

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Hitting Prices and Doubling Burdens: A Fact Sheet of Indian Scenario

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Abstract:

Inflation has become the unlikely mantra of Aam aadmi as they spell every day and then in the recent times. The inflation rate in India was recorded at 8.79 percent in January of 2014. Headline inflation matters most as it is the core inflation that affects the common man. Not only essential goods see a hike, non-essential items would also cost more. Rising inflation has dented consumer spending. Indians are taking defending position by making out purchase of loose and unbranded cereals or by taking advantage of discounted sales. In this case, the people below poverty line are struggling very hard to attain their daily bread and feed the family. Whereas middle-class families are intensely affected and are facing dilemmatic situation in charting their monthly expenditures plans. As inflation shoots them with double barrel guns which couples limited wages and soaring prices of goods makes them lifeless. Adding fuel to the already set fire, the spike in price of products like petroleum products have put up all the more pressure on people which made people to take a walk rather drive. There are multiple factors which has made poor poorer. This paper will discuss on inflation triggered various issues faced by common man in India.

Key words: *Headline Inflation, Aam Aadmi, RBI, Supply and Repo Rate*

1. Introduction

Inflation is stubborn increase price levels of goods and services over a period of time which ties the consumers in making out their purchases. As the goods become costlier they are left with few money reducing their consumption levels. Money loses seen which is unpowered to make variety of purchases. While many of developing economies use Consumer price Index (CPI) as their measuring Index of Inflation, India though uses it for last 2 years, still it is reliant on Wholesale Price Index to measure Inflation. The inflation is measured with the base year revised from 1993-94 to 2004-05. This change has been adopted for the reason that Indian economy have grown in leaps and bounds about 400% before and after 90's. Hence the measurement may not be apt if continued with the same base year.

Number of Commodities & its weightage	Base year			
	1993-94		2004-05	
	In Numbers	Weights %	In Numbers	Weights %
Primary Articles	98	22.025	102	20.118
Fuel & Power	19	14.226	19	14.910
Manufactured products	318	63.749	555	64.972
All Commodities	435	100	674	100

Table 1: Table showing the number of commodities listed in the old and new Wholesale price index and its weightage

Source: Fundsupermarket.com

In recent times, Inflation has become a nightmare for the common man. His daily needs has become luxury items now-a –days denying him to satisfy his basic livelihood. Vegetables, Fruits, Pulses had become out of his reach. Overburdening him with hike in fuel prices, common man's eyes protrude. It's high time to look into the measures to safeguard the Indian Citizen from Inflation.

2. Objectives of the Study

- To understand the region wise current inflationary trends affecting the Indian economy.
- To learn the trends in wholesale and consumer price indices.

- To study the Retail inflation and the Headline inflation in specific which affects the people in large way.
- To study the Monetary policy effect -RBI governor's action & opinion.
- To understand the corrective measures taken by the Government.

3. Research Methodology

This is descriptive as well analytical as it aims at learning the existing stature of inflation and analyses the data to understand the impact of inflation on common man. Data pertaining to Indian Inflation had been collected from various journals and online websites like RBI and analysis has been performed on the data taken. The study covers a period between January 2013 & 14.

4. Data analysis and Interpretation

4.1. Objective 1: To understand the region wise inflationary trends

Though the inflation seems to be cooling up in the last 2 month, it has pinched the common public last few months to a larger extent. Indian annual inflation rate slowed to a 25-month low of 8.1 percent in February of 2014. Provisional figures showed prices of vegetables eased the most on the year. Indian annual wholesale price index decelerated to 4.68 percent, reaching the lowest rate in nine months, as food and fuel prices moderated. But learning the history is much painful.

Indian economy has experienced a huge fluctuation in inflation in the current fiscal year. The rural India had been the most affected category who had been steeply affected by the Food, Fuels and apparels Inflation than the urban category. This mean to say the poor has a struggle to fulfil the basic needs itself.

Category	Rural			Urban			Combined		
	Jan 2013	Jan 2014	Rate %	Jan 2013	Jan 2014	Rate %	Jan 2013	Jan 2014	Rate %
Food & Beverages	127.5	141.1	10.67	126.9	137.3	8.20	127.3	139.9	9.90
Fuel & light	130.6	139.8	7.04	128.8	136.0	5.59	129.9	138.4	6.54
Clothing , bedding & footwear	135.9	149.0	9.64	136.5	147.8	8.28	136.1	148.6	9.18

Table 2: Table showing the region-wise year on year inflationary effect
Source: Ministry of Statistics and Programme Implementation - Central Statistics Office

Southern States	Rural			Urban		
	2013		2014	2013		2014
	Nov	Dec	Jan	Nov	Dec	Jan
Andhra Pradesh	139.4	139.6	137.2	137.5	136.9	136.5
Tamil Nadu	141.4	140.6	139.3	138.8	138.6	138.4
Kerala	138.7	137.9	138.0	140.3	140.5	141.3
Karnataka	142.3	141.1	140.4	140.1	141.1	141.2
Pan India	141.7	140.1	139.3	136.4	135.3	135.0

Table 2.1: To acquaint knowledge on the prevalence of inflation trends on southern states with about all India index

It's found that rural Tamil nadu and Karnataka is closer or above the over India inflation rate throughout the three months. All urban southern states are found to be comparatively higher than Pan India index.

4.2. Objective 2: To learn the trends in wholesale and consumer price indices

Month wise (2013)	WPI (%)	CPI (%)
May	4.58	9.31
June	4.68	9.87
July	5.79	9.64
August	6.10	9.52
September	7.00	9.84
October	7.24	10.17
November	7.52 (highest after September 2012 – 8.1%)	
December	6.16	9.87
January	5.05	8.79
February	4.68	8.1

Table 3: Table showing the month wise Inflationary Wholesale and Consumer Price Index trends
Source: www.tradingeconomics.com and journals

Month/ Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	223.6	224.4	223.1	226.5	227.3	233.9	240.3	251.9	252.7	251.4	254.9	243.6

Table 4: Table Showing the WPI of All commodities for the year 2013

The WPI shows a growing trend over the months. Among all the November 2013 which recorded an inflation rate of 7.52 % (254.9) has been the highest over the months since September 2012 which hit a rate of 8.1%.

4.3. Objective 3: To study the Retail inflation and the Headline inflation in specific which affects the people in large way

India, the third largest economy in Asia, had been experiencing the highest inflationary trends, tough and low growth pressure over the past decade. Low growth and spurring inflation have hindered the emerging economy. The choice of monetary policy has become much dilemmatic and convoluted activity for RBI.

Month	Retail Inflation (%)
October 2013	10.17
November 2013	11.24
December 2013	09.87
January 2014	8.79
February 2014	8.1

Table 5: Table showing the retail inflation
Source: Online journals

The retail inflation has spurred every month. There are bags of reasons containing shortage of supply of products, reduction in supply of factory output, depreciation in rupee value etc. But in the month of December it got slashed due to moderation in food prices. This has reflected both in rural and urban areas

The headline inflation counts the fruits and vegetable spurred in prices. The most attention gaining vegetables were onions, tomato and potato. The staple vegetables found to have prices shooting up in drastic way. In November 2013, onion inflation spiked to 190.34%, but more highlighting had been the September month which recorded a peak of 323%, which disabled Indian consumers to get rid of onion consumption. But though potato had a hike during some seasons, it lost its price due to huge supply. West Bengal government took measures to stock and release them in order to facilitate moderation of supply and maintain price stability. Other Cruel reasons for the hike had been the shelf life of items dropped and wastage increased due to lack of proper storage facilities.

Month	Primary Articles	Food	Fuel & power
June 2013	-	9.74	7.12
July 2013	-	11.91	11.31
August 2013	18.2	11.06	11.3
September 2013	-	-	-
October 2013	14.68	18.19	10.33
November 2013	15.92	19.93	11.08
December 2013	-	9.90	-

Table 6: Table showing the Head line inflation from June to December 2013
Sources: Varied Sources

Month/ Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	214.7	215.4	214.1	219.8	223.1	230.9	238.5	252.4	252.9	251.7	255.9	240.1

Table 7: Table showing the Monthly inflation details of food articles

Month/Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	190.4	190	186.6	206.4	214.5	232.8	254.8	290.6	292.3	282.8	300.3	236.7

Table 8: Table showing the Monthly inflation details of Fruits & vegetable:

Month/Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Onions												
2013	340	377.8	286.6	266.4	268.5	339.1	445.3	723.1	845.6	826.7	782.4	434.3
Tomato												
2013	155.7	141.8	145.1	-	-	-	-	373.1	365.1	374.4	503.5	334.7
Potato												
2013	171.2	159	146.6	172.7	206.1	213.3	232.7	224	212.9	231.4	317.9	270.8

Table 9: Table showing the Monthly inflation details of most popular staple products
Source: Central statistical office

The food articles found to be very high during August- September 2013 fuelled by Onions prices. The fruits and vegetables had experienced a spur during November 2013. But better measures helped in reducing the dosage. Onions were found to be too costlier during September, whereas tomato & potato had been draining the pockets of common man during November month last year.

Commodities	Rate of inflation for the last 6 months					
	2013					2014
	August	September	October	November	December	January
Vegetables	80.96	91.15	80.20	97.72	57.33	16.60
Potato	(15.25)	(12.28)	0.17	34.99	54.65	21.73
Onions	272.54	335.88	293.29	201.15	39.56	6.59

Table 10: Table showing the Trend of Rate of Inflation of selective food items during last six months
Source: Ministry of Commerce & Industry Office of The Economic Adviser website

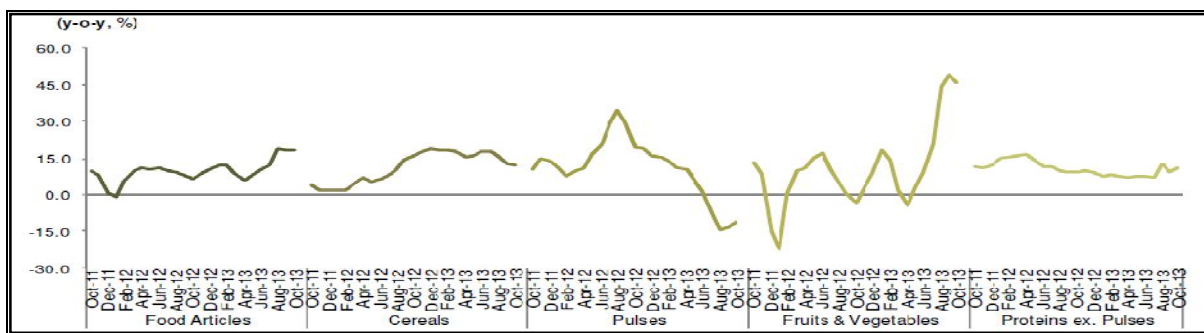


Chart 1: Vegetable prices pushed up the food inflation
Source: Ministry of Commerce and Industry, CRISIL Research

4.4. Objective 4: To study the Monetary policy effect -RBI governor’s action & opinion

The RBI’s monetary policy has gained much momentum after the arrival of the new Governor Mr. Raghuram Rajan. He has come out with 5 monetary policies.

Date of release	Policy highlight
28 Jan	Central Bank raises monetary policy rate
18 Dec	RBI keeps key policy rate unchanged
29 Oct	RBI raises key policy rate, continues to scale back emergency measures
07 Oct	Reserve Bank of India scales back liquidity tightening
20 Sep	Central Bank raises policy rate and eases exceptional liquidity measures

Table 11: Table showing the monetary policy effects

Date of release	%					
	Bank Rate	CRR	SLR	Repo Rate	Reverse Repo Rate	MSF
28 Jan	9.00	4.00	23	8.00	7.00	9.00
29 Oct	8.75	4.00	23	7.75	6.75	8.75
07 Oct	9.00	4.00	23	7.50	6.50	9.00
20 Sep	9.50	4.00	23	7.50	6.50	9.50

Table 12: Table showing the changes in the monetary tools adopted by RBI

Though the Cash reserve ratio has been kept stable in order to curb the inflationary effects, RBI made its policy dearer. It hiked the repo rate by 25 bps in the month of October and January respectively. It also had similar implication on reverse repo rate. The marginal standing facility (MSF) had been reduced from 9.50% to 9% during September – October in order to meet the crunch in banking sector. In order to reduce volatility and curb the excess volatility RBI has gone for a hike during January 2014 to 9.00% from 8.75% of October 2013.

4.5. Objective 5. To understand the measures taken by Government

As the headline inflation have killed the confidence, Government took some fruitful measures. Shortage in onions was troublesome, thereby Government laid a temporary ban on export of onions as well imported 300 tonnes in the first lot, as well permitted to import 24000 tonnes this year.

But fuel prices could not be kept under control, as the permission for fixing prices by the oil companies was in full zeal, they decided to go for monthly price hike, which has fuelled the inflation to a greater extent.

5. Findings & Suggestions

Fiscal measures will act as an aid for controlling inflation. Encouraging agriculture to boost supply of staple items becomes crucial. Providing farm subsidies for promoting such products will help in improving the status quo. The food grains wastage is found to be very high. Preventing such losses could be done through enabling proper warehousing facilities which will enable stable prices and constant supply throughout the year. RBI encourages to reduce excess consumption, reduce fiscal deficits and promote investment & competition. Inappropriate price adjustments have led to more burden in combating inflation.

6. Conclusion

The Government could be appreciated for the effective efforts taken to revive growth, narrow the current account deficit, and meet fiscal targets. It is understood Sole dependence on RBI will not ensure a total control on Inflation. Demand and supply condition of money could be controlled by the Central bank. It is responsibility of government to ensure the adequate supply of goods and services. Most of the products go waste due to improper infrastructure and warehousing facilities. The inflationary problems got a temporary solution but to ensure price stability which is one of the major macroeconomic goal government should focus on agriculture, infrastructure and proper fiscal policies to ensure a peaceful life for the common man. Only, the above will certify the Aam Aadmi his daily bread and better livelihood.

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