

How will farmers spend their Kharif Income?

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
+91-22- 6837 4433

Author
Dr. Rucha Ranadive
Economist
rucha.ranadive@careratings.com
+91-22-6837 43406

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3573

Disclaimer: This report is prepared by CARE Ratings Ltd. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report

Agriculture sector is expected to outshine others in terms of economic growth in the ongoing fiscal year. Kharif prospects looks bright this year as the country has witnessed favorable south-west monsoon season across the country. As a result, the Kharif crop production is expected to reach to a record high this crop year.

The first advance estimates of production of major Kharif crops for 2020-21 has pegged total Kharif food grain production at 144.52 million (mn) tonnes while the food grain output target has been set at record 301 mn tonnes for 2020-21.

Crops accounts for nearly 9% of total gross value added and contribute nearly 60% of value add of the agriculture and allied activities sector. High crop production will push the economic growth of the sector. We are anticipating the agriculture and allied activities to grow at 3.8% in FY21 with buoyant Kharif and Rabi output (with surplus reservoir levels).

The government has raised MSP for Kharif and Rabi products by an average 4.7% and 4.3% respectively for the marketing seasons. With buoyant monsoon and favourable weather conditions, the crop output is estimated to be higher. Collectively, there are prospects of increase in farmers' income from agriculture that will aid the rural demand in the second half of the fiscal year.

In this study we have estimated the likely increase in the farmers' income after the harvest of Kharif crops this season taking into consideration the price dynamics based on Minimum Support Prices (MSP) as well as estimated higher production this Kharif season. Further, we have projected the likely direction of spending of this income.

Our findings postulate;

- Post Kharif harvest, farmers' disposable income is expected to increase by about Rs. 40,000 crore after keeping aside money for investment, intermediate consumption and raw materials.
- 30% of the estimated income (~Rs. 12,000 crore) could go in savings while 5% (~Rs. 1,400 crore) could be kept aside to deal with any exigencies arising on account of coronavirus pandemic.
- **Farmers could spend approx. Rs. 26,600 crore on consumption.**
- This increase in income could result in higher demand for automobiles, Fast Moving Consumer Goods (FMCG), consumer durables, clothing and food, etc.

Expected Kharif production in 2020-21

The first advance estimates of production of major Kharif crops for 2020-21 has been recently released by the Ministry of agriculture and farmer's welfare.

- Food grain production has been pegged at 144.52 mn tonnes, which is by 9.83 million tonnes higher than the average food grain production of previous five years and 1.12 mn tonnes (0.8%) higher than the previous year (143.4 mn tonnes)
 - In 2020-21, the rice production is expected to remain unchanged at 2019-20 level and pulses production to increase by 21% mainly led by higher urad bean production (65%) whereas coarse cereals to see a moderation in output by 3% due to decline in expected output in Bajra (10% lower) and Ragi (9% lower).
- Oilseed production is estimated at 25.73 mn tonnes, 15% higher than last year led by groundnut (14% growth) and Soybean (21% growth).
- Sugarcane production at 399.83 mn tonnes is estimated 12% higher than a year ago level.
- Cotton at 37.12 mn bales (of 170 kg each) would be 5% above last year's output (35.49 mn bales of 170 kg each).

The food grain output target has been set at record 301 million tonnes for 2020-21, nearly 1.5% higher from the previous year's output, on the back of good monsoon rains and higher acreage in the Kharif season.

Table 1: Kharif crop production

Crop	Unit	2018-19	2019-20	2020-21
			Fourth Advance Estimate	First Advance Estimate
Food grains	mn tonnes	141.51	143.39	144.51
Rice	mn tonnes	102.04	101.98	102.36
Pulses	mn tonnes	8.09	7.72	9.31
Coarse cereals	mn tonnes	31.38	33.69	32.84
Oilseeds	mn tonnes	20.68	22.32	25.73
Sugarcane	mn tonnes	405.42	355.70	399.83
Jute & Mesta	mn bales of 180 kg each	9.82	9.91	9.66
Cotton	mn bales of 170 kg each	2.80	3.55	3.71
Total*	mn tonnes	569.8	523.8	572.4

Note: *Jute and Mesta and Cotton converted to mn tonnes. Cotton: 1 bale = 170 kg, Jute and Mesta: 1 bale = 180 kg

Source: Ministry of Agriculture & Farmers Welfare, CARE Ratings

Kharif crop price dynamics

Average increase in the MSP for the Kharif season 2020-21 is nearly 5% over the 25% increase announced last year. However, an increase in MSP does not proportionately translate into remunerative prices for farmers. MSP for crops works as a benchmark for the setting the price levels in the market. However, higher crop output and supply chain constraints tend to drag the market prices lower than the MSP at times. The MSP works efficiently only when the government procures crops from the farmers directly. The government has historically been more focussed on the procurement of paddy (rice) in the Kharif season for its distribution through the public distribution system (PDS) and the central pool.

Apart from paddy, fair prices for oilseeds and pulses are also ensured by the government under the umbrella scheme of Pradhan Mantri – Annadata Aay Sanrakshan Abhiyan (PM-AASHA). The scheme was implemented from Kharif marketing season 2018-19. The procurement of pulses and oilseeds are to be done by central nodal agencies like NAFED, FCI under the Price Support Scheme to ensure that farmers get remunerative prices at MSP for their produce.

Table 2: MSP trend and Wholesale Price Inflation

Year	FY19	FY20	FY21	% increase in MSP		WPI Q3 FY20
				FY20	FY21	
Paddy, common	1,750	1,815	1,868	3.7	2.9	3.9
Paddy, Grade A	1,770	1,835	1,888	3.7	2.9	
Jowar, hybrid	2,430	2,550	2,620	4.9	2.7	10.6
Jowar, Maldandi	2,450	2,570	2,640	4.9	2.7	10.6
Bajra	1,950	2,000	2,150	2.6	7.5	8.9
Maize	1,700	1,760	1,850	3.5	5.1	10.6
Ragi	2,897	3,150	3,295	8.7	4.6	2.6
Arhar(Tur)	5,675	5,800	6,000	2.2	3.4	-0.4
Moong	6,975	7,050	7,196	1.1	2.1	5.5
Urad	5,600	5,700	6,000	1.8	5.3	-1.6
Cotton, Medium staple	5,150	5,255	5,515	2.0	4.9	2.7
Cotton, Long staple	5,450	5,550	5,825	1.8	5.0	
Groundnut in shell	4,890	5,090	5,275	4.1	3.6	3.6
Sunflower seed	5,388	5,650	5,885	4.9	4.2	4.0
Soyabean, yellow	3,399	3,710	3,880	9.1	4.6	8.9
Sesamum	6,249	6,485	6,855	3.8	5.7	15.5
Niger seed	5,877	5,940	6,855	1.1	15.4	-2.8

Source: Ministry of Agriculture and Farmers welfare, Office of Economic advisor

In Table 2, the increase in MSP for Kharif season 2019-20 has been juxtaposed with wholesale price inflation for the quarter ended December 2019 in which Kharif crop enters the market. It can be observed that

- For paddy and cotton, procurement by the government and cotton by Cotton Corporation of India has ensured commensurate increase in wholesale market prices in line with MSP.
- In case of Jowar, Bajra, Maize, Moong and Sesamum the wholesale inflation was higher than the increase in MSP.
- On the other hand, the wholesale inflation in Ragi, Tur, Urad, and oil seeds (groundnut, soybean, sunflower and Niger seed) was lower than hike in MSP for the season.

Implication for farmers' income

Kharif production this year is expected to be at record high supported by favourable monsoon and good Kharif sowing. The increased production would result in the increase in farmers' income depending on an effective procurement policy when prices move down due to higher supplies for some crops, which has been the case in the past. We have estimated here the likely increase in farmers' income on account of both higher production and prices. The following assumptions are made while arriving at the increase in income

- Prices for Kharif output in the market will be on par with the announced MSP. This may vary for crops depending on the supply-demand dynamics.
- The marketed surplus for various crops has been assumed at the following levels: Rice 80-85%, pulses at 90%, coarse cereals 65%. Oilseeds, sugarcane and cotton being commercial crops the marketed surplus was almost 90-100%.
- On the basis of above we estimate farmers' income to increase by around Rs. 50,000 crore during the Kharif season of 2020-21 partly due to expected increase in output and increase in MSP for Kharif marketing season.

- Agriculture sector's gross capital formation, intermediate consumption and raw material cost come to around 20% of the output. Taking this into consideration, approx. **Rs. 40,000 crore will be the net addition in the farmers' income in this Kharif season.**

Where could spending take place?

Based on spending rural patterns as per NSSO Surveys we have drawn the following estimates regarding the incremental spending by the farmers. The main assumption is that the output as projected by the government has to materialize and the MSP received in the market.

- With the national saving rate at around 30%, ~Rs. 12,000 crore could go in savings, which could be partially invested in the financial institutions and gold due to festive season, wedding season as well as given the safe haven appeal of metal in this pandemic situation.
- Rural households could keep 5% of increased income (~Rs. 1,400 crore) aside in case of any medical exigencies due to pandemic as the coronavirus has already penetrated and spreading in the rural economy as well.
- Balance **approximately Rs. 26,600 crore could be used for consumption spending** as has been listed out in the table below. There can be a downside of 5-10% in case the output or price assumed does not materialize.
- A little over 45% of Rs. 26,600 crore could be expended on clothing and footwear (25%) and durable goods (22%) (Automobiles, electronics etc.) ahead of the festive season and pent up demand during the lockdown period.
- Over the years, the trend shows that during the festive season, there is increased demand for automobiles especially from the rural areas after the income of Kharif crop is realised.
 - Roughly 50% of domestic sales of 2/3 wheelers takes place in the rural areas. In the third quarter over the past 5 financial years, the domestic sales of 2/3 wheelers have increased by on an average 2%.
 - Likewise, the domestic sales of cars have increased by nearly 4% on an average, with approximately 35-40% demand from the rural areas.
 - Sales of tractors that is privy to the rural area has been also been witnessed to increase by around 7% (average of last 5 years) during the third quarter.
- Nearly 33% would be expended on consumer services like internet connections and miscellaneous goods, entertainment.

Table 3: Break-up of estimated consumption expenditure

Category	Estimated Expenditure (Rs. Cr.)
Beverages, refreshments, processed food	2,600
Clothing & footwear	6,650
Education	2,650
medical	1,400
Consumer services excl. conveyance	4,000
Misc. goods, entertainment	4,800
Durable goods	5,900
Total	28,000

Source: NSSO 68th Round Household Consumer Expenditure Survey 2011-12, CARE Ratings

Increase in expenditure from the rural areas will be beneficial for sectors like automobiles, durables, FMCG, apparels among others as the overall demand prospects are expected to remain muted this festive season due to loss of purchasing power by the urban households and pandemic situation.