

SOUTH-WEST MONSOON 2023 - UPDATE

**Recent pick up in monsoon
encouraging; quantum of rainfall,
spatial distribution in July key for
progression of kharif sowing**

JULY 2023





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Rainfall was 10% below LPA in June 2023, but progressed appreciably in recent weeks; IMD expects normal rainfall in July 2023 (94-106% of LPA)

YoY growth in kharif sowing remained muted, with ~18% of the 2022 total area covered so far; rainfall in July 2023 crucial for pick-up in sowing

ICRA projects agri-GVA growth at 2.5% in FY2024 (+4.0% in FY2023); El Nino poses key downside risk



- After a delayed onset and tardy progress across India, monsoon rainfall covered the country ahead of normal by end-June 2023. The actual rainfall in June 2023 was 90% of long period average (LPA), in line with the India Meteorological Department's (IMD's) forecast (<92% of LPA).



- Subsequently, the IMD has predicted rainfall to be on the positive side of normal in July 2023 (94-106% of LPA). On a weekly basis, the rainfall advanced appreciably, with deviation from normal turning around to 19% above LPA in the week ended June 28, 2023.



- Year-on-year (YoY) growth in kharif sowing was muted at 0.4% as on June 30, 2023, with a decline in sowing for most major crops. Going ahead, the quantum and distribution of rainfall in July 2023 remains key, given that ~50% of total kharif sowing usually takes place in the month.



- Wheat procurement in the rabi marketing season (RMS) FY2024 stood at 26 MT, trailing the target of 34 MT, with mandi prices trending above the MSP during the period. Consequently, the outstanding wheat stocks were below the year-ago as well as historical levels as on Jun 1, 2023.



- The higher-than-expected increase in Minimum Support Prices (MSPs) of kharif crops for the FY2024 marketing season is likely to support sowing trends. However, a healthy progression of monsoon across regions would be crucial for yields and farm sentiments, going forward.



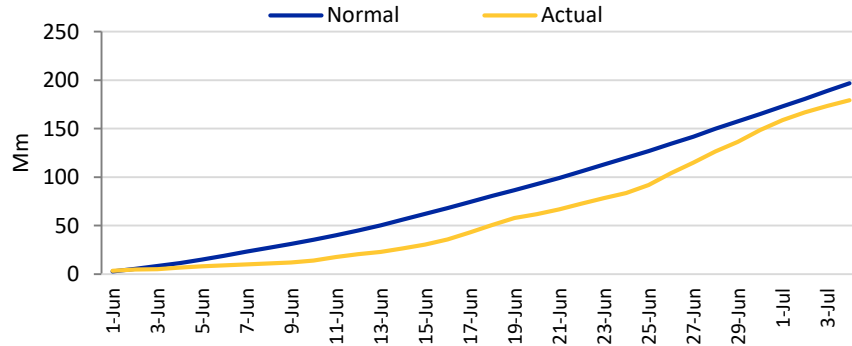
- ICRA projects the agri GVA growth at 2.5% in FY2024. However, El Nino conditions have developed in the Tropical Pacific, which is likely to impact the rainfall trends in India and consequently, crop output and rural income, posing downside risks to ICRA's growth forecasts.



- Retail prices of some essential food items have witnessed a higher sequential uptick in June 2023 vs. June 2022, partly led by seasonal disruptions related to transport/supply of perishables amidst the onset of monsoon. This is likely to push up the food inflation in June 2023.

Rainfall has picked up in recent weeks leading to narrowing of deficit; IMD expects normal rainfall in July

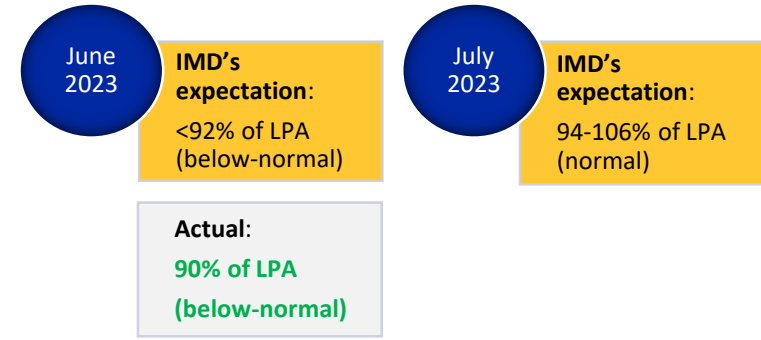
EXHIBIT: Cumulative normal vs. actual rainfall during Jun-Jul 2023 so far



*Till July 4, 2023; Source: IMD; CEIC; ICRA Research

- The delayed onset of the South-West monsoon had led to a large deficient rainfall in the first half of June 2023. The gap between the normal and actual cumulative rainfall stood at 50.7% by June 15, 2023.
- However, the deficit has narrowed progressively thereafter, amid a pick-up in rainfall, easing to 10.1% by end-June 2023 and further to 8.9% by July 4, 2023.

EXHIBIT: Actual vs. IMD's forecast of Monsoon rainfall in June and July 2023

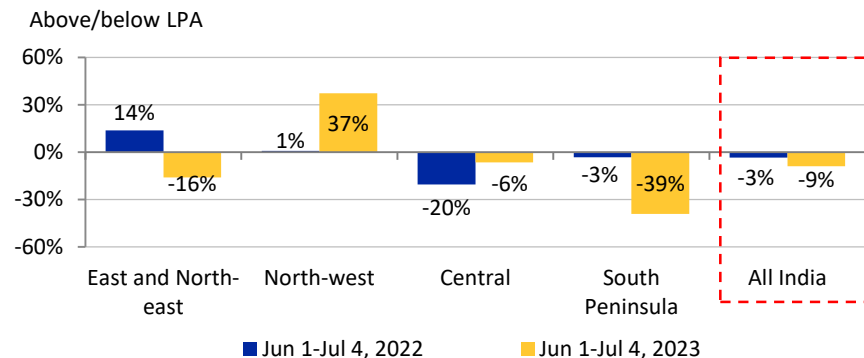


Source: Indian Meteorological Department (IMD); CEIC; ICRA Research

- The actual pan-India rainfall stood at 90% of the LPA in June 2023, in line with the IMD's below-normal forecast for the month (<92% of LPA).
- For July 2023, the IMD has projected the pan-India rainfall to be normal at 94-106% of LPA, with a higher possibility of it to be on the positive side of normal. However, it expects below normal rainfall over many areas of northwest, northeast and southeast peninsular India in that month.
- Rainfall has been normal at 97% of LPA in July 2023 so far (up to Jul 4, 2023).

Spatial distribution of rainfall has been uneven in SW monsoon season so far

EXHIBIT: Region-wise distribution of rainfall*



*On a pan-India basis, rainfall between 96% and 104% of the LPA is considered to be normal. The other classifications are deficient (below 90% of LPA), below-normal (90-96% of LPA), above-normal (104-110% of LPA) and excess (more than 110% of LPA); Source: IMD; CEIC; ICRA Research

EXHIBIT: Distribution of rainfall over 36 sub-divisions in Jun-Jul 2023 so far*

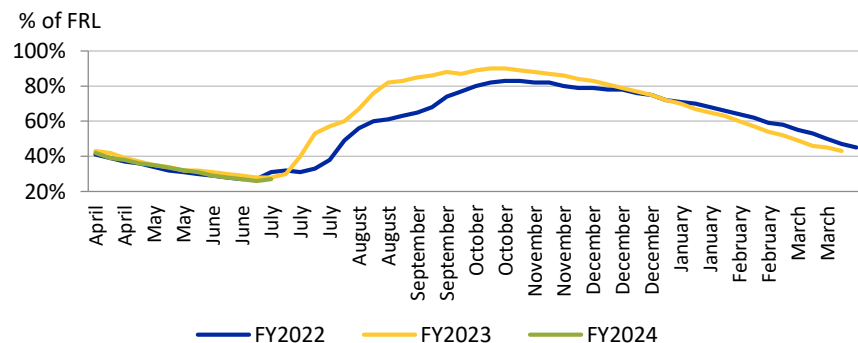
Category	% of LPA	No. of sub-divisions	% of Total
Large Excess	above 160	3	14%
Excess	120-159	5	8%
Normal	81-119	10	33%
Deficient	41-80	17	43%
Large Deficient	0-40	1	2%
No Rain	0	0	0%
Total		36	100%

*till July 4, 2023; Source: IMD; CEIC; ICRA Research

- As per the IMD's classification, the region-wise rainfall distribution during the ongoing season (till Jul 4, 2023) has been quite uneven, with deficient rainfall in the South Peninsula (61% of LPA), and the East and North-east region (84% of LPA). This was followed by below-normal rainfall in Central India (94% of LPA) and excess rainfall in the North-west region (137% of LPA) up to July 4, 2023.
- The spatial distribution of rainfall over the 36 sub-divisions has been skewed during the ongoing south-west monsoon season so far (till Jul 4, 2023), with 17 subdivisions (~43% of total) reporting deficient precipitation, albeit only one recording large deficient rainfall.
- In contrast, 10 subdivisions (~33% of the total) received normal rainfall, while large excess and excess rainfall was observed in a total of eight subdivisions (~22% of total) up to July 4, 2023.

Reservoir storage remains comfortably above historical levels

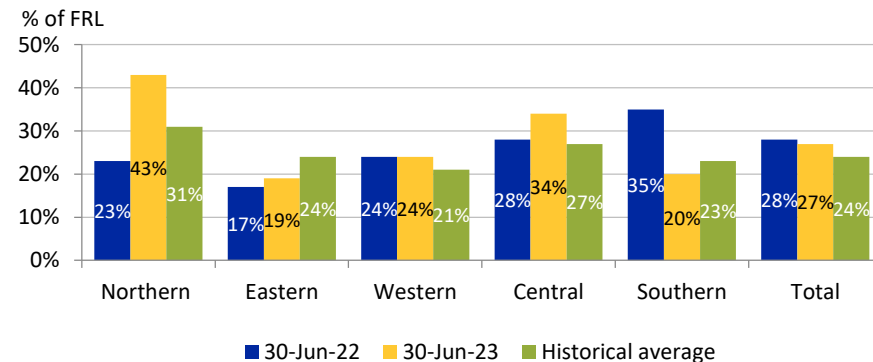
EXHIBIT: Reservoir storage levels as percentage of Live Capacity at Full Reservoir Level (FRL)



Source: Central Water Commission (CWC); CEIC; ICRA Research

- The all-India reservoir storage levels stood at 27% of the live capacity at FRL as on June 30, 2023, mildly below the year-ago level of 28% of FRL.
- However, the levels remain comfortably above the historical average of the last 10 years (24% of FRL), partly offsetting the below-normal rainfall seen in June 2023.

EXHIBIT: Region-wise reservoir storage levels

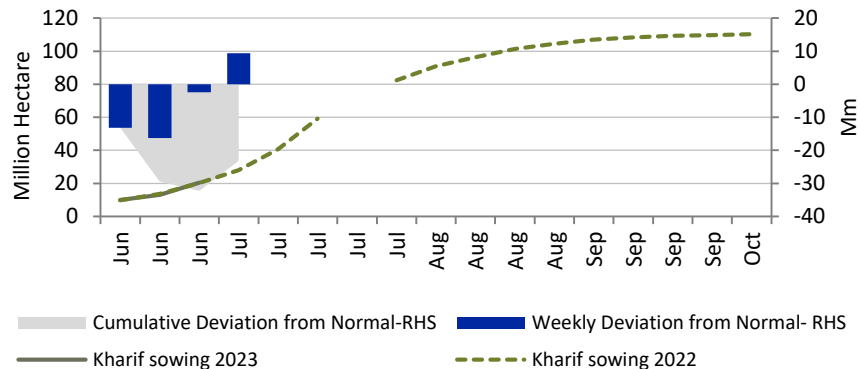


Source: CWC; CEIC; ICRA Research

- The region-wise distribution is mixed, with storage being higher than the year-ago levels in three of the five sub-regions as on June 30, 2023, including the northern (43% vs. 23%), eastern (19% vs. 17%), and central (34% vs. 28%) regions. In addition, the storage in the western region (24% of FRL) was at par with the year-ago level, while that in the southern region (20% vs. 35%; amid a large deficient rainfall so far) trailed the same.
- Barring the East and the South, all other regions recorded higher reservoir storage relative to their respective historical levels as on June 30, 2023.

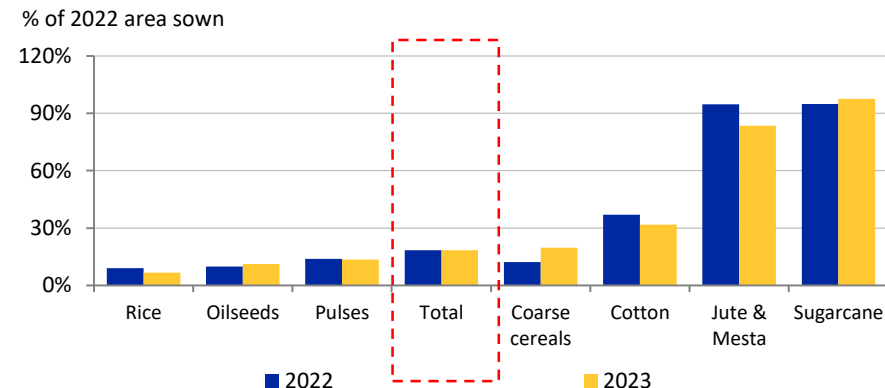
Kharif sowing has been uneven in 2023 so far; adequate rainfall in July crucial for pick-up in sowing across the country

EXHIBIT: Kharif sowing trends and Southwest Monsoon Rainfall deviation from Normal in 2023



Source: IMD; Ministry of Agriculture and Farmers' Welfare; ICRA Research

EXHIBIT: Area of crops sown as on June 30 in 2022 and 2023, as % of total area sown in 2022



Source: Ministry of Agriculture and Farmers' Welfare, ICRA Research

- Kharif crops had been sown on 20.3 million hectares by June 30, 2023, accounting for 18.4% of the total area covered in the 2022 season (slightly higher than the 18.3% area sown in 2022).
- The sowing for major crops such as rice (6.6% in 2023 vs. 8.9% in 2022), pulses (13.6% vs. 13.8%), cotton (31.8% vs. 36.9%) and jute and mesta (83.5% vs. 94.7%) has lagged during the ongoing kharif sowing season so far (till July 30, 2023). In contrast, coarse cereals (19.7% vs. 12.2%), oilseeds (11.2% vs. 9.8%) and sugarcane (97.6% vs. 95.0%) have seen an uptick in the share of area sown as compared to the previous year.
- With nearly ~50% of kharif sowing taking place in the month of July, adequate rainfall in the ongoing month across all regions will be critical to accelerate the pace of sowing over majority of the country. Moreover, the development of El Nino conditions during the latter part of the monsoon season may impact the overall trends of rainfall and consequently, agricultural output.**

Kharif sowing up by a muted 0.4% YoY so far amid decline in most major crops

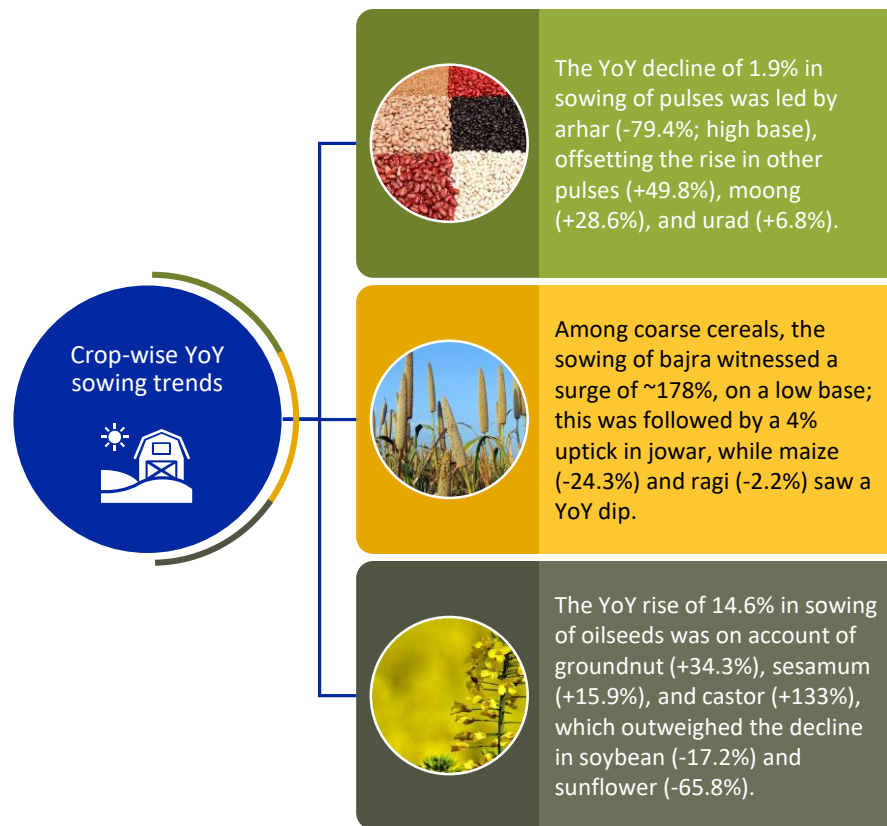
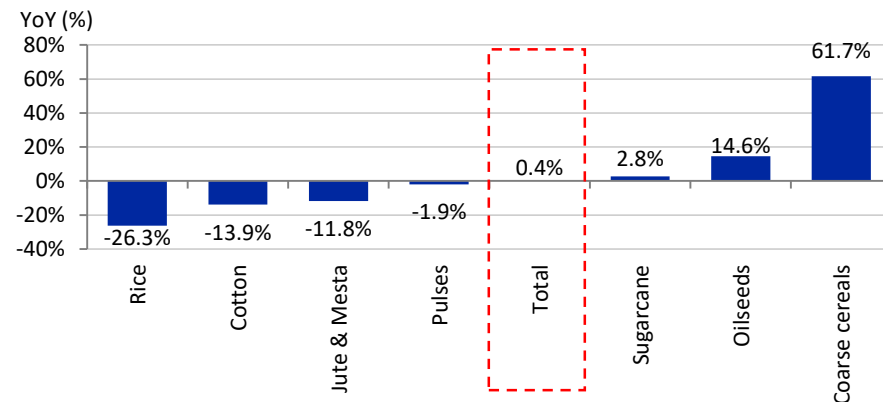


EXHIBIT: YoY growth in Kharif Sowing as on June 30, 2023

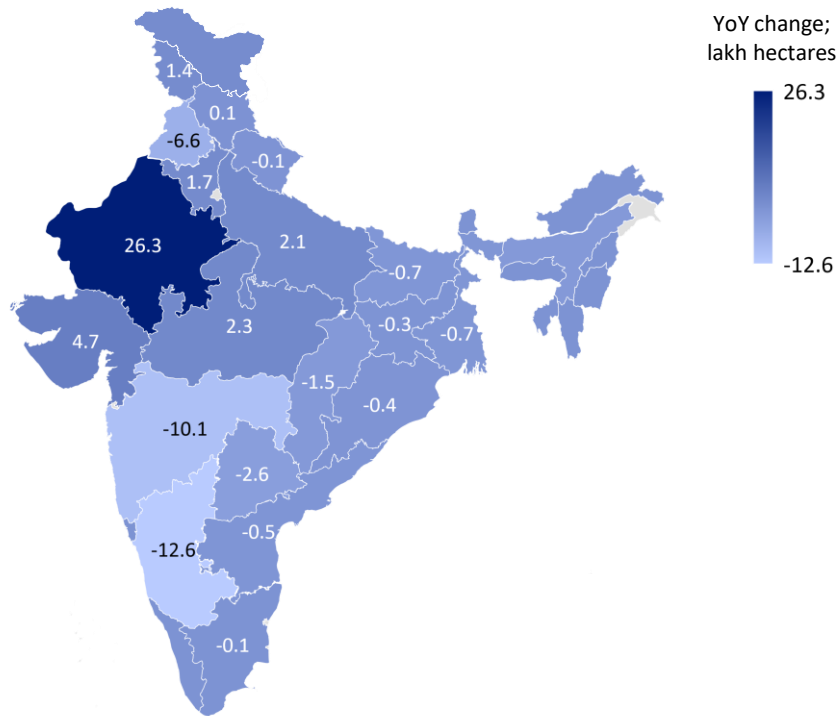


Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research

- As on June 30, 2023, the cumulative sowing of kharif crops exceeded the year-ago level by a muted 0.4%, led by oilseeds (+14.6%), coarse cereals (+61.7%; low base), and sugarcane (+2.8%).
- In contrast, rice (-26.3%, led by Jharkhand, Chhattisgarh, Assam and Karnataka), cotton (-13.9%), jute and mesta (-11.8%) and pulses (-1.9%) trailed the respective year-ago levels as on June 30, 2023.

Rajasthan recorded the highest YoY increase in kharif sowing, while Karnataka and Maharashtra lagged the year-ago level sharply

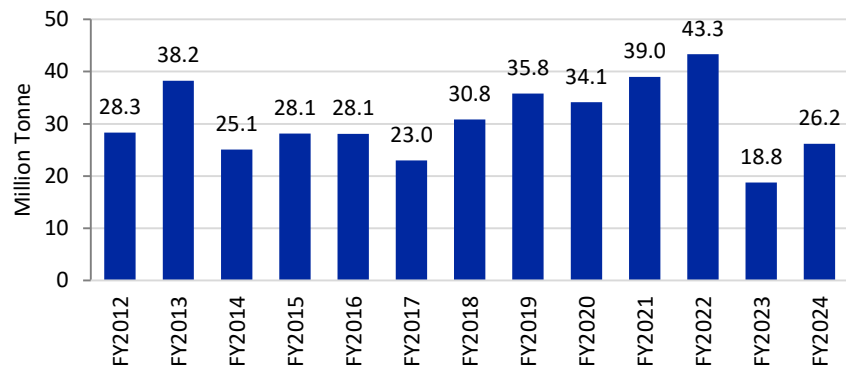
EXHIBIT: State-Wise Progress of Kharif Sowing as on June 30, 2023 (YoY change; lakh ha)



Cotton includes both BT and Non-BT segments; Source: Ministry of Agriculture and Farmers' Welfare, GoI; ICRA Research

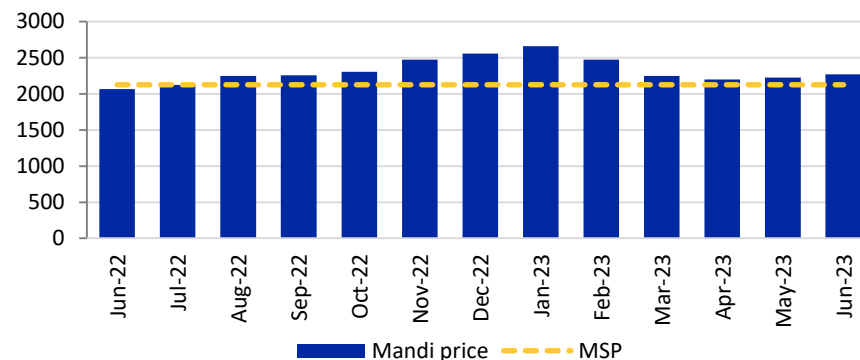
Wheat procurement in RMS FY2024 rose sharply on YoY basis, but trailed target

EXHIBIT: Wheat procurement by GoI in rabi marketing seasons



*includes procurement by the FCI and state agencies; Source: FCI, GoI; ICRA Research

EXHIBIT: Mandi price and MSP for rabi wheat (Rs./quintal)

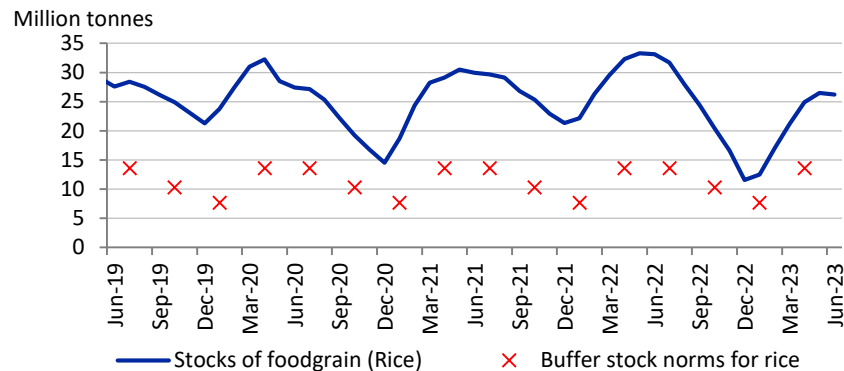


Source: CMIE; ICRA Research

- During the Rabi marketing season for FY2024, the Government has procured 26.2 million tonnes of wheat (as on July 7, 2023) as against the target of 34.2 million tonnes. While this is a sharp 39% higher than the year-ago level, it remains appreciably lower than the levels seen during FY2018-FY2022.
- Procurement was partly impacted by the mandi prices for the crop rising above the MSP of Rs. 2,125/quintal, thereby incentivising farmers to sell their produce directly in the market.

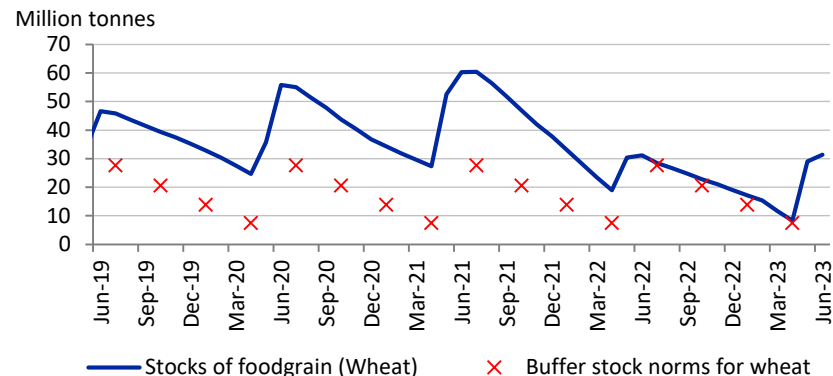
Outstanding stocks of rice and wheat below historical levels; GoI imposed stock limits on wheat, to offload stocks to contain prices

EXHIBIT: Rice stock in Central Pool and buffer stock norms (opening balance)



*FCI also provides data for unmilled paddy stock, in addition to rice stock; Source: Food Corporation of India; ICRA Research

EXHIBIT: Wheat stock in Central Pool and buffer stock norms (opening balance)

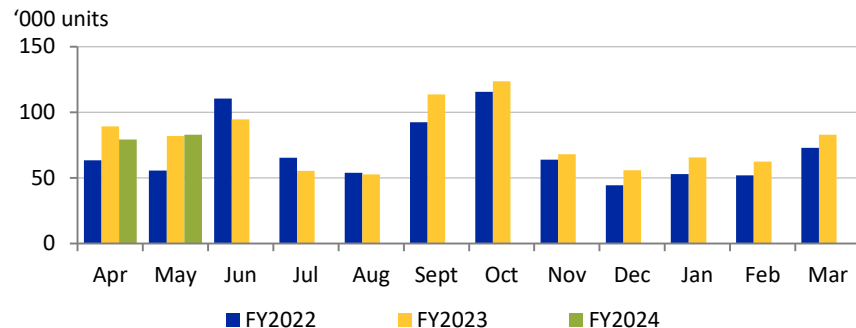


Source: Food Corporation of India; ICRA Research

- The outstanding stocks for rice, at 26.2 MMT as on Jun 1, 2023, were 20.8% lower vis-à-vis year ago levels, while also trailing the Jun 1, 2021 (-12.4%) levels. However, the increase in such stocks between Dec 1, 2022 and Jun 1, 2023 was steeper than that seen in the corresponding period of the previous year.
- Despite the sharp improvement in procurement in RMS 2023 relative to the previous season, the outstanding stocks of wheat, at 31.4 MMT as on Jun 1, 2023, were just 0.8% higher compared to year ago levels. Moreover, these were significantly lower than the Jun 1, 2021 (-47.9%) and Jun 1, 2020 (-43.8%) levels.
- Notably, the GoI [imposed stock limits on wheat](#) on June 12, 2023 (first time in 15 years), which will be applicable till Mar 31, 2024, in order to curb hoarding and escalation in wheat prices. The GoI had banned the export of wheat in May 2022 which is likely to continue in the ongoing fiscal.
- With a view to curb the rise in wheat and rice prices, the GoI has [decided to conduct e-auctions](#) of these foodgrains. However, the extent of the impact on wheat and rice prices will depend on the quantum of the offloading by the way of this intervention.

Tractor sales contracted during Apr-May 2023 on a high base; wholesale motorcycle volumes posted healthy YoY uptick

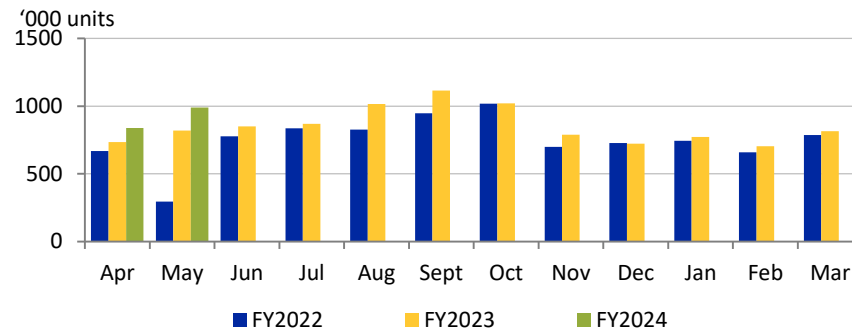
EXHIBIT: Trends in domestic tractor retail volumes



Source: CMIE; ICRA Research

- Domestic tractor retail volumes contracted by 5.2% during Apr-May 2023, partly dampened by a high base (+43.8% in Apr-May 2022). On a monthly basis, such volumes declined by a sharp 11.1% YoY in April 2023, before rising by 1.2% in May 2023.
- Additionally, such volumes exceeded the pre-Covid levels by a sharp ~41% in Apr-May 2023.
- On a high base, the YoY growth in domestic tractor volumes is expected to dip to 0-2% in FY2024 from 12.2% in FY2023. However, the possibility of a deficient monsoon rainfall poses downside risks to these estimates.

EXHIBIT: Trends in domestic motorcycle wholesale volumes

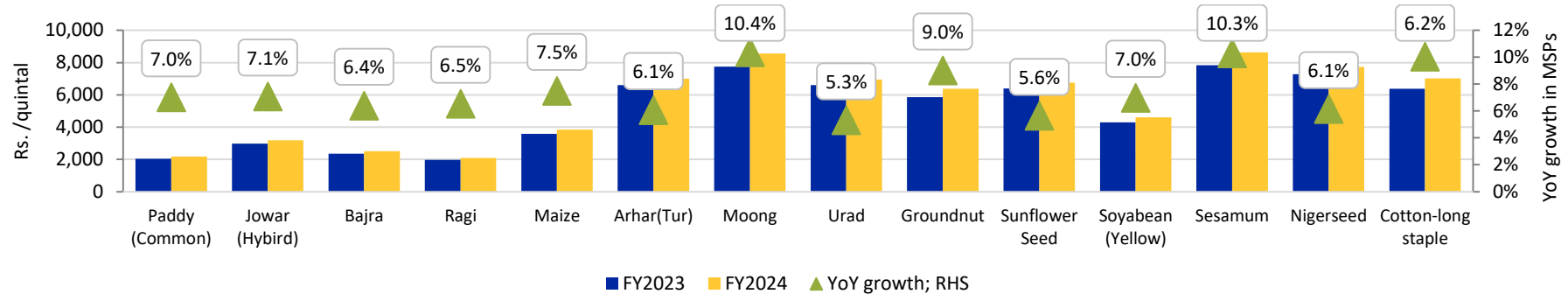


Source: CMIE; ICRA Research

- Domestic motorcycle wholesale volumes rose by 17.6% during Apr-May 2023 (+61.5% in Apr-May 2022). Notably, the average volumes stood at 0.91 million units per month during Apr-May 2023, exceeding the full-year averages seen in FY2023 (0.85 million units) and FY2022 (0.75 million units).
- On a monthly basis, the YoY growth in motorcycle sales rose to a nine-month high 20.6% in May 2023 from 14.1% in Apr 2023.
- ICRA estimates the growth in motorcycle volumes at ~6-9% in FY2024 (+13.9% in FY2023). However, occurrence of El Nino could constrain rural demand.

Appreciable MSP hikes for kharif crops augur well, but farm sentiments to take cue from progression and distribution of rainfall

EXHIBIT: Minimum Support Prices of Kharif crops for marketing season FY2023-24 and YoY growth in MSPs

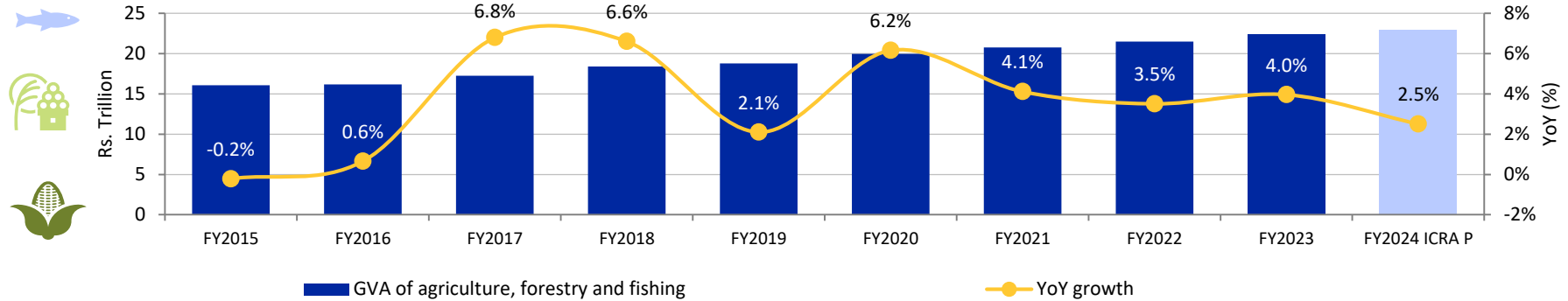


Source: Cabinet Committee on Economic Affairs; Gol; ICRA Research

- The Cabinet Committee on Economic Affairs (CCEA) had recently announced the minimum support prices (MSPs) for kharif crops for the FY2024 marketing season, with a YoY increase ranging from 5.3% to as high as 10.4%. Notably, the average YoY growth announced for such crops for FY2024 is estimated to be highest in the last four years, which is likely to impart an upward pressure to the inflation - the RBI has estimated the same at around 10-12 bps.
- The highest absolute increase in MSP has been announced for sesamum by Rs. 805/quintal with a YoY rise of 10.3%, followed by moong dal (Rs. 803/quintal; +10.4%). Benefitting from this, the sowing of such crops displayed a healthy YoY growth of 15.9% and 28.6%, respectively, as on June 30, 2023.
- **The higher-than-expected increase in MSPs of kharif crops is likely to support sowing trends. However, a healthy progression of monsoons across regions would be crucial for kharif yields and farm sentiments, going forward.**

El Nino poses downside risks to ICRA's agri GVA growth estimate of 2.5% in FY2024

EXHIBIT: Annual GVA of agriculture, forestry and fishing at 2011-12 prices

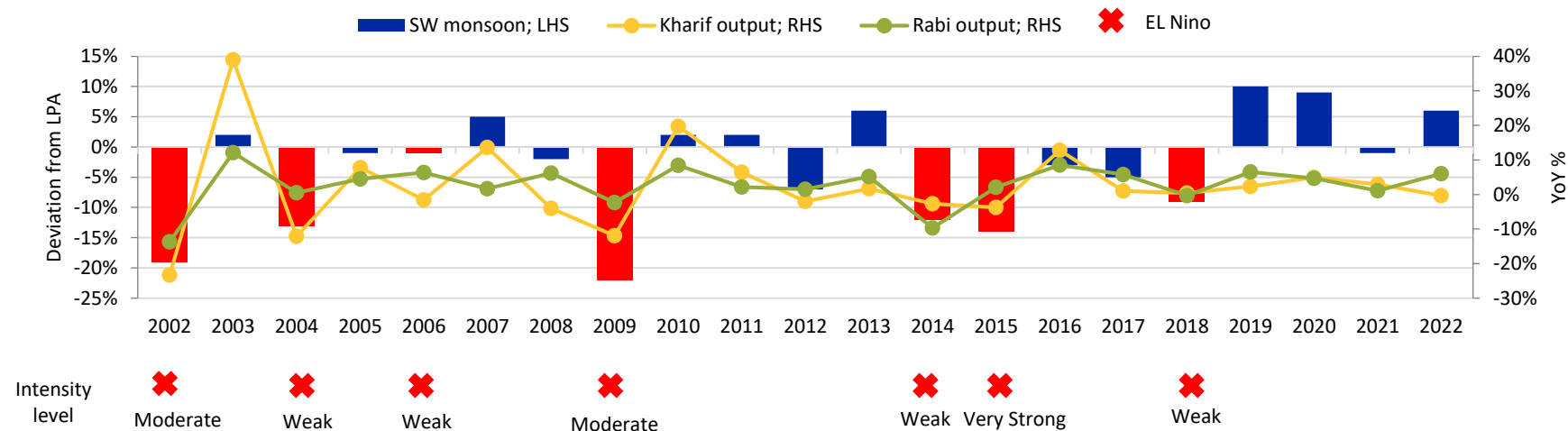


P: Projected; Source: NSO; ICRA Research

- While the rainfall in June 2023 was 10% below LPA over the country, the rains have advanced appreciably in the recent weeks, with the deviation from normal narrowing from 57% below LPA for the week ended June 7 to 6% below LPA for the week ended June 21, before recording 19% above LPA rainfall for the week ended June 28. Moreover, the IMD's expectations of above normal rainfall in July 2023 augurs well to accelerate the sowing of kharif crops, although the adequacy and distribution of rainfall over the country needs to be monitored.
- ICRA projects the agri GVA growth at 3.0% in H1 FY2024, followed by a lower 2.0% rise in H2 FY2024. This is likely to translate into a full-year growth of 2.5% in the GVA of agriculture, forestry and fishing in FY2024. However, as per the [World Meteorological Organization \(WMO\)](https://www.wmo.int/), El Nino conditions have developed in the Tropical Pacific, which are likely to prevail until the second half of CY2023 (with a probability of 90%). This is expected to impact the monsoons in India, and dampen prospects for crop output, thereby posing a downside to ICRA's growth forecasts.

20-year trends suggest negative impact of El Nino on monsoons irrespective of intensity level

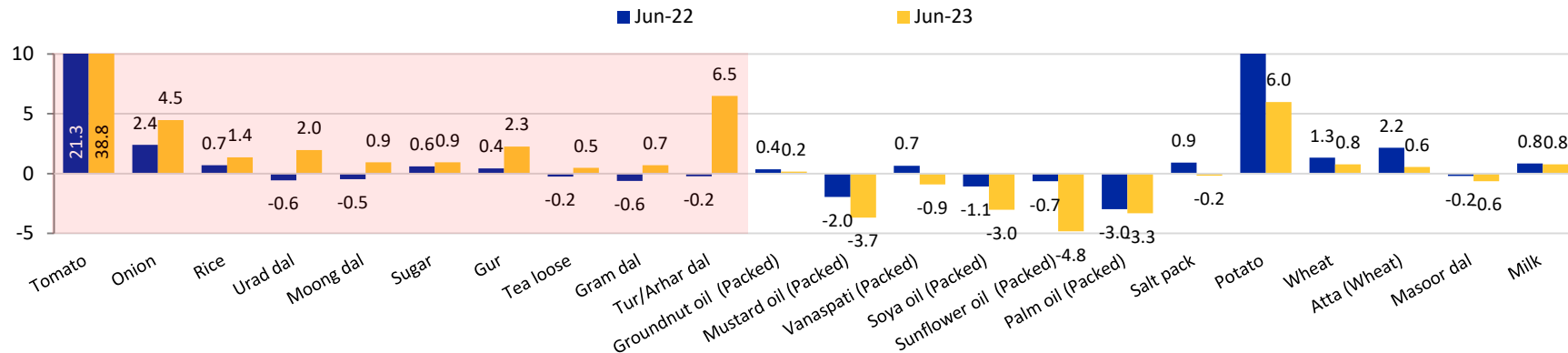
EXHIBIT: Vulnerability of Monsoon during El Nino years, and consequent impact on kharif and rabi production



- Over the last two decades, India has witnessed El Niño conditions in seven years (2002, 2004, 2006, 2009, 2014, 2015 and 2018) with varied intensity levels.
- The deficit in rainfall from the LPA for the South-west monsoon ranged between 1% to as high as 22%, which resulted in a YoY decline in the kharif output (foodgrains + oilseeds) in the El Niño years in the range of 1.6% (2006) to 23.3% (2002). Moreover, rabi output (foodgrains + oilseeds) contracted in four of such seven years particularly in 2002 (-13.7%), 2009 (-2.3%), 2014 (-9.7%) and 2018 (-0.3%) on a YoY basis.
- Notwithstanding the intensity of El Niño conditions, the likelihood of a sub-par South-West monsoon rainfall in 2023 appears high, based on trends for the last 20 years, which could weigh on the eventual crop yields and output.**

Higher MoM uptick in prices of certain items in June 2023 vs. June 2022 to push up food inflation in the month

EXHIBIT: MoM trends in prices of essential commodities

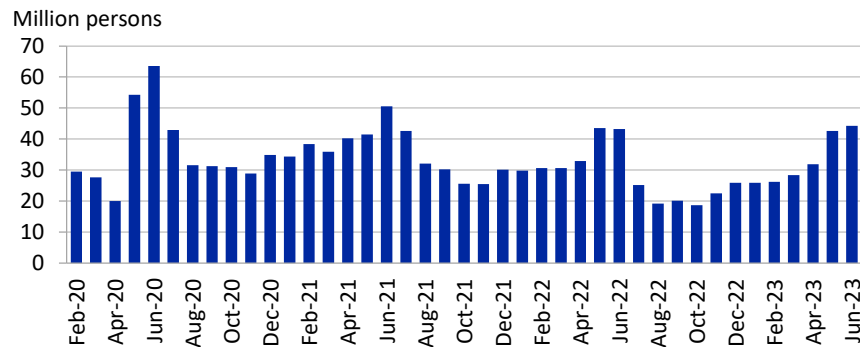


Source: DCA; ICRA Research

- As per the early data released by the DCA, the retail prices of tomato (lower output/yields given high temperatures in Apr-May 2023 that led to pest attacks in some states), onion, rice, green chilies, sugar and most pulses (urad moong, gram, and tur) have witnessed a higher MoM increase in June 2023, relative to June 2022, partly on account of seasonal disruptions related to the transport/supply of perishables with the onset of monsoon. This is likely to push up the June 2023 print of the CPI-food inflation, from the 18-month low of 2.9% in May 2023.
- The Government has decided to sell tur in the open markets to arrest the increase in prices of pulses. It will also conduct e-auction of 0.4 MT of wheat and 0.5 MT of rice from the Central pool and has imposed stock limits on the amount of wheat stocks that the traders can hold.
- At present, ICRA expects the CPI inflation for food and beverages to print at 5.6% in FY2024 (+6.7% in FY2023), with El Nino conditions and sub-par monsoons likely to pose an upside risk, particularly in H2 FY2024.

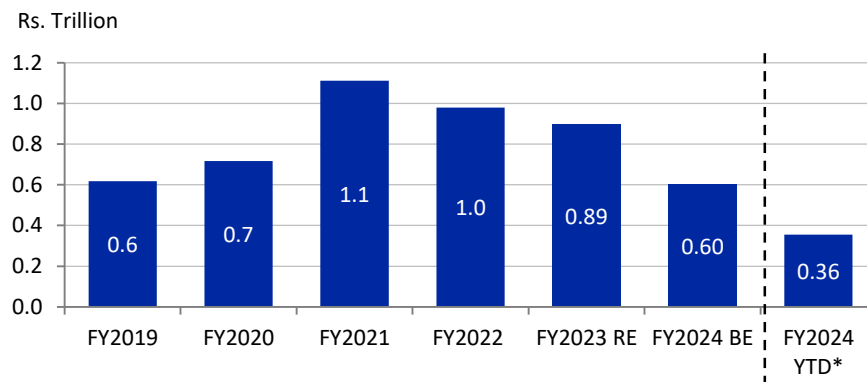
Work demand under MGNREGA mildly trailed year-ago levels in Q1 FY2024; El Nino may warrant additional spending under scheme in FY2024

EXHIBIT: Monthly trends in work demanded under MGNREGA



Source: Ministry of Rural Development, GoI; ICRA Research

EXHIBIT: Annual outlay under MGNREGA



*Till July 5, 2023; Source: Ministry of Rural Development, GoI; ICRA Research

- The work demand under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) rose to a 24-month high of 44.2 million people in June 2023 from 42.6 million people in May 2023, recording a mild YoY rise of 2.3%. Overall, demand contracted by 0.8% YoY in Q1 FY2024. Besides, the demand had reported a YoY contraction for 12 consecutive months during Jun 2022-May 2023, indicating no significant signs of rural distress.
- The GoI had allocated Rs. 0.6 trillion for the MGNREGA in its FY2024 BE, a sharp 32.6% lower than the FY2023 RE. Out of this amount, 59.3% or Rs. 0.36 trillion has already been released by July 5, 2023. ICRA expects that demand for jobs under MGNREGA could increase if El Nino hurts the rural economy, thereby necessitating a higher spending on the scheme vis-à-vis the budgetary allocation.



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