

Nature of Current Inflation in Food Prices

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Food prices are supposed to be driving the current inflationary spiral. The analysis here shows that it is "food products" and not "primary food articles" which are mainly responsible for the surge in inflation. Among food products, oil cakes, edible oils and dairy products are the biggest contributors to the food price spiral. Contrary to popular perception, primary food articles — cereals and pulses — have not had much to do with rising prices.

It has been more than seven months since India has been entangled in rising headline inflation, measured by year-on-year changes in the wholesale price index ($w\pi$). Indeed, in terms of duration, the present price spiral is the longest since 2000-01.¹ Several domestic and international factors have been identified as the causes of the present inflationary situation in India. A major one among them has been high food prices worldwide, caused due to the strengthening of global food demand against falling production [RBI 2008a].² It is pointed out that as India imports many food items, rising world food prices have been transmitted to domestic prices.

However, an understanding of the nature and intensity of such "globally transmitted" food price inflation in India remains vague. Important questions which remain unanswered are: Which category of food items has been causing damage to domestic food prices? Has the price increase occurred in a wide range of food items or only a few? Compared to the past, is the present food price inflation as critical as projected in the media?

Anatomy of Inflation

Although during a major part of 2007 (May to December) India experienced low to moderate headline inflation, inflationary pressures slowly started building up from December 22, 2007 (Table 1, p 18). After that point of time, inflation, year-on-year (also known as point-to-point), increased by 8.89 percentage points from 3.74 per cent to 12.63 per cent in the week ending August 9, 2008. On an average basis, the inflation rate recorded, period-on-period, during this 35-week period was 8.39 per cent (Table 2, p 18), which is the highest among the seven instances of inflationary pressures that have struck the Indian economy in

It appears that the price spiral was triggered by the rising prices of primary articles and manufactured products groups (Table 1). Later on, with the up-ward revision of the prices of petroleum products on two occasions (mid-February and June first week of 2008), mineral oils group (cost-push element) has added momentum to the overall price run.³ The fact that the overall inflation and the inflation of primary articles and food products (in the manufactured products group) started climbing even before the first fuel price revision in mid-February shows that the present inflationary pressure stemmed from supply side rigidities (Table 1).

All the major product groups have contributed significantly to the current inflationary spiral implying that the price increase has occurred in a wide range of commodities. In terms of the average inflation (average of the 35 weeks), the fuel group emerges as the largest contributor of inflation followed closely by primary articles and manufactured products (Table 2). The fuel group inflation, year-on-year, has increased up to 14.63 percentage points during the last eight months or so compared to over 8 percentage points for primary articles and over 7 percentage points in the case of manufactured products (Tables 1 and 2).

Acceleration was also witnessed in inflation as measured by the consumer price index or $c\pi$ (Table 3, p 19). Between December 2007 and June 2008, the year-on-year overall inflation according to the cm has increased for all the consumer groups. Rural labourers (RL) and agricultural labourers (AL) groups recorded up to a 3.2 percentage point increase in the inflation rate during this period, followed by industrial workers (Ow) (2.4) and urban non-manual employees (UNME) (2.2). Significantly, the increase observed in food group inflation was the largest among all the product groups and for all the consumer categories (Table 3). As in the case of $w\pi$ inflation, food and fuel groups emerge as the major drivers of the surging cm since December 2007. The most affected consumer groups appear to be RL and AL. This is not surprising considering that food articles, which witnessed the largest increase in $c\pi$, have relatively high

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Primary Food Articles overall inflation of 8.39 per cent. Interest-Though the rising prices of both food and ingly, the period-on-period average inflanon-food articles group are responsible tion rate of 9.05 per cent recorded for food for the sharp increase in the win inflation articles between December 23, 2006 and of primary articles, it transpires that the August 18, 2007 was much higher than in non-food articles have caused more dam- 2007-08 (Table 4, P 19).⁵ Since the end of age than food articles (Tables 1 and 2).4 December 2007, inflation, year-on-year, of The peak inflation rate, year-on-year, of non-food articles has increased by up to non-food articles was over 17 per cent, 8.21 percentage points against 5.7 in the against over 7 per cent for food articles. case of primary food articles (Table 1). On an average, the non-food articles have Except milk, in the case of all other food recorded inflation, period-on-period, of articles the average inflation rate, period-13.52 per cent during the current price spi- on-period, has been much lower at present ral against 5.01 per cent for food articles, than it was a year ago (Table 4). To take which is much lower than the average the case of the much talked about

Table 1: Weekly Movements in Wholesale Price Index Inflation Rate (December 1, 2007 to August 16, 2008) (year-on-year variation in %)

Date/Month/Year	Overall	Primary Articles	Food Articles	Non-food Articles	Fuel Group	Mineral Oils	Manufactured Products	Food Products	Non-metallic Minerals Products	Basic Metals Alloys and Metal Products
1/12/2007	3.89	5.52	3.31	12.22	2.42	5.18	3.86	2.45	8.63	3.6
8/12/2007	3.84	4.55	2.51	10.72	2.36	5.04	4.08	3.06	8.58	3.26
15/12/2007	3.84	4.47	2.33	10.87	3.03	4.88	3.91	3.5	8.58	2.45
22/12/2007	3.74	4.08	2.14	9.58	3.36	4.85	3.74	3.17	8.68	2.36
29/12/2007	3.83	3.74	1.77	9.21	3.36	4.85	4.02	3.92	8.63	2.40
5/1/2008	4.26	4.12	1.86	10.34	3.69	5.39	4.57	6.21	9.30	2.56
12/1/2008	4.36	4.49	1.95	11.83	3.69	5.39	4.57	6.28	9.41	2.86
19/01/2008	4.45	4.57	2.27	11.30	4.04	5.98	4.51	5.99	9.57	2.90
26/01/2008	4.78	6.13	2.22	10.86	4.04	5.98	4.51	6.05	9.31	2.94
2/2/2008	4.74	5.95	2.05	10.46	4.02	5.63	4.57	6.31	9.07	3.28
9/2/2008	4.98	6.79	3.11	10.81	4.02	5.60	4.56	6.70	8.56	3.36
16/02/2008	5.66	7.64	3.49	11.68	5.64	8.41	4.84	7.27	9.03	3.82
23/02/2008	5.69	8.66	4.71	12.42	5.64	8.41	4.55	7.96	8.70	3.77
1/3/2008	6.21	9.43	5.47	13.32	6.70	9.32	4.70	9.13	5.41	4.80
8/3/2008	7.78	9.96	5.61	14.97	6.82	9.43	7.26	8.49	5.35	18.58
15/03/2008	8.02	10.47	5.94	16.25	6.78	9.33	7.52	9.08	5.82	20.33
22/03/2008	7.85	9.89	6.21	13.08	6.81	9.35	7.45	8.89	6.45	20.55
29/03/2008	7.75	9.68	6.54	11.43	6.78	9.30	7.34	9.40	6.45	20.35
5/4/2008	7.71	8.17	4.76	10.65	6.99	9.60	7.80	9.25	5.86	21.19
12/4/2008	7.95	8.80	5.73	10.38	6.99	9.63	7.97	8.97	5.86	21.37
19/04/2008	8.23	9.36	6.01	10.85	7.05	9.73	8.18	9.14	6.07	22.07
26/04/2008	8.27	9.17	5.86	11.98	7.05	9.73	8.40	9.17	5.60	21.85
3/5/2008	8.73	9.49	6.09	12.76	7.64	10.80	8.88	10.82	6.08	20.75
10/5/2008	8.57	9.03	5.29	13.24	7.64	10.80	8.71	10.46	6.08	20.80
17/05/2008	8.66	8.95	5.12	13.24	7.79	11.11	8.87	11.49	5.54	19.98
24/05/2008	8.90	9.74	5.95	13.92	7.79	11.11	8.98	11.83	5.23	19.98
31/05/2008	9.32	9.92	5.74	15.17	7.86	11.20	9.69	13.10	5.28	19.80
7/6/2008	11.66	10.55	6.36	15.75	16.25	25.50	10.28	13.42	5.29	21.18
14/06/2008	11.80	10.78	6.35	16.68	16.37	25.75	10.50	14.43	4.93	21.34
21/06/2008	11.91	10.63	6.05	17.02	16.24	25.53	10.76	15.02	4.67	21.26
28/06/2008	11.89	10.84	6.15	17.42	16.27	25.57	10.64	14.65	4.67	21.61
5/7/2008	11.91	9.92	5.02	16.52	16.94	26.69	10.79	13.61	4.46	22.36
12/7/2008	11.89	10.15	5.41	16.53	16.94	26.69	10.72	13.66	4.26	22.40
19/07/2008	11.98	10.24	5.78	15.50	16.90	26.62	10.82	14.06	4.41	22.19
26/07/2008	12.01	10.32	5.78	16.29	17.12	26.99	10.75	13.61	4.46	22.14
2/8/2008	12.44	11.43	7.20	16.20	17.99	28.51	10.75	13.26	4.16	22.59
9/8/2008	12.63	11.83	7.47	17.09	17.99	28.51	10.91	13.19	4.19	22.65
16/08/2008	12.40	11.63	7.28	16.93	16.76	26.34	11.02	13.82	4.14	22.78

The wholesale price indices used to calculate inflation rate are provisional for the period from June 28, 2008 to August 16, 2008. Source (Basic Data): Central Statistical Organisation (<http://eaindustry.nic.in/>).

foodgrains it recorded an average inflation rate of 8.54 per cent during the first eight months or so of 2007 compared to 4.64 per cent registered during the same period in 2008.

In this context, it is interesting that, compared to the past experiences with respect to wet inflation in primary food articles, the present situation is not as precarious as perceived.

Table 2: Average* Wholesale Price Index Inflation (December 22, 2007 to August 16, 2008)

Items	Average* Inflation Rate
Overall	(Period-on-Period) 8.39
Primary articles	8.79
Food articles	5.01
Non-food articles	13.52
Fuel, power, light and lubricants	9.38
Coal mining	9.49
Mineral oils	14.13
Manufactured products	7.85
Food products	10.05
Beverages and tobacco products	8.6
Rubber and plastic products	6.63
Chemicals and chemical products	8.05
Non-metallic minerals products	6.27
Basic metals alloys and metal products	15.62

Average inflation is calculated based on the change in the average value of the WPI over a certain period (e.g. December 22, 2007 to August 16, 2008) with respect to the average value of the WPI over the corresponding period (e.g. December 23, 2006 to August 18, 2007) the year before. Throughout this paper this method is followed to calculate the average inflation rate for a reference period wherever necessary. Source (Basic Data): As in Table 1.

If we analyse the weekly trends in inflation, year-on-year, during the last decade we find two periods that have witnessed an inflation in prices of high primary food articles. One is a 37-week period in 1998 (the second week end of April to the third week end of December).⁶ During this period inflation in prices of the primary food articles, year-on-year, increased by a whopping 20 percentage points from 2.22 per cent in the week ended April 11, 1998 to a peak of 22.45 per cent on November 7, 1998, with the overall period-on-period average inflation being 14.73 per cent?

The other occasion which witnessed high food article inflation (average 9.66 per cent) was between December 2, 2006 and April 28, 2007.⁸ During this period the inflation of this product group reached a peak of 10.99 per cent. This clearly shows that the high prices of primary food articles including foodgrains, are not the principal factor responsible for high overall and food price inflation currently

Table 3: Consumer Price Index Inflation (year-on-year in %)

Category	December 2007	March 2008	May 2008	June 2008
CPI-Industrial Workers (IW) (Base: 2001=100)				
General	5.5	7.9	7.8	7.7
Food group	6.2	9.3	10.7	NA
Pan, supari, etc	10.3	10.9	7.2	NA
Fuel and light	2.3	4.6	3.8	NA
Housing	4	4.7	4.7	NA
Clothing, bedding and footwear	3.5	2.6	3.4	NA
Miscellaneous	4.7	6.3	6.3	NA
CPI-Urban Non-Manual Employees (UNME) (Base: 1984-85=100)				
General	5.1	6	6.8	7.3
Food group	6.2	7.8	9.5	9.6
Fuel and light	5.4	4.6	0.9	5.3
Housing	4.7	4	3.8	3.8
Clothing, bedding and footwear	4.1	4.3	3.9	3.4
Miscellaneous	3.8	4.8	5.6	6.6
CPI-Agricultural Labourers (AL) (Base: 1986-87=100)				
General	5.9	7.9	9.1	8.8
Food group	6.2	8.5	10	9.6
Pan, supari, etc	11.3	10.4	11.1	11.2
Fuel and light	6.3	8	7.3	8.9
Clothing, bedding and footwear	1.3	1.8	2.9	3.1
Miscellaneous	5.2	6.1	6.3	6.5
CPI-Rural Labourers (RL) (Base: 1986-87=100)				
General	5.6	7.6	8.8	8.7
Food group	6.2	8.2	10	9.6
Pan, supari, etc	11.5	10.6	11	10.9
Fuel and light	6.3	8	7.3	8.9
Clothing, bedding and footwear	2.6	2.8	3.5	4.1
Miscellaneous	5	6.2	6.6	6.8

NA -Not available.

Sources: (i) RBI (2008c), (ii) Ministry of Statistics and Programme Implementation, Government of India (http://mospi.nic.in/mospi_cpi.htm) (For CPI-UNME), (iii) Labour Bureau, Government of India (<http://labourbureau.nic.in/indexes.htm>) (For CPI-IW).

witnessed in India.⁹ Interestingly, estimates of foodgrains production for 2007-08 show no sign of shortfall over the previous year.'

The Missing Element

This being the case, in what way does food matter in the present inflationary situation? One crucial aspect missing in our concern about food price inflation has been the prices of "food products" which come under the major group, namely, "manufactured products". This product category was subject to a sharp increase in prices in recent times (Table 1). The wpt inflation of food products, year-on-year, increased from a mere 3.17 per cent in the week ending December 22, 2007 to 15.02 per cent in the week ending June 21, 2008, an increase of about 12 percentage points. On an average basis, food products have registered an inflation, period-on-period, of 10.05 per cent during the current price spiral against 5.01 per cent in the case of primary food articles (Table 2).¹¹ More importantly, during the corresponding

period last year the average food products inflation, period-on-period, was only 3.76 per cent (Table 4). Significantly, unlike primary food articles, the year-on-year inflation of food products has increased unabated (Table 1). These findings suggest that the key reason behind the high food price inflation in India at present is the

rising prices of food products and it has not much to do with the prices of primary food articles.

Among food products, the blame should fall mainly on the three subgroups, namely, oil cakes, edible oils and dairy products for the current food price spiral.¹² The inflation of oil cakes, year-on-year, hovered between 26.29 per cent and 53.47 per cent during the current price spiral (p 20). In particular, oil cakes

witnessed a sharp increase from 2008 onwards. It increased from 26.3 per cent on March 22, 2008 to 53.5 per cent on June 21, 2008 and remained close to 50 per cent level thereafter. Edible oils inflation, year-on-year, increased from a high of 9.70 per cent on December 22, 2007 to 21.42 per cent in the week ended March 15, 2008. Subsequently, it declined gradually¹³ to reach about 11 per cent in the week ended May 20, 2008, but climbed again to touch over 18 per cent by the beginning of July 2008. Dairy products inflation soared from 7.93 per cent at the beginning of the present price spiral to 11.29 per cent on May 24, 2008. After remaining at the level of close to 11 per cent till July 19, 2008 dairy products inflation declined to reach about 7 per cent by August 16, 2008.

Role of Oil Seeds and Edible Oils The root cause of high inflation of oil cakes, edible oils and dairy products can be traced from the domestic output of oil seeds, a non-food article. Oil seeds are the primary source of edible oils and oil cakes production.¹⁴ Oil cakes are used as animal/

livestock feed. Over the years, India has emerged as one of the largest consumers and importers of edible oils in the world. Presently, India accounts for 10 per cent of the world edible oil consumption and 14 per cent of world imports. The per capita consumption of edible oils, which was around 7.5 kg per annum in mid-1990s, is now over a kg [Got 1997 and 2008b].¹⁵ Alarming, our dependence on imports has increased considerably over the years from 17 per cent of the consumption requirements in mid-1990s to nearly 40 per cent now [Got 1997 and 2008b]. And this import dependency level is projected to continue till 2015.

A look at the trends in the past to years reveals that a fall in the domestic production of oil seeds has always necessitated higher imports of edible oils and vice versa (Table 8, p 20). However, it appears that higher edible oils imports have not always

Table 4: Average Wholesale Price Index Inflation - Food Items (in %)

Items	December 23, 2006 to August 18, 2007	December 22, 2007 to August 16, 2008
All commodities	5.55	8.39
Primary articles	10.27	8.79
Food articles	9.05	5.01
Foodgrains	8.54	4.64
Fruits and vegetables	11.29	2.20
Milk	7.82	8.43
Eggs, meat and fish	7.09	2.40
Condiments and spices	18.56	6.28
Non-food articles	13.30	13.52
Fibres	8.36	23.29
Oil seeds	28.65	18.53
Other non-food articles	3.29	1.92
Food products	3.76	10.05
Dairy products	5.56	9.38
Grain mill products	13.37	4.89
Sugar, khandsari and gur	-12.58	-4.03
Edible oils	14.28	14.82
Oil cakes	21.33	41.47
Tea and coffee processing	6.89	2.56

Source (Basic Data): As in Table 1.

Table 5: Wholesale Price Index Inflation -Primary Food Articles (December 22, 2007 to August 16, 2008)

Items	Average Inflation Rate (Period-on-Period Variation in %)	Range (Year-on-Year Weekly Variation in %)
Foodgrains	4.64	0.84 to 6.40
Fruits and vegetables	2.20	-6.31 to 8.21
Milk	8.43	6.44 to 10.20
Egg, meat and fish	2.40	-0.67 to 9.63
Condiments and spices	6.28	-4.40 to 16.12

The complete data set are available from the author upon request.
* Based on year-on-year weekly wpi inflation figures for the period from December 22, 2007 to August 16, 2008.

Source (Basic Data): As in Table 1.

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Table 6: Wholesale Price Index Inflation - Food Products (December 22, 2007 to August 16, 2008)

Items	Average Inflation Rate (Period-on-Period Variation in%)	Range ¹ (Year-on-Year Weekly Variation in%)
Dairy products	9.38	6.23 to 11.29
Grain mill products	4.89	-1.22 to 9.46
Sugar, khandasari and gur	-4.03	-14.08 to 6.26
Edible oils	14.82	8.87 to 21.42
Oil cakes	41.47	26.29 to 53.47
Tea and coffee processing	2.56	-0.61 to 9.24

Note: As in Table 5.

Table 7: Wholesale Price Index Inflation - Non-Food Articles (December 22, 2007 to August 16, 2008)

Items	Average Inflation Rate (Period-on-Period Variation in%)	Range ² (Year-on-Year Weekly Variation in%)
Fibres	23.29	11.40 to 35.25
Oil seeds	18.53	11.98 to 24.91
Other non-food articles	1.92	-1.80 to 6.53

Note: As in Table 5.

Table 8: Edible Oils Inflation

Oil Year (November to October)	Year-on-Year Growth of Oil Seeds Production	Edible Oil Imports (in Million Tonnes)	Year-on-Year Growth of Imports	Annual Average WPI Inflation Rate (% of Edible Oils)	International Export Price of Vegetable Oils (Indices 1995=100)
1998-99	16.09	4,393,421	Not Applicable	Not Applicable	77
1999-2000	-16.32	4,494,953	2.3	-17.15	74
2000-01	-10.96	4,833,808	7.5	-2.49	71
2001-02	12.04	4,425,182	-8.5	17.81	83
2002-03	-28.17	5,114,449	15.6	20.61	98
2003-04	69.74	4,306,587	-15.8	4.98	114
2004-05	-3.33	5,041,607	17.1	-6.24	102
2005-06	14.91	4,416,833	-12.4	-1.58	103
2006-07	-13.22	4,714,760	6.7	12.94	NA
2007-08 (Nov 07-July 08)	-	3,629,012	10.04*	14.11**	NA

(i) *Growth over November 2006-July 07; (U) *November 2007 to July 08; (ic) Production, import and inflation figures pertain to the oil year (November to October) and not financial year; and (iv) NA - Not available.

Sources: (i) The Solvent Extractors' Association of India (For oil seed production and edible oil imports); (ii) Central Statistical Organisation (<http://industry.nic.in/>) (For inflation); (iii) MO *International Trade Statistics* (various issues) (for export price).

resulted in higher domestic prices edible period last oil year (Table 8). As the higher oils. That is to say, it all depended on the imports have occurred against rising prevailing international price of edible international prices of edible oils, the result oils. Whenever the ruling international was higher domestic edible oils prices. Since export price of edible oils was low, we 2002 world edible oil prices have been' were able to meet the domestic shortfall in gathering an upward momentum (Table 8) edible oils availability through higher and and during the last one year the prices have cheaper imports with desirable effect on hit the roof.¹⁸ The global year-on-year domestic edible oils inflation. On the other edible oils inflation was in the range of 100. hand, whenever the international export 6 per cent to 104.3 per cent in March 2008 (price was ruling high, domestic price of over March 2007) [see RBI 2008b, Table 40] edible oils was also ruling high. In June 2008 (over June 2007), the same irrespective of an increase or decrease in figure was in the range of 50-83 per cent [see RBI 2008C, Table 36]. A combination of

Given this past experience, tracing the factors - higher demand for vegetable oil reasons for high edible oils prices during from the biofuel industry,¹⁹ an upward the current inflationary spiral is not a dif- movement in crude oil prices and the rising ficult exercise. In the oil year 2006-07 (demand from the consumption markets such November to October), the production of as India and China - has been responsible oil seeds declined by 13 per cent from 27. for the continuing bull-run in the world 98 million tonnes in the previous year vegetable

to 24.28 million tonnes. This is the largest shortfall witnessed in the oil seeds production since 2002-03 (Table 8). The record drop in the oil seeds crop has necessitated higher import of edible oils. As the ruling international price of edible oil was high, higher imports have resulted in higher domestic inflation of edible oils.¹⁶ What happened to the prices of edible oils since the end of 2007 is nothing but the continuation of the aforementioned trend witnessed in the oil year 2006-07. The anticipated fall in the production of oil seeds in the 2007-08 rabi season has ensued in higher edible oils imports since November 2007.¹⁷ This is clear from the fact that the total edible oils imports during the period November 2007 to July 2008 was about 10 per cent higher than the corresponding

oils market. This is despite the world witnessing higher edible oils output during the last few years.²⁰

As regards dairy products, it appears that the high inflation of oil cakes has passed through to the prices of dairy products. The average inflation rate, period-on-period, of oil cakes during November 2007-July 2008 was 39.19 per cent, against 18.79 per cent recorded during the corresponding period previous year. The high inflation of oil cakes is reflected in the average inflation, period-on-period, of dairy products (9.25 per cent) during November 2007 to July 2008, which is about 4 percentage points higher than the figure during the corresponding period the year before.

Conclusions

Among the various reasons identified for the present inflationary situation in India, soaring food prices have received considerable national attention. This article shows that the rising prices of "food products" that come under the "manufactured products" group have been the major factor responsible for high overall and food price inflation in India. Primary food articles, including the foodgrains, have little to do with the rise in food prices. Interestingly, a look at the trends in the past 10 years reveals that the current primary food articles inflation, year-on-year, is not as precarious as perceived by the public. Also, among the primary articles, the non-food articles have caused more damage than food articles to overall inflation during the current price spiral.

The three food products, namely, oil cakes, edible oils and dairy products, have found to be the major contributors of the current food price spiral. This implies that the present food price inflation in India is the result of the higher prices of only a few food items. The root cause of the high inflation of edible oils has been larger

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edible oils imports since November 2007 at soaring international prices. Larger edible oils imports were necessitated due to the anticipated fall in domestic production of oilseeds in the rabi season of the oil year 2007-08. In case of dairy products, the high inflation of oil cakes has fed into the prices of dairy products.

NOTES

- 1 This observation is based on the author's computation of the WPI inflation, year-on-year, on a weekly basis for the last 25 years. The full data set are available from the author upon request.
- 2 Current world food stocks have been the lowest in the last 25 years [RBI 2008a]. This has been attributed mainly to diversion of acreage for bio-fuels, higher energy and fertiliser prices and crop failures in some parts of the world due to weather-related factors.
- 3 Notably, after the fuel price revision on both the occasions, overall inflation; inflation of primary articles, in particular non-food articles; and inflation of manufactured products, particularly food products and basic metals have increased significantly.
- 4 The high inflation of non-food articles group was led by fibres and oil seeds (Table 7, p 20). As discussed later, oil seeds play pivotal role in fuelling the present food price inflation. Interestingly, an analysis of the weekly trends in the inflation during the last one decade reveals that, on several occasions, on period-on-period average basis, the non-food articles have contributed more to the overall inflation than food articles.
- 5 However, in the case of non-food articles, the average inflation was more or less same during both the periods.
- 6 In fact, this period has witnessed an overall inflationary situation (period-on-period average 6.33 per cent) fuelled mainly by the rising prices of the primary articles. The primary articles inflation, year-on-year, was up by 16.68 percentage points with an average of 13.77 per cent.
- 7 This must be attributed to the poor agricultural performance in 1997-98. Year-on-year growth of production was negative in 1997-98 for foodgrains (-3.60 per cent), cereals (-3.19 per cent) and pulses (-8.98 per cent) [RBI 2007].
- 8 This could be due to the poor growth record of pulses output for two consecutive years, i.e., 2004-05 (-11.94 per cent) and 2005-06 (1.98 per cent). Among the primary food articles, condiments and spices subgroup has witnessed the largest percentage point increase in the year-on-year inflation followed by fruits and vegetables and foodgrains (see Table 5, p 19). Inflation rate of foodgrains, year-on-year, increased by 5.56 percentage points from 0.84 per cent in the week ended December 22, 2007 to 6.40 per cent in the second week end of April 2008. After that it was hovering mostly over 5 per cent. Not only that, the foodgrains inflation has crossed 5 per cent limit only in March 2008. Hence, on period-on-period average basis, foodgrains have recorded an inflation of only 4.64 per cent during the current price spiral. The year-on-year inflation of milk, though not witnessed any significant change, mostly hovered over 8-9 per cent till mid-June 2008, but declined thereafter to reach 6.44 per cent on August 16, 2008.
- 9 As per the second advance estimates released on February 7, 2008, the foodgrain production in 2007-08 has been pegged at 219.32 million tonnes compared to 217.28 in the previous year [Gol 2008b]. Moreover, in the beginning of February 2008, the foodgrains stock with the government agencies was 1.4 million tonnes higher than the

buffer stock norm of 20.0 million tonnes applicable for January-March 2008 [RBI 2008a].

- 11 The other occasions witnessing soaring prices of food products during the last one decade were: 1998 April second week end to 1998 December third week end (average 11.84 per cent); 2003 November last week end to 2004 February last week end (average 9.16 per cent); and 2002 December second week end to 2003 May last weekend (average 7.47 per cent).
- 12 The year-on-year inflation of grain mill products picked up from -1.22 in last week end of December 2007 to reach a peak of 9.46 per cent on June 14, 2008. After that it declined gradually to reach the level of over 3 per cent on August 16, 2008. However, it is to be pointed out that, like foodgrains, the inflation of grain mill products has crossed 5 per cent mark only in March 2008. Until then the grain mill products inflation was hovering between -1.22 per cent and 1.95 per cent.
- 13 This might be the after-effect of import duty cut on edible oils to combat inflation.
- 14 There are about nine principal oilseeds based on which edible oils are produced in India [Gol 2008b]. They are groundnut, rapeseed/mustard seed, soyabean seed, sunflower seed, sesame seed, nigerseed, safflower seed, castor seed and linseed. The major secondary sources of edible oils are coconut, cottonseed, and rice bran. Oil cake is the solid residue that is left after crushing oil seeds to extract oil.
- 15 Such a huge increase in consumption is attributed to a sharp increase in the purchasing power of the Indians and the improvement in the general standard of living of the Indian citizens. However, the current level of per capita edible oils consumption in India is much lower than the present world average of 23 kg [Gol 2008b].
- 16 In the global vegetable oil market prices have registered an enviable 30-40 per cent rise during July 2006 to July 2007. See 'Price Outlook to Dominate Global Vegoil Meet', *The Hindu Business Line*, July 19, 2007 and 'Disturbing Trends to the Fore in Vegoil Market', *The Hindu Business Line*, November 3, 2007.
- 17 The total rabi oilseeds sowing till November 2007 was 58.63 lakh hectares, against 74.76 lakh hectares during the same period last year. The shortfall was mainly due to the cold spell and lack of soil moisture (due to insufficient rains) in major rapeseed/mustard-growing areas such as Rajasthan and Madhya Pradesh. However, note that for the full oil season 2007-08 the edible oil industry had pegged the oil seed production

figure at a slightly higher level (25.49 million tonnes) than the previous year. See 'Crop Estimate: Edible Oil Body Joins Issue with Govt', *The Hindu Business Line*, February 12, 2008 and 'Lower Acreage, Frost Hit Rabi Oilseeds Output', *The Hindu Business Line*, March 3, 2008. Also see RBI (2008b).

- 18 The current international prices of crude palm oil and soyabean oil are nearly five times higher than prices 5-6 years ago and twice the rates traded in 2006. See 'Disturbing Trends to the Fore in Vegoil Market', *The Hindu Business Line*, November 3, 2007 and 'Industry, Trade Upbeat on Palm Oil Price Outlook', *The Hindu Business Line*, February 26, 2008.
- 19 The rising demand for bio-diesel has put tremendous pressure on the prices of edible oils in the international market in recent years. The major regions/countries producing bio-diesel from vegetable oils include Europe (using rapeseed oil), US (with the use of soyabean oil), Malaysia and Indonesia (both using crude palm oil) (see Global Vegoil Meet in Jakarta, *The Hindu Business Line*, April 25, 2007; 'Call to Increase Oilseeds Production', *The Hindu Business Line*, March 14, 2007; and 'World Vegetable Oil Prices May Soften Near-Term', *The Hindu Business Line*, March 13, 2007).
- 20 See 'Long-term Shift seen from Oilseed to Corn, Maize in US', *The Hindu Business Line*, May 3, 2007.

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