# Press Release

## Revival in monsoon rains to bring some cheer back to the economy

Lower acreage in cereals and pulses nevertheless, may push up food inflation

Indian economy has witnessed a slowdown in FY19, and its impact is also expected to be felt in the current financial year. The monsoon has been seen as a key risk factor to the economy given the delay in its commencement. While there was a significant rainfall deficit in the first month of June, its revival in last week of July and the forecasts for August-September 2019 are expected to ensure an overall good rainfall coverage and thereby, facilitate a healthy agricultural output in FY20.

The latest forecasts from Indian Meteorological Department (IMD) indicate that the overall rainfall for India in the June-September season will be normal i.e. 96% (+/-4%) of the long period average. While the rain deficit in the country was as high as 33% in June end, it has reduced sharply at July end to 9% with over 4% above normal aggregate rainfall in the previous month. As the pace in rainfall picked up since last week of July, cumulative rainfall deficit has further declined to 7% as on August 5, 2019. IMD forecasts that the rainfall in the second half of the monsoon (August-September) will be 100% of the long period average. The declining effect of "El Nino" is likely to be an important factor in the revival of the monsoon rains. IMD has also highlighted that 24 of the 36 states and union territories have received normal or excess rainfall in the first 2 months of monsoon while the balance states are in deficit.

A deeper analysis of the rainfall distribution suggests that there has been an adequate coverage of monsoon in Central, West and North-West India. In the currently deficit regions, only a few of them are major agricultural states namely West Bengal, Orissa, Haryana, Tamil Nadu and Kerala. This has adversely impacted the overall progress in crop sowing. Given the delays in the progress of monsoon already experienced in some regions, Acuité Ratings expects the aggregate area under sown to remain lower than the previous year.

In a crop-wise analysis undertaken by Acuité, the skewed rainfall distribution in the first half of the monsoon has adversely impacted the sowing of crops such as rice, pulses, and oilseeds. The kharif sowing acreage was clearly lower as of July 2019 as compared to the previous year. The shrinkage in the aggregate acreage however, has come down to 6.5% as on August 2. While the deficit in pulses, oilseeds and coarse grains are between 5%-7% till this period, it has been relatively high at 12.5% for rice which is the most important kharif crop.

Interestingly, the acreage under cotton has increased by 4.5% over the previous year due to better rains in the key cotton growing areas of Maharashtra and Gujarat. This is expected to improve the cotton production in India for the 2019-20 season by around 10% over the previous season and likely to soften the existing cotton price levels. The acreage under sugar cane has continued to be high in the current season at 108% of the normal area (5-year average) as in the previous year. While the crop output may be marginally lower than in 2018-19 season, it will lead to a further increase in sugar stocks in the country and therefore, lower prices.

Acuité's analysis reveals that there is a significant change in the crop cultivation pattern in India over the last 3 years. While the acreage under the cash crops i.e. sugarcane, cotton and oilseeds have increased from 36% to 40% over the period 2016-19, the cultivation area under cereals has dropped from 49% to 46% over the same period. Apart from economic considerations, a key factor in the shifting acreage is the delay in the onset of the rains as also the uncertainty in the monthly rainfall patterns. Cereals like rice as well as pulses require timely rainfall for optimum productivity while some of the commercial crops have better ability to withstand irregular weather.

In Acuité's opinion, such a gradual drop in acreage of food grains in favour of commercial crops would however, have implications on food inflation over the near to medium term. While food inflation has remained particularly low over the past two years (1.8% in FY19 and 0.14% in FY19), there are significant upward risks to these figures given the acreage patterns. Lower production of food grain is likely therefore to lead to higher prices of cereals and pulses for next two financial years (FY20 and FY21).

Table 1: Acreage – Key Crops

*Figures in Million Hectares*

| Year | 2019* | 2018 | 2017 | 2016 | YoY Growth |
|---|---|---|---|---|---|
| Crops- Overall | 78.9 | 84.4 | 86.6 | 84.6 | -6.50% |
| | | | | | |
| Food grain | 46.5 | 51.4 | 54.6 | 53.1 | -9.50% |
| Cereals | 36 | 40.1 | 42.6 | 41.6 | -10.20% |
| Rice | 22.3 | 25.5 | 27.4 | 26.4 | -12.50% |
| Coarse cereals | 13.7 | 14.6 | 15.2 | 15.2 | -6.20% |
| Pulses | 10.5 | 11.3 | 12 | 11.5 | -7.10% |
| Sugar cane | 5.2 | 5.5 | 5 | 4.6 | -5.50% |
| Oilseeds | 14.9 | 15.7 | 14.9 | 16.5 | -5.10% |
| Cotton | 11.5 | 11 | 11.4 | 9.6 | 4.50% |
| Share in total sown area | | | | | |
| Cereals | 46% | 48% | 49% | 49% | |
| Cotton | 15% | 13% | 13% | 11% | |
| Oilseeds | 19% | 19% | 17% | 20% | |
| Sugar cane | 6.60% | 6.50% | 5.80% | 5.40% | |

**Data as on Aug 2, 2019*

Table 2: Actual Area Sown (% of Normal)

| | Actual area sown as % of normal@ area sown | | | | % change in actual area sown | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2016 | 2017 | 2018 | 2019 |
| Food grain | 75.7 | 78.7 | 73.9 | 66 | 4.02 | 2.87 | -5.78 | -9.63 |
| Cereals | 70.3 | 72.4 | 68.6 | 61.5 | -1.59 | 2.24 | -5.88 | -10.22 |
| Rice | 67.3 | 69.2 | 64.6 | 56.4 | -2.72 | 3.68 | -6.79 | -12.51 |
| Coarse cereals | 76.1 | 78.9 | 77 | 72.3 | 0.46 | -0.27 | -4.23 | -6.19 |
| Pulses | 105.3 | 113.9 | 101.6 | 87.7 | 31.26 | 5.14 | -5.44 | -7.55 |
| Sugar cane | 91.4 | 99.6 | 110.8 | 108.2 | -1.02 | 9.25 | 11.21 | -5.68 |
| Oilseeds | 90.6 | 80.9 | 85.5 | 82.1 | 5.77 | -9.89 | 5.68 | -5.07 |
| Cotton | 80.2 | 93.4 | 91.7 | 95.2 | -8.71 | 18.51 | -3.98 | 4.87 |

Source: Acuité Research, CMIE
Note: Data as on Aug 2, 2019
@Normal area is the long term average of the sown area in that category

**About Acuité Ratings & Research Limited:**
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