

# Altering food consumption patterns adding to inflation risks

**MAY 2023**

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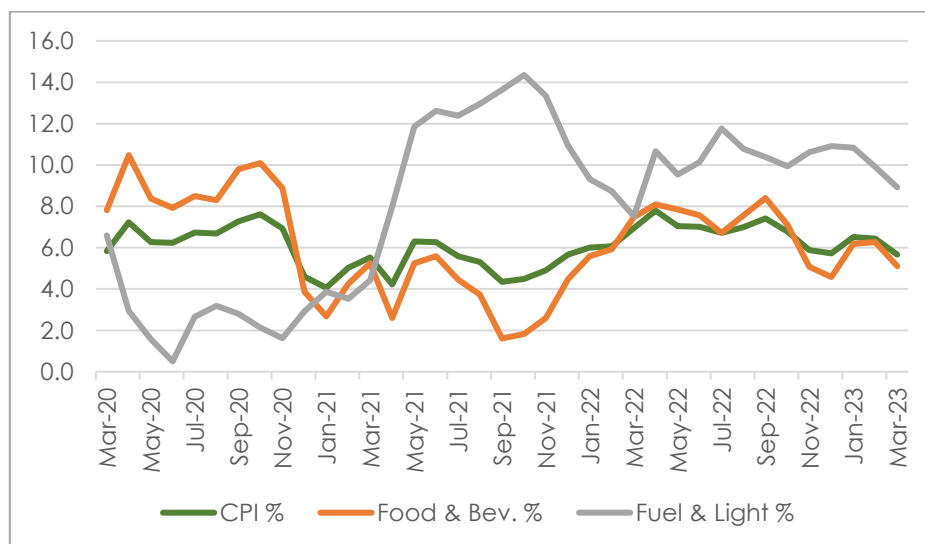
## Altering food consumption patterns adding to inflation risks

### Inflation in meat, eggs and milk averaged 5.7% in India over the last 3 years

Perhaps no other time in world history has witnessed such intense deliberations on inflation as in the last one year. The inflation levels in 2022 in both developed and emerging economies have seen a multi-decadal high. The reasons are not far to seek – the unprecedented supply chain disruption in the wake of a once in a century global pandemic followed by the conflict in Ukraine and the economic sanctions on Russia. The peak headline inflation print in US and other advanced economies threatened to cross double digits in 2022, necessitating a strong dose of hawkish monetary policy which has raised interest rates by several hundred basis points and that process may not be over yet!

India has an inherent vulnerability to inflationary risks given the high dependence on crude oil imports and the volatility in its prices. While global crude oil prices (Brent) had seen a bottom of USD 26/bbl during the onset of the Covid pandemic in Apr'20, it started to recover steadily with the revival from the global disruption and reached a high of USD 115/bbl in May'22. Higher fuel prices gradually found its way into the domestic economy along with higher prices of certain food commodities where there are significant import dependencies such as edible oil and pulses. From a low of 4.3% in Sep-21, the headline CPI inflation rose sharply to 7.8% in Apr-22 due to such cost push pressures along with the pickup in domestic demand after the pandemic.

**Chart 1: India Inflation - Over the Pandemic**

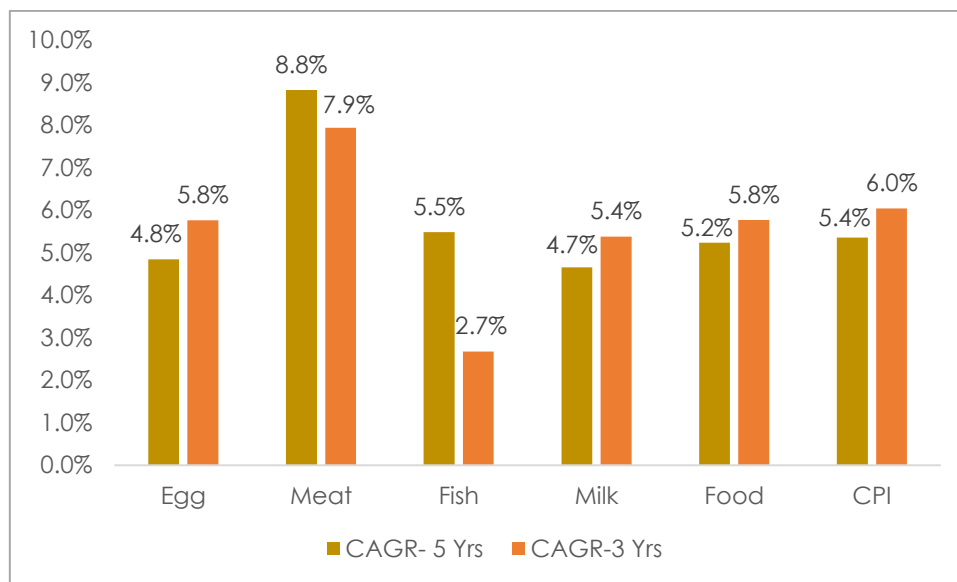


Needless to say, the headline inflation in India is highly correlated with the variations in food and the fuel prices, as can be in the chart above. The average weightage of food (excluding beverages) in the overall CPI basket stands at 39.1% with the respective weightages for urban and rural areas at 29.6% and 47.2% respectively. While there is an ongoing debate on whether such weightages represent the current consumption patterns accurately, there is no doubt about the impact of increased food prices on the per capita savings of the overall Indian population.

With the gradual rise in per capita income in India, there has been a steady increase in the consumption of protein items particularly in the animal protein category i.e. egg, meat, fish and eggs. Various studies in the past have highlighted the structural inflation challenges in this category due to such secular rise in demand and the inability of supply to match up to the former, despite the consistent efforts of the government.

Acuite Research undertook an analysis to understand the impact of the Covid pandemic on animal protein inflation. These food items constitute a significant 10.65% of the overall consumption basket split into the following - **Egg (0.43%), Meat (2.35%), Fish (1.26%) and Milk (6.61%)**. The higher weightage on milk and its products is understandable given the food habits of an average Indian whether vegetarian or non-vegetarian.

**Chart 2: Average Inflation: 3-5 Yrs.**



Through and beyond the pandemic period i.e. (Mar'20-Mar'23), the average inflation in the key animal protein categories has been well above 5.0% except for fish. The overall weighted inflation in this group stands at 5.67% in this 3 yr period. The highest inflation in this category has been in meat at 7.9% followed by eggs at 5.8% and then milk at 5.4%. We believe there are a host of factors which continue to account for the upward pressure in the prices of these products.

The first and foremost is clearly the steady rise in demand for animal protein with the growth of per capital income in the economy and importantly, the gradual changes in food habits of Indians. Increasingly, "eating out" has caught on among the middle income groups, offering a wide range of cuisine options and even during the Covid lockdown period, the consumers had easy access to food choices through the popular food delivery portals. While we have a long way to go before per capita protein consumption reaches anywhere near the levels in developed nations, the uptrend is here to stay and will increasingly reflect the impact of a global and cosmopolitan culture.

Secondly, the supply chain in the agricultural and the animal husbandry value chain continues to be afflicted by structural inefficiencies which expectedly, got aggravated during the pandemic period. Lack of adequate storage and transportation infrastructure has been a bane for the producers of perishables and has proved to be a constraint in the development of an efficient pan India market for such goods. The production eco-system for livestock and poultry in India also needs an overhaul in the lines of the co-operative structure which has been fairly successful in the case of the dairy sector, enabling India to be the largest milk producer in the world. The central government has taken several initiatives to improve productivity in this sector including investments in storage infrastructure but as always, proper implementation will be the key to the supply challenges.

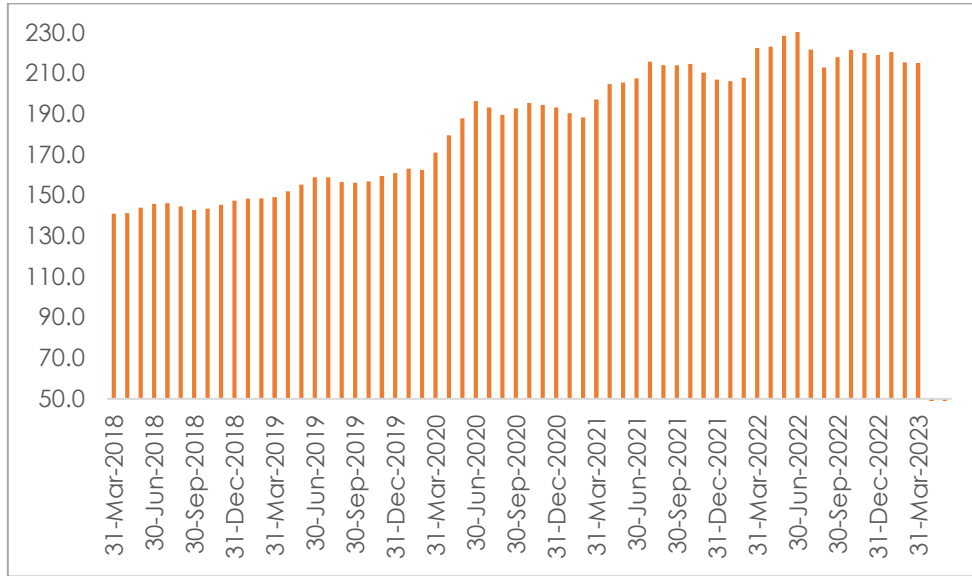
One of the specific issues further affecting the recent productivity in the livestock, poultry and the dairy sector has been lower availability of fodder and the consequent rise in their prices. The increased cereal inflation on the back of lower than expected harvest in the previous year has contributed to the shortage of animal feed; the producers and the farmer organizations have tried to pass on the increased costs to the final consumer.

Milk and milk products' inflation in India has almost doubled from 4.7% YoY in Mar-22 to 9.3% YoY in Mar-23. Apart from the generic supply chain and the fodder availability issues, milk production in India has also been hit by the outbreak of the Lumpy Skin Disease among cattle. The disease not only led to the death of an estimated 75,000 cattle but also lower milk output from the infected animals across several states. Experts say that the productivity of cattle has also been adversely impacted by the undernourishment that happened during the Covid lockdown period. Even the poultry sector suffers from the outbreak of bird flu that leads to culling and significant losses; of late, the frequency of such outbreaks have increased.

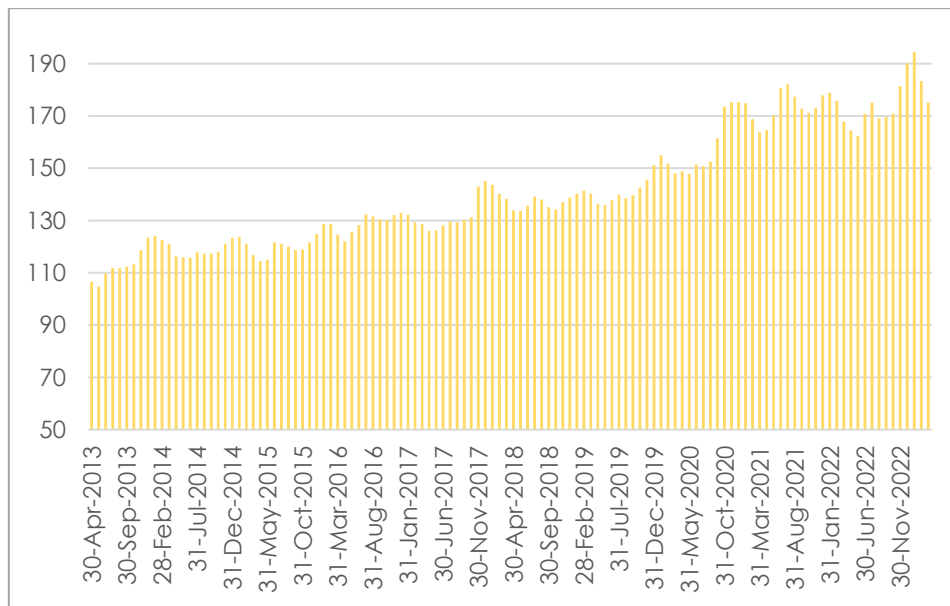
Given the steadily increasing share of animal protein products in the overall food basket, the Government will need to give adequate attention to its production and price stability as it does for farm produce such as cereals and pulses. Large scale imports of these farm products is clearly not a long term option due to the political sensitivity around it and India's relatively high trade deficit. Necessary reforms and investments in the livestock, poultry and the dairy sectors will have to be facilitated to enhance productivity in partnership with the private sector wherever feasible. Importantly, these agriculture allied sectors have intrinsic vulnerability to climate and disease risks and therefore, appropriate risk management measures have to be in place to mitigate the impact of such adverse events.

**Annexure: Charts**

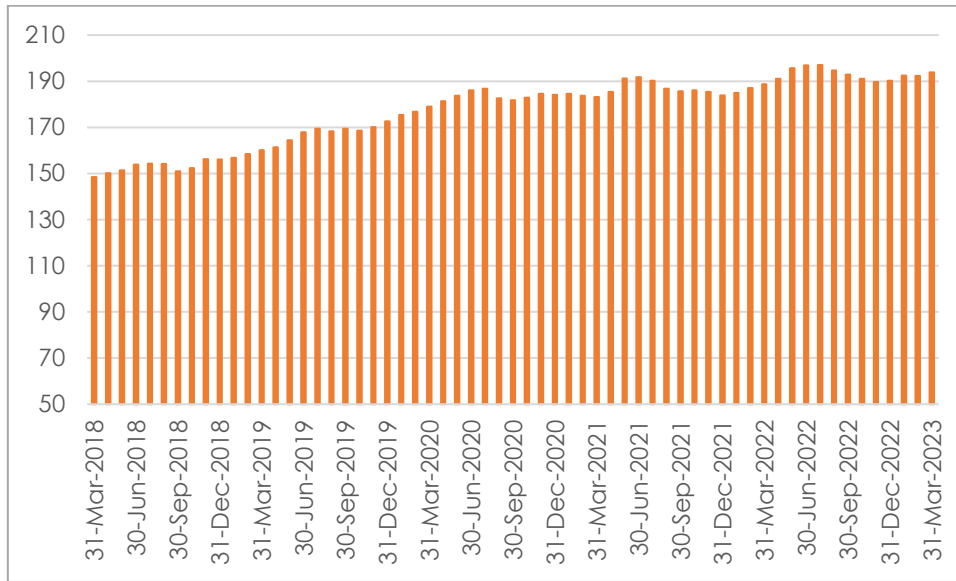
**Chart 3: 5 Yr trend in Meat Prices**



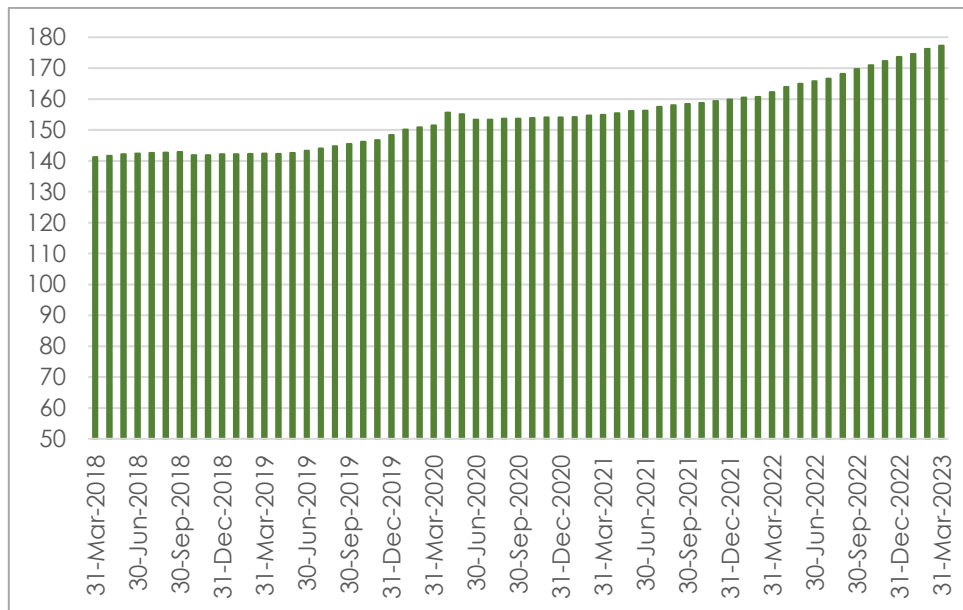
**Chart 4: 5 Yr trend in Egg Prices**



**Chart 5: 5 Yr trend in Fish Prices**



**Chart 5: 5 Yr trend in Milk Prices**



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