Domestic and global scenarios

Supply side

4.29 The third advance estimates released by the Department of Agriculture & Cooperation present the following position in respect of cereals, specifically rice & wheat and of pulses (Table 4.13).

4.30 Total domestic foodgrains production in 2008-09 has been estimated at 230 MMT, marginally lower than the 231 MMT of 2007-08 (217 MMT in 2006-07).

Table 4.13 : Estimated domestic production of crops in 2008-09 (MMT)

Food Crop	2006-07	2007-08	2008-09	%	Cash crop	2006-07	2007-08	2008-09	%
		Final Est	3rd Adv. Est.	Change In 2008-09			Final Est	3rd Adv. Est.	Change In 2008-09
Foodgrains	217.28	230.78	229.85	-0.9	Sugarcane	355.52	348.19	289.23	-59.0
Cereals	203.08	216.02	215.68	-0.3	Edible oils*	59.00	69.64	52.79	-24.2
Rice	93.35	96.69	99.37	2.7	Groundnut	11.19	21.12	15.22	-27.9
Wheat	75.81	78.57	77.63	-0.9	Rape & mustard	23.05	18.08	21.62	19.6
Pulses	14.20	14.76	14.17	13.6	Sunflower	4.05	4.83	3.67	-24.0
Gram	6.33	5.75	6.38	0.6	Soyabean	14.16	17.55	14.47	-17.6
Tur	2.31	3.08	2.37	-0.7					
Moong	1.12	1.52	0.9	-0.6	Imports (in lakh tonnes)				
Urad	1.44	1.46	0.94	-0.5	(i) Pulses	24.91	29.52	16.92#	-42.68
Others	3.00	2.95	2.58	0.3	(ii) Edible oils	43.17	56.08	70.69	26.05

Source : D/o Agriculture & Cooperation, Reports of D/o Consumer Affairs.
*** Edible oils in lakh tonnes; #: Apr-Dec. 2008**

- Of this, cereal production in 2008-09 at 216 MMT equalled production in 2007-08 (203 MMT in 2006-07).
- Production of rice in 2008-09 has been estimated at about 99.4 MMT which is higher than 2007-08 production of 96.7 MMT (93 MMT in 2006-07).
- Wheat production estimated at 77.6 MMT in 2008-09 has been lower than the 78.6 MMT in 2007-08 (76 MMT in 2006-07).
- Domestic production of pulses estimated at 14.2 MMT in 2008-09 (as in 2006-07) was slightly lower than the 14. 8 MMT in 2007-08, but was markedly lower in moong and urad.

4.31 The data in respect of global production of important commodities is given in Table 4.14. Global production of rice in 2008-09 has been estimated at 441-456 MMT by USDA-FAO, compared to 432-440 MMT in 2007-08. In wheat, the projected figure (lower bound) for 2008-09 was 680 MMT, in comparison to 596 MMT in 2007-08.

4.32 Regarding sugar and edible oils, the position is as below:

- With domestic sugarcane production in 2008-09 estimated at 289 MMT, compared to about 350 MMT in the past two years, the pressure on sugar prices may persist in the near term, with little or no imports to ease the situation. The international scenario has estimated production in 2008-09 at 161.5 MMT as compared to an estimated global demand of 165.8 MMT.
- As for edible oils from primary sources, domestic availability estimated at 53 lakh tonnes in 2008-09 was lower as compared to 70 lakh tonnes in the previous year, but with imports estimated at 71 lakh tonnes, the position on availability was not a problem. On the global front, production was assessed at 133 MMT in 2008-09, compared to 128 MMT in 2007-08.

Trends in world commodity price index (WCPI) versus WPI

4.33 A one-to-one comparison of global and domestic inflation trends shows that the 60-80 per cent inflation recorded in the first four months of 2008-09 in the WCPI energy group merely corresponded to a 7-17 per cent increase in that group in the WPI index. The fall to rates of (-) 30 to (-) 50 per cent in the WCPI in the second half of 2008-09 was a contrast to only a marginal decline to (-) 2 to (-) 6 per cent in the last quarter of 2008-09 in the WPI. The monthly WPI rates showed the high prices of crude oil reflected in the high global inflation rates prevalent in 2008-09 up to August. From October, inflation rates turned negative in this group globally, whereas domestically, the negative rates manifested from December 2008, after ruling in double digits from June to October (Table 4.15).

4.34 In agriculture, which includes food and non-food articles, the lack of congruence between the two indices – WCPI and WPI – was pronounced. Month-wise, global inflation rates in foodgrains began with a peak rate of 101 per cent and remained over 60 per cent till August 2008. In the next three months, it moderated from 40 per cent to 2 per cent and in the last four months of the year, posted negative rates. In contrast, the WPI inflation in foodgrains was 6-7 per cent in the first half and increased in the second half to 9-12 per cent.

- Global inflation in rice began in three digits in 2008-09 with a rate of 206 per cent which declined progressively to 123 per cent by September 2008, falling into two digits in the second half from 94 per cent to 27 per cent from October 2008 to February 2009 and into single digit in March 2009 at about 5 per cent. The WPI inflation trend in rice was in contrast to the WCPI. In the first half of the year, inflation fell from about 9 to 5 per cent and in the second half, it rose to double digits from 11 to 15 per cent from October 2008 to February 2009, before falling marginally to 14 per cent in March 2009.
- In wheat, global inflation declined from 83 per cent to 27 per cent from April to August 2008, and posted increasingly negative rates during the second half of the year. In March 2009, it stood at (-) 47 per cent. The WPI inflation was

Table 4.14 : Global production estimates in 2007-09 (MMT)

Crop	2007-08		2008-09	
	Production	Consumption	Production	Consumption
Rice	432 – 440	428 - 437	441- 456	434- 448
Wheat	596 – 611	615 - 618	680-688	643-649
Sugar			161.5	165.8
Edible oils	128.19		133.04	

Source: Reports of D/o Consumer Affairs

Table 4.15 : Inflation in WCPI and WPI (%)

Item	Agriculture		Food		Fats & oils		Grains		Rice	
	WCPI	WPI	WCPI	WPI	WCPI	WPI	WCPI	WPI	WCPI	WPI
Weight		**21.54**		**26.94**		**3.14**		**5.01**		**2.45**
Apr 08	51.0	7.1	70.1	7.0	75.5	13.0	101.4	6.1	206.4	8.7
May 08	49.3	7.9	65.4	7.9	70.0	11.2	92.0	5.6	204.9	8.0
Jun 08	50.3	9.0	62.2	9.2	69.3	15.7	82.9	6.0	151.9	7.6
Jul 08	45.6	9.0	55.1	9.1	59.2	15.6	77.5	6.6	138.5	7.7
Aug 08	32.5	9.6	36.5	9.8	31.6	13.1	60.6	6.5	126.3	6.6
Sep 08	21.3	10.2	21.6	10.1	12.1	11.3	40.0	6.7	123.3	5.4
Oct 08	-2.5	11.0	-3.4	9.4	-19.5	8.6	12.6	8.8	94.4	11.2
Nov 08	-11.9	10.8	-13.9	8.4	-31.6	4.6	1.9	9.5	68.4	12.6
Dec 08	-18.1	9.8	-20.4	7.7	-36.7	4.3	-9.4	10.8	53.1	15.1
Jan 09	-16.6	9.8	-19.1	9.4	-33.3	0.5	-7.6	11.3	59.2	15.2
Feb 09	-23.6	7.3	-26.4	9.3	-38.6	-2.4	-20.6	13.2	27.1	17.1
Mar 09	-28.6	5.1	-31.7	8.1	-43.5	-7.3	-26.5	11.6	4.7	16.7
Item	**Wheat**		**Energy**		**Fertilizers**		**Metal & minerals**		**Iron ore**	
	WCPI	WPI	WCPI	WPI	WCPI	WPI	WCPI	WPI	WCPI	WPI
Weight		**1.38**		**14.23**		**3.69**		**8.83**		**0.21**
Apr 08	82.7	6.9	67.4	7.0	171.3	4.7	11.7	24.2	66.0	58.1
May 08	68.0	7.2	87.1	7.7	187.6	10.5	7.9	22.6	66.0	47.6
Jun 08	56.3	7.7	93.7	16.3	174.5	10.5	10.7	23.5	66.0	47.4
Jul 08	37.7	8.2	84.4	17.2	213.4	10.1	9.6	25.3	66.0	52.6
Aug 08	26.8	6.9	66.2	17.2	224.8	10.0	8.6	25.9	66.0	55.2
Sep 08	-9.5	7.8	35.7	16.6	189.2	9.9	1.8	23.0	66.0	42.1
Oct 08	-29.2	5.0	-4.7	14.1	125.8	9.1	-20.6	21.6	66.0	42.1
Nov 08	-29.5	4.0	-33.2	6.4	74.2	8.7	-25.1	17.1	66.0	42.1
Dec 08	-40.3	4.8	-46.0	-0.2	30.8	8.5	-28.5	15.4	66.0	44.3
Jan 09	-35.5	5.2	-45.5	-1.7	14.4	8.4	-37.8	9.5	66.0	29.9
Feb 09	-47.1	6.1	-51.6	-3.4	-4.7	8.5	-42.5	1.9	0.0	-2.7
Mar 09	-47.5	4.6	-51.9	-6.0	-26.8	5.9	-43.0	-7.5	0.0	5.9

Source of WCPI : World Bank Pink Sheet and for WPI D/o Indl Policy & Promotion

Note : Composition of groups in WCPI vs. WPI: Energy=Fuel group; Agriculture=Food plus Non-food Articles; Food=Food Articles and Food Products; Fats and Oils=Edible Oils, Butter and Ghee; Grains=Cereals and Pulses; Fertilizers (as is); Metals and Minerals=Basic Metals, Alloys & Metal Products and Minerals.

7-8 per cent in the first half of the year and in the vicinity of 5-6 per cent in the second half.

4.35 The discord between movements in WCPI and WPI was also marked in the case of non-energy commodities, fats and oils, fertilizers and metals & minerals.

- With administered control of fertilizer prices, inflation rates in the WPI remained in the 8-10 per cent range for 10 months of the year and fell to 6 per cent in March 2009, unlike in the WCPI, where the rate ranged from a high of 225 per cent to a low of (-) 27 per cent, averaging 93 per cent in the year.
- The global monthly inflation rates in fats and oils, which include edible oils, butter and ghee, were 60-75 per cent up to July moderating in the next two months and turning negative from October 2008. The WPI inflation in edible oils ruled from 11 to 16 per cent in the first half of 2008-09, declined in the third quarter of 2008-09 and turned negative in the fourth quarter.
- Metals & minerals ruled at negative rates in the second half of 2008-09 in the world economy. In contrast, WPI rates had ranged between 15 and 25 per cent in the first three quarters, declining thereafter in the last quarter of 2008-09. Iron ore recorded inflation rates of above 60 per cent globally and over 40-60 per cent locally (Table 4.15).

4.36 Thus, despite the growing connectivity to the world economy, inflation rates in India appear to have been primarily affected by domestic constraints and administered prices as would be observed by the disconnect brought out in Box 4.1. While increase

Box 4.1 : Impact of global and domestic inflation

The impact of global prices on domestic prices can be minimized through administrative and fiscal policies, so that the pass-through is limited. Domestic inflation rates have been lower than global rates, as indicated below:

1. Global inflation in food was 66 to (-) 26 per cent; in the WPI, it was 8-10 per cent.
2. In rice, WCPI inflation fell from 206 to 5 per cent; in the WPI, it ranged from 5 to 15 per cent.
3. In wheat, global inflation swung from 83 to (-) 47 per cent; domestic inflation was between 4 and 8 per cent.
4. In fats & oils, global inflation swung from 75 to (-) 43 per cent; WPI inflation fell from 16 to (-) 8 per cent.
5. Global inflation in energy was 60 to 80 per cent. WPI inflation in energy was 10-17 per cent.
6. In petroleum products, global inflation fell from 94 to (-) 52 per cent; WPI inflation ranged from 17 per cent on the higher side to (-) 6 per cent on the lower side.
7. In fertilizers, global inflation oscillated between 225 and (-) 27 per cent; in WPI it was 5 to 11 per cent.
8. In iron ore, global inflation fell from 66 to 0 per cent; domestic inflation ranged from 82 to 62 per cent.

in trade of these commodities in the medium term may enhance the correspondence in the movement of global and domestic inflation, within a short period, it would still be possible for the impact being felt with a timelag in the near term in 2009-10.

Global and domestic price linkages

Foodgrains

4.37 The global price of rice was US$ 672 per tonne during January-October 2008, more than twice the price which prevailed in the previous year and exceeded US$ 900 in April-May, 2008. The factors responsible for the price spike and high inflation were the high cost of inputs, low stocks and increase in utilization versus production resulting in lower levels of exportable surplus and consequent export restrictions in major producing countries, combined with strong demand caused by higher wheat prices. In wheat, prices averaged almost US$ 347 per tonne during January-October 2008, the highest level since the mid-1970s. However, there was a sharp plunge to US$ 238 per tonne in mid-2008, due to 11 per cent increase in global production relative to 2007 and the impact of the financial crisis.

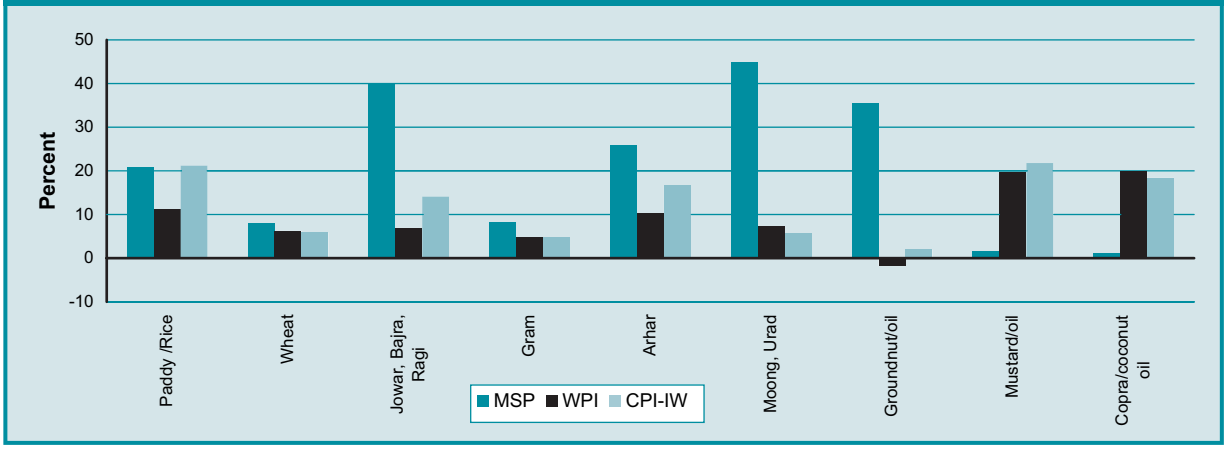
4.38 On the domestic front, apart from the global demand-supply aspects, the minimum support price (MSP) system also has a critical role on the ruling prices. From 2007-08, the jump in the MSP of various crops could have contributed to the increase in inflation rates for agricultural commodities. While during 2000-01 to 2006-07, the rise in the basic MSP (excluding bonus) had been gradual, in 2008-09, the MSP in almost every crop had witnessed increases of about 30 per cent or more. This was particularly pronounced in pulses, cereals and edible oils (Table 4.16) .

Table 4.16 : Minimum support price (Rs. per quintal)

Crop	Price range, 2000-01 to 2006-07	2007-08*	2008-09*	% change '08-09/'07-08
(i) Paddy , common	510 - 580	645	850	31.8
(ii) Paddy, grade A	540 - 610	675	880	30.4
Wheat	610-650 till '05-06, 750 in '06-07	1000	1080	33.3
Coarse cereals	445-540	600	840	40.0
Gram	1100-1445	1600	1730	8.1
Arhar	1200-1410	1550	2000	29.0
Moong, Urad	1200-1520	1700	2520	48.2
Sugarcane	59.50-80.25	81.18	81.18	0.0
Groundnut	1220-1520	1550	2100	35.5
Rapeseed/Mustard	1200-1715	1800	1830	1.7
Sunflower	1170-1500	1510	2215	46.7
Soyabean, black	775-900	910	1350	48.4
Soyabean, yellow	865-1020	1050	1390	32.4
Copra	3500-3840	3870	3910	1.0
Sesamum	1300-1560	1580	2750	74.1

Source : D/o Agriculture & Cooperation. *** : Excluding Bonus.**

Figure 4.3 : Annual price rise in 2008-09 in MSP, WPI, CPI-IW(%)



4.39 Lower domestic production and the hike in MSP, except in gram, appears to have contributed to high inflation in pulses. Annual per cent price variation in MSP, vis-à-vis, WPI and CPI is presented in Figure 4.3.

Sugar and edible oils

4.40 Globally, sugar prices averaged 28.6 cents per kg during January-October 2008, which was 30 per cent higher than in 2007. A 5 per cent decline in production had been estimated in 2008-09, as grain production has displaced sugarcane in several countries, including India. The decline in sugarcane production in India is ascribed to a cyclical dip in production and lower producer prices. The MSP had also remained invariant in 2007-08 and 2008-09.

4.41 Global palm oil prices exceeded US$ 1,175 per tonne in the first half of 2008 but declined sharply to US$ 560 per tonne in October 2008, fuelled by strong import demand and increased biofuel use. With over three quarters of global output being traded, import demand would keep pace with growth in production. On the domestic front, the increase in MSPs ranged from a low of 32 per cent in the case of soyabean yellow to a high of 74 per cent in sesamum seeds, barring copra and rapeseed and mustard.

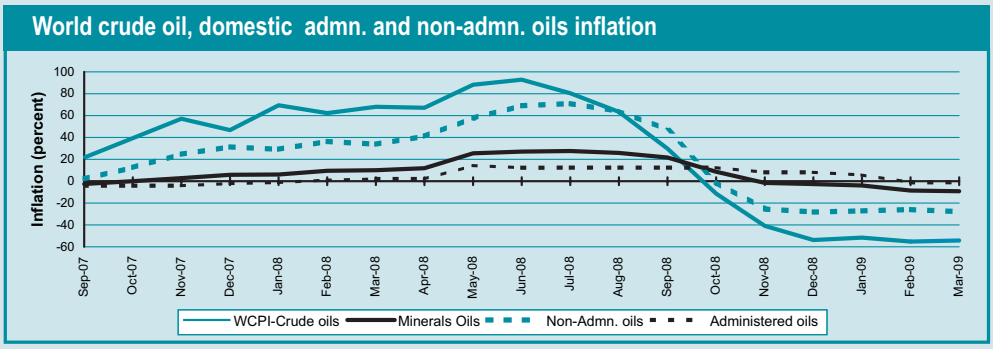
4.42 In sum, factors contributing to increased global prices in the first half of 2008-09 were (i) increased crude oil prices (Box 4.2); (ii) increased demand for food due to the rapid income growth in emerging economies, strong demand from the oil exporting countries and increased biofuel use, together with decreased supply of grains in 2006-07 due to low stocks and droughts; (iii) higher cultivation costs caused by higher input prices and shipping cost of landed products; (iv) increased prices of metals, following rise in demand from the emerging economies and slower growth in supplies due to lower investment and delays in bringing new capacities.

4.43 In the second half of 2008, world prices of major agricultural commodities fell much faster and farther (in excess of 50 per cent from their recent peaks), due to factors such as emergent global financial crisis, halving of world crude oil prices, the dollar appreciation and uncertainty in world agricultural markets. The trends in the WCPI and the WPI are contrasted in Figures 4.4 and 4.5.

Box 4.2 : International and domestic movements in oil prices

The movements in crude oil prices acted as the proximate trigger for the inflation uptrend in 2008. Crude prices peaked above US$ 145 per barrel in mid-2008 due to OPEC output restraints, sluggish non-OPEC supply growth, falling dollar, robust growth in demand in developing countries and investor interest in commodities and then plunged below US$ 60 per barrel in November 2008, on falling demand in industrial countries and dollar appreciation. The uptrend began in September 2007 and the downtrend in July 2008.

Y-o-Y inflation in price indices (%)



***Indices at 1993-94 base.**

Looking at the one-to-one correspondence between global and domestic inflation rates, it is seen that while WCPI inflation in crude oil was over 90 per cent in June 2008, WPI inflation was less than 30 per cent, largely due to administered pricing. The peak inflation rate in administered oils, with a weight of 5.44 per cent in the commodity basket was 14 per cent, while in non-administered oils, it was 69 per cent, with its weight being 1.55 per cent. Therefore, the movements in the WCPI are approximated by the non-administered component in the WPI. Increase in crude oil prices affect other commodities through higher input prices for fertilizers and fuel, long distance transportation cost, increase in energy prices for commodities with energy-intensive production process (metals), higher prices of substitute crude and synthetic products. A 1 per cent pass-through of crude price changes is estimated to impact commodity prices by 16 basis points (John Baffes, August 2007).

Figure 4.4 : World commodity price index (1993-94 = 100)

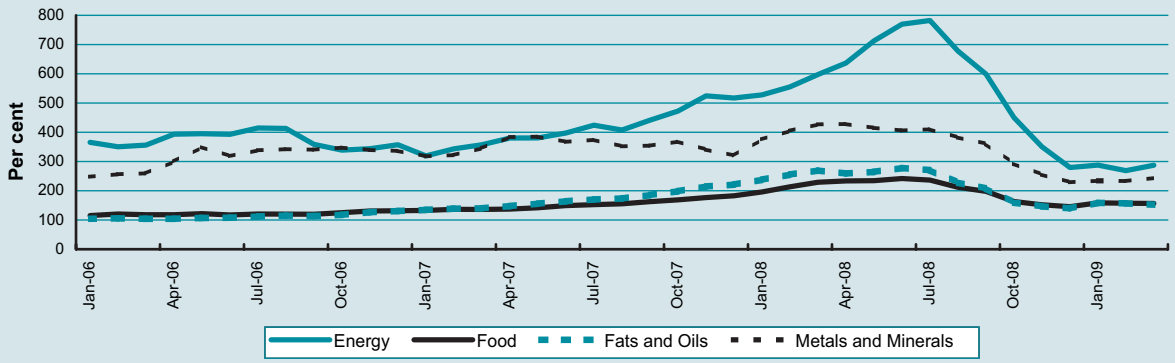
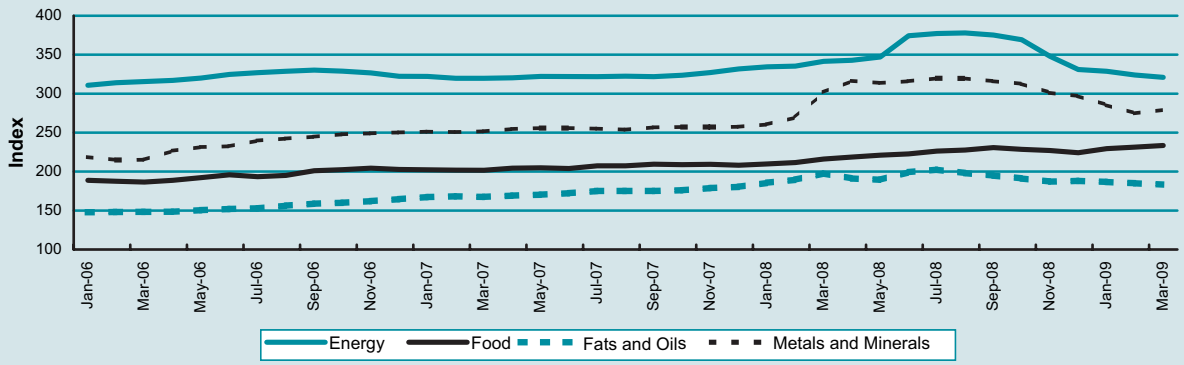



Figure 4.5 : Wholesale Price Index (1993-94 = 100)