

LABOUR MIGRATION & INFLATION IN SOUTHERN STATES: ECONOMY

NEWS: Migration of labour from low-income states resulting in higher inflation in Kerala, TN: SBI study

WHAT'S IN THE NEW?

Labour migration from low-income states to high-income states like Kerala and Tamil Nadu is driving inflation, particularly in food prices, due to increased demand from migrant workers. The higher purchasing power of migrants is contributing to inflationary pressures in these southern states, as highlighted in the SBI report.

Impact of Labour Migration on Inflation in Southern States

- **SBI Report Highlights:**
 - A recent **State Bank of India (SBI)** report suggests that **labour migration** from **low-income states** to **high-income states** is a significant contributor to **higher inflation** in the **southern states**, such as **Kerala** and **Tamil Nadu**.
 - The migration is increasing the demand for goods and services in these richer states, which, in turn, drives up prices, especially in food and other essential items.
- **Inflation Trends:**
 - India's **Consumer Price Index (CPI)**-based inflation moderated to **3.6%** in **February 2025**, largely due to a decrease in food and vegetable prices.
 - However, inflation in larger states, particularly in the **southern states**, continued to exceed the national average. This indicates that while overall inflation rates were moderated, certain regions experienced **persistently high inflation**.
- **Regional Inflation Trends:**
 - **Southern States:** Key items such as **vegetables**, **cereals**, and **pulses** have shown a **significant increase in prices** in these states, contributing to higher inflation rates.
 - **North-East and Western Regions:** These regions have experienced **relatively lower inflation** compared to the southern and eastern parts of India. This contrast highlights the varying inflationary pressures across the country.
- **Post-Pandemic Inflation Trends:**
 - Between **FY21 and FY25**, inflation in the **North-East** declined by **3.4%**, while the decline in the **South** was lower at **2.6%**. This difference suggests

that southern states are facing persistent inflationary pressures even after the pandemic.

Factors Contributing to Inflation

- **Taxation and Inflation:**
 - **Southern States** have **imposed higher taxes** on key items such as **petrol/diesel, liquor, and vehicle registrations**, which could be contributing to higher inflation in these regions.
 - These taxes increase the **cost of living** for residents, contributing to **inflationary pressures**. Southern states contribute the **largest share (30%)** of India's total sales tax collection, highlighting their significant role in national tax revenues.
 - The **higher tax burden** in southern states could be affecting the purchasing power of consumers and driving up the prices of goods and services.
- **Labour Migration and Inflation:**
 - **Labour migration** from **low-income states** to **high-income states** (such as those in the south) has been linked to higher inflation in the richer regions.
 - As people migrate, they bring higher **purchasing power** into these states, which increases demand for goods and services, pushing up their prices.
 - The **influx of workers** and their families also **increase the demand** for housing, food, healthcare, and other essential services, further exacerbating inflation.
 - The **SBI report** highlights that this migration, coupled with **higher wages** in the south, acts as a **demand shock**, putting pressure on local economies and driving **food price inflation**.

Consumer Price Index (CPI) Overview

- **Definition:**
 - The **Consumer Price Index (CPI)** is a comprehensive tool used to measure price changes in a **basket of goods and services** representative of the consumption expenditure in an economy.
 - It serves as one of the most significant **economic indicators**, providing insights into the **cost of living** and inflation trends within an economy.
 - The CPI is typically based on a **weighted average** of prices, with more importance placed on goods and services that constitute a larger portion of household expenditures.
- **Types of CPI:**

- There are four types of **CPI** that are commonly used in India:
 1. **CPI for Industrial Workers (IW)**: This index tracks the price changes in goods consumed by industrial workers.
 2. **CPI for Agricultural Labourers (AL)**: This CPI monitors the price movements of items consumed by agricultural laborers.
 3. **CPI for Rural Labourers (RL)**: This focuses on the price movements of goods consumed by rural laborers.
 4. **CPI (Rural/Urban/Combined)**: Compiled by the **National Statistical Office (NSO)**, this CPI includes data from both rural and urban areas, giving a comprehensive view of inflation across the entire country.
- **Compilation:**
 - The first three CPI categories (IW, AL, RL) are compiled by the **Labour Bureau** in the **Ministry of Labour and Employment**.
 - The **CPI (Rural/Urban/Combined)** is compiled by the **NSO** in the **Ministry of Statistics and Programme Implementation**, which aggregates data from rural and urban areas to reflect national trends.

SBI's Forecast and Economic Outlook

- **SBI's Outlook on Inflation:**
 - **SBI** forecasts that **inflation** in India will remain **benign**, with expectations of a **cumulative rate cut of at least 75 basis points** in the upcoming policy cycle. This suggests that inflation is expected to remain under control, aided by easing food prices.
 - The focus on **food prices**, especially in high-demand areas like **vegetables** and **cereals**, will play a critical role in determining the overall inflation trends in the coming months.

Conclusion

- The **SBI report** indicates that **labour migration** from low-income states to higher-income regions like **Kerala** and **Tamil Nadu** is contributing to increased inflationary pressures, particularly in food prices.
- The regional disparities in inflation reflect differing economic conditions and the impact of **migration**, **taxation**, and **demand shocks** in high-income states.
- **CPI data** remains a crucial tool for tracking inflation trends across various sectors, and the government's focus on controlling inflation will continue to shape policy actions, including interest rate cuts.

Feature	Wholesale Price Index (WPI)	Consumer Price Index (CPI)
Definition	Amounts to the average change in prices of commodities at the wholesale level.	Indicates the average change in the prices of commodities at the retail level.
Publishing Office	Office of Economic Advisor (Ministry of Commerce & Industry)	National Statistical Office
Commodities	Goods only	Goods and Services both
Inflation Measurement	First stage of a transaction	Final stage of a transaction
Prices paid by	Manufacturers and wholesalers	Consumers
Types of Commodities Covered	Manufacturing inputs and intermediate goods like minerals, machinery, basic metals, etc.	Education, communication, transportation, recreation, apparel, foods and beverages, housing, and medical care
Base Year	2011-12	2012

Source: <https://www.thehindu.com/business/Economy/migration-of-labour-from-low-income-states-resulting-in-higher-inflation-in-kerala-tn-sbi-study/article69351909.ece>