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Recent Trends in Food Inflation in India

Punam Devi¹

¹Department of Management,
Ganga Institute of Technology and Management,
Kablana, Jhajjar, Haryana, India

Abstract—Not only in India but food inflation had been adversely affecting whole world economy. It is now matter of a global concern. In India scope of industry-led investment strategy is limited if inadequate attention is paid to agriculture sector. Slow growing agriculture imposes limits on industrial growth because both the sectors are interdependent. The industrial sector performance is harmed by too high and too low prices of agricultural commodities. Too high prices of food forces consumers to spend more money on food as demand of food items are less price elastic. As a result less will be remaining with consumers to spend on industrial products. Low level of agriculture prices, on the other hand restricts the market of industrial products.

Inflation in India had been economic as well as political phenomena, especially food inflation. The current paper will focus on trend, patterns and causes of rice and wheat prices on Indian economy. Though cereals are not the only contributors to the food inflation but very important to be studied because of various reason. These are important food items and government interventions are very much extensive. Present paper has three sections in first trends of prices of wheat and rice is discussed. In second section the productivity trends are discussed and in third section MSP as an important factor in food grain inflation is discussed.

I. INTRODUCTION

Food inflation has become a major cause of concern for not only the common-man, but also for the policy maker. Of late, high inflationary, pressure particularly double digit food inflation since October 2008 is turning out to be a spoilsport in an otherwise robustly growing Indian economy. Food prices in India started increasing since mid-2008 onwards. The year 2010-11 witnessed overall inflation rate crossing 10% for the whole year. The primary food articles inflation based on year-on-year wholesale price index (WPI) was witnessed inflation rate of 12.46% (March 2008 to November 2011) and averaged 11.5% in 2011-13. It remained equally high in 2013-14 also.

A. Trends

Although cereals are not the top direct contributor to overall food inflation still they are important to be study for various reasons. First, the government has been intervening extensively in the cereals markets. The government has also been the most proactive in any inflationary pressures on cereals. Second, the cereal price rises can put pressure on prices of other food items, through for example substitution in production away from non-cereals. the rural wages could be linked to prices of cereals; hence a rise in its price could result in a rise in the cost of production for other food items and for non-food products as well.

TABLE 1
AVERAGE WPI INFLATION RATE OF FOOD ARTICLES
(March 2008 to July 2010) (%) (Base: 2004-05)

Items	Inflation Rate
Food articles	13.32
Food grains	12.34
Cereals	11.55
Rice	12.75
Wheat	10.66

Source (Basic Data): Central Statistical Organisation (CSO)
(<http://eaindustry.nic.in/>).

TABLE 2
WHOLESALE PRICE INDEX AND RATES OF INFLATION
(BASE YEAR: 2004-05)

Items	WPI (Dec-2014)	Year on year inflation	
		2013-14	2014-15(Provisional)
Food articles	252	13.73	5.20
Rice	240	13.52	4.43
Wheat	214	7.64	-2.46

GOI (www.eaindustry.nic.in/cmonthly.pdf)

As we can see in the table: 1 that WPI inflation rate in food articles remained 13.32 during 2008 to 2010. It is very high for rice and wheat also. Inflation rate has decreased in 2013-14 for wheat and for both in 2014-15.

Food inflation has been higher than non food inflation during last 10 years except some of cases. Food inflation has been a big contributor in overall inflation. There is a dip in food inflation in 2013-14; cereals are major contributor in 1st quarter of 2013-14.

B. Domestic vs. Global Scenario

Increasing food inflation has been an important issue in international market also. It is very important to study whether there is any relationship between domestic and global food prices.

S. Mahendra Dev (2010) Food prices in India, particularly for wheat and pulses, were higher in 2006-07, which was much before the sharp increase in global prices in 2007-08. In fact, inflation in the prices of food grains and food articles was lower in 2007-08 in India as compared to that in 2006-07. In the case of oilseeds and edible oils, the

impact of global prices on India seems to be much more than in the case of other commodities conditions. In the case of India, the food price inflation started increasing in the fourth quarter of 2008.

S.S. Acharya, Ramesh Chand, P.S. BIRTHAL, Shiv Kumar and D.S. Negi (2012) in case of monthly movement of prices of rice and wheat there is stability in India against the wide fluctuation in international prices. Co-relation coefficient between international prices and domestic prices at different market centres for the crisis (2007-08) period is insignificant.

Similar observations were made by Ghoshray (2011). It may be mentioned here that, during 2006 and 2007, India faced critical shortage of wheat and had to import 7.9 million tonnes to meet its domestic needs.

Kavery Ganguly and Ashok Gulati (2013) presented the trends of domestic as well as international prices of rice and wheat with the help of figure 1 and 2. As we can see that there is hardly any relationship between two prices.

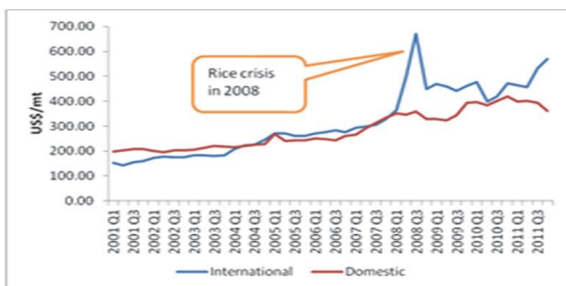


Fig 1. International and domestic price movements of rice

Note: International prices are of Thai Rice, 25 per cent broken, FOB Bangkok. Domestic prices have been calculated by averaging monthly data across government regulated market yards (known as mandis) in all states available from DES.

Source: GoI, CACP (2011).*

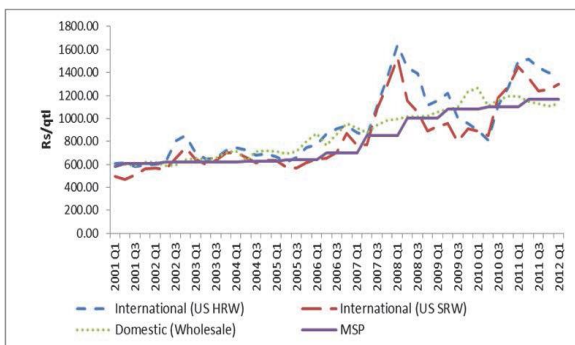


Fig 2: International and domestic price movements of wheat

Note: (1) International prices are of Wheat (USA), no. 1, hard red winter, and no. 2, soft red winter, export price delivered at the US Gulf port. (2) Domestic wholesale prices for wheat have been calculated by averaging monthly data across mandis in Punjab and Uttar Pradesh.

Source: GoI, CACP (2011).

Kavery Ganguly and Ashok Gulati (2013) WIDER Working Paper No. 2013/034, **The political economy of food price policy** The case study of India

PRODUCTIVITY SCENARIO

In this section of paper we will discuss the issue of production of these food grains. Production of food grains increased by 2.88 % in 2013-14 over the previous year, it is 1.05 % for rice and 2.46 % for wheat. But higher production in 2013-14 has been achieved by expanding acreage rather than productivity. In table 3 we can see that yield in kilograms per hectares showed a decline. Decadal trend is exhibited in table 4. Yield in case of rice is U shaped trend but it is decreasing in case of wheat. Low productivity has been an important issue in agriculture for long. Productivity of India is compared with that of world Average productivity and countries with world's highest proclivity of food grain in terms of yield per hectare.

TABLE: 3
AREA, PRODUCTION, AND PRODUCTIVITY WITH PER CENT CHANGE OVER 2012-13

(Area: Million ha; Prod: Million tonnes; Yield: kg/ha)

Group/Commodity	Area		Production		Yield	
		(%)		(%)		(%)
Foodgrains	126.2	(4.47)	264.4	(2.88)	2095	(-1.55)
Rice	43.9	(2.57)	106.3	(1.05)	2419	(-1.75)
Wheat	31.3	(4.33)	95.8	(2.46)	3059	(-1.86)

Source: Directorate of Economics and Statistics, Department of Agriculture and Cooperation (DAC). GOI

TABLE: 4
COMPOUND GROWTH RATES OF AREA, PRODUCTION, AND YIELD OF PRINCIPAL

Crop	A - Growth rate of area, P - Growth rate of production, Y - Growth rate of Yield (% per annum)								
	1980-81 to 1989-90			1990-91 to 1999-2000			2000-01 to 2013-14		
	A	P	Y	A	P	Y	A	P	Y
Rice	0.4	3.6	3.1	0.6	2.0	1.3	0.0	1.8	1.8
Wheat	0.4	3.5	3.1	1.7	3.5	1.8	1.3	2.6	1.2
t	6	7	0	2	7	3	5	5	9

A - Growth rate of area, P - Growth rate of production, Y - Growth rate of Yield (% per annum)

Table 5:
India's Productivity vis-à-vis World Average and Country with Highest Yield (kg/ha)

Crop/commodity	World average (TE 2011-12)	India (TE 2012)	Country with highest yield (TE 2012)
Paddy	4397	3514	6661 (China)
Wheat	3094	3000	7360 (UK)

Source: Economic Survey – 2014-15, GOI

III. MSP AND ECONOMIC COST OF FOOD GRAINS TO THE FCI

Government announces the Minimum Support Price for both food grains rice and wheat. These grains are procured stored and distributed by government agency FCI to ensure even availability at reasonable price to the public and regular income to the farmers. Minimum Support Price for rice and wheat has been continuously increasing as we can see in the figure.3.

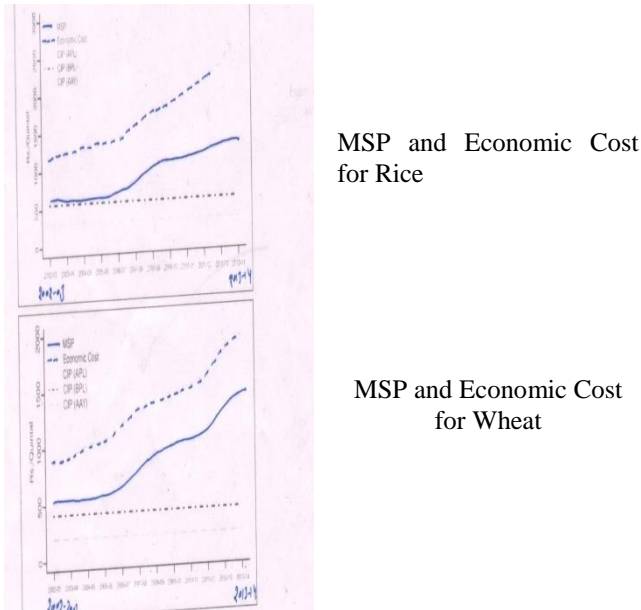


Figure 3: Minimum Support Price for Wheat and Rice

Source: Economic Survey – 2014-15, GOI

Gaiha and Kulkarni (2005) found a strong positive correlation between the level of MSP (for rice and wheat) and WPI as well as CPI-AL after controlling for time trends and level of income. According to them though MSP is aimed at providing incentives to farmers, it traditionally has been below international prices.

The gap between MSP and Economic cost is also increasing. Economics Cost comprises MSP, procurement incidentals and the cost of distribution. Increasing Economic Cost is creating fiscal burden on government. It is not only due to increasing MSP but also due to leakages and inefficient management.FCI suffers higher procurement leads to stocks that exceed the buffer norm.

Table 5: Stocks and Buffer Norms

Commodity (mt)	Stocks as on 1 June		Buffer norms	
	2013	2014	As on 1 April	As on 1 July
Rice	33.31	20.65	14.20	11.80
Wheat	44.39	41.58	7.00	20.10

Source: Economic Survey – 2014-15, GOI

The excess buffer stock we can see in the table 5.This excess stock increases the cost of storage.

MSP is announced every year and these are upwards revised. The difference is only of degree. MSP is calculated depending upon the cost of cultivation. During the time of inflation automatically MSP is fixed higher and thus contributes to the inflation.

According to Basu (2010). The absence of any downward revision in MSP over time and the lack of adjustment for inflationary pressures make it an important factor accounting for inflation in cereals.

IV. CONCLUSION

During last decade many times food inflation had been higher than the overall inflation. Though food inflation is an issue of global concern, but there are no signs of transformation of global food inflation in India (Rice and Wheat). Productivity of these food grains exhibiting decreasing trends in long run and short run scenario is not much better than that of long run. MSP has been an important contributor to food inflation so more refined policies for fixation of MSP are required. The primary reason for high inflation in wheat and rice has been due to the government emerging as the largest holder of grain.

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