

Business Standard

Despite normal rain, no cheer for farmers as profits still stressed: CRISIL

Higher MSPs have done little to lift crop profitability so far

Dilip Kumar Jha | Mumbai | October 08, 2018



Despite normal rainfall, farm profitability remained under stress this year, says ratings agency CRISIL.

The southwest monsoon, which begins in June and ends in September, closed this season 9 per cent short of the Long Period Average (LPA). This was termed “normal” by the India Meteorological Department. This is so for a third year in a row; the earlier such period was 2010 to 2013. During those earlier years of normal rain, average agricultural gross domestic product (GDP) grew 4.7 per cent annually.

Growth in agriculture GDP this year will be lower than that, though well on trend, says CRISIL in a report issued on Monday.

“But, there are some spoilers. Rainfall distribution has been patchy and farmer income is down. The good news is that the rural non-farm side is seeing better days. Also, given healthy overall production, food inflation might stay contained,” said Dharmakirti Joshi, chief economist at CRISIL.

Depending on the government’s procurement efficacy, the announced higher minimum support prices (MSPs) might offer an upside of up to 50 basis points to overall inflation. That’s because the combined weight of the 13 kharif crops on which MSP was hiked is only about five per cent in Consumer Price Index inflation.

Meanwhile, three key kharif crop growing states — Gujarat, West Bengal and Bihar — are reeling under the impact of deficient rain, of 18 to 27 per cent of the LPA. And, though Rajasthan, Madhya Pradesh, Uttar Pradesh, Andhra Pradesh, Karnataka and Maharashtra saw normal overall rain, they also had pockets of severe deficiency. That, too, in the crucial months of July and August. This had impacted sowing.

Deficient rain could impact groundnut, tur (pigeon pea), jowar (sorghum) and cotton. An indication came from the recently released crop output estimates of the Union ministry of agriculture. Still, prices of most agricultural commodities are falling. Thus, it is turning out to be another year where farmer incomes would remain low. Higher MSPs have done little to lift crop profitability so far. In fact, wholesale (mandi) prices have been trailing the MSPs announced in July.

“By contrast, real non-farm incomes are on an uptrend. The government’s thrust on constructing rural infrastructure, coupled with the waning impact of demonetisation, is likely to have helped create employment for low-skilled agricultural labourers and boost non-agricultural rural wages. Wage levels are modest but there is a steady rise,” said Dipti Deshpande, senior economist at CRISIL.

An estimated 52 per cent of rural households are now dependent on non-agricultural sources of income.

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