



## Food Inflation: Trends, Factors and Control Measures

This editorial is based on “[Little respite: On food price gain](#)” which was published in The Hindu on 16/05/2024. The article examines the retail inflation data which showed a marginal slowdown in overall inflation, masking a concerning acceleration in food prices, which reached a four-month high of 8.7%.

**For Prelims:** [Retail inflation](#), [RBI](#), [CFPI](#), [Food Price gains](#), [Consumer Price Index \(CPI\)](#) [CPI-Combined \(CPI-C\)](#), [WPI](#), [Cost-push inflation](#), [drip irrigation](#), [minimum export price \(MEP\)](#), [headline inflation](#), [Russia-Ukraine war](#)

**For Mains:** Significance and Challenges of Food Inflation for Indian Economy.

India's April [retail inflation](#) seemed good initially, with the **headline** [Consumer Price Index \(CPI\)](#) inflation rate slightly dropping to **4.83%**, the lowest in 11 months, however, this small decrease didn't hide the concerning rise in **food prices**.

### What are the Recent Trends in Overall Inflation and Food Prices?

- **Food prices:**
  - [Food Price gains](#) were **8.75%** for rural consumers, 19 basis points higher than for urban consumers.
  - **Cereals**, the heaviest category in food, increased to **8.63%**.
  - **Department of Consumer Affairs data** showed significant year-on-year increases in the average prices of rice and wheat.
  - **Vegetables** remained in double-digit inflation for the sixth consecutive month, reaching **27.8%** due to **soaring temperatures**.
  - **Pulses** also saw prolonged double-digit inflation, extending to the eleventh month.
- **Rural consumers:**
  - Rural **CPI** stood at **5.43%**, significantly higher than the urban rate of **4.11%**.
  - The disparity reflects the impact of factors like a **normal monsoon** and high temperatures, particularly challenging for rural households.

### What are the factors that contribute to India's elevated food inflation despite Falling overall Inflation?

- **Temperature and Weather Challenges:** Issues like adverse weather conditions, such as the prediction of a **weak monsoon and heatwave** for this year affecting crop yields, particularly for cereals, pulses, and sugar, ( as these items require ample amounts of water to grow), contributed to supply shortages and higher prices domestically.
  - **For example**, cereal and pulse inflation showed double-digit inflation in April 2024.
- **Fuel Prices:** The price of fuel, another key input in agriculture, has witnessed a considerable

increase in recent years.

- **For example**, An increase in fuel inflation by **1%** leads to a **0.13%** rise in food inflation, and the effect slowly declines through the next 12 months.
- **Supply Chain Disruptions**: Disruptions in the supply chain due to factors like **transportation constraints, labour shortages, and logistical challenges** can lead to a decrease in the availability of food products, causing prices to rise.
  - Moreover, **vegetables** continued to experience **double-digit inflation** for the sixth consecutive month, reaching **27.8%** as the absence of an efficient **storage facility** led to the wastage of perishable items.
- **Global Effect**: While global food prices decreased, India's food prices remained high because of the limited transmission of international prices to domestic markets, The [Russia-Ukraine war](#) acted as a deterrent, and India heavily depends on imports for edible oils (**60% of consumption**) and pulses, but for most other agricultural commodities like cereals, sugar, dairy, fruits, and vegetables, it is an exporter.

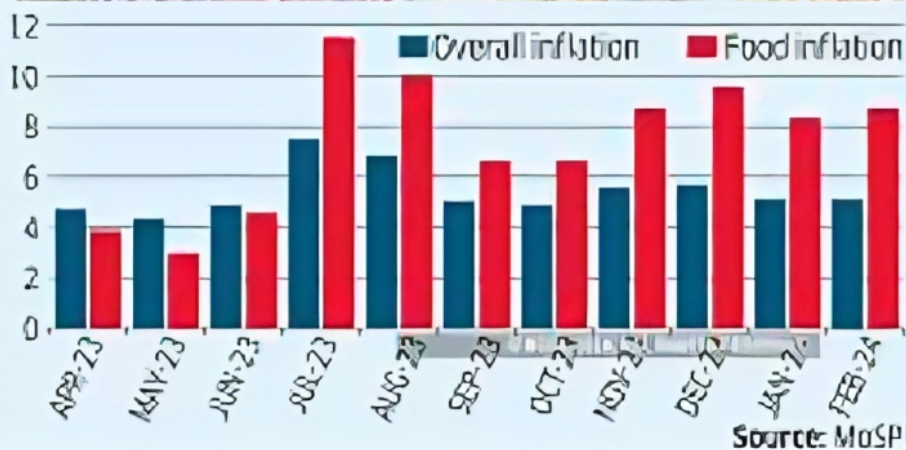
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## Inflation Remains in Line

INFLATION AT A FOUR-MONTH LOW

FOOD INFLATION INCHES UP TO 8.7% IN FEBRUARY VS 8.3% IN JANUARY

CORE INFLATION DIPS FURTHER



## What is Inflation?

### ▪ About

- Inflation refers to the **overall increase** in the prices of goods and services, coupled with a **decrease in people's purchasing power**.
- This means that when **inflation rises** (without an equivalent rise in your income), you are able to buy fewer things than you could buy previously, or you have to pay more money for the same stuff now.
- A “**rising**” inflation rate implies that the rate (at which the prices rise) itself is increasing.
- **For example**, if the inflation rate was **1% in March, 2% in April, 4% in May**, and 7% in June, it shows a **continuous acceleration** in the rate of price increases.

### ▪ Causes of Inflation

#### ◦ Demand-Pull Inflation:

- It occurs when the demand for goods and services surpasses the supply. When there is high overall demand in the economy, consumers are willing to pay more for available goods and services, causing a general increase in prices.

#### ◦ Cost-Push Inflation:

- [Cost-push inflation](#) is fueled by a rise in the production costs of goods and services,

this can result from factors such as increased incomes, elevated costs of raw materials, or disruptions in the supply chain.

- **Wage-Price Inflation:**

- This form of inflation is often characterised as a **feedback loop** between wages and prices, when workers demand higher wages, businesses may raise prices to offset the increased labour costs and consequently, workers seek higher wages in response, perpetuating the cycle.

## What are the Different Indices through Which Food Inflation is Measured in India?

- **Consumer Price Index (CPI):**

- CPI inflation, also known as **retail inflation**, is the rate at which the prices of goods and services that consumers buy for personal use increase over time.
- It measures the change in the cost of a basket of goods and services that are typically purchased by households, including food, clothing, housing, transportation, and medical care, and are of four types:
  - CPI for Industrial Workers (IW).
  - CPI for Agricultural Labourer (AL).
  - CPI for Rural Labourer (RL).
  - CPI for Urban Non-Manual Employees (UNME).

- **Consumer Food Price Inflation (CFPI):**

- [CFPI](#) is a component of the broader **Consumer Price Index (CPI)**, where the Reserve Bank of India (RBI) utilises the [CPI-Combined \(CPI-C\)](#) for this purpose.
- cCFPI monitors the price **fluctuations** of a particular selection of food items commonly consumed by households, including cereals, vegetables, fruits, dairy products, meat, and other essential food staples.
- CFPI is a component of the broader **Consumer Price Index (CPI)**, where the Reserve Bank of India (RBI) utilises the **CPI-Combined (CPI-C)** for this purpose.

- **The Wholesale Price Index (WPI):**

- It tracks changes in the prices of goods sold and traded in bulk by wholesale businesses to other businesses and it specifically focuses on goods, services are not part of it.
- The [WPI](#) is utilized to monitor supply and demand dynamics in industries, manufacturing, and construction sectors.
- Released monthly by the **Economic Advisor in the Ministry of Commerce and Industry**, the index measures the level of wholesale inflation in the economy based on the month-to-month increase in WPI, and it comprises various **component**
- **Primary articles**, constituting 22.62% of the Wholesale Price Index (WPI), are divided into Food Articles and Non-Food Articles.
  - **Food Articles** encompass items like Cereals, Paddy, Wheat, Pulses, Vegetables, Fruits, Milk, Eggs, Meat, and Fish.
  - **Non-Food Articles** include Oil Seeds, Minerals, and Crude Petroleum.

## What are Various Government Initiatives to Control Food Inflation?

- **Subsidized Commodities:** The government is increasing the distribution of subsidized vegetables like onions and tomatoes through its network and **releasing stocks of wheat** and sugar to stabilize prices.
- **Reduction in Import Duty:** To enhance domestic production, the government is incentivizing pulse cultivation among farmers and reducing import duties on certain pulses to boost local availability.
- **Export Bans:** Bans on wheat exports since **May 2022** and on broken rice exports since September 2022 aim to maintain ample domestic supply and lower prices.
- **Ban on Stockpiling:** Regulations limit wheat stocks to 3,000 tonnes for traders, millers, wholesalers, and retail chains, and 10 tonnes for smaller retailers and shops to prevent excessive stockpiling.
- **Operation Greens:** This initiative aims to stabilize **Tomato, Onion, and Potato (TOP)** crop supplies throughout the year across the country to minimize price fluctuations.

- **Floor Prices:** To ensure sufficient domestic onion availability, the government imposed a [minimum export price \(MEP\)](#) of \$800 per tonne (₹67 per kg) on onion exports from October 29 to December 31, 2023, amid rising onion prices due to delayed kharif onion arrivals.

## What are the Strategies that Need to be Adopted to Tackle Food Inflation in India?

- **Improved Supply Chain Management:**
  - Strengthening logistics, storage facilities, and distribution networks can minimize waste and ensure a consistent food supply, mitigating price fluctuations.
    - **For example**, the use of **refrigerated trucks** for transporting perishable goods ensures that they reach markets in optimal condition, reducing spoilage and increasing the availability of fresh produce.
- **Agricultural Productivity Enhancement:**
  - Investments in agricultural infrastructure, technology, and research can boost crop yields, reducing production costs and stabilizing prices.
  - **For example**, implementing [drip irrigation](#) techniques has shown significant water savings and increased crop productivity in regions facing water scarcity.
- **Price Monitoring and Regulation:**
  - Implementing mechanisms for regular monitoring of food prices and enforcing fair pricing practices can protect consumers from exploitation.
    - Examples like, **setting maximum retail prices** for essential food items can prevent retailers from overcharging consumers during times of scarcity or high demand.
- **Agricultural Diversification:**
  - Encouraging farmers to cultivate a variety of crops can reduce the country's dependence on specific commodities.
  - **Initiatives** like promoting the cultivation of pulses alongside traditional crops like rice and wheat can [enhance soil fertility](#), [reduce pest infestations](#), and provide farmers with alternative income sources.
- **Climate Resilience:**
  - Adopting climate-smart agricultural practices, such as rainwater harvesting and crop rotation, can help mitigate the impact of climate change on food production.
    - **For example**, promoting the cultivation of [drought-resistant crop](#) varieties can safeguard against crop failures during periods of water scarcity or extreme weather events.
- **Utilizing technology:**
  - Devices like [AmbiTag](#) can prove advantageous in mitigating food wastage during transit.
    - It continuously records the temperature of its immediate surroundings from **-40 to +80 degrees** in any time zone for a full 90 days on a single charge.
    - It generates an alert when the temperature goes beyond a pre-set limit.

### **Drishti Mains Question:**

What are the primary factors behind India's Rising food inflation, and what strategies can be employed to mitigate this gap between Overall Inflation and Food Inflation?

## **UPSC Civil Services Examination, Previous Year Question (PYQ)**

### Prelims

#### **Q.1 Consider the following statements: (2020)**

1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).
2. The WPI does not capture changes in the prices of services, which CPI does.

3. The Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.

**Which of the statements given above is/are correct?**

- (a) 1 and 2 only
- (b) 2 only
- (c) 3 only
- (d) 1, 2 and 3

**Ans: (a)**

**Q 2. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do? (2020)**

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

**Select the correct answer using the code given below:**

- (A) 1 and 2 only
- (B) 2 only
- (C) 1 and 3 only
- (D) 1, 2 and 3

**Ans: B**

### **Mains**

**Q.** There is also a point of view that Agricultural Produce Market Committees (APMCs) set up under the State Acts have not only impeded the development of agriculture but also have been the cause of food inflation in India. Critically examine. **(2014)**