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Winter of 65: Onion, beer, petrol on a par

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Mumbai: The recent sharp rise in onion prices, which went beyond Rs 60 per kg in several parts of the country, also coincided with rising petrol prices due to the spike in the price of crude globally. What ensued was a curious phenomenon: Probably this was the first time in India's history when the price of onion, a basic necessity, was on a par with the prices of petrol and beer.

This phenomenon has now forced broking house analysts and economists to look at the reasons for the recent jump in onion prices and its effect on inflation.

Four officials from IDFC's institutional broking arm recently travelled to rural Maharashtra—Pimpalgaon and Lasalgaon—the largest onion market in Asia, to understand what has led to this sudden spike in the price of onions and if there was a chance for it to come down anytime soon. The report by IDFC Institutional Securities, titled 'Onion Rs 65/Kg, Petrol Rs 65/ Lt, Beer Rs 65!', says contrary to popular belief that onion traders were hoarding up on supplies, the main trigger for the rise in prices was unseasonal rain in October that destroyed crops in Maharashtra, the biggest onion producing state in the country, and led to a severe drop in yield per acre of land.

This, in turn, prompted onion farmers to treble the prices at which they sell to the traders. Another reason why the hoarders did not succeed was that the variety of onions harvested in October-November perish faster than the ones harvested during the middle of the year, the IDFC report pointed out.

The bad news for the common man and the policymakers alike is that onion prices are unlikely to fall to the prespike levels for two reasons.

Farmers are expected to maintain a higher price to create a safety net against crop failures.

And secondly, since stakeholders within the whole onion supply chain have seen that consumers bought onion at prices over Rs 60 per Kg, they will try to maintain higher prices even if supply is restored to earlier levels.

There's further bad news: The unseasonal rain that hit the onion crop, also affected tomato and red grapes, and the prices of these two could also shoot up soon.

"While government interventions in terms of export bans are likely to provide temporary relief to consumers, the threat of sustained long-term inflation is likely to stay," the IDFC analysts, Nikhil Vora, Sanjay Panicker, Varun Kejriwal and Nikhil Salvi, noted in the report.

In a recent report, the broking arm of HSBC said India's December WPI inflation other vegetables and fruit prices due to weather-related crop destruction.