

## Agri output and inflationary impact

The Ministry of Agriculture released the first advance estimates of production of major Kharif crops for FY16. The government has stated that on account of timely onset of monsoon as well as its multiple interventions with contingency plans, timely advisories and regular monitoring of seed and fertilizer availability, estimated production of most of the crops during current Kharif season has been higher in comparison to the 1st Advance Estimates for 2014-15.

However, when the same is compared with the 4<sup>th</sup> advance estimates for 2014-15, a different picture emerges which is presented in the table below. The advance estimates show that food grains production is lower for all major crops compared to the fourth advance estimate of major crop production FY15. The table below provides the estimate for the year for all commodities along with the corresponding WPI and CPI inflation numbers (close products chosen in certain cases for purpose of comparison).

**Production for kharif crop of 2015-16 and WPI and CPI inflation for August 2015**

	FY15 (mn tonnes)	FY16 (mn tonnes)	Change (%)	WPI (%)	CPI (%)
<b>Cereals</b>	<b>120.68</b>	<b>118.49</b>	<b>-1.8</b>	<b>-1.65</b>	<b>2.38</b>
Rice	90.86	90.61	-0.3	-3.48	-1.16
Coarse cereals	29.82	27.88	-6.5	n.a	n.a
Maize	16.39	15.51	-5.4	1.68	5.51
<b>Pulses</b>	<b>5.63</b>	<b>5.56</b>	<b>-1.2</b>	<b>36.40</b>	<b>25.76</b>
Tur	2.78	2.61	-6.12	48.40	41.37
Urad	1.27	1.37	7.87	35.34	26.87
<b>Foodgrains</b>	<b>126.31</b>	<b>124.05</b>	<b>-1.8</b>	<b>5.10</b>	<b>n.a</b>
<b>Oilseeds</b>	<b>18.33</b>	<b>19.89</b>	<b>8.5</b>	<b>-2.52</b>	<b>#</b>
Soybean	10.53	11.83	12.35	-17.23	0.28
Castor seed	1.73	1.94	12.1	-1.11	n.a
Groundnut	5.07	5.11	+0.8	21.82	12.24
<b>Cotton (mn bales)</b>	<b>35.48</b>	<b>33.51</b>	<b>-5.55</b>	<b>-12.99</b>	<b>n.a</b>
<b>Sugarcane*</b>	<b>359.33</b>	<b>341.43</b>	<b>-4.98</b>	<b>20.94</b>	<b>-15.73</b>

Source: Ministry of Agriculture, Office of Economic Advisor

\*: Refers to sugar for CPI

#: CPI inflation for mustard oil was 6.4% and groundnut oil 10.4%

As the season's rainfall goes into a deficit of 16%, the agricultural crop production for kharif crop does appear to be under pressure.

- Overall foodgrains production is estimated to be lower than that of last year by 1.8%. WPI inflation in this case is already high at 5.1% and would inch upwards if the output is lower for specific crops.
- Rice prices would continue to remain subdued notwithstanding lower output as inflation is negative presently and stocks with the FCI can be used to cool down prices.

- Pulses would remain a sore point from the point of view of inflation as prices have been increasing already in anticipation of lower harvest. The government would have to start importing the same to prevent further increases in prices.
- Edible oil prices have been increasing at the retail level even though production is expected to be better this year. Further, with access to imports which constitute around 50-55% of consumption, prices should have been subdued. This could be another pressure point for food inflation going ahead.
- In the non-food category, cotton production also shows a marginal decline due to deficit rainfall in major cotton-growing areas of India. Although WPI figure in August for cotton is negative, it needs to be seen if lower production would translate to higher prices in the coming months.

Although inflation figures for both WPI and CPI are at their lowest levels for the month of August, there does appear to be pressure on prices going ahead given the production dynamics. With the monsoon season in its last month, the rainfall for the season was 84% of the long term average. The sowing this year was 2% higher given that the monsoon started off very well in June across the country. However, the expectation is that this has not converted to higher output due to uncertain and patchy rains subsequently.

The recent rains across the country, especially in parts of central and western India do bode well for the rabi crop as moisture retention will help in early sowing. However, the impact on kharif will only be marginally positive for specific crops where rains are required just before harvest time.

*The critical part of the agriculture-inflation story will emerge when the arrivals come in the mandis from the last week of September onwards when a clear picture will emerge on the emerging trends in production. The base effect which has contributed to low CPI inflation will also wear off and a higher number in the range of 4.5-5% may be expected to prevail to begin with.*

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