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Rising prices all around

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Inflationary pressures are building up.

India, which registered for the fiscal year 2012-13 a growth rate of 5 percent, the lowest in ten years, is reeling under inflation.

Its wholesale price index (WPI), India's chief gauge of inflation has been rising steadily for past seven months: 6.5 percent in September, the highest so far, preceded by 6.1 percent in August. Part of the inflation is attributed to a near 25 percent fall in the value of Indian currency between May and August. Although inflation is due to shortage of domestically produced vegetables and fruits and other products, businessmen blame it on tightening of liquidity.

The new governor of India's central bank raised in September the key interest rate to 7.5 percent from 7.25 percent. The objective was to halt further fall in the value of Indian currency and for keeping inflation under check. Until last week, there were hopes of big agricultural output by November from the good monsoon. The production estimates will be revised downwards soon in the wake of destruction of farm lands in the paddy growing eastern parts of India by cyclone Phailin last weekend.

It looks the Reserve Bank of India would not be in any hurry to adopt an easy money policy. Lower interest rates would only help unscrupulous traders to hoard food grains.

News from China

They are no different. Consumer price level rose 3.1 percent in China in September, due to increase in food prices caused by fall in production because of droughts and floods in some regions. China faces the same dilemma faced by Reserve Bank of India. The concern is more with containing inflation. The high risk of inflation has come in the way of adopting an expansionary monetary policy.

Last year, China's growth rate was at its lowest in 10 years: 7.7 percent. In normal times, there would be reduction in interest rates. China's central bank would now prefer to avoid any risk, since inflation is likely to hit the upper limit of 3.5 percent. Home prices have already recorded a 9.0 percent rise.

Global conditions

The latest report says New Zealand is bouncing back after scraping through one of the worst droughts on record. The drought reduced dairy production by 15 per cent, which resulted in the biggest drop in 25 years. At one time, it was feared that Pacific island economies could be affected by drought conditions in New Zealand. The fears have now receded.

The summer of 2012 witnessed a major drought in the United States but prospects for a rebound in cereal supplies to record levels have reversed the price trend this year. However, unexpected supply shocks always render food prices vulnerable.

The UN Food and Agriculture Organization (FAO) says global food prices are not expected to fall much further after dipping to their lowest level in three years in September. Although there was a sharp fall in the cost of cereals, the forecasts are prices of dairy, meat and sugar would be rising. The FAO reduced its forecast for world cereal output in 2013/14 to around 2.5 billion tons, 3 million tons lower than the previous estimate. The forecast for world wheat output was also cut to 704.6 million tons from 709.8 million. Exportable supplies in major wheat exporting countries were tighter compared with last year. A new supply shock could have a strong impact on international prices.

Pacific islands

Papua New Guinea (PNG)'s central bank in its September 30 monetary policy statement is worried about the inflationary impact of a weakening kina. Kina depreciation is consequent to decrease in capital inflows following the near completion of its US$19 billion liquefied natural gas project. Similar to the Indian experience, kina currency depreciation has led to rise in prices of imports. Since PNG depends on food imports to a larger extent, the consumer price index has started rising rapidly. There are now the familiar calls for greater investment in agriculture, which one hears whenever the currency weakens.

As for Fiji, Reserve Bank of Fiji's September economic review is optimistic. It notes that annualised inflation rate was 2.5 percent in August. It is expected by December end, annual inflation will be below the target rate of 3 percent.

However, with hikes in fuel prices this week, the situation would be changing. Prices of petroleum products went up between four to eight per cent. Price of cooking gas rose by six per cent. The price hikes reflect the rise in world crude oil prices, which are quoted in US dollars. In June, it was US$ 103.2, in July US$ 107.7 and in August US$111.0 per barrel. Since Fiji dollar depreciated against US dollar, there is a double whammy effect on the prices of petroleum products.

Already bus companies have started making appropriate sounds for increasing fares. Transportation costs of agricultural products, vegetables and fruits to urban centers will eventually go up.

We may be heading for a costlier holiday season.