

Monsoon and Agri-Outlook, June 2012

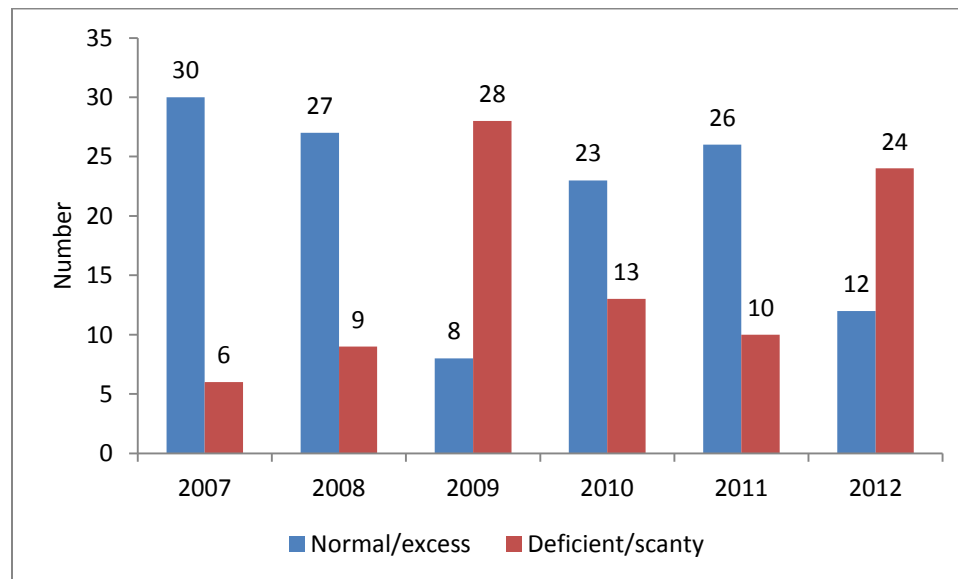
The monsoon, which begins in June and ends in September, has not had a good start this year. Cumulative rainfall for the month has been 108.1 cms which is lower by around 23% from the normal of 139.9 cms. Given that the overall economic conditions in the country are muted, a good harvest is essential to maintain equilibrium.

A good monsoon, though a necessary condition for a good kharif harvest is not sufficient for the same, as seen last year, where even though farm production was high, there were shortfalls in specific crops in the pulses and oilseeds segments which pressurized prices. Given that around 70-75% of our farm output is mainly rain-fed, the progress of the monsoon will be more important this year, given the slow start.

Rainfall so far

For the first four weeks of June, rainfall was lower by 23% relative to last year. The distribution too was unfavourable with only 12 meteorological divisions showing excess to normal rainfall. The balance 24 had deficient to scanty rainfall.

Exhibit 1: Rainfall in Meteorological zones



Source: IMD

Exhibit 1 shows that the performance this month has been below that in 4 of the last 5 years (for corresponding period). It is better than that in 2009, which was a drought year where 28 divisions as against 24 this year had less than normal rainfall.

Spread so far

The coastal divisions along with the north eastern states have tended to be a part of the normal/excess rainfall group. In general, the principal growing regions in the interiors, covering oilseeds and pulses, are in the deficit zone which raises concern.

Rice, which is the major kharif crop is still insulated from the monsoon for two reasons: a large part of the rice growing regions in the north have access to irrigation facilities and there are buffer stocks to back up any supply shortages. This comfort is not there for the other crops.

How critical is June?

The monsoon lasts for 4 months, of which June and July are the critical ones as the sowing takes place for most crops at this time when there is need for moisture. The present rainfall of 108.1 cms for June 2012 may be compared with the relatively higher rainfall witnessed during the same period in the last two years. During the drought year however, rainfall was even lower at 61 cms. Therefore, while the progress so far is certainly not satisfactory, it is still better than the rainfall received in 2009. There needs to be substantial improvement in July to make up for this shortfall.

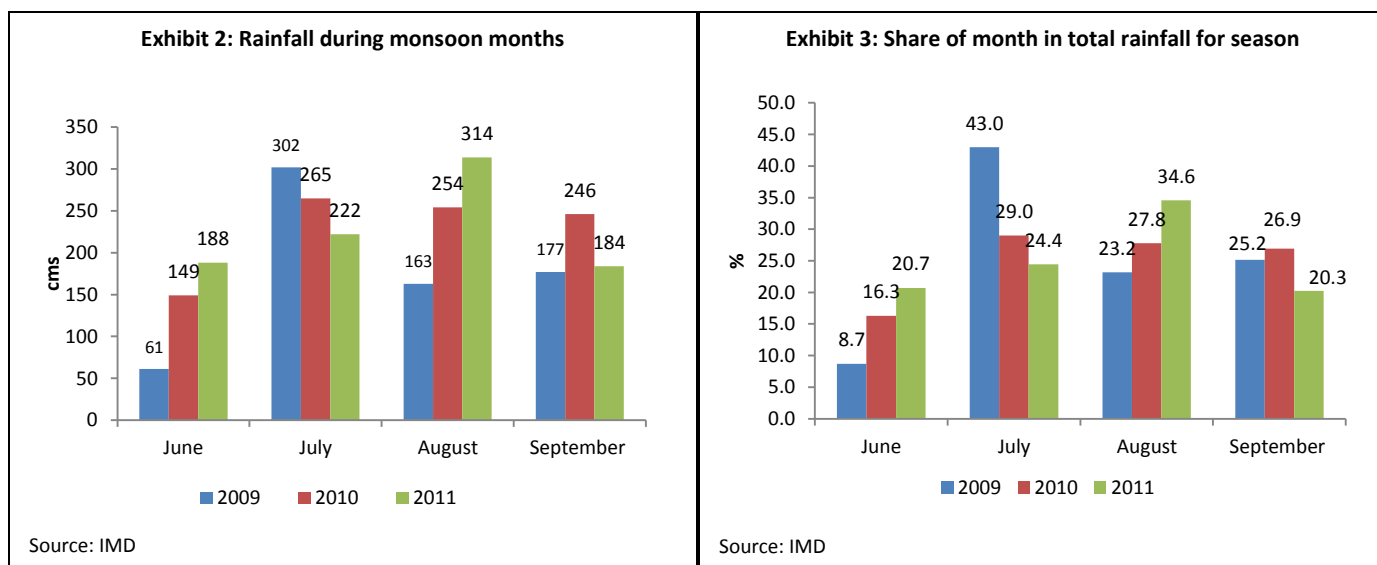


Exhibit 3 shows that June is typically the month when the share of rainfall is lowest, while July and August dominate with a share of roughly 55-60%. The implication is that there is still scope for lost ground to be recouped in July. The concern is more on the sowing of crops where delays could lead to crop shifting as farmers may not risk sticking to their original crop in the face of uncertainty. Shifting to crops that require less rainfall is not uncommon when there are delays in the onset and progress of rains.

How important is the monsoon crop?

The kharif crop is important as it accounts for around 51% of total foodgrains production. Within this segment around 87% of rice and 77% of coarse cereals are kharif crops. Further, cash crops of cotton and sugarcane are entirely kharif crops. Therefore, a significant part of the agricultural output comes from this season and hence the overall prospects for the agri-sector will be driven to a large extent by the kharif crop.

Sowing progress so far

Based on reporting of states on progress in kharif sowing, as of June 22nd, sowing of rice is lower this year, at 18.7 lakh hectares as against 19.09 lakh hectares last year. Sugarcane is higher at 51.52 lakh hectares (50.94). It is lower for cotton, coarse cereals and oilseeds.

Vulnerabilities

- Price effect will be significant especially since food inflation is still very high. The May WPI data shows over 15% inflation in case of pulses and oilseeds.
- Specific industries will be under pressure in case of output shortfalls such as edible oils, sugar, textiles (cotton and jute), bakery products as well as dairy and meat products as monsoon has a major impact on the availability of fodder for cattle.
- Rural demand from the farmers segment will have some bearing on demand for industrial products in the post harvest season.

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