

## **Rising inflationary pressures in Kerala**

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### **1. Introduction**

Among many adverse effects, the COVID-19 pandemic has led to an unprecedented rise in global inflation in 2021 and 2022, mainly fuelled by surging prices of crude oil and other commodities. According to data from the World Bank, there has been a notable increase in consumer price inflation, rising from 3.5% in 2021 to 8.3% in 2022. The recent publication of IMF's World Economic Outlook (2023) shows that 84 countries are expected to lower inflation in 2023. Global inflation is expected to fall from 8.8 per cent in 2022 to 6.6 per cent. To arrest the demand side factors, governments across the world have been following restrictive monetary policies. After experiencing a steep price rise during the pandemic, India's Consumer Price Index - Combined (CPI-C) inflation rate decreased from 6.2% in FY 21 to 5.5% in FY 22. Nonetheless, it remained high compared to the pre-pandemic period due to high inflation in 'oils & fats', 'fuel & light' and 'transport & communication' (Economic Survey, 2023). Though inflationary pressures have been reducing, the emerging concern is higher rural inflation in India. Monthly data shows that rural inflation was more significant than urban inflation for 11 months in the 2022-23 FY. Higher rural inflation is due to an increase in food prices. The main distinction in calculating inflation rates between rural and urban areas lies in the weights for food and beverages. In rural regions, the food and beverage sector alone constitute approximately 54.18 per cent of the Consumer Price Index (CPI) basket. Conversely, in urban areas, this sector carries a weight of 36.29 per cent, representing slightly over a third of the overall consumption basket. This divergence in weightage is due to

the inclusion of housing price trends in the CPI index for urban areas, while such trends are not incorporated in the rural areas index. Consequently, rural consumers are more vulnerable to food inflation compared to their urban counterparts, and this is precisely what has occurred.

Kerala had shown exemplary performance in reversing the price trends during the pandemic when the country was reeling with inflationary pressures through active state intervention (Renjith and Kakarlapudi, 2021). The distribution of ‘food kits’ in Kerala contributed to arresting food prices, and this resulted in lower rural inflation than urban inflation since food has the highest weight in rural areas. This contrasted with other southern states, where urban prices were lower than rural prices during the same period (Kakarlapudi & Renjith, 2020; 2021). This article analyses the recent price trends in Kerala compared to other South Indian states. The critical question is, since the food-kit distribution was withdrawn many months ago, are the rural prices rising faster than urban prices in Kerala? Additionally, the article conducts a component-wise analysis to identify the factors that contribute the most to rural and urban CPI inflation in Kerala.

The analysis has been carried out using monthly Consumer Price Index (CPI) data provided by MOSPI. The period for the analysis starts from the second quarter of 2021 since the price trends during the pandemic have been extensively covered by Kakarlapudi and Renjith (2021) and Renjith and Kakarlapudi (2022). The analysis covers eight quarters from July-Sep (Q2) 2021-22 to Q1 2023-24, the latest quarter covers data for only two months.

## **2. Price trends in Kerala: A comparative analysis**

Kerala maintained the lowest inflation among all the South Indian states till 2022-23 Q1 and lower inflation than the national average till 2022-23 Q4 (Table 1). It is evident that Kerala successfully arrested inflationary pressures by distributing food kits. However, inflation in Kerala has been gradually rising from 2021-22 Q3 to 2022-23 Q4, while at the national level, there is a southward trend in inflation from 2022-23 Q1. Apart from Tamil Nadu, all other states have shown a downward price trend. The gap between Kerala’s and India’s inflation has systematically reduced from 2021-22 Q4. Kerala’s inflation was almost 30 per cent lower in 2021-22 Q4, and it narrowed to almost zero in 2022-23 Q4. Most importantly, Kerala’s inflation though declined marginally to 5.03 per cent in 2023-24Q1, is now higher than the national average (4.48 per cent). For the first time since the COVID-19 pandemic, Kerala’s

inflation recorded higher than the national average, indicating trends similar to the pre-pandemic situation.

<b>Year</b>	<b>All India</b>	<b>Andhra Pradesh</b>	<b>Karnataka</b>	<b>Kerala</b>	<b>Tamil Nadu</b>	<b>Telangana</b>
2021-22 Q2	5.08	6.51	6.57	3.84	5.97	7.56
2021-22 Q3	5.01	5.29	5.93	3.78	5.76	6.54
2021-22Q4	6.34	5.44	5.67	4.35	4.72	7.06
2022-23 Q1	7.28	8.18	6.34	5.10	5.39	9.51
2022-23 Q2	7.04	7.37	5.18	5.84	5.62	8.49
2022-23 Q3	6.12	7.11	4.87	6.02	6.03	8.17
2022-23 Q4	6.20	7.60	5.56	6.18	6.77	8.25
2023-24 Q1*	4.48	4.30	3.84	5.03	5.09	5.39
Source: Author's calculation using MOSPI data						
*Average of April and May 2023						

A comparison of Kerala's inflation with its southern counterparts reveals a similar trend. Kerala's post-pandemic inflation rate was lower than most of the southern states. During the second quarter of 2021, Kerala experienced an inflation rate that was 96% lower than Telangana and 71% lower than Karnataka, which had the highest inflation rates among the southern states. However, by the fourth quarter of 2022, Kerala surpassed Karnataka in terms of inflation numbers, and the relative gap between Kerala and Telangana decreased to 48%. In fact, the gap in inflation between Kerala and all other southern states declined consistently over the quarters. In the latest quarter (2023-24 Q1), Kerala recorded the highest inflation than Karnataka and Andhra Pradesh and marginally lower than Tamil Nadu and Telangana. The emerging inflation trends in Kerala are alarming as they pressure the people.

### **3. Shift in inflationary pressures**

The previous research has shown that Kerala had higher rural inflation than urban areas before the pandemic, and during the pandemic, rural inflation was lower (Kakarlapudi and Renjith, 2020). However, rural inflation in Kerala has gradually increased since 2022-23 Q1 and surpassed urban inflation. Interestingly, other states started showing higher inflation after 2021-22 Q3, except in Karnataka, where rural inflation has been higher than urban inflation since 2022-23 Q3 (Table 2). The decline in inflation at the aggregate level for India was due to a faster decline in urban inflation until the latest quarter (2023-24 Q1).

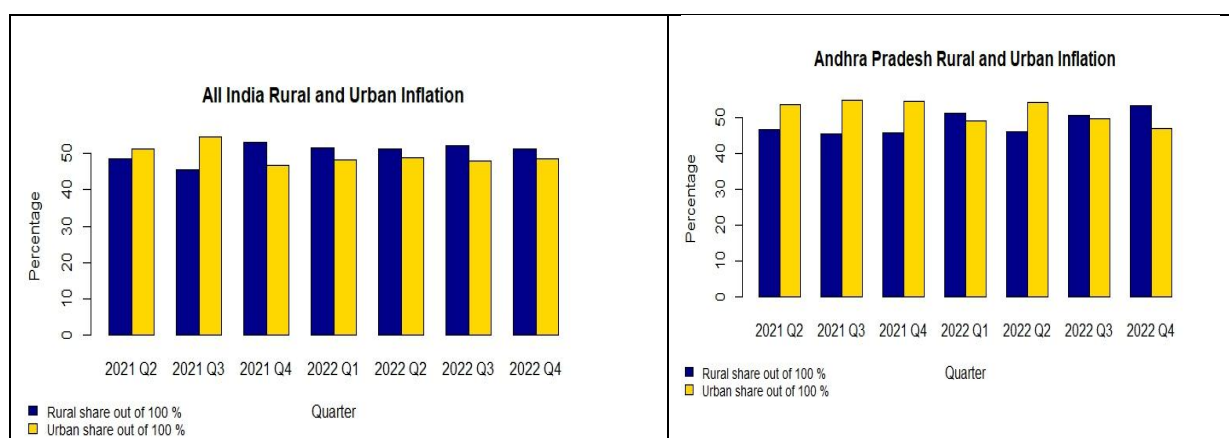
Table2: CPI in rural and urban areas in %						
Year	All India	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu	Telangana
<b>Rural</b>						
2021-22 Q2	4.97	6.17	5.61	3.62	5.68	9.18
2021-22 Q3	4.57	4.9	4.85	3.17	5.22	6.48
2021-22Q4	6.72	5.07	5.06	3.88	4.91	7.87
2022-23 Q1	7.52	8.32	5.66	4.82	5.63	10.54
2022-23 Q2	7.17	6.91	4.69	5.84	5.69	8.34
2022-23 Q3	6.37	7.19	4.9	6.14	6.47	8.7
2022-23 Q4	6.36	7.98	5.83	6.37	6.9	8.47
2023-24 Q1*	4.43	4.13	3.91	5.16	5.04	4.86
<b>Urban</b>						
2021-22 Q2	5.24	7.07	7.4	4.22	6.17	6.24
2021-22 Q3	5.49	5.9	6.83	4.95	6.12	6.6
2021-22Q4	5.92	6.04	6.22	5.21	4.59	6.38
2022-23 Q1	7.01	7.94	6.89	5.72	5.24	8.6
2022-23 Q2	6.83	8.15	5.6	5.81	5.57	8.6
2022-23 Q3	5.85	7.02	4.86	5.75	5.75	7.75
2022-23 Q4	6	6.98	5.32	5.82	6.65	8.08
2023-24 Q1*	4.56	4.64	3.83	4.79	5.11	5.89

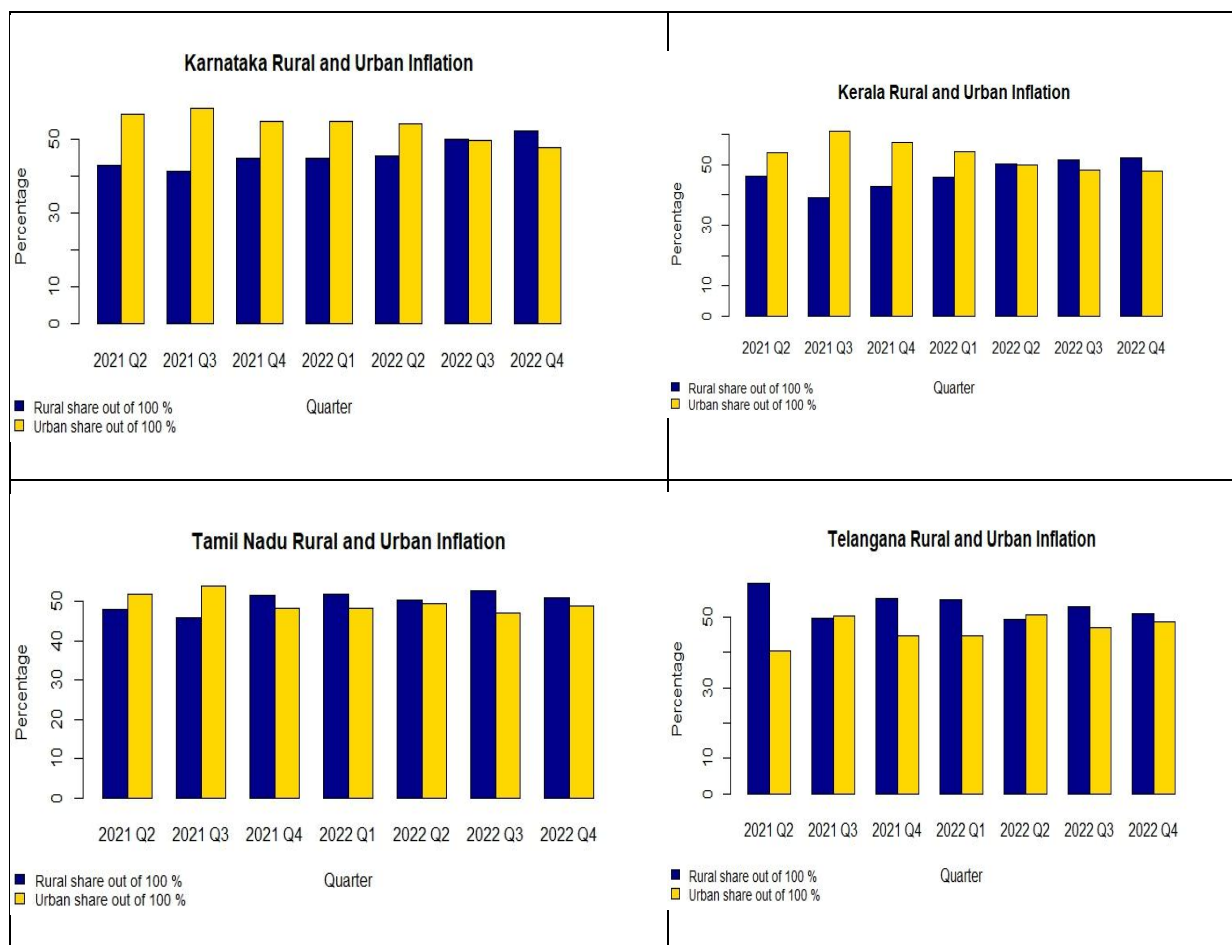
*Source: Author's calculation using MOSPI data*

*\*Average of April and May 2023*

In Kerala and other South Indian states, urban inflation gradually declined, while rural inflation increased. A faster decline in rural inflation drives the observed decline in inflation across the states. For example, Andhra Pradesh showed a 3.85 per cent decline in rural inflation while urban inflation declined by 2.34 per cent. Similarly, in Telangana, the decline is 3.61 per cent and 2.19 per cent, respectively. It is important to note that Kerala registered the lowest decline in inflation in the latest quarter, both in rural and urban areas (Table 2).

**Figure 1: Rural-Urban Inflation (in 100%)**





Source: Authors calculation using MOSPI data

In the second quarter of 2021, rural inflation accounted for 48% of the total inflation. However, in the subsequent quarter, its share decreased to 38%. From the fourth quarter of 2021 onwards, the proportion of rural inflation in the total inflation of Kerala started to rise steadily. It surpassed 50% by the last quarter of 2022, as illustrated in Figure 1.

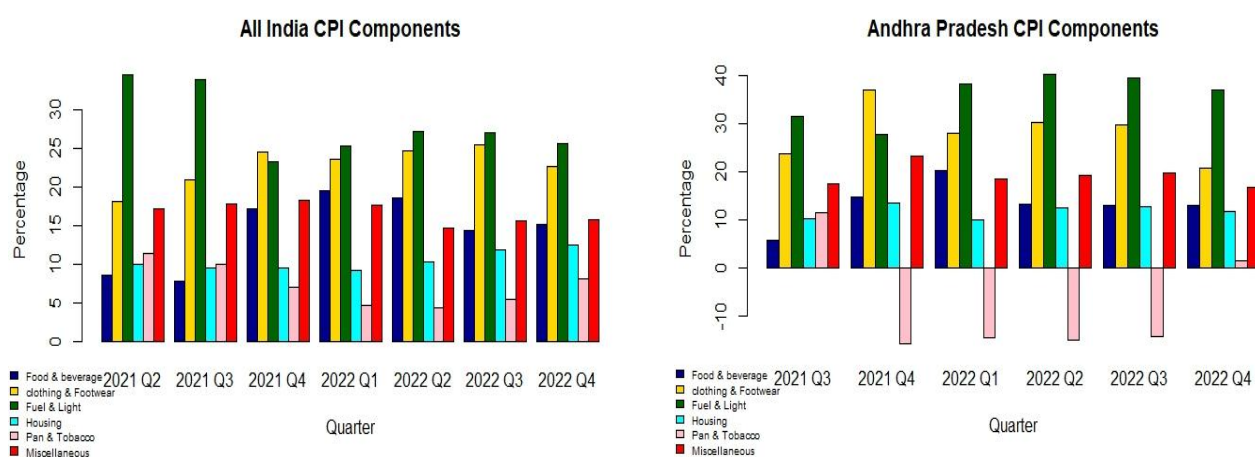
In India, the shift towards rural-driven inflation became evident much earlier in the last quarter of 2021, with rural inflation reaching more than 50%. Subsequently, rural inflation consistently outpaced urban inflation with minimal fluctuations. This trend was also observed in other southern states. By the fourth quarter of 2022, rural inflation took the lead in all southern states except Telangana. Interestingly, Telangana experienced a decline in the share of rural inflation starting from the second quarter of 2021 (see Figure 1)

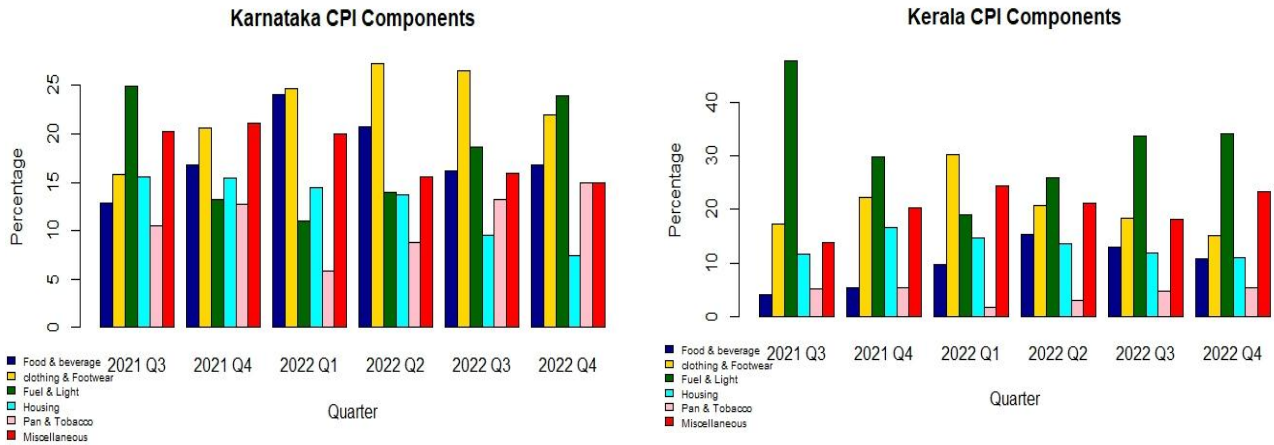
#### 4. Composition of inflation

Food inflation has been the key driver of inflation during the pandemic. The relative contribution of food inflation to overall inflation has reduced in 2021-22 compared to the

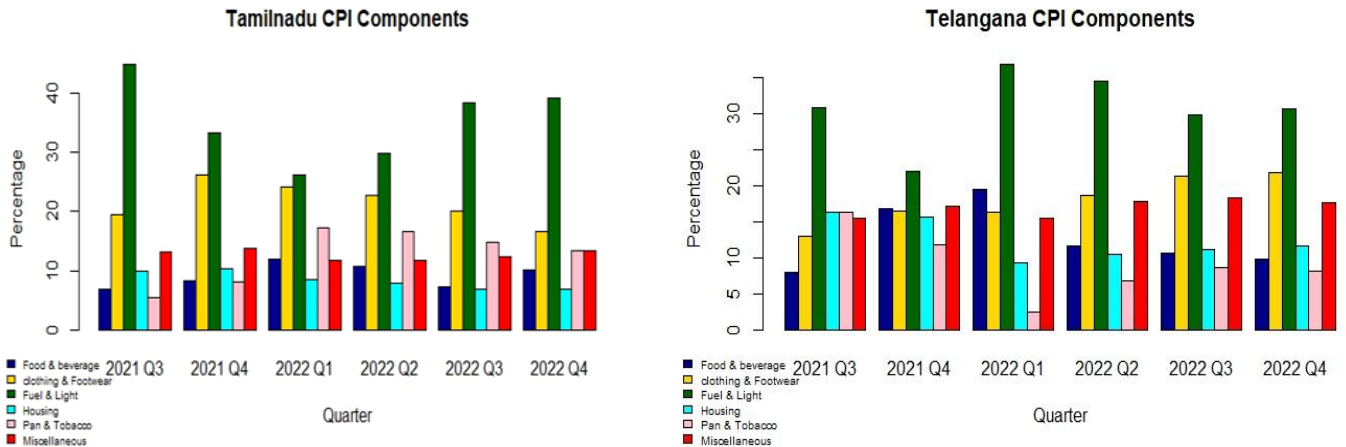
previous fiscal. States that have been able to control food prices during the pandemic through fiscal policies have successfully tamed inflation. In the advent of rising rural inflation across states as well as in Kerala, Figure 2 shows the drivers of overall inflation. Fuel and light inflation are the highest in India and in all the South Indian states. This could be due to Russia Ukraine war and also disruption of supply chains, fuel prices increased dramatically. The next component with highest inflation is clothing and footwear. This should be seen as an outcome of pent up demand as people's movement was restricted. Post pandemic, there has been a lot of demand for clothing and FMCG products. At the national level, food inflation showed an increased trend till 2022Q1 followed by a decline thereafter. A similar trend could be observed in all the South Indian states with varying levels. As shown in the previous studies, food inflation in Kerala has been the lowest during the pandemic. Notwithstanding a marginal increase in 2022Q2, Kerala's food inflation is still the lowest and Karnataka shows relatively higher food inflation among the comparators. In Kerala, inflation of miscellaneous commodities accounts for a large proportion of inflation after fuel which is different from other states where clothing and footwear registered high inflation.

From the trends thus far, it could be concluded that miscellaneous commodities are playing a major role in increase in inflation in the recent past since accounts for second highest weight in the commodity basket.





**Figure 2 : CPI Components, Combined series (in 100%)**



Source: Authors calculation using MOSPI data

### 5. Conclusion

Since 2021, there has been a global increase in consumer prices, leading to a devaluation of money and a gradual erosion of wealth. In India, the Consumer Price Index (CPI) has shown a decrease in inflation in FY 22 but remains elevated compared to the pre-pandemic period. However, the inflation pattern in the state of Kerala differs from the national average and other southern states. During the pandemic Kerala has experienced lower rural prices compared to urban prices, which was contrary to the national trend. This can be attributed to proactive state intervention and the supply of essential goods during the pandemic. However, in the post-pandemic phase, the inflation pattern in Kerala has undergone changes.

A study on Kerala's CPI inflation in the post-pandemic phase reveals some noteworthy findings. The inflation gap between India and Kerala has been narrowing since the second quarter of 2021-22, and Kerala's inflation rates surpassed the national numbers by the first quarter of FY 24. Among its southern counterparts, Kerala is the only state which has consistently experienced a rise in CPI inflation since the second quarter of FY 22. A closer analysis of inflationary pressures in Kerala reveals that since the third quarter of FY 23, rural prices have replaced urban prices as the driving force behind the inflation rates in the state. Food inflation remains low for Kerala and its inflation is primarily driven by higher prices of fuel and light followed by miscellaneous products. These observations indicate a reversal in the inflation trends in Kerala, resembling its pre-pandemic phase.

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