

## Kharif Prospects for 2017

**Contact:**

91-22-67543489

**Mradul Mishra (Media Contact)**

mradul.mishra@careratings.com

91-22-67543515

**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

**October 3, 2017 | Economics**

With the monsoon having withdrawn for the year, the cumulative rainfall for the season was 5% less than normal at 827.4 mm against normal of 875.2 mm. This has been considered to be quite satisfactory by the IMD with only 6 met regions witnessing less than normal monsoon. These are Eastern and Western UP, Haryana, Chandigarh, Delhi, Punjab, Eastern Madhya Pradesh and Vidarbha. Some of them have good access to irrigation facilities.

The impact on cropping progress and output prospects has been mixed. However, overall there are no major concerns on agricultural output as projected output levels for some crops, though lower than that for Kharif 2016 are still higher than that in Kharif 2015.

Table 1 below provides information on the number of meteorological divisions that have witnessed 'normal and above' and 'less than normal' monsoon (with deficient monsoon being defined as being 20% and below normal).

**Monsoon distribution**

No of Met divisions	2013	2014	2015	2016	2017
Normal and above	30	24	19	27	30
Deficient and less	6	12	17	9	6

Quite clearly, the distribution of the monsoon has been one of the best in the last 5 years and equals that in 2013. However, the levels of 91 reservoirs was 65.5% of normal in August 2017 which is lower than 74.3% at the same time last year and a normal of 75% in the last ten years. This could be a concern going ahead as it will determine the supply of water for both households and farming purposes for the rest of the year.

### Farm output

The Ministry of Agriculture has provided its first advance estimate of agricultural production for the kharif crops this year which is presented in the table below.

- Production of rice, maize, tur, moong and soybean are expected to be lower compared with last year.
- However, production levels will still be higher than that in 2016 season and hence prima facie there should not be a problem with supplies.
- Overall foodgrains production would be around 135 mn tonnes as against 138.5 mn tonnes last year.
- Soybean production would be important as lower output would lead to higher import of edible oils this year. Global prices of soya oil have been volatile in the last year and as per IMF data have been in the range of \$ 670-800/tonne. It has averaged \$ 725/tonne this year so far.

- Cotton production has gained partly due to crop switching from pulses in the interiors of Maharashtra due to lower rainfall this season as well as overproduction of pulses last year.
- Higher sugarcane production augurs well for the sugar industry.

### Kharif crops outcomes

Mn tonnes	2014-15	2015-16	2016-17	2017-18
Rice	91.39	91.41	96.39	94.48
Coarse cereals	30.94	28.15	32.71	31.49
Maize	17.01	16.05	19.24	18.73
Pulses	5.73	5.53	8.75	8.71
Tur	2.81	2.56	4.78	3.99
Urad	1.28	1.25	1.85	2.53
Moong	0.87	1.00	1.62	1.32
Oilseeds	19.19	16.68	22.40	20.67
Groundnut	5.93	5.36	6.22	6.21
Soybean	10.37	8.57	13.79	12.21
Cotton (bales)	34.80	30.00	33.09	32.27
Sugarcane	362.3	348.4	306.72	337.70

Source: Ministry of Agriculture

### Price impact

The final outcomes of the crop production, availability of stocks from last year for pulses and import of edible oils at stable prices will be the main factors driving food inflation this year. As per FCI data, stocks of rice were 20.4 mn tonnes as of August which is higher than that of last year when it was 18.7 mn tonnes. Hence, it is unlikely that there would be a price impact even if final output is lower. Market sources indicate that the government has adequate stocks of pulses which it is trying to sell to stabilize prices and hence lower production could be buffered to an extent. This is important because it has been noticed that while CPI inflation has been below the 4% target mark, the non-food categories have witnessed inflation of between 4-5.5% with food inflation helping to keep the headline number down. Any spike in prices could potentially impact the CPI inflation numbers especially so since the statistical low base advantage would get diluted during the course of the year.

But there would still be upward pressure on prices. For this year, the government has increased the MSP of all crops which will continue to exercise pressure on prices though the extent would be less than proportional even as market prices adjust to the new benchmarks.

### Change in Minimum Support Price (2017 over 2016)

	% increase
Paddy/rice	5.3
Maize	4.4
Tur	7.9
Moong	6.7
Urad	8.0
Cotton	3.8-4.1
Groundnut	5.5
Soybean	9.9

Ministry of Agriculture

## Importance of agriculture

The importance of agriculture is twofold. First, the kharif crop constitutes around 50% of the overall farm output (excluding allied activities) and contributed to the growth in GDP. Given the high growth achieved last year, any shortfall in production would get reflected in lower GDP contribution this year unless made up by the rabi crop. Industries like textiles, edible oils, tractors, sugar, fertilizers, pesticides, seeds, farm equipment etc. have strong links with agricultural output.

Second, a good harvest provides higher incomes for farmers (partly through the MSP too as the purpose of this system is to ensure the same), which typically gets spent on consumer goods such as automobiles including tractors, durable goods, housing and discretionary spending on FMCG as other services. Hence, industrial demand depends a lot on rural incomes which are driven by agriculture. The expectation that industrial growth would pick up in the second half is premised on this assumption of farm output being normal. As around 60% of the labour force is engaged in farming, it is a significant contributor to demand.

Also with farm output being normal, the government would not have to allocate more resources for rural employment programmes. Also repayment of loans would be on time and this would slowdown the creation of NPAs in this sector.

Hence, a good kharif performance is a good sign for the economy. The above does not capture the progress of production and potential prices of horticulture crops which have in the past been responsible for pushing up the CPI inflation number. They also tend to be more vulnerable to excess rainfall and storms. These outcomes would still have to be monitored separately.

### CORPORATE OFFICE:

CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: [care@careratings.com](mailto:care@careratings.com) | Website: [www.careratings.com](http://www.careratings.com)

Follow us on  /company/CARE Ratings  
 /company/CARE Ratings