

Agriculture Prospects:

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Overview

With the monsoon coming to an end, the overall farm prospects for the kharif season may be evaluated. Agricultural performance is of critical importance this year considering that overall GDP growth will be subdued at 8% with industry growing by around 7%. The farm sector has to provide support in a positive manner to realize these goals. The government has scaled down the agricultural growth rate for FY12 to 3% which will come on a high base of 6.6% in FY11. Therefore, any slippage will have wider ramifications for the rest of the economy.

There are three leading indicators that are available on this sector: *rainfall, area under cultivation and projected output*. The monsoon officially ended on 28th September and based on the IMD data, it appears that the total rainfall received as well as its distribution across the 36 meteorological divisions has been normal. In fact the number of divisions receiving normal to excess rainfall has been the highest in 2011 in the last 6 years. 33 of the 36 divisions have had normal to excess rainfall.

Total rainfall recorded was 898.8 mm this year as against the normal of 878.9 mm – a positive deviation of 2%. While there have been reports of excess monsoon in certain parts of the country, it is unlikely to have a perceptible impact on the overall prospects. Table 1 provides information on the same.

Table1: Rainfall distribution by Number of Meteorological divisions (April-Sept)

	2006	2007	2008	2009	2010	2011
Excess to normal	26	30	32	13	31	33
Deficit	10	6	4	23	5	3
Total	36	36	36	36	36	36

Source: IMD

Table 2 below provides information on the area under cultivation for various kharif crops along with the first advance estimates of production as provided by the Ministry of Agriculture. It shows:

1. Acreage

a. The area under cultivation this year has been lower for coarse cereals and pulses. These would be areas of concern going ahead as unless there is a significant improvement in productivity levels, output would be impacted. Lower output is estimated for the year.

b. Acreage for rice, cotton, sugarcane and oilseeds has been higher and this is a positive factor for farm production.

2. Output

- In line with the area under cultivation, rice production would surpass last year's level and reach an all time high.
- Pulses production is expected to decline this year, with the exception of arhar, where status quo is expected. Prices of pulses in particular are susceptible to output fluctuations. However, it must be mentioned here that pulses had touched an all time high output last year, and this year's production would still be higher than the previous years. But, given that we are net importers of pulses (3-4 mn tonnes per annum of which most are kharif pulses), there will be pressure on higher imports as there is no buffer stock creation in this area.
- The Ministry has estimated that oilseeds production would be around the same level as that of last year, though area under cultivation is to increase by around 5 lakh hectares. Lower productivity is indicated here.

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

Table 2: Area under cultivation and estimated output for FY11 and FY12 (Kharif)
(lakh hectares)

Crop	Area 2010	Area 2011	Production units	FY11	FY12
Rice	350.43	383.69	mn tns	80.65	87.10
Maize	75.84	75.36	mn tns	16.32	15.86
Jowar	30.55	26.28	mn tns	3.48	3.0
Bajra	86.38	80.82	mn tns	10.08	9.15
Coarse cereals	212.16	200.19	mn tns	32.43	30.42
Arhar	45.55	38.75	mn tns	2.89	2.90
Moong	28.13	24.10	mn tns	1.52	1.20
Urad	25.22	23.65	mn tns	1.40	1.17
Total pulses	121.00	110.14	mn tns	7.12	6.43
Soyabean	93.20	102.92	lakh tns	126.58	125.72
Groundnut	49.77	42.86	lakh tns	56.55	56.22
Total oilseeds	174.80	179.59	lakh tns	208.47	208.90
Sugarcane	49.44	50.93	lakh bales	3391.68	3421.97
Cotton	109.91	120.21	lakh bales	334.25	361.02

Performance of cotton and sugarcane is encouraging for the second time in a row

Will prices come down then?

Table 3 below provides information on price movements of various major kharif crops that have been covered in Table 2. These products have a combined weight of 4.65% in the WPI while all primary products put together have a weight of 20.1%. With the exception of pulses, where prices declined in 2011, inflation rates were high for other products due to various reasons notwithstanding high output in FY11. Global factors have pushed up prices of soybean and cotton while domestic pricing policy and rising demand and cost of cultivation has impacted prices of coarse cereals and sugarcane.

Table 3: Annual inflation rates in August

	Weight	2010	2011
Rice	1.79	7.38	5.17
Jowar	0.10	7.98	40.17
Bajra	0.12	10.67	6.74
Maize	0.22	8.45	23.44
Arhar	0.14	-9.49	-11.58
Moong	0.08	53.96	-18.56
Urad	0.10	39.17	-19.53
Cotton	0.70	13.07	44.55
Groundnut	0.40	22.70	16.77
Soybean	0.37	-16.04	19.78
Sugarcane	0.64	53.31	7.15

Inflation already high for jowar, maize, soybean, cotton and groundnut

Table 4 provides information on the MSPs that have been invoked for the current year. The increase is between 10-20% for most of the products.

Table 4: 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

MSPs have been increased which has raised the benchmark prices in the market

Conclusions

1. A good monsoon, a necessary condition for good kharif harvest, has been met quite well this year and is well distributed.
2. Area under cultivation is better this year for rice, soybean, cotton and sugarcane. It is lower for coarse cereals, pulses and groundnut.
3. The First advance estimates for this year hint at better production of rice, cotton, sugarcane while lower output is expected in coarse cereals and pulses. Oilseeds output is expected to be maintained.
4. A good harvest on its own may not assure that prices will come down as the MSPs have been raised across the board by the government, which in turn have an impact on benchmark prices.
5. Price levels may not come down significantly even in case of higher production, though the inflation rate should be lower in these cases.

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