

Food Inflation

Food price increases in developed countries are an annoyance and cause for complaint. However, in developing countries, rising food prices can create the difference between going hungry and having just enough to eat. The price of food fluctuates a lot. Agricultural price varies as demand and supply are both inelastic, and supply might fluctuate owing to weather and a number of other reasons that will be discussed later. Despite the typical volatility, food prices appear to be on the rise, reaching new highs recently.

The topic has a very high chance of being asked as a UPSC Prelims Economics Question or as a Current Affairs Question, as it has been in the news recently.

Causes of Food Inflation

- Short-term supply challenges, such as poor weather conditions, have occurred. However, evidence of growing long-term supply problems, such as the loss of agricultural areas due to global warming, is emerging.
- Biofuels will be used more frequently. Rather than producing food, crops are grown for energy.
- Demand is increasing. China's and India's fast economic growth is driving up demand for further resource-intensive products. People tend to spend a bigger percentage of their income on meat and dairy products as their income rises. These necessitate a more intense land cultivation strategy. Crops, for example, are used to feed animals. As a result, the supply of food crops has diminished.
- Supply-chain disruption due to the pandemic and subsequent lockdowns also pushed the prices of foodstuffs across the world including in India.
- The Russia-Ukraine war seems to be the biggest cause of food inflation in recent times.
- The emergence of regional trading groups of countries also has some effect on the prices of food commodities for countries outside of that group.

Cost-push Inflation

Inflation induced by a rise in the price of inputs such as labour, raw materials, and so on is known as cost-push inflation. As the prices of the factors of production rise, the supply of these commodities decreases. While demand remains constant, commodity prices rise, resulting in an increase in the overall price level. In principle, this is cost-push inflation. In this instance, the overall price level rises due to greater manufacturing costs, which are reflected in the higher pricing of goods and commodities that rely heavily on these inputs. Inflation is caused by the supply side, i.e. because there is less supply. Demand-pull inflation, on the other hand, occurs when increasing demand causes inflation. Food inflation causes both demand-pull inflation as well as cost-push inflation.

Implications

Food Inflation has unimaginable implications, some of the major ones are mentioned below:

- Food inflation threatens the food security of a country. Rising prices lead to widening inequality of foodstuff distribution among the masses. Although, India has National Food Security Act, 2013, through which government provides relief to all families that are below the poverty line.
- Food inflation causes cost-push inflation, meaning it tends to increase the prices of other goods and services as well.

- Short term food inflation is mostly caused by cost-push inflation, because of limited yield, or poor supply chain management, this is difficult to predict and control.
- Long term food inflation is mostly caused by demand-pull inflation, which also puts more strain on the environment as more and more land is brought under intensive agriculture which results in higher usage of chemical fertilizers and pesticides.

Solutions

- Because a major portion of the world's grain is used to feed cattle, encouraging people to consume less meat and dairy might dramatically increase the grain supply. It will also free up the existing land for food crops instead of fodder crops for cattle.
- Enhancing grain storage, especially in countries that rely heavily on imports, and assisting such countries in growing more basic foods at home – rather than cash crops for export, which have frequently replaced staples – might also help.
- Planting a broader range of crops to lessen reliance on only a few commodities, with marketplaces dominated by a few number of exporters, could help to improve food security.
- Engaging in climate-smart agriculture to conserve harvests even as the planet warms might help stabilize worldwide supplies of food, while debt relief would offer the poorer nations more budgetary room to tolerate food price volatility.
- Stabilising the population numbers would in long term help control the food inflation too.
- Introducing and promoting alternatives to a select few food commodities such as wheat and rice would help contain the demand-side factors which control their price whilst also ensuring diversity of food crops which will benefit the environment as well as food security.

Current Food Inflation Rate

In India, the food inflation rate is a component part of the Consumer Price Index (CPI) which is released by the RBI on the monthly basis. The latest statistics with regards to food inflation in India is provided below:

Type of Inflation	Rate	Month	Year	Previous Month Rate	Percentage Increase over Previous Month
Food Inflation	8.38%	April	2022	7.68%	9.12%