

Agri Prospects: February 2015

The WPI and CPI inflation numbers have been moving downwards in the last few months which have raised expectations of a further rate cut by the RBI. The inflation indices have been affected differentially by the various components. Food products continue to be under pressure while fuel prices have gone down sharply due to the moderation in global crude oil prices. Manufactured prices have been witnessing low increases due to limited demand conditions in the domestic economy as well as cooling of international commodity prices especially of metals due to slower growth conditions in China, Japan and the Euro region.

Against this background the Rabi crop and its prospects become important as the harvest, which begins in March and continues till May, could affect the prices of certain commodities. The earliest sign of Rabi prospects can be found in the data on area under cultivation. Overall there was a lower area under cultivation as of February 13th 2015 compared with February 2014 by 6.3%. The table below provides information on the area under cultivation for certain critical crops.

Table 1: Area under cultivation (Feb 13, 2015)

Lakh hectares	2014	2015	% Change
Wheat	315.32	306.35	-2.8
Coarse cereals	60.08	57.74	-3.9
Pulses	162.21	145.92	-10.0
Gram	102.25	85.91	-16.0
Oilseeds	90.20	80.92	-10.3
All crops	656.89	615.74	-6.3

Source: Ministry of Agriculture

Table 1 shows that all the crops have lower area under cultivation as of Feb 13, 2015. The deficit is around 10% for both pulses and oilseeds where traditionally India is an importer. Lower acreage under gram (chana) is significant given that it is the most important crop under the heading of pulses. The same holds for oilseeds where mustard is the major crop which is grown in the Rabi season.

How have prices moved for these crops?

Table 2 shows that lower production on account of lower acreage will probably affect prices of pulses with gram witnessing an upward movement into the positive territory. Given that its weight is quite high in the pulses category, there can be an inflationary pull. Mustard will also exert an upward pressure on prices of oilseeds. However, wheat will still be under control as presently it is in negative territory and could just about turn positive.

Table 2: WPI inflation: Jan'15 over Jan'14

Lakh hectares	Weight	Inflation
Wheat	1.12	-1.63
Coarse cereals	0.46	6.34
Pulses	0.72	12.34
Gram	0.33	-2.36
Oilseeds	1.78	0.89
Mustard	0.34	4.93

Source: Ministry of Agriculture

How would the CPI be affected?

About 9% of the CPI consists of products that may be affected by production shortfalls in the Rabi crops directly and indirectly. For example a lower wheat production may be buffered by the PDS component. However, indirect impact could be on by-products and other manufactured products due to higher input costs. Similarly, while mustard is the Rabi crop, a shortfall can cause substitution with other oilseeds which in turn could witness an increase in prices. Further, due to a little more than 50% of our edible oil requirement being met through imports there can be a tendency for supplies to increase through this source. While the exact impact will depend on the inter-commodity demand-supply dynamics, the effect on CPI would tend to be sharper than on WPI, where there would be more likely a marginal impact.

Concluding remarks

The possibility of a lower Rabi harvest this time cannot be ruled out. However, the impact on WPI inflation may not be very sharp given that some numbers are in the negative zone. Pulses, coarse cereals and oilseeds could witness some pressure points. The CPI index will tend to show sharper increases as the indirect impact could be higher.

Appendix

CPI inflation numbers

Product	Weight	CPI inflation
Wheat/ atta – PDS	0.17389	-12.03
Wheat/ atta – other sources	2.56052	2.53
Maida	0.03112	2.65
Suji, rawa	0.09511	4.14
Sewai, noodles	0.03381	5.3
Bread (bakery)	0.10816	4.41
Jowar & its products	0.22633	7.45
Bajra & its products	0.11249	2.19
Maize & products	0.05711	6.14
Small millets & their products	0.00024	8.9
Ragi & its products	0.04578	3.67
Mustard oil	1.32678	0.86
Groundnut oil	0.33277	-0.83
Coconut oil	0.07884	25.71
Refined oil [sunflower, soyabean, saffola, etc.]	1.26238	-1.22
Vanaspati, margarine	0.07187	2.17
Arhar, tur	0.79607	7.69
Gram: split	0.19899	1.38
Gram: whole	0.09480	1.77
Moong	0.34532	18.05
Masur	0.30213	12.6
Urd	0.27353	17.32
Peas	0.06756	1.08
Khesari	0.01151	6.57
Other pulses	0.08299	3.98
Gram products	0.02327	1.92
Besan	0.15725	0.67
Other pulse products	0.03066	6.94

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