

Taming the prices during the pandemic

Kiran Kumar Kakarlapudi¹ P S Renjith²

¹ Assistant Professor, Gulati Institute of Finance and Taxation, Thiruvananthapuram

² Assistant Professor, Gulati Institute of Finance and Taxation, Thiruvananthapuram

While the price does matter for all, rising price or inflation hits the poor hardest. In simple terms, the price of a commodity is determined by its demand and supply, and a market is said to be in equilibrium when the quantity demanded matches the quantity supplied. Evidently, the COVID-19 induced lockdowns impacted both supply and demand. The lockdown disrupted production and impacted the supply of goods and services on the one hand and loss of jobs and closure of businesses impacted demand on the other. Left to the market, under such supply and demand shocks the prices could be highly volatile and negatively affect the consumers. In situations such as this, state interventions could help regulate the prices to a large extent. How has Kerala fared with respect to managing the inflationary pressures? This study analyses the price trends of Kerala before the COVID-19 and during the months of the pandemic in comparison with the national average and other southern states. To present the emerging patterns in Kerala at the aggregate level, the Consumer Price Index (CPI) data published by the Ministry of Statistics and Program Implementation (MOSPI) from June 2020 to October 2020 has been used. At the disaggregate level, price bulletin data provided by the Department of Economics and Statistics, Government of Kerala has been used.

Kerala in comparative perspective

Kerala has been showing higher prices than the national average as well as all the southern states particularly from 2017-18 through 2019-20. In 2017-18, prices were nearly 40 percent higher in Kerala (6.0%) as compared to the national average (3.6%). Though the difference narrowed over the next two years, Kerala maintained high prices in 2019-20 (see Table 1).

A disaggregate analysis of prices across rural and urban areas revealed that prices in rural Kerala were higher than urban Kerala while for all India and other southern states the trend was just the opposite. In 2019-20, the inflation in rural Kerala was 6.6 percent and that of

urban Kerala was 5.4 percent. On the contrary inflation in rural India was 4.3 percent as compared to 5.6 percent in urban India (see Table 1).

Table 1. Trends in consumer prices (%)

Year	Kerala	Andhra Pradesh	Karnataka	Tamil Nadu	Telangana	All India
Total						
2017-18	6.01	3.4	3.01	4.94	3.86	3.59
2018-19	4.94	1.08	3.32	3.67	2.59	3.41
2019-20	6.14	3.54	5.57	5.72	4.53	4.77
Rural						
2017-18	6.75	3.95	3.16	5.44	4.57	3.6
2018-19	5.01	0.04	2.63	4.05	2.56	2.99
2019-20	6.55	2.2	5.03	5.31	2.31	4.25
Urban						
2017-18	4.67	2.4	2.86	4.55	3.27	3.58
2018-19	4.76	3	3.91	3.44	2.6	3.92
2019-20	5.38	5.93	6.03	5.99	6.42	5.38

Source: Author's calculation using MOSPI data.

The pre-COVID-19 patterns in prices seem to have reversed in Kerala during the pandemic. Though there is an increasing trend in prices from June to October both in Kerala and all India, prices in Kerala have been lower than the national average for all the months (see Table 2). There has been an almost one percentage point difference between Kerala and all India prices. In fact, prices in Kerala have been lower than in all the southern states except Karnataka (see Table 2). Further, as opposed to the pre-COVID trend, prices in rural Kerala were lower than urban Kerala from July to October while for all other southern states prices in rural areas were found to be higher than urban areas (see Table 2). The price difference between rural Kerala and urban Kerala has been over one percent during July, August, and September, although the difference reduced in October 2020.

Table 2. Consumer prices in Kerala and the other south Indian states from June to October 2020 (in %)

Year	Kerala	Andhra Pradesh	Karnataka	Tamil Nadu	Telangana	All India
Total						
Jun	5.17	7.99	5.5	6.64	7.8	6.23
Jul	5.82	7.42	5.34	7.14	7.96	6.73
Aug	6.52	7.78	4.99	7.06	8.38	6.69
Sep	6.21	8.93	5.43	7.71	9.54	7.27
Oct	6.51	10.03	6.05	8.04	10.37	7.61

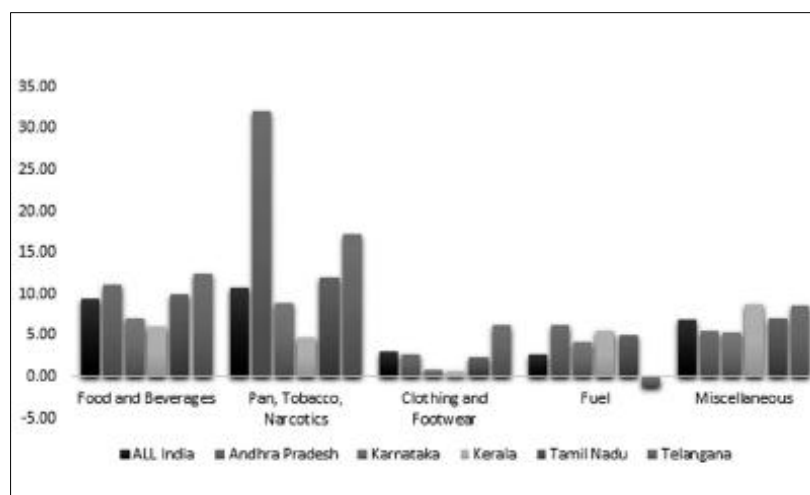
Year	Kerala	Andhra Pradesh	Karnataka	Tamil Nadu	Telangana	All India
Rural						
Jun	5.32	8.43	5.89	7.15	8.24	5.17
Jul	5.37	7.78	5.85	7.04	7.98	5.82
Aug	6.2	8.32	5.59	6.5	9.21	6.52
Sep	5.89	9.55	5.96	7.2	10.8	6.21
Oct	6.45	10.5	6.51	7.74	11.98	6.51
Urban						
Jun	5	7.2	5.12	6.32	7.37	6.12
Jul	6.66	6.7	4.83	7.3	7.88	6.7
Aug	7.17	6.81	4.48	7.48	7.71	6.8
Sep	6.92	7.95	4.99	8.08	8.43	7.26
Oct	6.76	9.18	5.68	8.26	9.05	7.4

Source: Author's calculation using MOSPI data.

Behind the turnaround

Further, the sources of trend reversal observed at the aggregate level are analyzed through the patterns of price changes across broad commodity groups. Following the general trend, the CPI index shows an increase in the prices of food and beverages over the three months. However, the change in CPI index for food and beverages is lowest in Kerala (6.1%) among other south Indian states from August to October (see Figure 1). Moreover, this increase is lower in rural areas than urban areas only in Kerala while other south Indian states show a faster increase in food prices in rural areas than urban areas. Kerala's low rise in food and beverage prices during the months of the pandemic could be attributed to the state's intervention in ensuring the supply of essentials for all the households, particularly for BPL cardholders. An estimated 87 lakh families in Kerala have been the beneficiaries of food supply kits. Although the other states have provided food supplies, it was restricted to the months of lockdown only. Among the other major commodity groups, clothing and footwear have shown the lowest changes in prices presumably because of the reduced demand for non-essential consumer durables like clothes and footwear. However, it is important to note that the price change in the miscellaneous category is the highest in Kerala among all other south Indian states as well as national averages.

Figure 1: Consumer prices according to broad commodity groups, August 2020 to October 2020 (average in %)



Source: Author's calculation using MOSPI data.

Commodity matters

The analysis thus far reveals the success of Kerala in curtailing the inflationary pressures during the pandemic, especially in essential commodities. This is on account of lower prices in some items as compared to the national averages. Interestingly, a mixed trend has been observed in the retail prices of the major commodities when compared with that of the last months. The monthly average prices of rice and sugar registered a negative growth rate from July to October 2020. The emerging trends suggest prices of four commodities namely vegetables, pulses, eggs, and oil are of concern for the consumers.

At the disaggregate level, the state average retail prices of rice varieties (Red Matta, Red Chamba, and Andhra Vella) remain almost unchanged during the period. While the state intervention could check prices in the case of cereals, there is limited scope for controlling the prices of pulses as India has been a net importer of pulses. Among the other food items, a notable price variation was seen in the case of eggs and oil during the period. In the case of vegetables, the average retail price shows a mixed trend. Some of the locally produced vegetables like banana green, tomato, lady's finger, and ash guard, registers a negative trend during the period (see Table 3) as the state incentivized producing them during the pandemic. However, other commodities like onion (big and small), cabbage, bitter guard, brinjal, and snake guard showed a positive trend. While some of these commodities are beyond the control of the state, others have the scope for increasing production domestically. Though the

government has initiated floor prices for 16 agricultural commodities effective from 1st November 2020 (The Hindu, 2020) to incentivize local vegetable production to meet the growing demand, more efforts are required to combat the growing demand for these commodities.

Table 3: Significant changes in consumer prices in Kerala from July 2020 to October 202

Commodity	Unit	Percentage variation previous month			Percentage variation previous year
		20-Aug	20-Sep	20-Oct	
Black gram split with husk	Kg	1.64	-0.37	6.77	25.97
Dal (Tur)	Kg	1.54	2.62	13.46	18.18
Egg (Hens) White lagoon	Dozen	10.25	8.25	9.55	23.15
Refined oil	Ltr.	-0.25	2.51	7.98	22.13
Onion small	Kg.	2.13	20.06	37.47	42.46
Colocasia	Kg.	4.1	-4.4	-11.34	-13.03
Onion big	Kg.	13.2	64.78	80.59	33.8
Brinjal	Kg.	5.24	3.46	6.52	1.37
Lady's finger	Kg.	30.7	19.79	-19.49	6.53
Cabbage	Kg.	10.63	11.63	41.19	51.05
Bitter gourd	Kg.	6.15	6.99	20.45	24.73
Tomato	Kg.	-12.64	33.45	-21.92	-5.02
Banana green	Kg.	22.65	18.42	-25.03	-23.71

Source: Author's calculation using Kerala Price Bulletin

References

- GOI (2020), Ministry of Statistics and Program Implementation, *Consumer Price Index*, Downloadable from-<http://164.100.34.62:8080/Default1.aspx>
- GOK (2020), Department of Economics and Statistics, *Price Bulletin 2020*, Downloadable from-<http://www.ecostat.kerala.gov.in/index.php/price-trends-in-kerala/price-bulletin>
- The Hindu (2020), *Kerala fixes base prices for 16 agricultural items*, October 21, 2020, accessed from <https://www.thehindu.com/news/national/kerala/base-prices-for-16-agricultural-items/article32910560.ece>