

Ouch!!!! Food inflation hurts



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While onions seem to have done the disappearing act, the tears haven't disappeared anywhere. An onion deficit market has transformed tears of joy into tears of sorrow.

The price of onions has risen from Rs.20 per kg to Rs.60 per kg (as in January 2011) in a matter of a few months leaving people stunned. When the price of one staple food item goes beyond reach, people look for alternatives. So the rise of one commodity leads to a chain effect raising prices of other food items. Food inflation seems to have unmistakably settled down in our backyard.

While price rise is always painful, this time it is worse because:-

- 1) The magnitude of price rise is more.
- 2) Onion being an integral part of cooking is consumed by both the rich and the poor alike.

- All of a sudden the importance of the onion has dawned upon us. Thanks to food inflation. Where is food inflation heading and what does the future look like?
- A revolution called 3G has been launched and is all set to transform business models beyond recognition. It is imperative to harness this technology and make businesses more efficient.
- The structure of the European Union is under stress due to lop-sided development of countries within the Union. What this holds for the future of the union?

Read on and explore the above stories and stay abreast with macro-economic changes taking place around us.

The “aam aadmi” at the epicenter of price rise has become a headache for the authorities because if the “bottom of the pyramid” rumbles, governments can tumble. So they are doing what they can by lifting import duties and banning exports. But this does not seem to be good enough to retract prices.

So what is causing this pain and how does one alleviate the suffering?

Poor infrastructure is at the heart of this impasse and manifests itself by way of:-

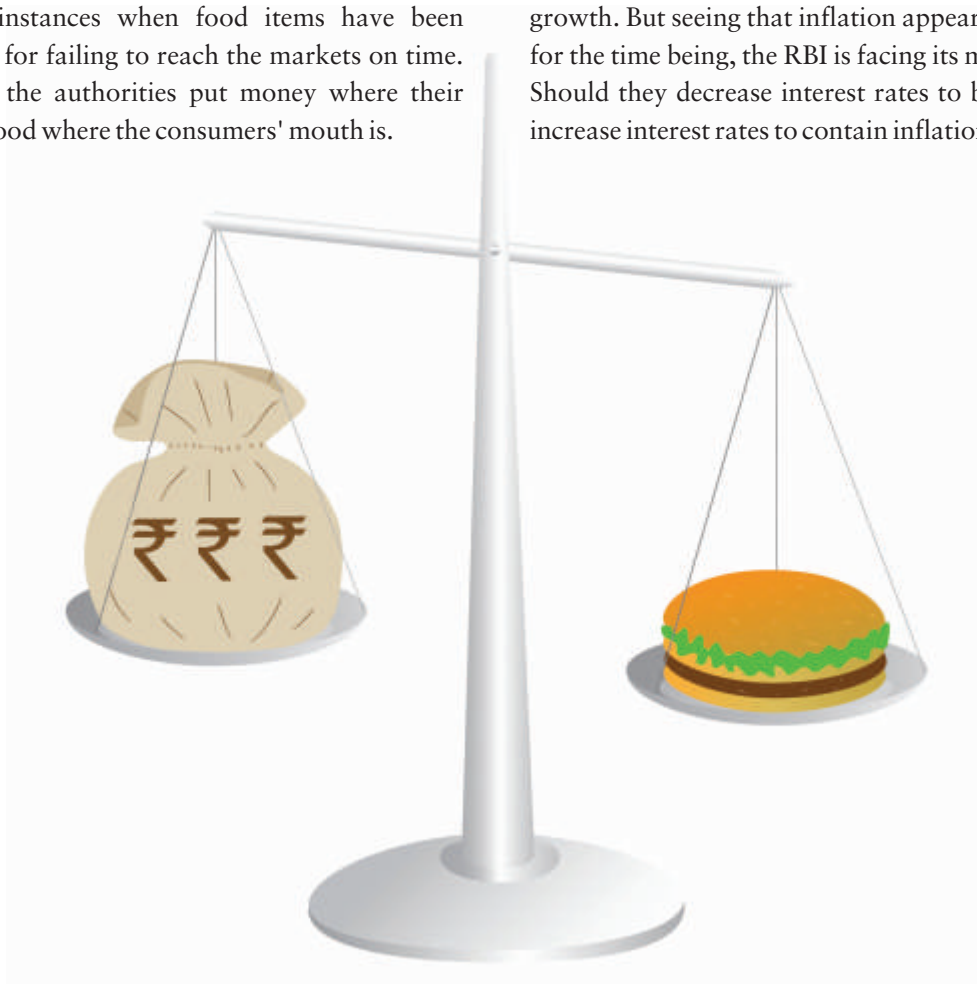
- 1) Poor road networks that connect the centers of production to the centers of consumption.
- 2) Lack of warehousing facilities for storage at close proximity to markets.
- 3) Lack of a cold chain (refrigerated trucks) to preserve food items during transportation.

Thanks to the abysmal state of infrastructure, there have been several instances when food items have been allowed to rot for failing to reach the markets on time. It's high time the authorities put money where their mouth is and food where the consumers' mouth is.

Besides the infrastructure deficit, an erratic monsoon that extended all the way to November adversely impacted the produce. To make matters worse, hoarders too have joined the party by adding fuel to fire. Barriers to movement of commodity due to a complicated tax and octroi structure between states are another impeding factor.

While supply has been under stress on one hand, there has been a surge in demand on the other hand. According to RBI, a 39% increase in income per person in the last 5 years has added 220 million regular consumers for milk, eggs, meat and fish. Thus economic prosperity too has had a role in driving up prices. Supplies have not kept pace for bridging the deficit gap. So while the economy is growing at a healthy pace of roughly 9%, food inflation is nearly double of economic growth. Thus there seems to be no succor for the teeming millions.

The obvious remedy for a current account deficit of 4.3% (quarter ending September) is higher economic growth. But seeing that inflation appears uncontrollable for the time being, the RBI is facing its moment of truth. Should they decrease interest rates to boost growth or increase interest rates to contain inflation?



The manner in which the common man finds himself at the center of the inflation inferno, both the government as well as RBI would like to contain inflation in the short term. Hence interest rates might soar to stave off inflation even at the cost of trading off some of the growth momentum. An unpalatable situation of high interest rate in tandem with high inflation has already spooked the stock market causing it to come off its recent highs.

However the question to be asked is whether inflation would be contained by monetary policy considering the several supply and infrastructure related causes. Whatever be the short term outcome, the writing is clear on the wall that it is time to bring in reforms to the Agriculture sector by way of

- 1) Modernization by upgrading irrigation and water conservation, by making hothouse conditions available for growing vegetables round the year (even when outdoor conditions aren't appropriate), increase of R&D in seed and soil quality etc.
- 2) Establishing well founded infrastructure to help efficient movement of produce from farm to

market.

- 3) Encouragement to farmers' cooperatives, contract farming to overcome impediments caused by unviable land size and deploying capital and technology more efficiently.
- 4) Freeing farmers from the strangle hold of middlemen by opening up the retail sector and helping them realize appropriate prices for their produce.

There's no doubt that India is well positioned to become a large economic power in the future. There is no doubt that per capita income across the social spectrum has risen. There is no doubt that rising income has caused an increase in demand. There is no doubt that India is not the only country bearing the burden of food inflation and that mounting international food prices have rocked several governments triggering alarm bells in global financial institutions. (See box below)

However, there is also no doubt that we could do a lot better with well designed relevant policies that benefit both the consumers and producers alike.

■ Dharmendra Satapathy

Food Crisis Makes The World Cry

The food deficit clearly seems to be the harbinger of sleep deficit not only for leaders in India but the world over. The unprecedented demand for commodities from emerging market economies like China, Brazil, India and others has taken Food Price Index past its previous peak in 2008. The Food Price Index is a monthly measure for change in prices of a basket of food items including cereals, dairy, meat, oil and sugar among others. Food inflation has touched double digits in India, China and Brazil, all leading emerging market nations. In fact Algeria has seen food riots break out. Brazil has warned of a trade war. France is taking the issue to the G-20 platform. It is expected that international prices of daily products, meat and oilseeds would remain firm this season while sugar is expected to be volatile. However the biggest worry appears to be wheat where unfavorable weather conditions in Russia are expected to bring the output down by 5%. India is not a major importer of food items but economists believe that high international prices would have a rub off effect on prices in India as well. Besides there is always the threat of a supply shock like the one we have seen for onions. While milk and edible oil are under stress, a bumper food grain and sugar production along with lower demand for meat augurs well for India.