Rise in Prices of Key Commodities hits Common Man

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Introduction

As 2006 has laid down its curtain and the year 2007 is already half way through and is likely to cast its shadow on the life of a common man, economic analysts are assessing how much hope this 2007 will bring and how much hope and despair 2006 has brought into. The budget for financial year 2007-2008 is yet to make any significant impact to meet the aspirations of all the citizens of India, be it middle class, business class, elite class or poor class.

In 2005-2006 economy grew at hot pace. Stock markets rose at ultimate heights, commodity markets touched record high and there was great inflow of FDI's in India. Year 2006 also saw the boom in retail sector with the entry of foreign players in collaboration with Indian giants viz ;- Wal-Mart along with Airtel, Reliance entering into retail outlets, but the common person was left feeling the acute pinch in 2006 as the prices of key food items such as wheat, pulses and sugar rose rapidly.

Various factors are responsible for this. Let's analyze, the reasons for such a steep rise in prices of commodities.

Reasons

India has predominantly been an agricultural economy with equal thrust on industrialization. For the past 60 years, India as a country has achieved several milestones in various areas of economy, be it a consumer durable industry; where we have the latest technology available (both indigenous and international); we as a country today have marveled our excellence in the field of Engineering (Civil, mechanical, electrical and electronic); health care; hospitality, travel & tourism, Airlines, Road transport, water transport etc. Information technology and computer science is another domain, where Indians have proved their might in the world.

Today we can proudly say that we are one of the leading economies of the world, where the world is eyeing for. Whatever mentioned above is true, but there is darker side of the picture also, which is to be understood, failing which can lead to a big disaster in our already grown economy. Now what is the concern, which is so deep and yet neglected.

India today is a self-developed economy, where we are not dependent on anyone. Our companies are going global and lot of MNC's want desperately to invest in India. Our politicians, socialists and economists are trying hard to build India as a brand. Its good, we should do it, but not at the cost of a common man.

What I want to emphasize is that there is one leading sector in our economy which we call as FMCG sector & agricultural sector i.e. fast moving consumer goods. Now, if you study this sector, it includes all those companies, which manufacture those items

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which human beings consume on daily basis (whether branded or unbranded). We call these items as essential commodities or daily need items. It is this commodities market that is playing havoc in the life of a common man. These are the items, which are consumed by every human being irrespective of income, caste, creed, religion and class. Whether he is poorer of the poorest, poor, lower middle class, upper middle class, upper class, (business or elite class). These are the basis of our survival for which we are sweating everyday to earn money and buy these. If these become costly and unaffordable then where will common man go; what will they eat.

Focus of this article is on mammoth rise in prices of essential commodities viz:- Pulses, wheat, sugar etc. These are the staple diet of an ordinary human being who is an Indian. Indian Government and businessman should take stringent steps to curb these. Let's have a look, why and how the prices of these agricultural commodities are rising.

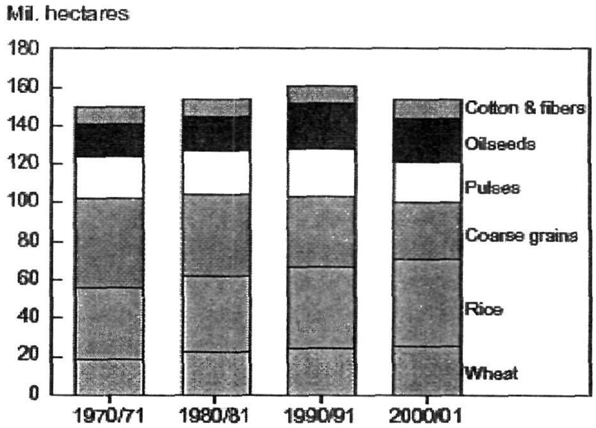
Pulse as a Staple Diet of Indians

India is the world's largest producer of pulses, stagnant production has contributed to declining per capita consumption over the past 20 years, with the result that domestic prices of the pulses have risen phenomenally in comparison to other food items. Indian consumers are highly price sensitive, when making purchase decisions. Higher prices of the staple food like pulses have forced Indian consumer to switch on to low grade and low priced pulses varieties and to other food items such as cereals and vegetables.

India is the largest producer and consumer of pulses in the world accounting for about 25 percent of global production, 27 percent of consumption, 34 percent of food use. It also is the top importer, with an 11% share of world imports during 1995-2001, although imports have only accounted for about 6 percent of domestic consumption during the same period. Imports have been unrestricted with relatively low tariffs during that period – virtually the only food item afforded such open access to the Indian market. Even with pulses having the highest price rise as compared to other food items, imports have remained a surprisingly small share of supplies. Although united states exports some varieties of pulses to Indian market, but volumes are minor as compared to other pulse exporting countries.

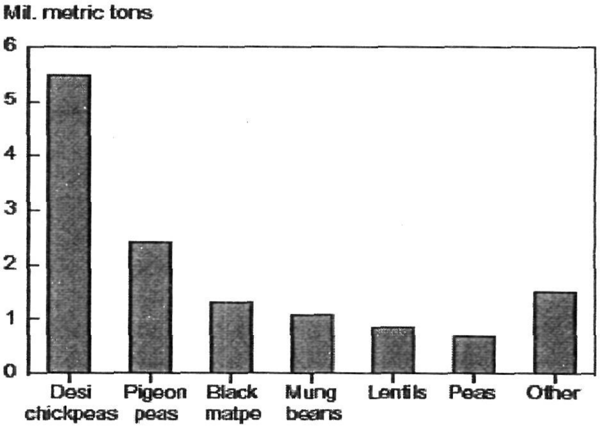
Pulses are an important crop, with an annual production of about 13.2 million tons from 22.5 million hectares between 1990-2000 (Government of India-b). The production of pulses in Indian crop areas has declined since 1970/71 (refer Figure1). Pulse production has declined relative to other crops, including wheat, rice and oil seeds (refer Figure 2). It has remained stagnant for the past 36 years, pulses have failed to grow at a significant rate as compared with other crops, a factor that has eroded the profitability and planting of pulses relative to other crops.

Figure 1: Area under major crops



Source: Government of India-f.

Figure 2:
India: Average pulse production by variety[1]



[1]Production data for desi chickpeas and pigeon peas are for 1994/95-2000/01, 1994/95-99/2000 for lentils, and 1994/95-97/98 for black matpe, mung beans, peas, and other pulses.

Sources: Government of India-b and c.

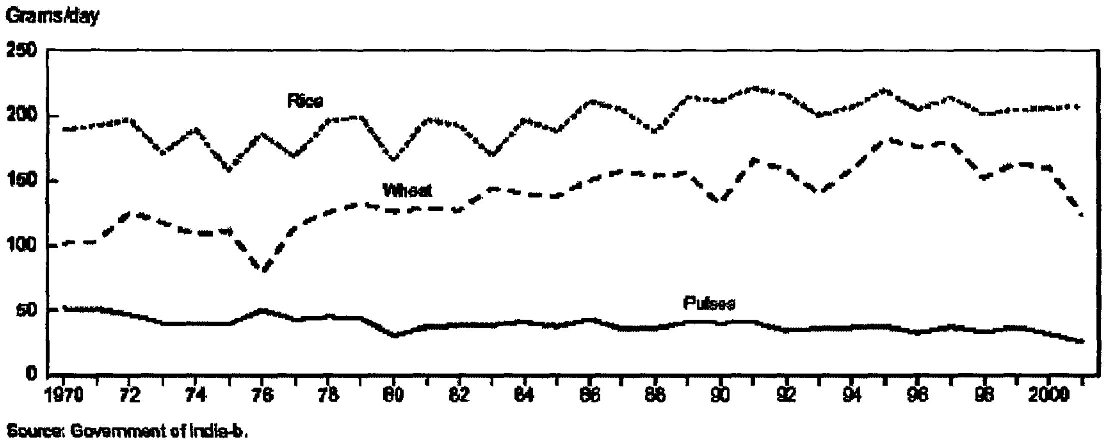
The state of Madhya Pradesh is the largest pulse producer, accounting for about 26 percent of total production from 1996/97 to 1990/00. Between 1980-2000, harvested area allocated to pulses ranged from 21.1 – 24.7 million hectares (Government of India-b). The shift to wheat and rice during the green revolution – the period between 1967 and 1978 in which farm acreage increased, double-cropping occurred and improved seed varieties were planted place downward pressure on pulse, acreage production fluctuated significantly between 1980-2000, ranging from 10.6 – 14.9 million tons mainly due to variable yields that did not improve overtime. Production has shown little growth since the 1970s, exhibiting only a upward trend over the past few years.

For vertical improvements, continued with low resilience to moisture stress and pest infection, have resulted in low production. Pulse production is also hampered by minimum support prices that are generally below market prices. Government assistance is minimum. It is more attractive for wheat and rice, encouraging farmers to grow these crops.

India still being a low income country and many consumers still relying on cereals and pulses as primary sources of protein and calories. Virtually all Indians, rich and poor as well as vegetarian and non-vegetarian consume pulses. According to traders, Indian consumers tend to prefer desi varieties over imported varieties because of their superior taste. Pulse demand is positively correlated with income. This is true for all classes in both urban and rural areas, for very poor consumers, pulse consumption increases by more than 0.6 percent for a 1 percent rise in income. Stagnant production, a rising population, and small imports have caused the per capita availability of pulses to fall overtime (Figure 3). Although consumption of dairy products is common, many consumers exclude meat from their diets due to its high cost or for religious reasons.

Pulse demand remains more responsive to changes income than the demand for other food grains (e.g. what and rice), but less so than other foods, such as milk, vegetables, edible oil and meat.

Figure 3: India: Per capita availability of rice, wheat, and pulses, 1970-2001



Source: Government of India-b.

Economic Research Service, USDA

Role of Price in Commodities Demand

Index data on wholesale price movements in India indicate that prices for pulses rose significantly in real terms – as well as relative to those for other important food groups – 1980 – 2000 (Figure 3). Rising real pulse prices provide a partial explanation for the decline in per capita pulse consumption despite a liberal policy regime towards pulse imports. Pulse production remains unattractive to Indian farmers because of the relatively low productivity of pulses, combined with more favourable government price supports and procurement policies for wheat and rice. Price margins at wholesale, importers and millers level is low, whereas at retail level it is phenomenally high upto 35-50%.

Prices of eight essential commodities have shot up by 19 percent from July 2005 to August 2006, while the per capita income of an average Indian rose by a meagre six- percent over this period, according to study carried out by associated chambers of commerce and industry of India (Assocham). The reason cited for this is shortfall in production and procurement.

According to Assocham "Prices of essential commodities like wheat, pulses, coffee, tea, sugar, milk, condiments and spices, eggs, fish and meat have gone up by 19 percent on an average between July 2005 and August 2006" The sugar output during the reporting period declined because of drought and infestation in major sugar producing states of Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu. The pulse prices increased up to 21.49 percent during the above mentioned period. Gram, urad and moong were particularly on the upswing. Milk prices climbed up by 7.6 percent to 7.8 percent owing to increase in input, utility and service costs. The price rise was mainly due to low powder stocks with diaries.

This rise in prices of essential commodities and per capita income is "Utterly dis-proportionate".

While prices of coffee, tea and spices witnessed a sharp increase of upto 33.3%, 33.7%, 24.7% and 11.6%, respectively, wheat, sugar, milk and eggs saw an upward movement of 8.5%, 7.6% and 7.8% respectively.

Coffee prices increased from 18.7% to 33.7% during July 2005 – August 2006, the main reason sighted as tight supplies. Fruit prices increased upto 11.6%. The chamber recommended that the Government should manage price rise by buying future options in the international and pricing policy for import spread over several years.

Inflation Touches 6.11%, Government Promises Action

During the first three weeks of 2007, the inflation touched 6%. It was 6.11% during week ended January 20, as against 5.95% in the week before, mainly on account of rising food product prices.

According to analysts it will not be easy for the Government to bring inflation below 5% for the next months since there was a low base last year and there were little signs of primary and metal prices dipping.

The high prices are due to supply constraints of food products, while high growth in Industrial sector is also playing its part. The Government has already cut customers duty on a host of products ranging from cement and capital goods to edible oils, besides banning futures trading in some pulses to reign in prices. Export of milk is also banned to curb shortage. RBI too raises interest rates.

Conclusion

India grew by 9% last year but agriculture lags behind though it grew by an impressive 6% in 2006, last four years average was 2% pointing to a crisis. Government should concentrate on this issue on priority basis in this year, because prices of essential commodities in real sense reflect the strength of an economy of a country.

Source: -

1. www.ers.usda.gov
2. www.hinduonnet.com
3. Mint (The Wall Street Journal) Dated:-1st February 2007