# Implications of Low Food Inflation

## What is the issue?

\n\n

The food inflation which has been low for an extended time can affect the economy and political scenario.

\n\n

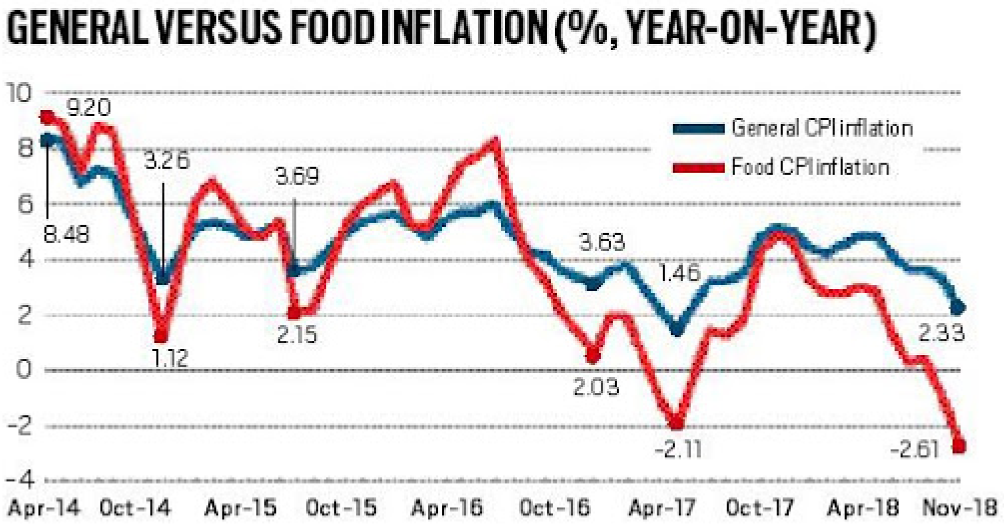
## How were the food prices in previous years?

\n\n

\n

- In the 25 of the 27-month period, from March 2012 to May 2014, the year-on-year inflation in food was more than that for the overall consumer price index (CPI).
\n
- The trend remains same in the period from June 2014 to August 2016, with food inflation topping general CPI inflation in 20 of these 27 months.
\n
- But in the recent September 2016 to November 2018 period, consumer food inflation in India has been ruling below general inflation.
\n
- And in 5 of these 27 months, the annual increase in the official consumer food price index has been negative, with Indians paying less for vegetables, pulses, sugar or eggs now than a year ago.
\n
- This kind of sustained low food inflation or even deflation is, perhaps, unprecedented in India's history.
\n

\n\n




\n\n

### What are the twin implications of extended low food inflation?

\n\n

\n

- **Economic Impact** - is reflected, among other things, in the Reserve Bank of India repeatedly getting its inflation forecasts off the mark.
\n
- The debate is no longer on whether the RBI will cut interest rates, but when and by how much.
\n
- This "over-achievement" in meeting its inflation target/forecasts is partly on account of oil — brent crude collapsing to $ 60-61 per barrel, from the early-October highs of $84-85.
\n
- But it is also equally due to food and beverages, which have a combined weight of 45.86% in the CPI.
\n
- **Political Impact** - The political fallout of low/negative food inflation is agrarian unrest.
\n
- While cheap food may be good for consumers, it also translates into low produce prices for farmers.
\n
- The apparent rural backlash against the present government began roughly after May 2017, when the Rabi crop planted just after demonetisation was being marketed.
\n

\n\n

## What is the reason for such low levels of food inflation?

\n\n

\n

- **Supply-Side Glut** - One reason for the recent decline in food inflation is over supply, resulting from bumper domestic harvests as well as low global prices.
\n
- The effect of this has been magnified by the current government's supply-side management of imposing export and stockholding restrictions on farm goods, alongside allowing duty-free imports to complement the RBI's inflation targeting policy.
\n
- In 2016-17, India imported a record 6.61 million tonnes (mt) of pulses, despite domestic output soaring from 16.35 mt to an all-time-high of 23.13 mt.
\n
- Given the sheer supply overhang, the wholesale price index for pulses in November 2018 is below its same-month level of not only 2017, but even 2016 and 2015.
\n
- **Demand Side** - The retail prices of milk, a product with income elasticity of demand exceeding one, has only gone up by hardly Rs 4 per litre or 10-11% in the last four years.
\n
- A clearer picture on this can be seen after results of the National Sample Survey Office's next comprehensive household consumer expenditure survey.
\n
- **Liquidity Dimension** - Farm commodity trading in India has traditionally been cash-based.
\n
- Therefore the demonetisation, GST, daily limits on cash transactions and the fear of being "watched" by revenue authorities, has made traders less inclined to buying and stocking up produce during the harvesting season.
\n
- While cash may have returned to the system, it isn't circulating as freely as before.
\n
- All this has, of course, mainly hit farmers who are today selling in a market devoid of liquidity and buyer confidence.
\n

- That probably is the real explanation for farm prices now being more prone to falling than rising and the low food inflation.
\n

\n\n

\n\n

**Source: The Indian Express**

\n