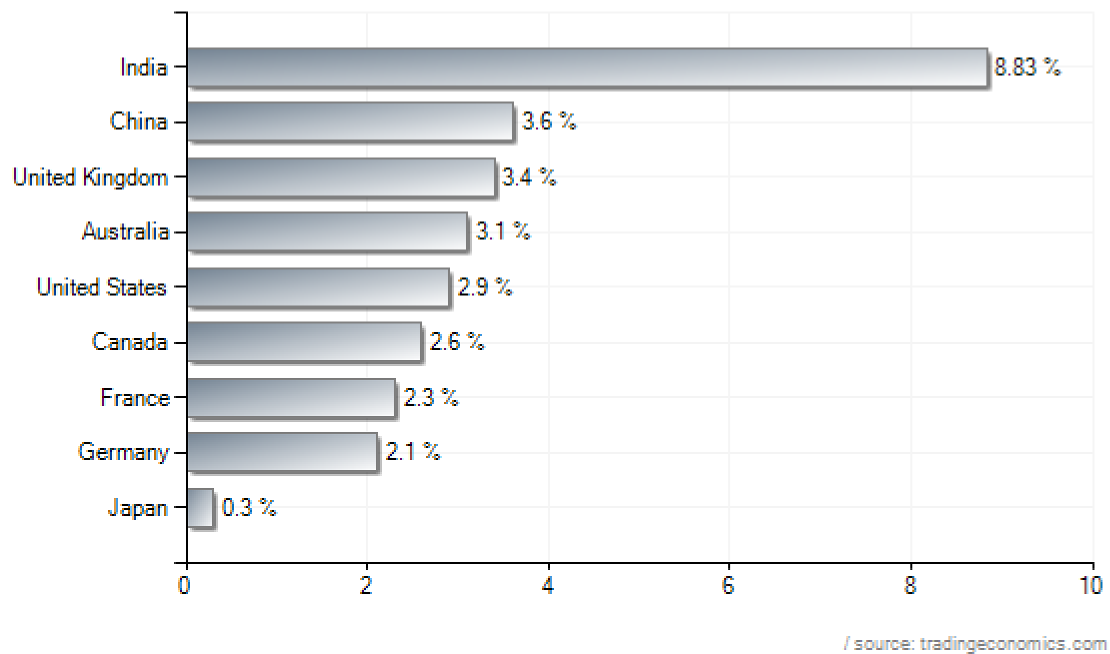
With severe winter and cold waves in the northern hemisphere, including the US and massive floods in Australia which have damaged an area larger than Germany and France combined, there is a real possibility of wheat shortage in international markets. The US is the largest producer of wheat; an Australia is the fourth largest.

Already, future prices of wheat in international commodity exchanges are at their highest since August. Similar upward pressure is expected on sugar as well as other cereals.

Table number 5: Summary of inflation figures of some countries (2007-2011):

Country	Latest	2011	2010	2009	2008	2007
India	8.8	7.50	9.47	14.97	9.70	5.51
China	3.60	4.10	4.60	1.90	1.20	6.50
United Kingdom	3.40	4.20	3.70	2.90	3.10	2.10
Australia	3.10	3.10	2.70	2.10	3.70	3.00
United States	2.90	3.00	1.50	2.70	0.10	4.10
Canada	2.60	2.30	2.40	1.30	1.20	2.40
France	2.30	2.50	1.80	0.90	1.00	2.60
Germany	2.10	2.10	1.70	0.80	1.10	3.10
Japan	0.30	-0.20	0.00	-1.70	0.40	0.70

Source: tradingeconomics.com



It is clear from table number 5 that, the average rate of inflation in India is very high when compared to all other countries of the world during the year 2007 to 2011. When compared to developed countries, India has registered about around 9% rate of inflation and even it has reached around 15% during 2009. But all those developed countries have managed less than 4% of inflation during the same years.

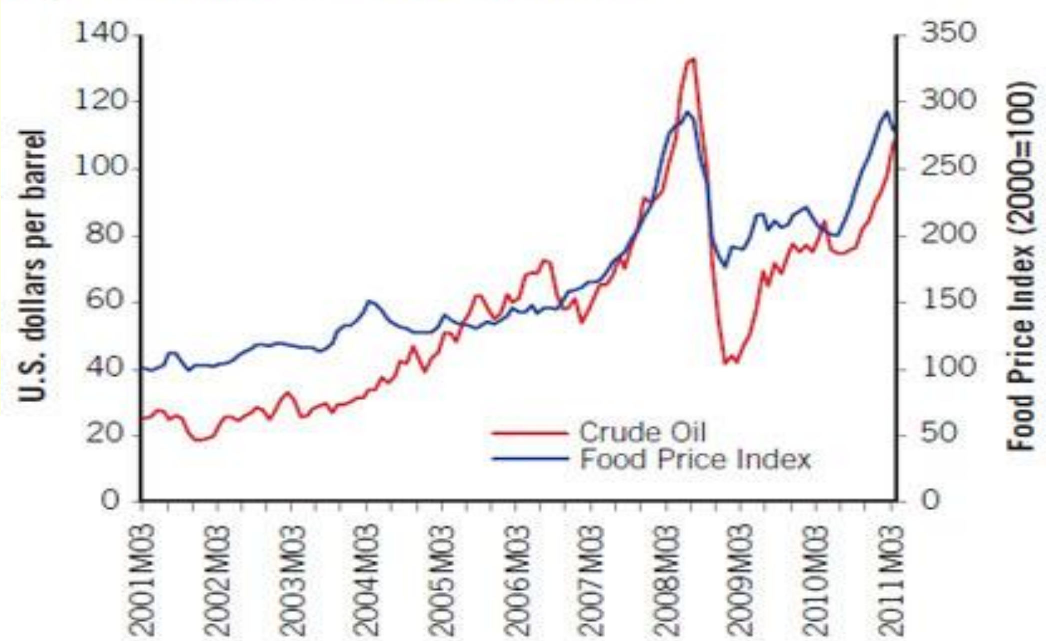
When compared to the neighboring developing country i.e., China, India has registered a very high rate of inflation i.e., 8.8% recently but China is able to maintain 3.6% rate of inflation during the same year. Even though the countries like U.S.A. faced a severe economic problems (economic recession), they have maintained a very low rate of inflation. It exhibits the ineffectiveness of the government policy and steps in combating inflation in our country.

Oil inflation:

More worrying is the **increase in international crude prices, which will put upward pressure on domestic prices.** This may hurt both ways, first, by directly increasing the cost of cultivation, since prices of fertilizer and diesel (a principal element in irrigation) are linked to international crude prices and second, by increasing transportation as well as other indirect costs of processing.

Global food prices remain high, partly due to increasing fuel prices. Inflation is further compounded by the increase in oil prices over the last few months. **Crude is trading at $92 a barrel and is expected to cross $ 100 a barrel very soon**. This would be the highest in the last 26 months, and there is a clear danger that crude prices may continue to move upwards, threatening to touch peaks last seen in 2008.

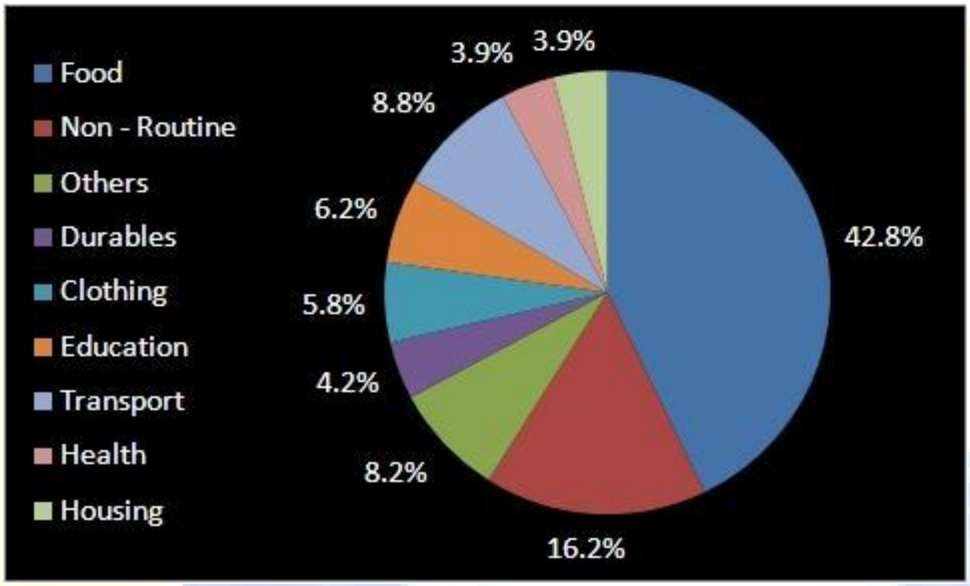
Figure 4: Food and Fuel Price Trends



Source: tradingeconomics.com

The above figure clearly explains the relationship between trend of oil prices and food inflation in the world market. Starting from the year 2001, crude oil prices are continuously dominating the economy. Correspondingly, the food price index also moves along with the fuel price. It indicates there is inflation in our country also which is highly dominated by continuous rise in crude oil prices.

Table Number 7:



Source: tradingeconomics.com

The above picture (pie diagram) depicts the average spending of consumers on various requirements of life out of their disposable income during a year. Out of the total money earned, about 42% of income is spent on consumption of food articles alone. The remaining 58% is spent on all other requirements of life. It is clear that the high rate of food inflation has made the life of the people difficult and even the saving capacity of the people also suffered.

Findings of the study:

The following are the important findings of the study.

1. It is found that the price of food products and others have touched a peak considerably over the last number of years particularly from 2008 onwards. It is because of the seasonal nature of agricultural products and unforeseen flood and change in climatical conditions in other countries has resulted in high rate of inflation in India. The people particularly belong to lower class and lower middle class suffered badly because they

were not able to meet even their three time meals and about 42.8% of the income earned is spent on food articles.

2. There is a positive relationship between crude oil prices and inflation in our country. Within a decade (2001 to 2011) the price of crude oil has experienced a high price. Particularly during the year 2008, it reached the peak of $140 per barrel in the international market. That has resulted in high rate of inflation in India.
3. There is a close correlation between the size of population and food inflation in India. It is the ever growing demand for various products (agricultural goods, industrial goods and oil products) because of increase in the population size is found to be an important factor in determining the rate of inflation.
4. It is evident from the data relating to inflation rate among the various countries taken for consideration; the rate of inflation is very high in India. In most of the countries, the rate of inflation is around 3% and even China one of the fastest growing economies in the world has managed 3% rate of inflation. But in India, it is around 9%.
5. When analyzing the various data relating to inflation, it is found that the inadequate supply of agricultural goods in the market has caused food inflation at high rate.
6. Indian economy is growing at the rate of more than eight per cent and purchasing power of people is also rising which is one of the reasons why people are able to survive the price crisis. (announcement of 6^{th} pay commission and salary packages of foreign companies)
7. The findings of the ASSOCHAM indicates that the average monthly expenditure of a family has increased from Rs. 2,000 to Rs.6,000 approximately. More importantly, food expenditure as a percentage of monthly household expenditure has gone up from 40% to 100%. The household have cut about 78% of their spending on eating out and rest preferred on occasions, 77% percent on vacations and 42 percent for automobiles.

Suggestion to control:

1. The enduring solution to the persistent demand – supply imbalances in food is to rapidly increase supply. The growth rate of agricultural productivity during 9^{th}, 10^{th} and 11^{th} plans is 2.5%, 2.4% and 3.2% respectively. So, the production and productivity of agricultural goods have to be increased to meet the growing demand for food grains with protein contents.

2. Cultivation risks have to be mitigated for farmers to find these products more attractive.
3. Transportation, storage and distribution efficiency have to be increased to keep losses and distribution margins down.
4. With a ban on future trading already in place for a majority of cereals, we may be able to contain some of the transmission, provided the government takes adequate steps now.
5. Increase in supply chain management through revamping the Public Distribution System and encouraging FDI in retailing sector will reduce the cost and increase the efficiency of the system.
6. It is estimated that about 40% of food articles are wasted every year. So, efforts should be taken to avoid the wastage of food grains and other food articles particularly Vegetables and Fruits by establishing quality warehouses in all the parts of the country particularly in food grains cultivating states like Punjab, Hariana, and Tamil Nadu etc.
7. The fastest growth of real estate sector has resulted in the conversion of cropping lands into big buildings in our country (people agitation against Tata Car Plant, Singur in West Bengal) should be stopped. Only barren lands which are considered to be waste and no crops can be cultivated alone be used for industrial and service sector activities.

Conclusion:

Despite our production advantages and our farmers' ability to sustain cost increase, we may see food prices inflation becoming an entrenched problem. If this is so, it will not be due to international price surges as much as our own inability to handle inflation. Given the government's tack record in containing prices, this is all the more likely.

Based on the latest data, our rabi production will hit a record, with wheat output expected to touch 82 million tones. There have been significant improvements in cotton and sugar production too. In both, we will be producing more than the domestic demand. The current inflation in vegetable prices is at best seasonal, and suitable action to contain speculative pressure should ease the situation.

We are in a much better position internally than we have been in the last five – six years.

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