

Agri Outlook: September 2012

Summary

The first advance estimates of agricultural production for FY13 does not present a very satisfactory picture. On account of the delayed monsoon and the crop shifting pattern in some regions, there is expected to be a decline in production in almost all crops across the spectrum. This does pose challenges from the point of view of augmenting supplies as well as control on prices which would tend to inch upwards. Given that food price inflation is a major concern of the RBI, the pressure to pursue with conservative policies cannot be ruled out.

Expected agricultural production

According to the first advance estimates of agricultural production for the kharif season, the following are the production numbers expected.

1. The production of all major crops is expected to be lower this year. This is notwithstanding the fact that the area under cultivation has been higher this year. The delayed monsoon could be one reason that could have affected the output here.
2. In case of coarse cereals the crop has been affected in the regions of Gujarat, Haryana, Maharashtra, Karnataka and Rajasthan. Given that there has been an increase in demand for coarse cereals, there will be more pressure on the limited supplies this year.
 - a. Lower production of maize will make the cost of animal feed higher that can get reflected in the prices of poultry products.
3. The production of pulses too is expected to be lower this year. While tur has been higher it will be lower for urad and moong which will mean a greater dependence on imports to complement the domestic supplies.
4. Production of oilseeds is to be lower mainly due to a sharp fall in production of groundnut from 5.09 mn tonnes to 3.82 mn tonnes. While soybean production will be higher at 12.62 mn tonnes (12.28 mn tonnes), it may not be able to compensate for the lower groundnut production which in turn will entail higher import of edible oils this year. Last year, total consumption of 15.89 mn tonnes of edible oils was met with 8.78 mn tonnes of imports. This ratio could increase further in case there is not enough compensation from the rabi output of mustard and groundnut.
5. Production of sugarcane too will be lower this year, which will have an impact on the production of sugar as well as prices during the course of the year. Sugar does follow a regular cycle of peaks and troughs which can pose a challenge in the economy on both supplies and prices, which may have to be tackled through imports depending on carry over stocks available.

Table 1: Expected production (mn tonnes)

Crop	Last year	This year	Change (%)
Rice	91.53	85.59	-6.5
Coarse grains	32.26	26.33	-18.4
Pulses	6.16	5.26	-14.6
Foodgrains	129.94	117.18	-9.9
Oilseeds	20.78	18.78	-9.6
Cotton*	352	334	-5.1
Sugarcane*	3576	3353	-6.2

Source: Ministry of Agriculture

*: lkh (bales for cotton and tonnes for sugarcane)

Macro-economic impact

Lower production means that there will be pressure on inflation, especially food inflation which is already in the region of 9-10%. It was expected that the prices would start easing once the kharif harvest was out and that prices would come down. This may not happen across the spectrum of crops and while the high base year effect can lead to tempering of prices, supply constraints are likely to persist. In this environment there will be pressure on the RBI on the interest rate front. With diesel and LPG prices being increased which will have a gradual impact on transportation costs that feed into prices of goods, the present shortfalls in production is not good news on the inflation front.

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