Food Inflation and Consumption Pattern

What is the issue?

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The dichotomy in the consumption pattern in India calls for addressing the declining trend in food inflation to increase agricultural income.

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How is the consumption pattern?

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- **Upper-end consumption appears steady.**
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- E.g. Growth in sales of cars and consumer durables is healthy.
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- Also, airline traffic has been growing so rapidly, as an indication of the above trend.
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- However, indicators of **broad-based consumption** are **weak.**
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- Volume growth in consumer staples (soaps, shampoos, etc) remains weak.
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- Indicators of consumption in India thus point to a **two-speed economy.**
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How are food prices a reason for this?

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- **Relation** - Nearly 45% of the workforce has primary employment in agriculture.
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- So, roughly, about half of India is a net 'producer' of food and the other half is a net 'consumer' of food.
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- Thus, food prices, in a way, mean transfers from the consumer to the

producer.
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- **Effect** - Conceptually, in this case, the consumers are taken to be the 'rich' and producers are taken to be the 'poor'.
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- In this sense, inflation in food translates to increased transfers from the 'rich' to the 'poor' or the agricultural ecosystem in general.
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- In other words, if food inflation drops, only a lesser amount gets transferred.
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- Lesser transfers translate to being a driver of weak broad-based consumption among the population in primary employment.
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- On the other hand, the portion not transferred/retained by the 'consumers' due to lower prices, takes the form of financial savings.
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- This in turn is the reason for sustained growth in Upper-end consumption of the 'rich'.
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- This partly explains the dichotomy existing in the consumption pattern in India.
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- **Past Trends** - Since 1960, average annual growth in agricultural output (as measured by real GDP growth) has been 2.5%.
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- And average annual price growth has been 7.5%.
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- Despite the relative weak output growth, aggregate income in agriculture kept growing due to the rising prices.
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- This was also an important reason for the growing number of workers in agriculture.
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Why is the slowdown in food inflation?

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- Food price inflation has slowed primarily due to **over-supply**.
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- Improving agricultural **productivity** due to better access to roads, phones, electricity, and credit is increasing the supply.
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- The **fiscal discipline** also has considerably helped in increased food supply.
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- India does have one of the highest deficits in the world at present.
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- However, deficits currently are the lowest in the last four decades.
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What are the implications?

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- It is not to be denied that sustained high food price growth had some serious side-effects for the economy.
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- These include chronic inflation, high interest rates, and frequent spells of currency weakness.
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- However, weak food price inflation as well has some worrying implications that India is currently witnessing.
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- If half of the workforce has weak income growth, their consumption slows.
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- E.g. they stop adding rooms to their houses or moving from kuchcha mud huts to pukka brick-and-cement houses.
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- There is also no easy mechanism to route financial savings from the top half to support consumption of the bottom-half.
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- Options to create jobs at a scale that provide alternative employment are also weak.
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What is the way forward?

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- **Food price raise** can engineer transfers and ensure funds flow through agricultural markets.
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- But it is hard to engineer price increases in a commodity that is in oversupply.
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- In this line, the recent Budget promised to set minimum support prices (MSPs) that guarantee a 50% margin to farmers.
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- However, how effectively can MSP bring parity among different crops and ensure a benefitting price rise scenario is doubtful.
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- **Agricultural exports** should be addressed as a sustainable and non-inflationary path.
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- This can go a long way in improving agricultural and national incomes.
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- Income growth would also create demand for manufactured goods that can stimulate the much awaited manufacturing revival.
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- Food processing for domestic as well as export demand can also create employment opportunities.
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- Re-skilling the tens of millions of farm workers, to take on non-agricultural jobs, also needs attention.
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Source: Business Standard

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