

Prohibitive price gains: On the Consumer Food Price Index

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Context:

Rising food prices may affect already weak consumption of goods.

Introduction:

Inflation measured by the Consumer Price Index expectedly quickened to a four-month high in December, with the measure of gains in food prices accelerating at a relatively faster pace as inflation in cereals and pulses stayed stubbornly sticky.

Upsurge driven by cereals:

1. While headline retail inflation ticked up by 14 basis points from November's level to 5.69%, price gains measured by the Consumer Food Price Index accelerated by 83 basis points from the preceding month's reading to 9.53% in December.
2. The upsurge in food prices was largely driven by cereals — the biggest constituent of the 'food and beverages' group — that logged 9.93% inflation. Though that pace was marginally slower than the 10.3% posted in November, the key sub-group that includes the staples of rice, wheat and coarser cereals continued to register a month-on-month rate of inflation that offered little comfort to households.
3. Disconcertingly, sequential price gains accelerated the most in the case of jowar and bajra — by 63 and 106 basis points, respectively, from November's month-on-month inflation rates.
4. These two coarse cereals are consumed more widely in the rural hinterland, particularly by those already facing varying degrees of precarity.
5. Price gains in pulses, a key protein source in vegetarian households, also accelerated to a 43-month high of 20.7%.
6. With the current rabi season's sowing of pulses as on January 12, almost 8% lower than in the corresponding period of 2023, the outlook for their prices in the coming months is far from reassuring.

Inflation in Vegetables!

1. Year-on-year inflation in vegetable prices also registered a dizzying almost 10 percentage points upsurge from November's level, accelerating to a five-month high pace of 27.6%.
2. Tomatoes and onions again led the charge, with their prices rising by over 33% and 74% from December 2022's levels, respectively.
3. However, reflecting the seasonal volatility that vegetable prices are prone to, prices of both the kitchen staples, as well as the broader sub-group, witnessed sequential deflation.
4. While the month-on-month deflation in overall vegetable prices was 5.3%, the prices of potatoes, onions and tomatoes contracted from November by 5.9%, 16% and 9.4%,

respectively.

5. Still, the average retail price of a majority of the 23 food items monitored on a daily basis by the Department of Consumer Affairs continues to remain higher as on January 14 than the year-earlier level, reflecting the challenge policymakers face in containing food-price inflation.

Conclusion:

1. With households likely to spend larger shares of their incomes on food as these costs continue to rise, there is a real risk that the knock-on impact on already weak consumption can derail the broader growth momentum in the economy.
2. And with the spiralling crisis in West Asia infusing a new level of uncertainty over global trade and energy costs, policymakers have their task cut out.



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