

Onion Prices in India 2019-20: A Case Study

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Abstract

This Case Study deals with the sharp increase in the prices of the onions between December of 2019, and January of the following year, 2020. The rise in the prices of onions made people stop consuming onions for a certain period of time. The purpose of this case study is to differentiate comparisons between the related agricultural markets and to provide insights into the magnitude of supply-demand causalities. Along with the recommendations to the government towards the short term and long term interventions in the Onion Prices.

Keywords: Demand, Supply, Production and Consumption

1. Introduction

The examination of the onion sector of India's agricultural market between November 2019 and January 2020 is roofed in the selected case study "India is Shedding Tears over the Sudden Rise in Onion Prices." The average retail price of onions in March 2019 was recorded to be Rs 15.87 per kilogram as compared to Rs 165 per kilogram in January 2020. As a result, onion consumption has decreased across nearly all economic classes and groupings of people in India, as well as in the food, hotel, and restaurant businesses and food industry. This case study also assimilates various heterogeneous factors that are influencing the aggregate market equilibrium and suggest differently and at times contradictory ways of coming out of the sudden increase in the

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onion price crisis explained with the help of illuminated graphs and finally followed by a conclusion.

2. Objectives of the case study

It analyses to differentiate comparisons between the related agricultural markets and find the differences and similarities which drive both commodities and prices.

It explains the direction and magnitude of supply-demand causalities and extrapolates them on similar types of situations in the markets.

3. Addressing the Key Issues: Indian Onion Prices

The primary concerns will be addressed in the following case study, with a focus on general trends and the variables that contribute to the situations, as well as an illuminated graphical depiction of the market in two major points: No shocks and No intervention and Shocks and No intervention.

3.1. The Economic Analysis of the Indian Onion Market

There are various factors that keep impacting the supply of onions in the Indian Onion Market almost once every year which happens in the absence of proper storage facilities of commodities and along with the absence of buffer stocks. The factor determining a relatively weaker supply is the low-level productivity as compared to the scope of production available in India. This is reflected extensively in the factors of low yields, high storage losses, and decreased viability of the crops. There are also some unexpected shocks to supply due to the heavy rainfall which damaged 40% of the crop in Maharashtra and the South Indian states, the prolonged monsoon season, a fungal disease affecting the onion crops, locusts, with sudden floods in the parts of Gujarat etc.

The onions are being used extensively in a very large quantity in the day-to-day cooking recipes of the Indian families and societies, for the household's practices, hotels and restaurants business, etc. There are various health benefits and merits of onions consumption for human health; thus, it is being used for the manufacture of

medicines and drugs, which results in the high demand for onions in the market. As mentioned in some of the referred articles that only a certain low percentage substitutes onions with some products like cauliflowers, pumpkins or cabbages on a limited number of occasions, therefore it has a relatively small impact on the aggregate consumption level, with a little change in price eventually.

3.2. Onion Market in case of Normal Circumstances with No Protection Measures

The onions are the commodity that is vastly used by the Indian households, restaurant and food industry and it has no closer substitutes to which the consumers can switch in case of an upsurge in prices, as the situation raised at the beginning of 2019's winters. This resulted in the quantity demanded of onions not so largely affected by its price therefore in Economics such a situation is referred to as an "inelastic demand". That can be represented graphically by a steeper demand curve, where it shows that the equilibrium position on the Indian market for onions is shown below as:

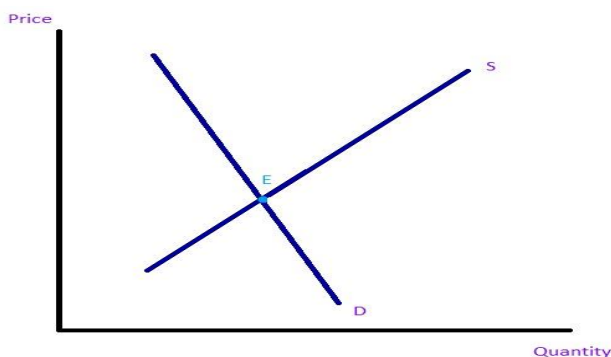


Figure 1

In the above-given figure, point E represents the equilibrium consumption of the market. Due to the shape of the depicted demand curve, it is visible that for inelastic demand, high changes in price cause small changes to targeted quantity. Thus, the potential winners are the producers of onions, as they are having more market power over the prices of onions, and consumers will lose the consumer surplus significantly in any kind of unfavourable market fluctuations.

3.3. Onion Market in case of Exceptional Circumstances With No Protection Measures

The beginning of the winter of 2019 resulted in the negative factors ascribable to the onions supply was later supplemented by supply shocks. This caused the supply curve to shift towards the left direction. As shown in the figure below:

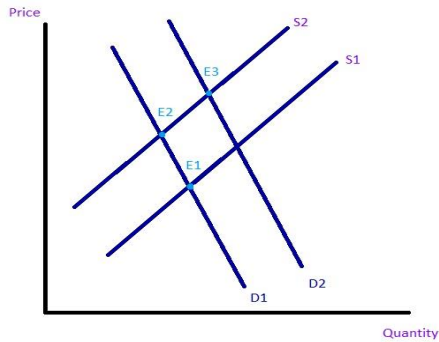


Figure 2

Conjectures and speculations around onion prices and expectations of higher prices drove the demand curve towards the rightward direction, which escalated the prices of onions further. Inelastic Demand gave supply shocks which made an adverse effect on prices partially, as onions consumption couldn't get substituted with other types of goods. In this situation, it is difficult to express that there are no winners except the "hoarders", which resulted in producers undergoing significant losses because of natural calamities and heavy downpours. Thus, producers had to give away some bigger part of their income to pay for their onions, of that they could only buy some fewer quantities.

4. The recommended policy advice for the Indian Government as of February 2020 for Short term interventions in Onion Prices

In short term, as the crises in the onion market begin to come up in a greater way, the Indian Government intervenes with tons of measures. The Indian policymakers are advised to determine one formalized marketplace for selling onions within the market. The policymakers decided to subsidize the onion consumption within

the country by releasing an enormous amount of funds to financially benefit the National Agricultural Cooperative Marketing Federation (NAFED). It'll help the producers of onions and they are going to be ready to plan and forecast the demand for his or her product and a fractional a part of the storage losses and thus going to be eliminated. This intervention viewed from the side of the consumer exemplifies that the supply shocks are going to be made mild by the above-mentioned practices and thus prices won't reach such high and unexpected peaks. Lowering the minimum export prices could reverse the selling channels from external markets to domestic consumers.

The negative influences of this might increase the uncertainty of the financial channels of producers, which can result in low production in future. Hence, in case the volatility on the market gets high, it might be justified to introduce temporary subsidies for onion consumption. This might result in a temporary rise in onion consumption until the situation gets back to normal.

5. The recommended policy advice for the Indian Government as of February 2020 for Long term interventions in Onion Prices

After inspecting the recommendations made for long term interventions, the government of India must eliminate the existence of the supply-demand gap within the domestic market, preferably through promoting higher efficiency of productions of onions throughout the country. This problem can be eliminated by introducing modern fertilizers, making people aware of the modern agricultural techniques and latest technological equipment into the farming processes. Government should introduce a comprehensive program of educating and teaching the country's farmers on the factors of accelerating the onion yields, like the newest research findings on yield optimization, nuances of handling the relevant technologies, specific characteristics of the soils and educating farmers about the changes in the atmospheric conditions and the right time for the harvesting onions etc. Also, as discussed in the case study Indian onion harvests are subject to excessive storage losses. This problem can be addressed by investing in India's warehouse infrastructure, which may also

result in a beneficiary for storage facilities for other agricultural commodities and products. As noted by scholarly research, implementing high-quality warehouses into the farming practices can function a tangible boost to the efficiency indicators of such a farm in the case of onions in India (Ramaswami, 2007), cold storage facilities would be helpful to optimize the warehousing processes of such a highly perishable commodity as the Indian onion varieties because of production at various states and their own climatic conditions. We know that, as mentioned, the economic viability of the crop is claimed to be influenced by pest and some fungal diseases infestations which tangibly hinder the indications of the economic viability of the crop. These efficiency hindrances are often countered, as an example, by using improved methods of crop disease protection or introducing the practices of organic farming as an agricultural method. If the Government of India is going to implement any of the mentioned long terms measures, it will be later expected that the productivity of onions in India will grow more towards an upward direction. The future estimated effect would therefore be reflected within the shift of the demand curve towards the rightward direction. In a nutshell, it will subsequently result in the shift of the existing equilibrium at a higher equilibrium quantity and lower price.

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