THE WIRE

India’s Food Inflation is Eating the Monthly Budgets of a Million Poor Households

June 202 saw a broad-based increase in nine of the 12 sub-groups that make up the food and beverages category.

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Mumbai: Reading a semblance of relief in the June retail inflation numbers, which softened marginally to 7.01% from 7.04% in May, may be a bit premature.

In any case, the common man continues to feel the bite of retail inflation, given that food and beverage inflation was elevated at 7.56% in June on account of prices of cereals, vegetables, milk and meat prices shooting up. Transportation costs and the damage inflicted by the searing heatwave during the summer months ratcheted up vegetable prices. In fact, within vegetables, tomato prices have been on an incredible upswing in the course of the last twelve months. The average retail price of tomatoes, as per a research note by rating agency CareEdge, has jumped by nearly 145% in June 2022 from a year earlier. Meat and milk prices have moved north due to high demand from restaurants and elevated fodder prices.

In month-on-month (MoM) terms, the index of food and beverages rose by 0.9% in June 2022, with a broad-based increase in nine of the 12 sub-groups, such as eggs (+5.2%), vegetables (+4.3%) and spices (+1.2%). In YoY terms, inflation for spices (to +11.0% from +9.9%), cereals and products (to +5.7% from +5.3%), meat and fish (to +8.6% from +8.2%), fruits (to +3.1% from +2.3%), and milk and products (to +6.1% from +5.6%) hardened in June 2022, relative to May 2022. A deceleration in food inflation was noticed in the oil and fats category, which slumped by an unhelpful 0.7% in June 2022 compared to a rise of 2.8% in June 2021.

The bite apparently won't be limited to the commoner. As per Crisil Research, shooting agricultural commodity prices will hurt food manufacturing companies as well. As per a research note dated July 12, it has signalled that prices of essential agricultural commodities will remain marked by heightened volatility adding to the agony of domestic consumer food manufacturers in this fiscal.

Crisil Research anticipates prices of wheat and maida ratcheting up by 7-8%, gram and gram flour prices shooting up by 6-7% and milk and sugar prices to move north by a moderate 1%. On the other hand, it expects the prices of palm and soy oil, which have been eating away at monthly budgets across Indian homes, to trend down from a high base by 16-17% and that of sunflower oil by 10-12%.

Food and commodity prices have experienced wild price swings in the past few years. With the onslaught of the pandemic and the sudden plummeting of demand, wheat and sugar declined by 14% and 2% in FY21 but surged by 11% and 7%, respectively, in FY22 as the pandemic impact faded and demand from food processors picked up. Since February 2022, when the Russia-Ukraine conflict began, these commodities have rallied 19% and 6%, respectively.

“Edible oil prices, on their part, spurted 35% in fiscal 2021 and a further 40% in fiscal 2022 due to the pandemic and lower supply from top oil-producing countries such as South America, Brazil, and Malaysia, and have climbed a further 40% since the onset of the war,” states Crisil Research.

For now, the Indian government would be pinning its hope on the continued fall in crude oil prices, which on an MoM basis, have sustained a decent fall of 6.1% to below $110 per barrel on account of recession fears and a monetary tightening wave that has the economies across the globe in its grips. However, a disruption in current supply – a possibility that seems quite likely given geopolitical tensions and strained supplies – can once again push up crude oil prices in the ballpark range of $ 115-120 per barrel robbing the Indian economy of whatever little succour it could draw from the price fall.

Meanwhile, as inflation figures continue to bedevil the Indian economy, the RBI will stay put on its rate hikes trajectory. There are expectations that the retail inflation print could moderate to 6-6.7% this quarter, however, that figure will still be outside of the inflation tolerance band of the RBI. One way or the other, rate hikes by the RBI are a foregone conclusion.