Explained Economics

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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Consumer price inflation fell from 7.4% year-on-year in September to 6.7% in October — and food inflation fell even more, from 8.60% to 7.01%.

But that’s not the only data point the Reserve Bank of India (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) 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 as 100 for 2014-16, soared from a low of 111 points in May 2020 (when Covid lockdowns worldwide- wider had taken a toll) 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”) to reach 109.7 in February 2023.

Both the FPI and its two key component indices — cereals and vegetable oils, which had exhibited even higher volatility — have come down from those peaks. The FPI has fallen even singlehanded since March, to 138.2 in November. More significant is vegetable oils, at 154.7 points late last month, the index was 162.9 down from a year ago and 138.8 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 value of most-citrus retail prices of soybean and palm oil have come down from Rs 180 to Rs 150 and from Rs 165 to Rs 120 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, has been up. 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, soyabean, and safflower were the probable exceptions. High prices and their relative hardness over, say, pulses, indicated farmers to expand acreages under both. In contrast, kharif pulses should also be up, in view of the production of both urad (black gram) and urad (black gram) are estimated 15-20% lower than in 2021-22 season. It has given a boost to rabi plantings of wheat, mustard, maize, and even chana and sunflower (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 providing incentive for farmers to sow more area this time.

It isn’t field crops alone. Onion prices at Maharashtra’s Lasalgaon market, at Rs 80 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 November-November harvested) and late-kharif (September-October sown and January-harvested) onion crops.

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 concern about shrimp with potatoes either — prices in Agro, at Rs 15, 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) are good for most. Most crops — seasonals, such as turmeric included — have seemingly escaped the ravages of a third La Niña year in a row.

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 dairy farmers 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-rich) 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 mannii arrivals though, is only after March.

Last year’s wheat was sown by a sudden spike in temperatures from mid-March, when the crop had just entered the关键


growth stage. March 2015 saw unseasonal rainfall, accompanied by hailstorms and gusty winds, causing widespread crop devastation across north-west India, east and northeast India, and many parts of central India. That isn’t a happy augury either for wheat or mustard.