

Press Release

Kharif crop shortfall despite good monsoon to push up near term food inflation

However, rabi output likely to surpass projections

Acuité Ratings believes that the favourable monsoon notwithstanding, the food grain production from the current kharif season will be lower than expected. The impact on the kharif harvest is not only due to the uneven distribution of rainfall but also on account of a visible change in food cropping pattern. While this is likely to be offset by a good rabi crop given the late monsoon rainfall in the current year, it is likely to lead to a moderate rise in food inflation in the near term i.e. over the next 2-3 quarters.

As regards food grain production (cereals and pulses), area under sowing has dropped marginally by 0.6% during the current kharif season. However, the production is expected to be lower than the marginal decline of 0.80% provided by Ministry of Agriculture given the unseasonal rainfall in September and October. We expect this to lead to moderate inflationary pressures in H2 FY20 as the benefits of better yields emanating from the Rabi season are unlikely to materialize in the current fiscal. Therefore, the current year's cropping pattern may elevate the food inflation trend, which has been around 1.0% for the past two years.

India has received normal rainfall during the current monsoon season of June – September 2019 with IMD's estimates indicating that the aggregate precipitation has been 10% higher than the long term average. At a sub-divisional level analysis on rainfall distribution, it is apparent that 77% sub-divisions have received normal or excess rainfall, which is highest when compared to the previous 5 years. While such figures do indicate the rainfall has been satisfactory over most parts of the country, the temporal distribution of the rains has not been so conducive for the kharif crop. The monsoon rains started late and has continued even till the month of October with significantly excess rainfall in some parts of Western India. This has therefore, not only impacted the sowing of the crops but is also likely to hit the yields and the harvest output in the current season particularly with respect to cereals and pulses.

Acuité has further observed that due to the prevalence of lower prices of certain food grains over the past two years, there has been a gradual shift in cropping patterns towards cash-crops. The area sown under cotton and sugarcane is 4% and 9% higher respectively which is well above the normal sown area. Therefore, production for these two cash crops is expected to be high in the current kharif. We reckon that cotton production, which is critical for the textile industry, will be higher by around 12%

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in the FY20 cycle, thereby cooling down the procurement prices over the next few quarters. Similarly, sugarcane output is also expected to remain high during this period albeit there may be a slight negative growth given the bumper production during the previous sugar season.

Nevertheless, the higher amount of rainfall in the late half of the kharif season will augur well for the ensuing rabi food crop. The soil moisture levels in most parts of the country are conducive for a record rabi output in the coming season unless there are further weather vagaries. Also, water levels in most of the reservoirs have reached high levels and will support not only the rabi crop but also act as a cushion against irregular rainfall in the next few seasons.

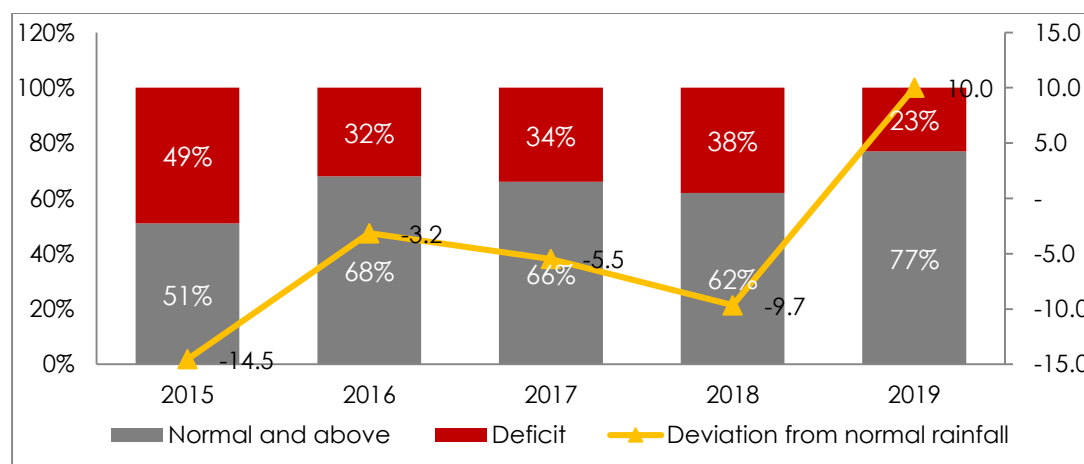
Annexure: Data

Table 1: Growth in Kharif Crop Production

	2017-18	2018-19	2019-20*	2019-20#
Food grains	1.55%	0.89%	-0.83%	-2.0%
Cereals	1.88%	1.49%	-0.77%	-0.58%
Pulses	-2.91%	-7.69%	-1.75%	-4.19%
Oilseeds	-2.41%	1.29%	1.16%	5.22%
Cotton	0.70%	-12.49%	11.71%	12.40%
Sugarcane	24.12%	5.33%	-2.91%	-5.60%

* Acuite Projection, # Agriculture Ministry's Projection

Table 2: Rainfall distribution: Monsoon 2019:



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