Higher Inflation in Rural India

What is the issue?

The retail inflation rate surged to 6.95% while the rural inflation surged to 7.66% this March.

How have urban and rural inflation trends differed over the past year?

> *Inflation is the rate at which the value of a currency is falling and, consequently, the general level of prices for goods and services is rising.*

- Urban inflation has usually tended to be higher than rural inflation by an average of about 0.8 percentage points through 2021 except August and May 2021.
- The rural inflation surpassed the urban inflation by 0.2 percentage points in January 2022 and reached 6.38% in February even as urban inflation declined to 5.75%.
- In March 2022, the gap between the two has surpassed 1.5% with urban inflation at 6.12% and rural inflation hitting 7.66%.

What are the key drivers of higher inflation in the hinterland?

- **Food inflation-** Food has a higher weight in the Consumer Price Index (CPI) and food inflation was the key driver for the headline inflation rate jump in March.
- The food inflation in rural India reached 8.04% whereas food inflation in urban India was a full percentage point lower.
- The vegetable price trends have been most worrisome that reached 10.6% in March 2022.
- **Fuel inflation**- The inflation in fuel and light and clothing, were the key factors driving up rural prices.
- The fuel prices are higher in rural areas due to connectivity issues and prices of traditional fuel like firewood have also risen simultaneously.
- **Education**- A persistently higher inflation in education costs of about 1 to 1.5 percentage points was witnessed.
- **Labour shift**- This trend could also be explained by the shift of labour between urban and rural areas in the last two years, which has also injected volatility into demand dynamics.
- **Others**- The inflation rates for items such as oils and fats, clothing, footwear, fuel and light and personal care were higher than the urban counterparts.

Which sections are affected the most?

- **Sections affected**- While high inflation affects the poor the most in general, the fact that price rise in food is driving the current surge.
- Also, the food inflation is expected to rise along with both fuel and core inflation (excluding food and energy prices).
- The bottom 20% of the population in urban as well as rural India is facing the worst effects.
- The rural bottom 20% faced the highest inflation at 7.7% in March, while the upper 20% of the income segment in the rural experienced 7.6% inflation.
- **Reasons**- While food price risks have risen due to the Russia-Ukraine conflict, higher prices for farm sector inputs could further drive the food inflation.
- **Future prospects**- The cost of production is likely to increase by around 8-10% and the MSP should at least be higher by around 12%-15%.
- With a normal monsoon anticipated this year, this would determine whether rural consumer demand will rebound or remain constricted in upcoming months.

References

1. https://www.thehindu.com/business/Economy/explained-whats-fuelling-higher-inflation-in-rural-india/article65326392.ece?homepage=true
2. https://www.investopedia.com/terms/i/inflation.asp

SHANKAR IAS PARLIAMENT
Information is Empowering