

Hopeful signs on food inflation

Several factors have boosted rabi plantings; open market agri prices are high; prospects of onion, potato, milk look good. As the RBI MPC meets today, there are reasons for cautious optimism on food inflation

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NEW DELHI, PUNE, DECEMBER 4

CONSUMER PRICE inflation fell from 7.41% year-on-year in September to 6.77% in October — and food inflation fell even more, from 8.60% to 7.01%.

But that isn't the only data point the Reserve Bank of India's (RBI's) monetary policy committee (MPC) may consider at its interest-rate action meeting from December 5-7. How much to hike, if at all, would depend on how the committee perceives inflation — especially food, which has a 45.86% weight in the consumer price index — to pan out in the coming months.

There are two reasons for cautious optimism here.

The first reason relates to global food prices.

The accompanying graph shows movements in the UN Food and Agriculture Organisation's (FAO's) Food Price Index (FPI) over the last two-and-a-half years.

The index — a weighted average of the international prices of a basket of food commodities over a base period value, taken at 100 for 2014-16 — soared from a low of 91.1 points in May 2020 (when Covid lockdowns worldwide triggered a "collapse of demand") to an all-time-high of 159.7 points in March 2022 (following Russia's invasion of Ukraine, leading to disruptions and "collapse of supply").

Both the FPI and its two key component indices — cereals and vegetable oils, which had exhibited ever higher volatility — have come down from those peaks. The FPI has fallen every single month since March, to 135.7 points in November. More significant is vegetable oils. At 154.7 points last month, the index was 16.2% down from a year ago and 38.6% down from the March 2022 high.

The effects of world prices easing are being felt most clearly in edible oils. Over the last six months, the all-India average modal (most-quoted) retail prices of soyabean and palm oil have come down from Rs 180 to Rs 160 and from Rs 165 to Rs 110 per kg respectively. Not surprising, given that India imports roughly 60% of its edible oil requirements.

The second reason has to do with domestic factors.

This year's *kharif* crop, mainly sown in June-July and harvested after October, hasn't been too good. The southwest monsoon's late arrival affecting June plantings, drought-like conditions in the four Ganga basin states (Uttar Pradesh, Bihar, Jharkhand, and West Bengal) and excess September-October rainfall around harvesting time resulted in lower outputs for most crops. Cotton and soyabean were the probable exceptions: High prices and their relative hardiness over, say pulses, in-

CUMULATIVE AREA SOWN UNDER RABI CROPS

	(LAKH HECTARES)		
	NORMAL**	2021-22@	2022-23@
1. Wheat	304.47	200.85	211.62
2. Rice	45.65	9.53	10.62
3. Jowar	29.35	18.11	17.87
4. Maize	19.17	5.93	8.98
5. Barley	6.16	4.57	5.30
6. Pulses	150.20	108.57	112.67
(a) Chana	98.86	75.80	79.82
(b) Masoor	14.29	13.27	13.38
(c) Moong	10.47	0.67	0.69
(d) Urad	9.13	3.23	3.17
(e) Matar	7.45	7.98	7.34
7. Oilseeds	78.81	75.55	83.07
(a) Mustard	63.46	69.32	76.69
(b) Groundnut	7.22	2.73	2.67
(c) Sesamum	3.42	0.15	0.15
Total Rabi	633.80	423.52	450.61

*Includes other rabi coarse cereals, pulses and oilseeds;

**Five-year average (2016-17 to 2020-21) for whole season;

@As reported on December 2.

duced farmers to expand acreages under both.

This is in contrast to *kharif* pulses. Production of both *arhar/tur* (pigeon-pea) and *urad* (black gram) are estimated 15-20% lower than in the 2021 *kharif* season. It explains why *arhar* is currently wholesaling at about Rs 7,000/quintal in markets such as Gulbarga (Karnataka) and Latur (Maharashtra), against last year's Rs 6,000 levels at this time.

Yet pulses overall haven't seen much inflation so far. That is primarily due to the huge stocks of *chana* (chickpea) with government agencies; they had bought some 25 lakh tonnes (lt) during the last *rabi* marketing season (March-April), on top of the 8 lt held from the previous crop.

There's still an estimated 24 lt of unsold stocks, which is putting pressure on prices: *Chana* is trading in major *mandis* like Rajkot (Gujarat), Akola (Maharashtra) and Ganjbasoda (Madhya Pradesh) at Rs 4,400-4,600 per quintal, well below the official minimum support price (MSP) of Rs 5,335.

Chana stocks apart, the market is being well-supplied by imports of *masoor* (red lentil) from Canada and Australia at landed prices of \$720-730 per tonne (Rs 59-60/kg). Since *masoor dal* can replace *arhar* to some extent — more so in hotels and canteens — it is putting a lid on the latter's prices.

There is room for cautious optimism in the rabi season.

Sowing is in progress for the *rabi* (winter/spring) crop. The extended monsoon, al-

though bad for the harvest-ready *kharif* crops, has helped recharge aquifers and fill up reservoirs. Coupled with the timely onset of winter and improved fertiliser availability (on the back of easing global prices), it has given a boost to *rabi* plantings of wheat, mustard, maize, and even *chana* and *masoor* (see table above).

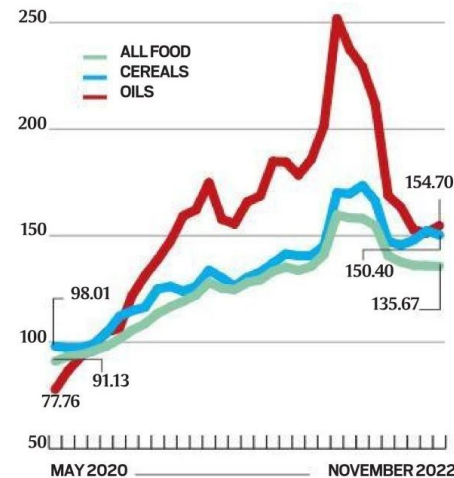
Open market prices of all these crops, save *chana*, are ruling above MSPs. That, and the need to make up for *kharif* losses, has been added incentive for farmers to sow more area this time.

It isn't field crops alone. Onion prices at Maharashtra's Lasalgaon market, at Rs 10 per kg, are half of their year-ago levels. Last year's excess rain from September extending through January, destroyed both the *kharif* (June-July sown and October-November harvested) and late-*kharif* (September-October sown and January-harvested) onions.

There has been no such damage from La Niña this time, even as farmers have started planting the all-important *rabi* onion that is harvested from March onwards and is amenable to storage.

There isn't any major cause for concern with potatoes either — prices in Agra, at Rs 15/kg, are higher than last year's Rs 10 levels. Heavy October rainfall did delay plantings by 10-15 days with some area reduction, but the prospects for the tuber (harvested towards March and mainly kept in cold stores) look good for now. Most crops — seasonal vegetables included — have seemingly escaped the ravages of a third La Niña year in a row.

FAO FOOD PRICES INDEX (2014-2016=100)



The weakening rainfall activity since November should also be good for milk. Waterlogged fields from incessant rains do not allow fodder to grow for animals to graze. Farmers have been suffering fodder shortages and increased feed costs, forcing dairies in turn to pay more for milk and pass it on to consumers.

That should ease somewhat with bumper crops of soyabean, groundnut, cotton, and mustard (their oil-cakes are protein ingredients in cattle and poultry feed) and also maize (a source of energy).

But it's important to beware the Ides of March.

The above optimism should be tempered by a simple fact: The present soil moisture and temperature conditions are ideal for the *rabi* crop, whose harvesting and *mandi* arrivals though, is only after March.

Last year's wheat was singed by a sudden spike in temperatures from mid-March, when the crop had just entered the grain-filling stage. March 2015 saw unseasonal rainfall, accompanied by hailstorms and gusty winds, causing widespread crop devastation across north, west and central India.

A lot can happen between now and March-April. The India Meteorological Department, on December 1, forecast "above normal maximum temperatures" during the winter season (December-February) "over most parts of northwest India, east & northeast India and many parts of central India". That isn't a happy augury either for wheat or mustard.