

## Agri Outlook: August 2012

### Summary

*The overall prospects for kharif output this year appear to be faltering further given the progress of the monsoon and the limited time span available for recuperation. The IMD has already officially signalled a deficient monsoon for the year which comes at a time when the overall economic situation is gloomy: low industrial growth, high food inflation, fiscal pressures, depreciating rupee and tight policy stance. The RBI has already lowered growth projections for the year to 6.5% from a much higher projection of 7.3% at the beginning of the year. Progress in area under cultivation looks dismal for some crops and the implications for supplies as well as prices are grim.*

### Monsoon Progress

The progress of the monsoon so far has not been satisfactory with a total of 374.1 mm of rainfall being received till August 1<sup>st</sup> as against a normal of 461.7 mm – a deficit of 19%. The comfort of having back-up in the form of irrigation in the northern states has also taken a setback with the reservoir levels being at an all time low which cannot hence, make up for the monsoon deficiency. The regions which have received good monsoon are Telengana, Coastal AP, Vidarbha, West MP, Assam & Meghalaya, Sub-Himalaya, West Bengal and Sikkim with above normal monsoon, while those within the normal range are Andaman and Nicobar, Arunachal, Odisha, Jharkand, East UP, East MP, Rayalseema and Konkan & Goa.

**Table1: Rainfall distribution by Number of Meteorological divisions**

	2007	2008	2009	2010	2011	2012
Excess to normal	31	26	17	31	26	16
Deficit	5	10	19	5	10	20
Total	36	36	36	36	36	36

Source: IMD

Table 1 above provides information on the progress in monsoon as of 1<sup>st</sup> August 2012.

1. Only 16 of the 36 divisions have witnessed normal to excess rainfall.
2. This position is marginally worse than 2009 situation when there was a drought. The outcome will be harsh for the economy. Actual rainfall received during the period June 1-July 31, 2012 across India is only 81% of the long period average (LPA), with north-western India (the food-basket of the country) suffering from nearly 36% deficiency in monsoons until now.
3. The first two months of the monsoon season are critical because sowing of various crops take place depending on the level of precipitation required at this time. Delayed or inadequate monsoon invariably leads to crop shifting or withdrawal from farming – both of which can impact agricultural

production. IMD's forecast outlook for the remaining months, based on rainfall distribution so far, appears grim, with the country likely to record a monsoon deficiency (less than 90% of LPA)

**Table 2: Area under cultivation (July 27, 2012)**

Lkh Hectares				
Crop	Normal	Normal as of date	2012	% Dev from normal
Rice	391.1	199.77	191.06	-4.4
<b>Coarse grains</b>	<b>218.6</b>	<b>160.86</b>	<b>117.48</b>	<b>-26.9</b>
<b>Pulses</b>	<b>109.8</b>	<b>79.82</b>	<b>62.99</b>	<b>-21.0</b>
<b>Oilseeds</b>	<b>178.9</b>	<b>134.45</b>	<b>138.33</b>	<b>+2.9</b>
Cotton	98.7	94.02	97.24	+3.4
Sugarcane	47.4	47.03	52.85	+12.4
Jute/mesta	7.96	8.22	8.29	+0.9

Source: Ministry of Agriculture

Table 2 provides information on area under cultivation so far.

1. Problems may be emerging in case of foodgrains where area under cultivation is lower than the normal. There could however, be some room for pick-up in rice where the normal of date is around half of the total normal for the year. In case of pulses and coarse cereals there is less room to make up.
2. Prices of coarse cereals have already been pressurized in good years of monsoon due to the pick up in demand. A lower production number will have implications for not just prices of these crops but also of animal feed which will put pressure on prices of poultry and dairy products. This has been one major source of food inflation in the last two years.
3. Pulses, as a category of foodgrains are extremely susceptible to output disturbances and this time it does appear that the issue will be grim as the kharif crops, tur, urad and moong are extremely price sensitive given that supplies are augmented through imports and international prices react to these disturbances significantly.

#### Macro-economic impact

- a. A drought will have an immediate impact on kharif output and affect the overall agricultural production, though in the past there has been compensation from the rabi harvest.
- b. Given that most of the kharif and rabi crops are mutually exclusive with little substitutability, the price situation will continue to remain grim.
- c. Lower farm output in kharif season will mean less spending on industrial products during the festival and harvest seasons, thus putting pressure on growth in industry as well as GDP.

- d. Given that food inflation has been the prime concern of the RBI in its policy stance, this will have a bearing on future policy action on interest rates, which have been considered as an important factor that has held back investment.
- e. Further, drought relief measures may have to be undertaken by the government which could lead to loan waivers and interest rate subventions that will impact the fiscal balances.
- f. Also import of pulses and edible oils will put pressure on the trade deficit and the rupee at a time when the economy has benefited from lower crude oil prices. The drought conditions in USA would further put pressure on prices of corn and soy oil in particular, with the latter affecting our trade perceptibly.

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