

FOOD INFLATION AND ITS IMPACT ON THE URBAN POOR IN INDIA

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ABSTRACT

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When food prices rise in the developing nations, it will grumble the whole stability and make a difference between going hungry and getting enough to eat, it's an horrible situation for a country like India. In most part of India , prices of vegetables and many fruits were driven high because of crop failure caused by excessive and unseasonal rain fall and severe droughts. The cascading effect of escalating food prices often heavily hit to urban poor.

KEYWORDS: Escalating price, Double digit food inflation, Extra monetary cost, Poverty deficit Fractal classes

INTRODUCTION

Soaring food prices since the last few years have caused serious concern all around the world. In Asia about 1.2 billion poor people who spend about 60 per cent of their income on food have been hit hard. Escalating food prices are threatening to reverse the gains made in poverty reduction in Asia and the Pacific region, thus undermining the global fight against poverty. If high food prices persist, the Millennium Development Goal of reducing poverty by 2020 could expose difficulty.

Food inflation, by definition, is exactly what it seems; consumers are to pay more for inflated food prices. It is a distinct worry because every segment of the population must eat. Rise in food prices is troublesome precisely because food price inflation is the most regressive of all taxes and it hurts the poor the most. Although world food grain prices declined during the 1990's, a reversal occurred in 2000. Since then the prices have been rising with a sharp upturn from mid-2007 onwards; global cereal prices increased 150 % during 2005 to the second quarter of 2008. Between March 2006 and March 2008 the international food price index nearly doubled in nominal terms, rising 82%. In addition to rapid increases in cereal prices , other food items like vegetable oils, soybeans, meat products, and fish are also experiencing high prices. Many structural and cyclical factors are quoted as reasons for the hike. These factors can be seen most prominently in the international prices of cereals, particularly for the two most important staple food grains produced and consumed in Asia –rice and wheat. Cyclical factors are short-term phenomena that will continue into the foreseeable future.

These factors may impact the price by raising demand or by reducing supply. It appears that a fundamental shift in global supply and demand is behind the current food price inflation. This is due to increased bio fuel production , higher energy prices, climate change and increased food consumption in emerging markets. Although these factors are structural and cyclical ,we should expect that high food prices are here to stay. Since India imports many food items, rising world food prices have been transmitted to the domestic market. A major concern during 2009-10 , especially in the second half ,was the emergence of high double-digit food inflation.

Most of the poor people in developing countries depend on agriculture and higher prices can therefore , have major implications for poverty reduction. The World Bank has created a poor person's index for selected countries to simulate how food price inflation affects poor people's purchases. The poor person's price index shows that in most countries poor people face an effective inflation rate nearly 3% points higher than the overall rate. No doubt, food price increase erodes poor people's purchasing power; especially includes low incomes and the inability to acquire basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice and insufficient capacity and opportunity to better one's life. World bank report suggests that by 2020, the percent of the people will live under US\$ 1.25per day is expected to be 20%.An important dimension of the present food crisis is that a large segment of India's population not only in urban areas but also in rural areas comprises net buyers,

a majority of whom are poor or near poor. Higher expenditure on food caused by higher prices also reduce expenditures on health and education and “squeezes” expenditure to expand food production in response to higher prices. Even before the food crisis, the poor and vulnerable were significantly left behind. Rising food prices would further undermine the food security and livelihoods of vulnerable by eroding their already limited purchasing power.

STATEMENT OF THE PROBLEM

Poverty eradication has been the target of most of the policies framed in India. Removal of poverty was a distinct objective since the 5th Five Year Plan (1974-79) and in 7th FYP a separate section to urban poverty and its development and poverty alleviation. The definition of poverty is linked to the expenditure required by an average household to meet a specified minimum nutrition in terms of calories. Urban poverty, in particular, is denoted by an intake of 2100 calories per capita per day. Urban poverty naturally causes problems with respect to housing, water, sanitation, health, education, social security and livelihoods along with particular needs of vulnerable groups like women, children and elderly people. The urban poor are mostly involved in informal sector activities where there is constant threat of eviction, removal and absence of social security cover. The livelihood situation in urban India, thus, causes concern from the angle of food security and that of food price inflation where a dedicated and effective public distribution system is mostly warranted. In this analysis we focus specifically on the impact of changes in food prices on poverty. This is partly because food prices are likely to have the largest direct impact on poverty given the large shares of food in the expenditures of the poor, and the importance of agricultural income for many poor households in India. In effect, poor people have grown poor, or in the poverty measure- terminology, the poverty gap has increased. The rising food prices are also push more people into poverty. Focusing on India, the poverty is pronounced deprivation in well-being and comprises many dimensions.

OBJECTIVES

- 1) To explore the impact of rising food prices on household consumption.
- 2) To assess the impact of rising food prices on spending pattern of the urban poor.
- 3) To assess the status of urban poor in terms of expenses of food and staples.

METHODOLOGY

Mainly secondary data will be used in this study. Secondary data will be collected by using of various government websites regarding the households’ consumption. Main sources of secondary data are National Sample Survey Organization and Central Statistical Organization. The consumption patterns across households are derived from the consumption surveys of the NSSO of the Government of India. To assess the impact of rising food prices on the status of urban poor, we use econometric and statistical tools, particularly data extraction techniques for analysis. And also use the consumer price index of various food commodities which are given by RBI and thereby obtain the inflation rates among the states, and commodities. The rural and urban CPI of different food commodities are extracted along the state wise. This considers specifically on the impact of changes in food prices on poverty. This is partly because food prices are likely to have the largest direct impact on poverty given the large shares of food in the expenditures of the poor, and the importance of agricultural income for many poor households in India.

OBSERVATIONS OF THE STUDY

Here an attempt is made to know that what impact is made by the food price inflation on the urban poor than the rural people in India. The main aim is to reduce the impact of food price hike on the poor people through balancing the economy by avoiding the economic evil-inflation.

The study estimates consumption expenditure are of three kinds:

- (a) Estimates of per capita consumption (quantity and value) of detailed items
- (b) Estimates of proportions of households incurring consumer expenditure on different items.
- (c) Estimates of pattern of households possessing specific food items

The CPI (Rural, Urban, Combined) on Base 2012=100 is being released for the month of June 2018. In addition to this, Consumer Food Price Index (CFPI) for all India Rural, Urban and Combined are also being released for June 2019. All India Inflation rates based on General Indices and CFPis are given as follows

Indices	June 2019 (Prov.)			May 2019 (Final)			June 2018 (Final)		
	Rural	Urban	Combd.	Rural	Urban	Combd.	Rural	Urban	Combd.
CPI (General)	5.00	4.85	5.00	4.88	4.72	4.87	1.52	1.41	1.46
CFPI	3.74	1.56	2.91	3.77	1.66	3.10	-1.62	-3.16	-2.12

From NSS Report (68th round), gives a broad break-up using 20 item groups. The present report makes use of the detailed item classification adopted in the schedule of enquiry to study consumer expenditure patterns in much greater detail.

Estimates are given separately for rural and urban areas of all 35 States and UTs of India. Also, all-India estimates are given separately for households’ MPCE formed separately for rural India and urban India.

item group	monthly per capita exp. (Rs.)		item group	monthly per capita exp. (Rs.)	
	rural	urban		rural	urban
cereals & cereal substitutes	154	175	clothing & footwear***	100	167
pulses & their products*	42	54	education	50	182
milk & milk products	115	184	medical	95	146
edible oil	53	70	conveyance	60	171
egg, fish & meat	68	96	other consumer services	57	147
Vegetables	95	122	misc. goods, entertainment	76	152
Fruits	41	90	rent	7	164
sugar, salt and spices	76	94	taxes and cesses	4	22
beverages, refreshments & proc. food**	113	236	durable goods	65	139
food total	756	1121	non-food total	673	1509
pan, tobacco & intoxicants	46	42			
fuel and light	114	176	all items	1430	2630

DATA INTERPRETATION AND DISCUSSION

Rise in food prices is troublesome precisely because food price inflation is the most regressive of all taxes and it hurts the poor the most. Food inflation would further

undermine the food security and livelihoods of the most vulnerable by eroding their already limited purchasing power. So the all India consumer price indices are given in the following table 1.3

Table 1.3 All India Consumer Price Indices
(Base: 2012=100)

Group Code	Sub-group Code	Description	Rural			Urban			Combined		
			Weights	May 19 Index (Final)	June 19 Index (Prov.)	Weights	May 19 Index (Final)	June 19 Index (Prov.)	Weights	May 19 Index (Final)	June 19 Index (Prov.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	1.1.01	Cereals and Products	12.35	137.4	137.6	6.59	135.0	135.3	9.67	136.6	136.9
	1.1.02	Meat and fish	4.38	145.7	148.6	2.73	148.2	149.7	3.61	146.6	149.0
	1.1.03	Egg	0.49	135.5	136.6	0.36	130.5	133.9	0.43	133.6	135.6
	1.1.04	Milk and products	7.72	142.9	143.2	5.33	140.7	140.8	6.61	142.1	142.3
	1.1.05	Oils and fats	4.21	123.6	124.0	2.81	116.4	116.6	3.56	121.0	121.3
	1.1.06	Fruits	2.88	157.5	154.3	2.90	151.3	152.2	2.89	154.6	153.3
	1.1.07	Vegetables	7.46	137.8	143.6	4.41	131.4	144.0	6.04	135.6	143.7
	1.1.08	Pulses and Products	2.95	127.2	126.0	1.73	112.8	112.3	2.38	122.3	121.4
	1.1.09	Sugar and Confectionery	1.70	111.8	112.4	0.97	105.3	108.4	1.36	109.6	111.1
	1.1.10	Spices	3.11	137.4	137.8	1.79	139.6	140.0	2.50	138.1	138.5
	1.2.11	Non-alcoholic Beverages	1.37	132.2	132.9	1.13	126.6	126.7	1.26	129.9	130.3
	1.1.12	Prepared meals, snacks, sweets etc.	5.56	154.3	154.4	5.54	148.7	149.0	5.55	151.7	151.9
1		Food and Beverages	54.18	139.1	140.1	36.29	136.4	138.4	45.86	138.1	139.5

Households belonging to different fractal classes of the MPCE distribution represent a series of sub-populations with progressively increasing level of living. The variation in the budget share of any particular item across MPCE fractal classes therefore enables the study of variation in consumption

behaviour with rise in level of living. For any particular item of consumption, the share in the household budget is the same as the ratio of per capita expenditure on the item to MPCE.

**Table 1.4 All India annual inflation rates (%) for June 2019 (Provisional)
(Base: 2012=100)**

Group Code	Sub-Group Code	Description	Rural			Urban			Combined		
			June 18	June 19	Inflation	June 18	June 19	Inflation	June 18	June 19	Inflation
			Index (Final)	Index (Prov.)	Rate (%)	Index (Final)	Index (Prov.)	Rate (%)	Index (Final)	Index (Prov.)	Rate (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	1.1.01	Cereals and Products	133.5	137.6	3.07	132.9	135.3	1.81	133.3	136.9	2.70
	1.1.02	Meat and fish	143.7	148.6	3.41	148.7	149.7	0.67	145.5	149.0	2.41
	1.1.03	Egg	128.0	136.6	6.72	128.3	133.9	4.36	128.1	135.6	5.85
	1.1.04	Milk and products	138.6	143.2	3.32	137.3	140.8	2.55	138.1	142.3	3.04
	1.1.05	Oils and fats	120.9	124.0	2.56	113.5	116.6	2.73	118.2	121.3	2.62
	1.1.06	Fruits	140.9	154.3	9.51	137.2	152.2	10.93	139.2	153.3	10.13
	1.1.07	Vegetables	128.8	143.6	11.49	142.2	144.0	1.27	133.3	143.7	7.80
	1.1.08	Pulses and Products	140.2	126.0	-10.13	128.2	112.3	-12.40	136.2	121.4	-10.87
	1.1.09	Sugar and Confectionery	118.9	112.4	-5.47	120.9	108.4	-10.34	119.6	111.1	-7.11
	1.1.10	Spices	133.5	137.8	3.22	138.8	140.0	0.86	135.3	138.5	2.37
	1.2.11	Non-alcoholic Beverages	130.4	132.9	1.92	124.2	126.7	2.01	127.8	130.3	1.96
	1.1.12	Prepared meals, snacks, sweets etc.	146.5	154.4	5.39	143.1	149.0	4.12	144.9	151.9	4.83
1		Food and Beverages	134.9	140.1	3.85	135.7	138.4	1.99	135.2	139.5	3.18

Source: NSSO DATA ON FOOD PRICES&CPI

From this table analyze a drastic rise in the prices of food items from the previous years prices. The inflation rates are growing upwards very rapidly which affects the consumption pattern and the income of the poor people

particularly urban poor. Thereby increasing their consumption expenditure. And also state wise disparity in the consumer price indices shows the effect of food price rise.

**Table 1.5 State/UT wise General Consumer Price Indices
(Base: 2012=100)**

State/ UT Code	Name of the State/UT	Rural			Urban			Combined		
		Weights	May 19 Index (Final)	June 19 Index (Prov.)	Weights	May 19 Index (Final)	June 19 Index (Prov.)	Weights	May 19 Index (Final)	June 19 Index (Prov.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
01	Jammu & Kashmir	1.14	147.6	148.2	0.72	136.1	137.3	0.94	143.5	144.4
02	Himachal Pradesh	1.03	139.2	139.3	0.26	133.9	134.9	0.67	138.2	138.5
03	Punjab	3.31	136.5	137.7	3.09	130.9	132.3	3.21	134.0	135.3
04	Chandigarh	0.02	139.4	141.0	0.34	131.8	133.3	0.17	132.2	133.7
05	Uttarakhand	1.06	132.1	132.8	0.73	131.1	131.3	0.91	131.7	132.2
06	Haryana	3.30	135.5	136.6	3.35	133.4	135.3	3.32	134.5	136.0
07	Delhi	0.28	131.0	132.1	5.64	137.3	137.1	2.77	137.0	136.8
08	Rajasthan	6.63	138.0	138.3	4.23	136.6	138.5	5.51	137.5	138.4
09	Uttar Pradesh	14.83	134.3	135.0	9.54	136.4	137.7	12.37	135.1	136.0
10	Bihar	8.21	140.4	140.7	1.62	134.3	135.3	5.14	139.5	139.9
11	Sikkim	0.06	147.2	147.4	0.03	143.8	145.2	0.05	146.1	146.7
12	Arunachal Pradesh	0.14	150.5	152.2	0.06	--	--	0.10	--	--
13	Nagaland	0.14	151.3	151.6	0.12	135.6	135.9	0.13	144.6	144.9
14	Manipur	0.23	165.0	165.0	0.12	134.3	134.3	0.18	155.3	155.3
15	Mizoram	0.07	137.5	137.8	0.13	129.5	129.7	0.10	132.6	132.9
16	Tripura	0.35	145.8	146.4	0.14	139.4	140.2	0.25	144.1	144.8
17	Meghalaya	0.28	139.0	140.0	0.15	129.8	130.8	0.22	136.1	137.1
18	Assam	2.63	138.6	139.7	0.79	132.8	131.9	1.77	137.4	138.1
19	West Bengal	6.99	142.6	143.8	7.20	137.5	137.2	7.09	140.2	140.7
20	Jharkhand	1.96	143.5	144.7	1.39	132.7	134.0	1.69	139.4	140.6
21	Odisha	2.93	142.7	143.8	1.31	132.5	132.2	2.18	139.8	140.6
22	Chhattisgarh	1.68	140.4	142.1	1.22	135.4	136.7	1.46	138.5	140.0
23	Madhya Pradesh	4.93	133.2	134.6	3.97	134.9	136.4	4.48	133.9	135.3
24	Gujarat	4.54	140.7	141.6	6.82	129.3	130.9	5.60	134.2	135.5
25	Daman & Diu	0.02	162.3	162.1	0.02	133.1	133.7	0.02	150.1	150.2

26	Dadra & Nagar Haveli	0.02	136.3	135.9	0.04	129.5	132.1	0.03	131.8	133.4
27	Maharashtra	8.25	142.7	143.2	18.86	131.6	132.5	13.18	135.3	136.1
28	Andhra Pradesh	5.40	143.9	144.1	3.64	136.3	136.6	4.58	141.1	141.3
29	Karnataka	5.09	140.2	141.3	6.81	141.1	141.8	5.89	140.7	141.6
30	Goa	0.14	150.9	150.3	0.25	134.0	135.1	0.19	140.5	141.0
31	Lakshadweep	0.01	132.0	135.7	0.01	134.5	135.3	0.01	133.3	135.5
32	Kerala	5.50	143.9	145.5	3.46	142.7	143.5	4.55	143.5	144.8
33	Tamil Nadu	5.55	142.3	143.2	9.20	139.8	140.6	7.25	140.8	141.7
34	Puducherry	0.08	143.3	144.9	0.27	135.9	137.6	0.17	137.8	139.5
35	Andaman & Nicobar Islands	0.05	144.7	144.8	0.07	135.1	136.4	0.06	139.8	140.5
36	Telangana	3.16	144.1	144.8	4.41	135.9	136.2	3.74	139.6	140.1
99	All India	100.00	139.8	140.6	100.00	135.4	136.2	100.00	137.8	138.6

From the table 1.5 depicts the consumer price indices over the past few years among the states .

Manipur shows a hike in consumer price index compared to other states (around 150) and Kerala has got 144. All goods

and services received as payment in kind or perquisites are included in the consumption of the recipient household as goods and services received in exchange of services, except for meals received from other households' kitchens.

**Table 1.6 Major State/UT wise annual inflation rates (%) for June 2019 (Provisional)
(Base: 2012=100)**

State/ UT Code	Name of the State/UT	Rural			Urban			Combined		
		June 18 Index (Final)	June 19 Index (Prov.)	Inflation Rate (%)	June 18 Index (Final)	June 19 Index (Prov.)	Inflation Rate (%)	June 18 Index (Final)	June 19 Index (Prov.)	Inflation Rate (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
01	Jammu & Kashmir	139.6	148.2	6.16	128.1	137.3	7.18	135.5	144.4	6.57
02	Himachal Pradesh	135.2	139.3	3.03	127.1	134.9	6.14	133.7	138.5	3.59
03	Punjab	129.5	137.7	6.33	126.4	132.3	4.67	128.1	135.3	5.62
05	Uttarakhand	127.6	132.8	4.08	121.6	131.3	7.98	125.4	132.2	5.42
06	Haryana	131.7	136.6	3.72	125.5	135.3	7.81	128.8	136.0	5.59
07	Delhi	130.5	132.1	1.23	133.5	137.1	2.70	133.3	136.8	2.63
08	Rajasthan	135.5	138.3	2.07	131.3	138.5	5.48	134.0	138.4	3.28
09	Uttar Pradesh	129.1	135.0	4.57	128.8	137.7	6.91	129.0	136.0	5.43
10	Bihar	133.7	140.7	5.24	126.3	135.3	7.13	132.6	139.9	5.51

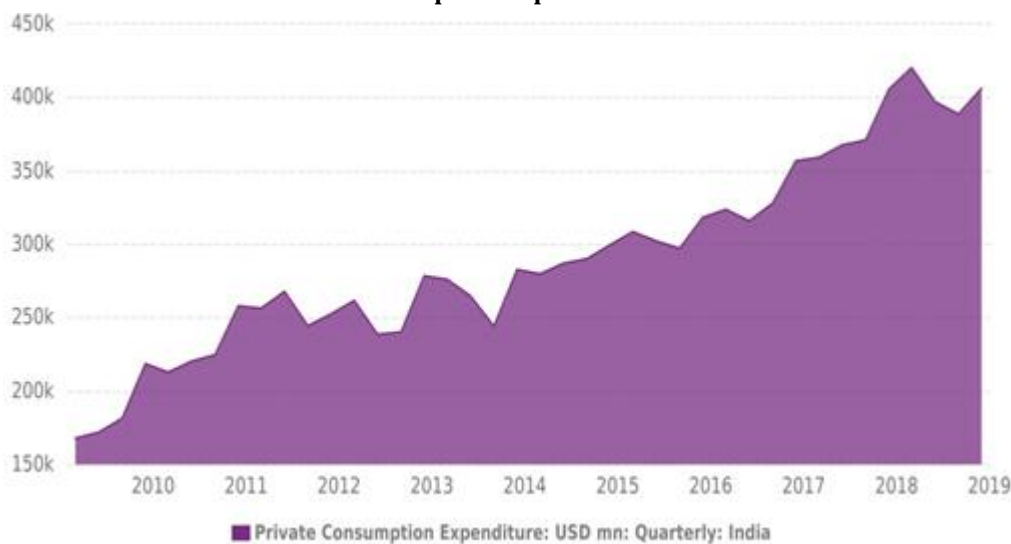
18	Assam	129.1	139.7	8.21	128.1	131.9	2.97	128.9	138.1	7.14
19	West Bengal	131.2	143.8	9.60	128.8	137.2	6.52	130.1	140.7	8.15
20	Jharkhand	135.5	144.7	6.79	126.7	134.0	5.76	132.1	140.6	6.43
21	Odisha	137.4	143.8	4.66	128.4	132.2	2.96	134.9	140.6	4.23
22	Chhattisgarh	137.2	142.1	3.57	126.7	136.7	7.89	133.1	140.0	5.18
23	Madhya Pradesh	128.9	134.6	4.42	128.9	136.4	5.82	128.9	135.3	4.97
24	Gujarat	137.1	141.6	3.28	126.4	130.9	3.56	131.0	135.5	3.44
27	Maharashtra	137.3	143.2	4.30	126.6	132.5	4.66	130.2	136.1	4.53
28	Andhra Pradesh	138.9	144.1	3.74	132.7	136.6	2.94	136.6	141.3	3.44
29	Karnataka	138.0	141.3	2.39	137.4	141.8	3.20	137.7	141.6	2.83
32	Kerala	137.2	145.5	6.05	136.1	143.5	5.44	136.8	144.8	5.85
33	Tamil Nadu	134.4	143.2	6.55	134.4	140.6	4.61	134.4	141.7	5.43
36	Telangana	135.5	144.8	6.86	131.9	136.2	3.26	133.5	140.1	4.94
99	All India	133.9	140.6	5.00	129.9	136.2	4.85	132.0	138.6	5.00

Source :NSSO&CSO ROUNDS

Here Table 1.6 shows food price inflation in the states. For each detailed item, estimates of the proportion (number per 1000) of households in any sector of any State/UT that consumed the item during the reference period are given alongside the estimates of per capita consumption. “ These

estimates provide an alternative way of studying patterns of consumption by indicating the spread of consumption of an item among the population, or the shrinking of the segment of population consuming the item.

Consumption Expenditure



SUMMARY AND CONCLUSION

The study shows that by doing some analysis in the field of inflation that is the impact of changes in food prices on poverty leads to reduction in the level of income and hence reduce the standard of living .Especially in the case of urban poor who face the doubling effect of the consumption expenditure .Those people are living in a circle where they can uplift by using the positive sides of the urbanization. In this context, the change in the urban poverty deficit can be

decomposed into two additive elements: (a) the extra monetary cost (with respect to the initial situation) required to bring current poor households above the poverty line. We focus exclusively on urban poverty for various reasons. First, from the methodological viewpoint, it is critical to control for the positive income effect that food inflation has on the households which derive their income from agriculture-related activities. Unlike rural households, urban ones only derive a small share of their income from agricultural activities. Hence,

the assumption that food inflation will only affect the price of their consumption basket, leaving their income unchanged, is not unrealistic. In contrast, rural households derive a substantial part of their income from agricultural activities, and estimation of the net impact of food inflation on rural poverty would require detailed and country specific data which we do not have on a large and comparable basis. Hence, the focus on the urban poor does not mean that rural poverty is not of concern, but rather, it is an unfortunate consequence of the lack of valuable information. The results are useful for focusing attention on the identified set of states where the urban poverty deficit increases the most and hence are more likely to experience demands for redistribution and, perhaps, social unrest. In most states, the induced monetary cost of additional urban poverty is estimated to be small relative to GDP, even if poverty rates increase significantly. The challenge in this case lies in the ability to adjust responses to the permanent vs. transitory nature of the shock, yet to a large extent unknown.

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