

Agri Outlook July 2012

Summary

The overall prospects for kharif output this year appear to be fairly shaky presently given the progress of the monsoon and the area under cultivation. While certain crops such as pulses, cotton, sugarcane and jute have progressed well, there is shortfall in acreage for cereals in particular. While there is still time to recoup these early losses, there could be pressure on coarse cereals and groundnut where there is no comfort of a buffer stock with the FCI. Further, there is little comfort to be had from the latest advance estimates for agricultural production which shows higher production in FY12 as the gains have been mainly in rice and wheat.

Monsoon Progress

The progress of the monsoon so far has not been satisfactory with a total of 202.7 mm of rainfall being received till July 11th as against a normal of 262 mm – a deficit of 22%. Some of the problem met divisions which have not received adequate rainfall are Gangetic West Bengal, Kerala (North and South) , Karnataka (North and south interior), Rayalseema, Telengana, Madhya MP, Saurashtra, Kutch and Diu, Bihar, UP (East and West), Western Rajasthan, Tamil Nadu, Himachal, Punjab, Delhi and Uttar Khand. The northern states may still be relatively insulated through irrigation facilities, which are not easily available in the interiors.

Table1: Rainfall distribution by Number of Meteorological divisions

	2007	2008	2009	2010	2011	2012
Excess to normal	29	23	11	23	28	15
Deficit	7	13	25	13	8	21
Total	36	36	36	36	36	36

Source: IMD

Table 1 below provides information on the progress in monsoon as of July 11, 2012.

1. Only 15 of the 36 divisions have witnessed normal to excess rainfall.
2. This position is closer to the 2009 situation when there was a drought. Therefore, the progress needs to be monitored to assess the impact on farm output.
3. The delayed onset of the monsoon has implications for sowing where the possibility of switching crops exists in case the delay is prolonged.

Table 2: Area under cultivation (July 6) and inflation June 2012
(Area in Lkh Hectares and Inflation %)

Crop	Normal	Normal as of date	2011	2012	Inflation (%)
Rice	391.1	72.5	75.1	55.4	7.5
Jowar	32.8	7.9	5.65	3.92	-8.4
Bajra	92.7	21.0	23.0	1.17	10.7
Maize	70.6	23.2	19.28	14.43	6.3
Coarse grains	218.6	56.6	52.0	21.96	
Cereals	609.7	129.0	127.2	77.4	
Tur	37.0	2.3	5.71	6.71	0.54
Urad	23.1	1.07	2.37	2.27	-16.7
Moong	26.3	2.28	2.72	2.85	-5.6
Pulses	109.8	6.7	12.38	13.04	
Foodgrains	719.4	135.8	139.5	90.4	
Groundnut	49.9	14.4	9.42	5.88	21.6
Soybean	92.1	15.9	25.5	19.0	47.1
Oilseeds	178.9	34.78	37.3	26.6	
Cotton	98.7	37.56	42.8	46.6	-15.6
Sugarcane	47.4	45.71	50.3	52.8	-
Jute/mesta	7.96	8.0	8.8	8.2	-7.5
All crops	1052.3	261.8	278.8	224.5	

Source: Ministry of Agriculture

Table 2 provides information on area under cultivation so far.

1. Overall area under cultivation is 14.2% less than the normal at this time of the year.
2. The area sown covers 21.3% of overall normal for the season compared with 26.5% last year.
3. Clearly, the delayed onset of the monsoon and the deficiency in specific geographies has affected the sowing pattern so far.
4. Lower sowing patterns have been observed in case of cereals –rice, bajra, jowar and maize.
5. Sowing has been steady in case of pulses, which is a comfort. However, so far around 11% of normal area only has been covered and the situation could change and hence needs to be monitored.
6. Within oilseeds, while soybean sowing is steady, there is a fallback in case of groundnut. However, inflation in this group appears to be high even today and hence any setback in production this year could exert further pressure on prices.

Price thoughts

While production levels will be a determinant of prices, it must be realized that the government has raised the MSPs of the kharif crops significantly this year which will tend to provide an upward bias to prices. The higher MSPs, though effective for rice and wheat directly through the procurement schemes of the Food Corporation of India, do set benchmarks in the market for other products too. Hence, these higher announced MSPs will tend to exert upward pressure on prices.

Table 3: MSPs announced for 2011 kharif (Rs/quintal)

Crop	2011	2012	Crop	2011	2012
Rice	1110	1280	Jowar	980	1500
Bajra	980	1175	Maize	980	1175
Tur*	3200	4000	Urad	3300	4300
Moong*	3500	4500	Groundnut	2700	3700
Soybean	1650	2200	Cotton	2800	3600

*: recommended by CACP, deferred as of date

How critical is kharif?

Kharif foodgrains account for around half of total foodgrains production and 2/3 of oilseeds production, besides entirely covering the cash crops like sugarcane and fibres. Therefore it is extremely vital for this monsoon-based crop to perform well. Further, food products within the manufactured goods segments such as beverages, edible oils, sugar, milled products etc are monsoon dependent. The same holds for textiles where the performance of the cotton crop provides clue to future progress during the year.

The secondary impact is in terms of the demand provided for industrial goods from this sector. Higher farm incomes translate into better demand for consumer durable goods and automobiles.

How may we look at the fourth advance estimates of agricultural production?

The Government released the 4th advance estimates of foodgrains production for 2011-12, which showed that India has produced 257.44 million tonnes of foodgrains during 2011-12 compared to 244.78 million tonnes in the previous year. This is the highest ever foodgrains production, surpassing all earlier records. The earlier estimate had put it at 252.56 mn tonnes. The main gains were in case of rice and wheat where the final outcomes were higher by 0.9 mn tonnes and 3.7 mn tonnes respectively.

It must be remembered that India presently has an organized system of stocking only rice and wheat, and hence there is a buffer for monsoon failure presently only for rice. In case of other products, the country still remains vulnerable to the monsoon.

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