ECONOMIC UPDATE

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Agriculture Prospects: September 2011

Contact:
Madan Sabnavis, Chief Economist
madan.sabnavis@careratings.com
samruddha.paradkar@careratings.com
krithika.subramanian@careratings.com
Anuja.jaripatke@careratings.com

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Summary

The overall prospects for kharif output this year appear to be positive given that the monsoon progress has been satisfactory so far. The area under cultivation is however a variable that has to be tracked as the progress is mixed across crops. With food inflation becoming fairly rigid it is but natural that attention be focused on farm output as it is expected that prices will ease once the crop moves into the market from October onwards.

Monsoon Progress

The progress of the monsoon so far has been quite good with cumulative rainfall being 716 mm as of August 31, which is marginally above the normal of 713 mm. Based on past experiences; the country receives 75-78% of its overall monsoon in these three months. It may hence be expected that the total monsoon this season would be around 920-930 mm going by past standards.

The rainfall so far this year at 716 mm in the three month period is the highest received since 2005 and equals that in 2007 when rainfall was 715 mm. 32 of the 36 meteorological regions received normal to excess rainfall, which again is a very good performance and the best in the last 6 years. The regions receiving deficit rain were Arunachal Pradesh, Assam & Meghalaya, Nagaland, Mizoram, Manipur and Tripura and Delhi, Haryana and Chandigarh. The last should not really matter as the region is well supported by irrigation facilities.

Table1: Rainfall distribution by Number of Meteorological divisions

	2006	2007	2008	2009	2010	2011
Excess to normal	23	29	29	12	29	32
Deficit	13	7	7	24	7	4
Total	36	36	36	36	36	36

Source: IMD

Table 2 below provides information on the progress in area under cultivation during the kharif season up to August 26. The significant highlights are:

1. Overall around 95% of total area has been covered so far which is indicative of the fact that virtually a complete picture is available now.
2. There are perceptible shortfalls in case of coarse cereals, pulses and groundnut.

3. The price impact in case of pulses so far has been benign as they have fallen y-o-y.
4. In case of tur, area under cultivation is higher than the normal though lower than that of last year. This means that even in case it is lower, output will be lower than 2010-11 when output had actually peaked. The impact on prices is however, uncertain as prices in this commodity group are extremely sensitive to production feelers as we still import between 10-20% of our requirements.
5. Area under cultivation is much higher in case of sugarcane, cotton and jute which augurs well for output.
6. Higher probable production of rice will put pressure on the government for procurement and hence warehousing space.

There is some concern in the areas of coarse cereals and pulses.

Table 2: Area under cultivation (August 26) and inflation July 011 (Area in Lkh Hectares and Inflation %)

Crop	Normal	Coverage (%)	2010	2011	Inflation July (%)
Rice	393.6	89	313	349	2.5
Jowar	34.3	74	29	25	43.0
Bajra	92.6	74	85	77	8.6
Maize	69.6	104	73	72	24.1
Coarse grains	***219.7***	***86***	***202***	***189***	
Cereals	***613.3***	***88***	***515***	***538***	
Tur	35.4	105	44	37	-18.9
Urad	22.4	98	24	22	-16.3
Moong	25.6	90	28	23	-20.1
Pulses	***106.5***	***96***	***116***	***103***	
Foodgrains	***719.7***	***89***	***631***	***640***	
Groundnut	51.5	82	49	42	17.1
Soybean	88.3	117	93	103	8.0
Oilseeds	***177.2***	***98***	***167***	***173***	
Cotton	93.6	126	108	118	35.3
Sugarcane	46.0	112	49	52	7.2
Jute/mesta	9.2	95	8.5	9	17.2
All crops	**1045.6**	**95**	**963**	**992**	

Source: Ministry of Agriculture

There is still room for improvement in case of jowar and bajra

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.

However, the government has been raising the MSPs of all kharif crops

Higher MSPs provided to encourage cultivation of crops

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

Crop	2010	2011	Crop	2010	2011
Rice	1020	1100	**Jowar**	880	980
Bajra	880	980	**Maize**	880	980
Tur	3000	3200	**Urad**	2900	3300
Moong	3170	3500	**Groundnut**	2300	2700
Soybean	1400	1650	**Cotton**	2500	2800

How critical is kharif?

Kharif foodgrains account for around half of total foodgrain 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.

Farm output dependent on kharif performance

Presently it is expected that farm output this year will grow by 3-4% on top of growth of 6.6% registered last year. A good kharif harvest is a necessary condition for the fructification of this number.

The impact on prices is however unclear as food inflation was high last year notwithstanding high output numbers. The higher MSPs announced this year could put pressure on food prices this year.