

Food inflation not due to income

► *Consumption data do not support the view that demand is driving up food prices.*

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A major economic challenge facing India in the recent years has been stubbornly high food prices.

It began with rising prices of manufactured food products, such as dairy products, sugar and oil cakes from January 2008, followed shortly by primary food articles, namely foodgrains, fruits, vegetables, milk, egg, meat, fish, spices, tea and coffee.

The inflationary pressure on food products remained high from January 2008 to July 2010 and again from April 2011 to March. Food articles continue to face upside risk to prices even today. As per the latest figures, the WPI inflation rate of food articles stands pegged at 10.74 per cent in May this year.

ROLE OF FOOD HABITS

One popular explanation given for the high food prices experienced over recent years is the rising demand for high-value agriculture products like pulses, milk, livestock, fishery, vegetables and fruits which, in turn, is attributed to rising per capita income and the consequent diversification of Indian diets.

As the supply response to growing demand in the high value agriculture products has been weak, their prices continue to remain high, thereby providing a structural character to food inflation. This reasoning has gained wide acceptance in government and policy circles, including the Reserve Bank of India. Interestingly, even the high global food inflation experienced in recent years was linked to the changing Indian food habits.

The most popular manifestation of this connection was the controversial remark made in 2008 by none other than the then US President, Mr George W. Bush. His argument was that rising eco-

nomical prosperity in countries such as India has triggered increased demand for "better nutrition" which, in turn, led to higher global food prices.

MISSING EVIDENCE

Notwithstanding its mass appeal, this demand side version of India's food inflation saga does not stand up to closer scrutiny. Take a look at the accompanying Table and Chart, which present the long-term trends in food expenditure pattern in rural and urban India by taking advantage of the latest available (2009-10) information. The share of many high value food commodities in total monthly per capita consumer expenditure (MPCE) on food has recorded an increase in rural and urban India between the years 2004 and 2010.

This trend is the basis of the argument that Indians today prefer to consume more of high-value food items. However, a deeper examination of the food expenditure pattern reveals several infirmities in this argument.

They are the following:

(a) With the exception of pulses, the increase in the expenditure shares of other high-value commodities in 2009-10 over 2004-05 was only marginal and not significantly different than in other periods.

(b) The shares of edible oils and fruits have exhibited a negative growth during 2004-10.

(c) The expenditure shares of sugar and vegetables registered in 2009-10 are not new highs. Whereas, the share of sugar was the highest in 1993-94 in both rural and urban sectors, in the case of vegetables the year 1999-2000 recorded the highest share (in urban India).

(d) The share of expenditure on pulses and eggs, meat, fish group (in urban sector) was over 6 per cent on several occasions in the past.

(e) In urban India, the real MPCE (that is, after eliminating the effect of increasing prices on MPCE) on cereals, pulses, eggs, meat, fish, fruits and vegetables declined during 2004-10 (Chart). Also, the real MPCE on these food items recorded in 2009-10 was the lowest since 1993-94.

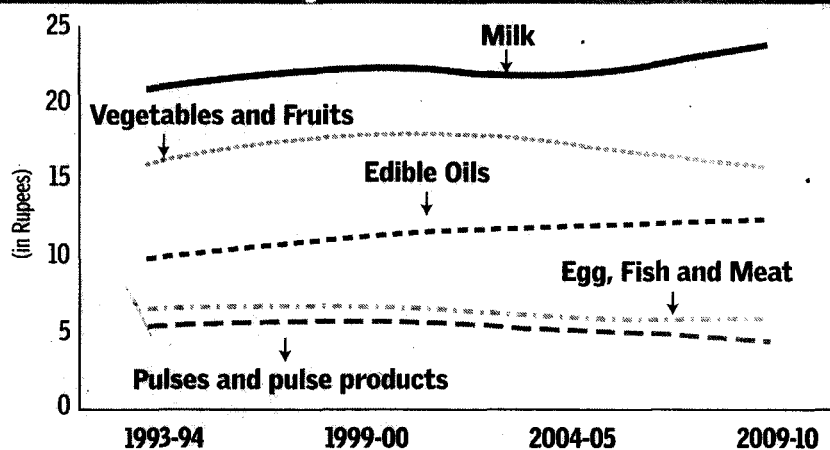
Percentage Share of High-Value Food Items in Total MPCE on Food

(At Current Prices)

	Rural India					Urban India				
	1987-88	1993-94	1999-00	2004-05	2009-10	1987-88	1993-94	1999-00	2004-05	2009-10
Pulses & pulse products	6.22	6.02 (-0.20)	6.41 (0.39)	5.59 (-0.82)	6.89 (1.30)	6.04	5.55 (-0.49)	5.90 (0.35)	5.03 (-0.87)	6.54 (1.51)
Milk & milk products	13.52	15.02 (1.50)	14.74 (-0.28)	15.38 (0.64)	16.13 (0.75)	17.06	17.94 (0.88)	18.05 (0.11)	18.62 (0.57)	19.07 (0.45)
Sugar	4.47	4.84 (0.36)	4.01 (-0.83)	4.31 (0.30)	4.55 (0.24)	4.19	4.35 (0.16)	3.41 (-0.95)	3.55 (0.14)	3.79 (0.24)
Edible Oil	7.82	7.03 (-0.79)	6.29 (-0.74)	8.36 (2.07)	6.87 (-1.49)	9.47	8.03 (-1.44)	6.53 (-1.50)	8.13 (1.60)	6.34 (-1.79)
Egg, Fish and Meat	5.07	5.29 (0.22)	5.59 (0.30)	6.05 (0.46)	6.49 (0.44)	6.33	6.19 (-0.14)	6.52 (0.33)	6.36 (-0.16)	6.60 (0.24)
Vegetables	8.16	9.56 (1.40)	10.38 (0.82)	11.08 (0.70)	11.51 (0.43)	9.39	9.99 (0.60)	10.69 (0.70)	10.47 (-0.22)	10.54 (0.07)
Fruits and Nuts	2.55	2.76 (0.21)	2.89 (0.14)	3.39 (0.49)	2.37 (-1.02)	4.49	4.87 (0.39)	5.03 (0.16)	5.29 (0.25)	4.06 (-1.23)

Source: National Sample Survey Organisation. Note: Figures in the brackets are percentage points change over the years.

Real MPCE on high value food items - Urban India



Note: The real MPCE for urban India was computed by deflating nominal MPCE using product-wise consumer price index (CPI) numbers for urban non-manual employees with base 1984-85 = 100. The real MPCE for rural India cannot be measured on historical basis because product-wise CPI numbers for agricultural/rural labourers is released only from April 2008.

Although the expenditure on edible oils increased between 2004 and 2010, the growth in expenditure (0.73 per cent) during this period not only declined sharply but was also significantly lower compared to the past trends (2.29 per cent during 1993 to 2000 and 1.04 per cent during 2000 to 2005). Only in the case of milk, did real MPCE record an increase during 2004-10 both in terms of absolute amount and growth.

Thus, based on the available statistical evidence, it is quite misleading to conclude that (a) a "secular shift" in food consumption pattern towards high value food items

has occurred in India in recent times, and (b) rising domestic demand pressures have contributed significantly to the food price spiral. Only in the case of milk can the high inflation be attributed substantially to these factors.

These findings are strengthened by one more fact. The growth rate of India's per capita GDP was considerably low in recent years. It was in the range of 5.2-6.9 per cent during 2008-09 to 2010-11 against 7.8-8 per cent recorded during the previous three years.

Since the demand for high value food commodities is income responsive, it is not wise to believe that India experi-

enced diet diversification in these years of an economic slowdown. The latest "dismal" GDP numbers reaffirm this view point.

If not demand pressure, then what is fuelling high food prices in India?

Our research points a finger at supply-side constraints. Besides this, global factors added to the domestic price pressure through "passing on" of world oil price increases and import of some food items at higher international prices.

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