COVID-19 Impact on Agri-commodities

What is the issue?

- The COVID-19-driven lockdown has led to a flattening of prices and demand destruction for agri-commodities.
- The two agricultural commodities - potato and milk - best indicates this trend.

What is the overall scenario?

- Both potato and milk were experiencing significant production shortfalls.
- In ordinary circumstances, it would have resulted in prices shooting up at this time.
- Instead, the prices have remained flat or even collapsed, due to the demand destruction from lockdown.

What is the case with potatoes?

- Cold stores across India have stocked only an estimated 36 crore bags (50 kg each) of potatoes harvested in February-March, 2020.
- This was as against 48 crore in 2019, 46 crore in 2018 and the record 57 crore bags of the 2017 post-demonetisation crop.
- Production being much lower, it should have translated into far better prices than 2019.
- But the lockdown has upset all the calculations.
- Many of the growers have deposited the bulk of their produce in cold stores for making staggered sales from April to December 2020.
- Till early-April, regular large potato was selling from Agra’s cold storage units at around Rs 21 per kg.
- But, now, due to the lockdown’s impact, it is fetching Rs 18.
- This is not in line with the usual supply-demand pattern.
- Now, unusually, the demand curve itself is “shifting”.
- The collapse of institutional or business demand for potatoes is causing this.
- [Hotels, restaurants and street food joints are shut and no weddings or other public functions are taking place.]
- When potato is being consumed only in home kitchens, there is less overall demand than before even at the same price.
- Price is thus expected to drop by another Rs 4-5/kg towards mid-June 2020.

What are the larger implications?

- The ultimate sufferers are farmers.
- For those who have harvested, their returns are sure to take a hit.
- On the other hand, the situation may worsen with kharif potato plantings during May-August in Karnataka and Maharashtra.
- The farmers here would be discouraged from cultivating potato.
- Once their crop (of 65-70 days, unlike the 110-120 days varieties grown in UP) arrives in the market, prices will hit rock-bottom.

- Something should be done about demand.
- The government could consider allowing APMC (agricultural produce market committee) mandis to open 24 hours.
- That would enable social distancing and make buyers more confident about going to the markets.

What is the case with milk?

- 2019-20 saw India's milk production, perhaps, fall for the first time in decades.
- Till mid-March 2020, the condition was that the country actually had to import up to one lakh tonnes of skimmed milk powder (SMP).
- Before the lockdown, dairies were selling SMP at Rs 300-310 per kg and cow butter at Rs 320 per kg.
- Those prices have not just flattened, but crashed to Rs 170 and Rs 230/kg levels.
- Many dairies have further slashed procurement prices.
- This again is due to the absence of institutional demand, from tea stalls, ice-cream makers, suppliers of khoa/chenna and sweetmeat sellers.
- This, again, is a "shift" and not mere "movement" along the demand curve.

Source: Indian Express

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