

FOOD INFLATION HIGHER IN URBAN AREAS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

There has been a sudden change in trend so far as food inflation is concerned, in the current financial year, for urban and rural areas, the Economic Survey said, highlighting higher food inflation in urban areas.

“Since July 2019, urban areas have registered much higher food inflation when compared to rural areas. Divergence in rural-urban food inflation in 2019-20 was mainly led by cereals, eggs, fruits, vegetables etc.,” the economic survey said.

Headline inflation has been consistently higher for urban areas since July 2018, which is in contrast to the earlier experience, and the divergence has been mainly due to differential rates of food inflation between rural and urban areas.

“The slide in rural inflation could be because of a fall in the growth of real rural wages,” the survey said.

The report further noted that the divergence in rural-urban inflation was not just observed in the food component, but also in other components like clothing and footwear.

“The decline in rural inflation in items like clothing and footwear, fuel and light could be due to fall in growth of real rural wages, while rise in rural price index for items like education, health, personal care, etc., also raises the question of affordability of these items to the rural segment,” the survey said.

Strong effects

Observing that food and fuel inflation in India have had strong secondary effects leading to persistence in household inflation expectations, the report said one way to check for the presence of secondary effects of food and fuel inflation was to look at the swiftness with which headline inflation converged to core inflation after the occurrence of a food or fuel price shock.

The report cautioned that if headline inflation did not completely revert to core inflation within a reasonably short span of time, it may indicate the presence of strong secondary effects.

“The reversion of headline inflation to core inflation has considerable implications for the conduct of monetary policy in an inflation targeting framework. In an economy with strong secondary effects, monetary policy may have to be tighter in an event of a food or fuel price shock compared to an economy where such effects are minimal,” it said.

Subscribe to The Hindu digital to get unlimited access to Today's paper

Already have an account ? [Sign in](#)

Find mobile-friendly version of articles from the day's newspaper in one easy-to-read list.

Enjoy reading as many articles as you wish without any limitations.

A select list of articles that match your interests and tastes.

Move smoothly between articles as our pages load instantly.

A one-stop-shop for seeing the latest updates, and managing your preferences.

We brief you on the latest and most important developments, three times a day.

*Our Digital Subscription plans do not currently include the e-paper ,crossword, iPhone, iPad mobile applications and print. Our plans enhance your reading experience.

To continue enjoying The Hindu, You can turn off your ad blocker or Subscribe to The Hindu.

[Sign up for a 30 day free trial.](#)

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

crackIAS.com