

# Quickonomics

August 23, 2021

## Past halfway, no major let-down yet

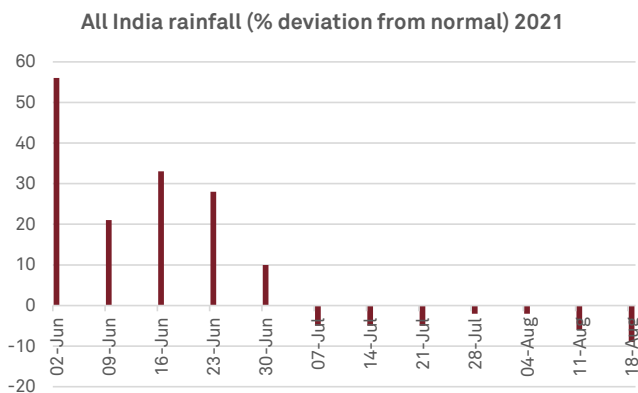
Every monsoon has a predilection to play, and every year it does so differently.

After a sprightly start this season (June-September 2021), the south-west monsoon went on a hiatus in the important kharif sowing month of July, and again, in the second and third weeks of August.

As on 23 August 2021, all-India rainfall was 9% below long period average (LPA). But in practical terms, is the current weakness a cause for concern, for an economy that's looking for succour after two waves of a debilitating pandemic?

We find that though reservoir levels are below par, and there is stress in a couple of states and crops, there is no big reason for alarm. With sowing on course, we see agriculture grow 3% on-year this fiscal, over a healthy base of 3.6% growth in fiscal 2021.

### Rains have slowed of late

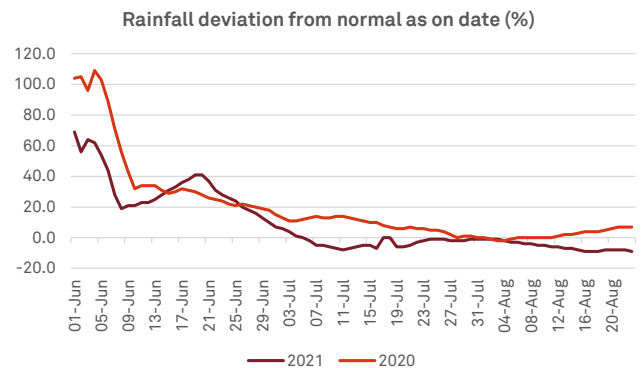


Source: IMD

## Rains have been less volatile and less intense

On a positive note, rains have been statistically less volatile. But it has also rained less so far, compared with the year-ago period. While standard deviation (a measure of volatility) of all-India rainfall departure from normal in 2021 was 20.1 (as of August 23), it was 26.4 in the year-ago period.

### Less rains, with less volatility



Source: IMD, CRISIL

However, rains are 9% below normal (cumulatively) this year so far, compared with 7% above normal in the year-ago period.

## Some states facing deficient rains

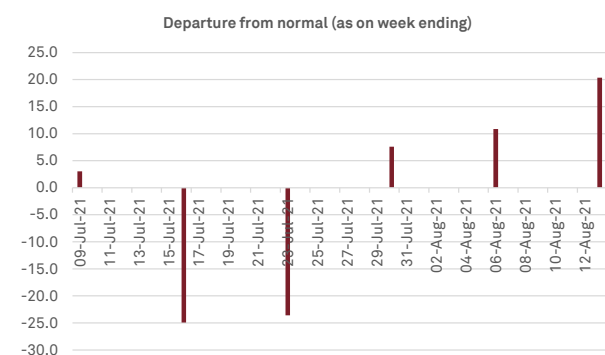
At a spatial level, some important kharif producing states such as Gujarat (-47% of normal), Odisha (-31%) and Punjab (-20%) still have deficient rainfall. These account for 4.6%, 2.8% and 9.5% of crop (food grains + pulses + oilseeds combined) production in the country respectively. Of these while Punjab has a high irrigation cover of 99.1%, Gujarat and Odisha have much lower cover. Important crops from these states are: Punjab (rice and wheat), Gujarat (oilseeds and cotton) and Odisha (sunflower).

## Kharif sowing picking up pace

Patchy rains also meant the monsoon covered all of India with a lag of five days – on July 13 instead of the scheduled July 8 (last year, it had done so by June 26, a good 12 days in advance).

This impacted kharif sowing, which trailed the normal levels (i.e. past five-year corresponding week average) till the fourth week of July. With revival in rains, however, sowing is now gathering pace in key kharif growing states.

### Kharif sowing continues to exceed the normal

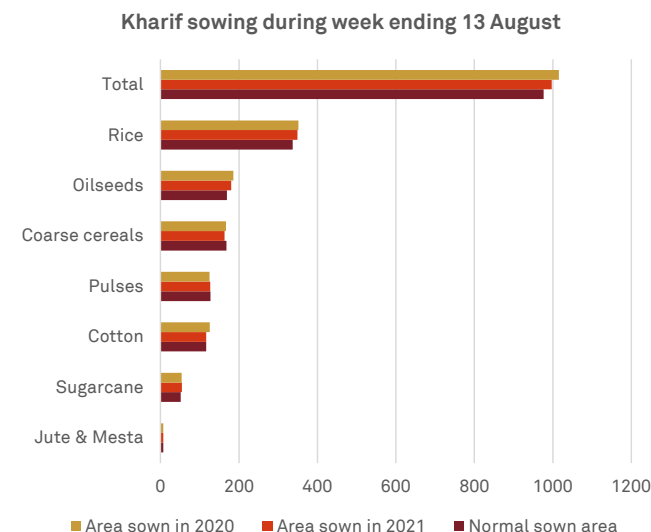


Note: Data is in lakh ha  
Source: Agricoop, IMD, CRISIL

As of the week ended August 13, 2021, total kharif sowing stood at 997.08 lakh ha as compared with 1,015.15 lakh ha in the year-ago period and 976.71 lakh ha in the corresponding 'normal' week.

But recall that last year's bountiful rains in the initial half of the season and focus on agriculture amid the pandemic gave sowing a headstart, explaining the higher numbers. What's important to note is this year's sowing so far is still higher than the past five years' average.

## Oilseeds sowing has also overshot normal



Note: Data is in lakh ha  
Source: Agricoop, IMD, CRISIL

## Reservoir levels lagging long-term trend

On the slightly negative side, slowdown in rainfall over the past two weeks has led to lower reservoir storage across four of the five regions in the country. In fact, overall storage in 130 reservoirs – for which live information is available on a weekly basis – is lower than both, the past year's and past 10-year average levels.

### Reservoir storage yet to reach trend levels

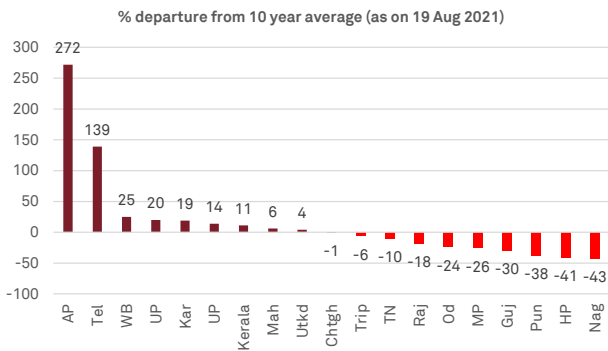
S.No.	Region	No of reservoirs	Storage available as of August 19, 2021 (% of storage capacity)	Status during year-ago period	Past 10-year average
1	Northern	8	47%	55%	72%
2	Eastern	20	45%	53%	53%
3	Western	42	53%	64%	58%
4	Central	23	56%	64%	67%
5	Southern	37	82%	70%	59%
6	Country	130	61%	64%	62%

Source: Central Water Commission, CRISIL

At the state level, of the nineteen reservoir states spread across the five regions, ten states have storage level below normal or of past 10 years' average.

This may not bode well for irrigation buffer in these states if rainfall become more deficient in the coming days. Together, these ten states account for 46% of crop production in the country. The fact that reservoir level in some of the states (such as Madhya Pradesh, Tamil Nadu and Rajasthan) is low despite normal rains suggests it has not rained well in the reservoir catchment area.

**Below the water mark: Levels trail in 10 states**



Source: Central Water Commission, CRISIL

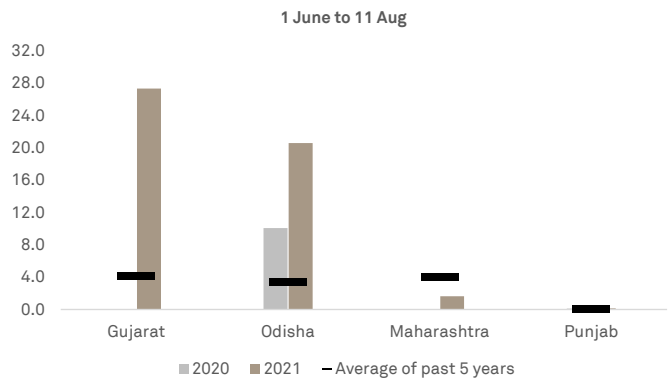
**DRIP shows stress for two states, two crops**

We need more than state-level rainfall data to the complete picture on where agricultural performance is headed. CRISIL's Deficient Rainfall Impact Parameter (DRIP)<sup>1</sup> affords a holistic impact assessment of deficiency by factoring in the irrigation buffer available across states and crops.

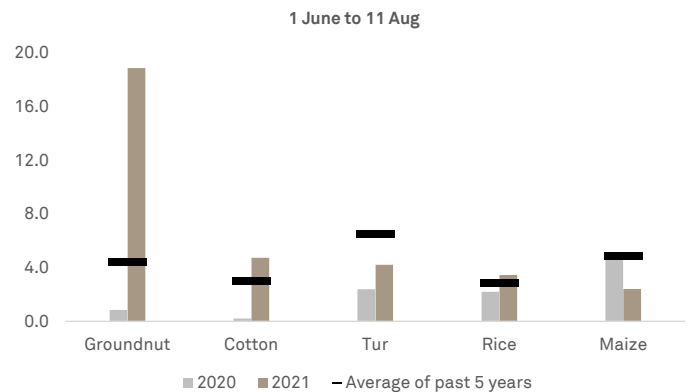
The latest DRIP scores (as on August 11) show stress for **Gujarat** and **Odisha**. Their DRIP scores are higher than previous year's as well as their respective past five-year averages. The irrigation cover in the two states stand at 49.3% and 23.1%, respectively.

As for the crops, DRIP is high for **groundnut** and **cotton**.

**Gujarat and Odisha are stressed...**



**...and so are groundnut and cotton**



Source: IMD, Agricoop, CRISIL

**What would be monsoon 2021's impact on agricultural output and the economy?**

Let's piece together the bits discussed so far. Our DRIP analysis shows, among the key kharif growing states, the impact of deficient rains appears to be restricted to Gujarat and Odisha. But their share of agriculture<sup>2</sup> in gross state value add (GSVA) is 8.2% and 8.4%, respectively, lower than the all-India average of ~10.0%. Likewise, their crop production shares, at 4.6% and 2.8%, are lower than the country average of ~6.0%.

Therefore, despite pockets of stress in some parts of the country due to deficient rainfall, we do not yet see cause for alarm for overall agricultural growth. We expect the sector to grow at 3% on-year in the current fiscal (over 3.6% last fiscal).

<sup>1</sup>Higher the DRIP score, more adverse the impact of deficient rains  
<sup>2</sup>Excluding allied activities

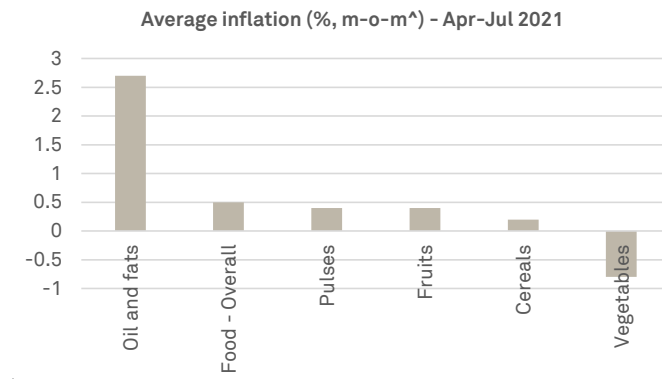
## Finally, some respite on inflation front too

While the government has already taken steps to tackle inflation by reducing import tariff for edible oil and pulses, the overall domestic sowing data augurs well for prices too.

Sowing of oilseeds – a leading contributor to high retail inflation – has already exceeded normal levels. Pulses has exceeded last year’s level and reached normal.

On the other hand, sowing is lagging in coarse cereals. But they are not a big contributor to inflation.

### ‘Oil and fats’ inflation has remained high



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seasonally adjusted basis  
Source: NSO, CRISIL

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