

India's Food Inflation

What is the issue?

- It is said that food inflation has made a comeback, both in India and globally.
- The Indian food inflation may be influenced by global price movements.

How can it be said that there is a return of food inflation?

- **Global** - The UN Food and Agriculture Organisation's (FAO) food price index is a measure of the change in international prices of a basket of major food commodities.
- With 2002-04 (100 points) as a base period to the index, it touched 182.5 points in January 2020, the highest since December 2014.
- Also, the year-on-year inflation rate based on this index has risen steadily from 1.13% in August 2019 to 11.33% for January 2020.
- This sharp surge in global food prices is reflected in trends in India.
- **India** - Consumer and wholesale food inflation rates for December 2019 were the highest since November 2013 and December 2013 respectively.
- Simply put, since October 2019, food inflation has made a comeback, both in India and globally.

What were the factors contributing to the inflation?

- **Local factors** - While the recent rise in domestic food prices has been blamed largely on "local" factors,
 1. Poor rainfall during the monsoon season (June-July 2019)
 2. Too much of rainfall thereafter till about mid-November.
- This led to both reduced/delayed kharif sowings and damage to the standing crop at maturity/harvesting stage, some of it is also "imported".
- **Foreign factors** - Since India imports most of its edible oil, higher international prices would have been automatically transmitted to the domestic market.
- As global prices can be transmitted to the domestic market through exports, the government has foreclosed that possibility by restricting onion shipments since September 2019.

When was the period of divergence?

- The FAO food price index and the domestic consumer food price index (CFPI)

inflation rates started moving in tandem from March 2018.

- They exhibited a significant divergence in the period prior to that.
- **FAO index** - The FAO index peaked at 240 in February 2011, but remained at 200-plus levels until July 2014.
- Global prices crashed after that, and stayed low up to early 2016, with the FAO index dipping to 149.3 in February 2016.
- **Domestic food index** - It also fell by early 2016, as lower global commodity prices reduced the demand for Indian farm exports, even as they made imports cheaper.
- However, the actual fall in domestic inflation took place after September 2016 which had more to do with domestic factors than global prices.
- Between August 2016 and October 2017, the FAO index inflation exceeded the corresponding CPI rate.

What can happen now?

- Both international and domestic food prices are showing signs of renewed hardening.
- So the question now is how sustainable this trend is. There are at least three bearish factors currently at play.
 1. The novel coronavirus epidemic that has reduced Chinese buying of everything like palm oil, milk powder, meat, etc from outside.
 2. The price of crude oil is another factor.
 3. The prospect of a bumper rabi (winter-spring) crop in India is the third one. The kharif harvest turned out to be not so good because of excess and unseasonal rain.
- Against these bearish factors are the relatively “bullish” factors.
- Global palm oil ending stocks this year are projected to be the lowest since 2009-10 and sugar is also expected to move into deficit.
- Supply tightness is being seen both globally and in India, even in milk.
- If Brent crude too, were to rally again, there could be uncertainty ahead.

Source: The Indian Express