Fuel Price Influence on Food Price

What is the issue?

- The burden of the increase in international oil prices is being passed on to Indian consumers.
- This has naturally given rise to the concern of a consequent increase in food prices in the following days.

What is the global food prices scenario?

- Global prices of major agricultural commodities are ruling way above than their levels a year ago.
- The UN Food and Agriculture Organization's (FAO) world food price index (FPI) touched 127.1 points in May 2021.
- This is its highest value since September 2011.

What is the case with India?

- Unlike fuel, the increase in global food prices is not getting reflected in India.
- Annual consumer food price index (CFPI) inflation in India was 5% in May 2021.
- This was far lower than the 39.7% year-on-year rise in the FAO-FPI for the same month.
- Notably, the CFPI and FAO-FPI inflation rates moved more or less in tandem till about February 2020.
- But, the period thereafter has seen a marked divergence.

Why is the divergence?

- The spike in international food prices from September-October 2020 has been due to demand resuming with economies unlocking.
- The demand rise has been further aided by Chinese stockpiling (for building strategic reserves, and in anticipation of fresh corona outbreaks.)
- There are also dry weather-induced production shortfalls in Brazil, Argentina, Ukraine, Thailand and even in the US.

- India, by contrast, has had good monsoons in 2019 and 2020.
- Food inflation started falling from December 2020 with a bumper post-monsoon kharif crop being harvested and arriving in the markets.
- Also, there is collapse of demand from successive Covid-triggered lockdowns.
- So, there is relatively low domestic inflation in food items other than edible oils and pulses that are imported.

How does the future look?

- International food prices will be one of the determinants for food inflation in India in the coming months.
- It is not clear if the current surge in global food prices is a result of temporary supply-side disruptions or a sign of a larger "commodity super-cycle."
- [A commodity super cycle is a sustained period of abnormally strong demand growth that producers struggle to match.
- This sparks an increase in prices that can last years or in some cases a decade or more. It was witnessed during 2007-2013.]
- Another important determinant is the monsoon's progress.
- The rainfall so far and the future predictions are encouraging for the current year.
- This should encourage plantings by farmers and, moreover, expand acreages under oilseeds and pulses.
- A third successive good monsoon should effectively control food inflation.
- The third determinant is the extent of fuel cost increases being passed-through to consumers.
- The scope for it is, perhaps, limited in today's demand-constrained environment.
- But when demand revives, there is a likelihood of processors, transporters and even farmers passing on the increase in fuel costs to consumers, which in turn may lead to inflation.

Source: The Indian Express