

SOUTH-WEST MONSOON OUTLOOK 2024

IMD expects above-normal monsoon in 2024 with onset of La Nina conditions; adequate dispersion of monthly rainfall remains key to support kharif output

APRIL 2024





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IMD predicts above normal monsoon season in 2024, with rainfall at 106% of LPA +/- 5%

~75% of overall sowing gets completed by July, for which rainfall needs to be adequate in the initial monsoon months, notwithstanding timing of development of La Nina conditions

ICRA expects GVA growth of agriculture, forestry and fishing to improve to 3.4% in FY2025 from the 0.7% predicted for FY2024



- The India Meteorological Department's (IMD's) first stage forecast for the 2024 South-West Monsoon season has indicated above-normal rainfall at 106% +/- 5% of the Long Period Average (LPA), with the expectation of development of La Nina conditions in August-September 2024.
- The reservoir storage level as on Apr 11, 2024 is lower than that seen during each of the last four years as well as the historical average. Given this, and the IMD's projections of higher-than-normal maximum temperatures during the ongoing hot weather season, the reservoir storage level at the beginning of the upcoming monsoon season may well be the lowest since 2020.
- Notwithstanding deficient rainfall in the ongoing pre-monsoon season, the sowing of summer/zaid crops has progressed well, with a YoY growth of 8.2% as on Apr 12, 2024, led by a double-digit increase in area sown for coarse cereals (+12.6%) and rice (+10.9%).
- Typically, ~75% of the overall kharif sowing gets completed by end-July 2024. Thus, while the expected development of La Nina conditions in August-September 2024 would augur favourably for the overall monsoon rainfall, the volume and dispersion of the same needs to be adequate in June-July 2024, to improve the prospects for output and farm cash flows, as well as the prices of food items.
- Assuming a normal and well-distributed monsoon, ICRA expects the GVA growth of agriculture, forestry and fishing to improve to 3.4% in FY2025 (+0.7% in FY2024). The growth is likely to improve to ~4% in H2 FY2025 from 2.6% in H1 FY2025, supported by a favourable base (-0.7% expected in H2 FY2024).
- The seasonal as well as heatwave-led hardening in perishable prices, persistent pressure on the prices of pulses and rice owing to the weak output in 2023-24, and the unfavourable base for Q1 FY2025, is likely to keep the CPI inflation for food and beverages elevated at ~8.0% during Q1 FY2025. Thereafter, expectations of an adequate monsoon are likely to augur well for food prices, although any unpleasant surprises on the agro-climatic front could push up the food inflation trajectory, and also pose the risk of food price pressures transmitting to the core segment.



IMD projects above-normal monsoon amidst waning El Nino conditions

IMD expects monsoon rainfall to be above-normal at 106% +/-5% of LPA in 2024, amid development of La Nina conditions in second half of the season

EXHIBIT: IMD's forecasts for South-West Monsoon seasonal (June-September) rainfall

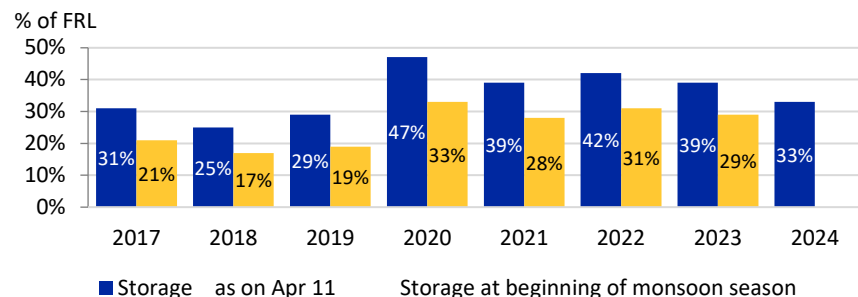
Year	IMD April Forecast	IMD June Forecast	Actual Rainfall (% of LPA)
2016	106% +/- 5% of LPA	106% +/- 4% of LPA	97%
2017	96% +/- 5% of LPA	98% +/- 4% of LPA	95%
2018	97% +/- 5% of LPA	97% +/- 4% of LPA	91%
2019	96% +/- 5% of LPA	96% +/- 4% of LPA	110%
2020	100% +/- 5% of LPA	102% +/- 4% of LPA	109%
2021	98% +/- 5% of LPA	101% +/- 4% of LPA	99%
2022	99% +/- 5% of LPA	103% +/- 4% of LPA	106%
2023	96% +/- 5% of LPA	96% +/- 4% of LPA	94%
2024	106% +/- 5% of LPA		

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); LPA rainfall over country as a whole on data of 1971-2020 is 87 cm; Source: IMD; ICRA Research

- The IMD's first stage forecast for the South-West Monsoon rainfall for 2024 (June-September) has placed the volume of rainfall at 106% +/- 5% of the LPA, indicating an above-normal monsoon (104%-110% of LPA as per IMD's classification). The country had witnessed a below normal rainfall, at 94% of LPA, in 2023, with the spatial and temporal distribution of the same being quite uneven.
- The IMD has indicated that El Nino conditions are likely to weaken and turn neutral thereafter in the early part of the upcoming monsoon season, followed by the development of La Nina conditions in the second half of the monsoon season. **These developments are likely to improve monsoon rainfall conditions and prospects for the kharif crop output in 2024, reservoir levels as well as rabi prospects, and also lower inflation expectations.**
- At present, neutral Indian Ocean Dipole (IOD) conditions are prevailing over the Indian Ocean and the IMD's latest forecast indicates development of positive IOD conditions during the second half of the South-West Monsoon season.

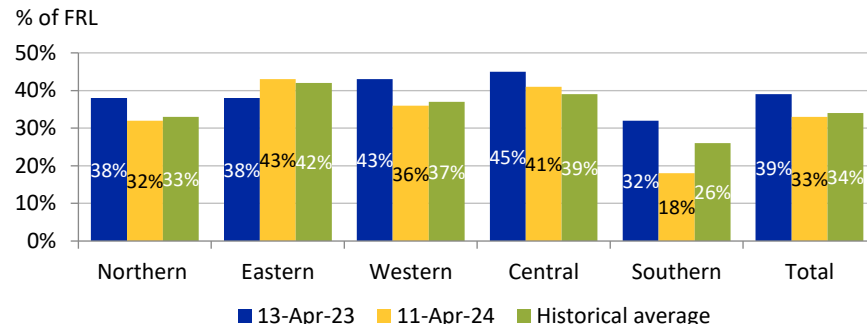
Reservoir storage trails year-ago and historical levels in Apr 2024

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



Similar time periods have been taken for all years; Source: Central Water Commission (CWC); CEIC; ICRA Research

EXHIBIT: Region-wise reservoir storage levels



Source: CWC; CEIC; ICRA Research

- The all-India reservoir storage stood at 33% of the live capacity at FRL as on April 11, 2024, trailing the year-ago (39% of FRL) and historical (34% of FRL over past 10 years) levels.
- On a region-wise basis, the reservoir storage in all the regions (barring eastern: 43% vs. 38%), has trailed the year-ago levels as on April 11, 2024. While the water storage in the central and eastern regions as on April 11, 2024 is marginally higher than the historical levels of the past decade, that in the southern, western, and northern regions trails the same by 8 pp, 1 pp, and 1 pp, respectively.
- Reservoir levels typically chart a seasonal downtrend during the pre-monsoon season (Mar-May), followed by an uptick during the South-west monsoon season (Jun-Sep). **With the reservoir storage level as on Apr 11, 2024 already trailing that seen during the last four years and given the IMD's projections of higher-than-normal maximum temperatures during the ongoing hot weather season, the storage level at the beginning of the upcoming monsoon season may well be the lowest since 2020. Going ahead, above-normal and well-distributed rainfall would be crucial for a replenishment of reservoir storage levels.**

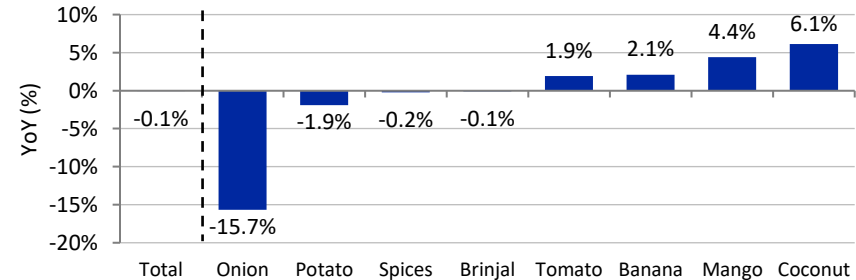
Barring wheat, rabi output of all other crops estimated to moderate in 2023-24; output of horticulture crops projected to dip marginally

EXHIBIT: YoY trends in kharif and rabi production as per Second Advance Estimates (SAE) for 2023-24 vs. Final Estimate for 2022-23

Million tonne	Kharif Production			Rabi Production		
	Final Estimate 2022-23	2 nd AE 2023-24	YoY (%)	Final Estimate 2022-23	2 nd AE 2023-24	YoY (%)
Wheat		NA		110.6	112.0	1.3%
Rice	110.5	111.5	0.9%	15.0	12.4	-17.6%
Coarse Cereals	37.6	35.6	-5.2%	15.9	14.5	-9.2%
Pulses	7.6	7.1	-6.6%	16.4	16.3	-0.2%
Oilseeds	26.2	22.8	-12.7%	14.2	13.8	-2.8%
Cotton*	33.7	32.3	-4.0%		NA	
Sugarcane	490.5	446.4	-9.0%		NA	

*Million bales of 170 kg each; Source: Ministry of Agriculture and Farmers Welfare, ICRA Research

EXHIBIT: YoY trends in output of some major horticulture crops as per First Advance Estimates (FAE) for 2023-24 vs. Final Estimate for 2022-23

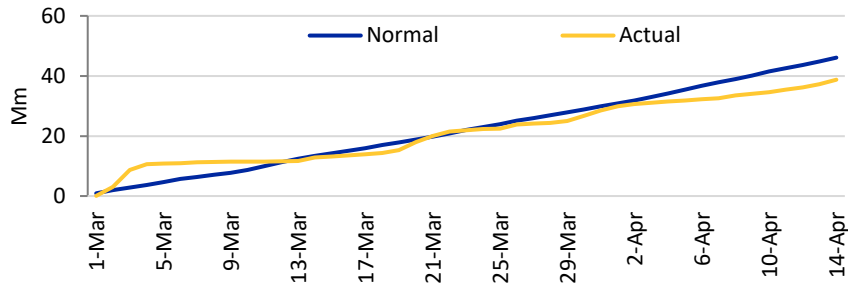


Source: Ministry of Agriculture and Farmers Welfare; ICRA Research

- As per the SAE for 2023-24, the output of most rabi crops, barring wheat (+1.3%; record), is anticipated to decline, compared to final estimates of 2022-23, albeit in a wide range of 0.2% for pulses to as much as 17.6% for rice. The sobering decline in the rabi output for rice and coarse cereals can be partly attributed to a sharp dip in their yields amidst persistent El Nino conditions. Notably, the kharif output for oilseeds, cotton and sugarcane have undergone upward revisions in the SAE for 2023-24, thereby reflecting that the quarterly agri GVA growth estimates for Q2-Q3 FY2024 may be revised up as well.
- Additionally, as per the FAE for 2023-24 released by the Ministry of Agriculture and Farmers' Welfare, the output of horticulture crops is estimated to decline marginally by 0.1%, relative to the final estimates for 2022-23. The output of onions is estimated to decline sharply by 15.7% in 2023-24 FAE, relative to the Final Estimates for 2022-23, followed by a relatively narrower dip in the production of potatoes (-1.9%), spices (-0.2%), brinjals (-0.1%), etc. In contrast, the output of some major crops, such as tomatoes (+1.9%), bananas (+2.1%), mangoes (+4.4%), coconuts (+6.1%), etc., is projected to rise in 2023-24.
- In the near term, the prices of pulses, rice and few horticulture crops (potato and onion) are likely to trend upwards, owing to the weak output in 2023-24.

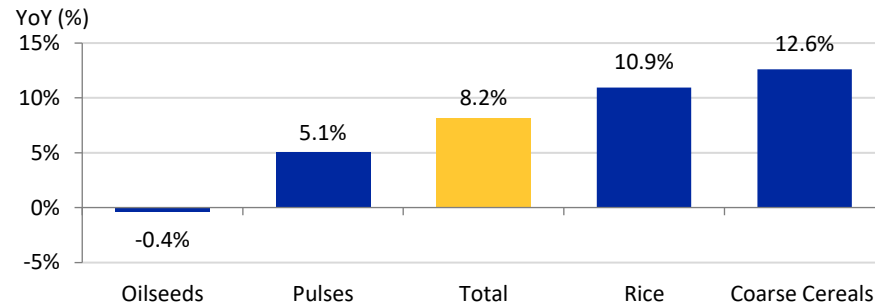
Despite deficient pre-monsoon season rainfall, summer sowing has progressed well, rising by ~8% YoY

EXHIBIT: Cumulative normal vs. actual rainfall in summer season



Note: 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: Area coverage under Summer/Zaid crops as on Apr 12, 2024

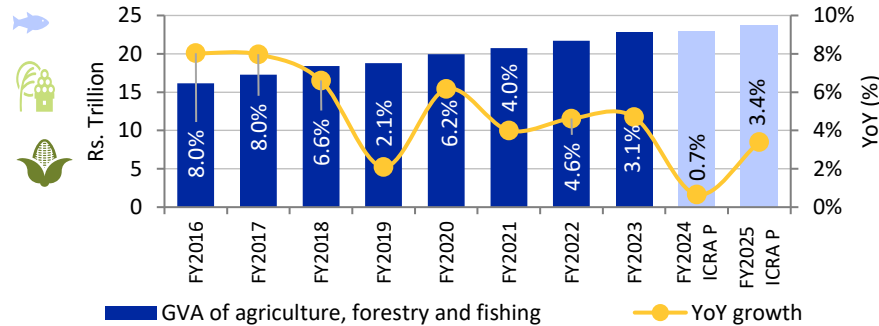


Zaid crop is grown before kharif sowing season and after harvesting of rabi crops; Source: Ministry of Agriculture and Farmers' Welfare; CEIC; ICRA Research

- India has received deficient rainfall at 84% of LPA up to Apr 14, 2024 in the ongoing pre-monsoon season (March-May), although the temporal distribution has been varied.
- Despite the sub-par rainfall in the ongoing pre-monsoon season and a YoY lag in reservoir levels, the area covered under summer crops has progressed well, with a healthy YoY increase of 8.2% to 6.1 million hectare (mn ha) as on April 12, 2024. The area sown under crops like coarse cereals (+12.6%) and rice (+10.9%) reported a sharp double-digit YoY expansion, followed by a relatively lower uptick in pulses (+5.1%), while that for oilseeds reported a marginal decline of 0.4% as on April 12, 2024.

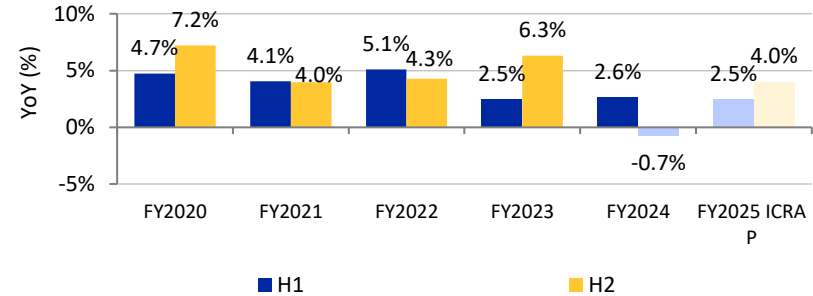
ICRA projects GVA growth of agriculture, forestry and fishing to improve to 3.4% in FY2025, presuming a normal, well-distributed monsoon

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



Source: NSO; ICRA Research

EXHIBIT: H1 and H2 trends in GVA growth of agriculture, forestry and fishing



H2 FY2024 reflects implicit growth for Q4 and actual estimate for Q3; Source: DoF; ICRA Research

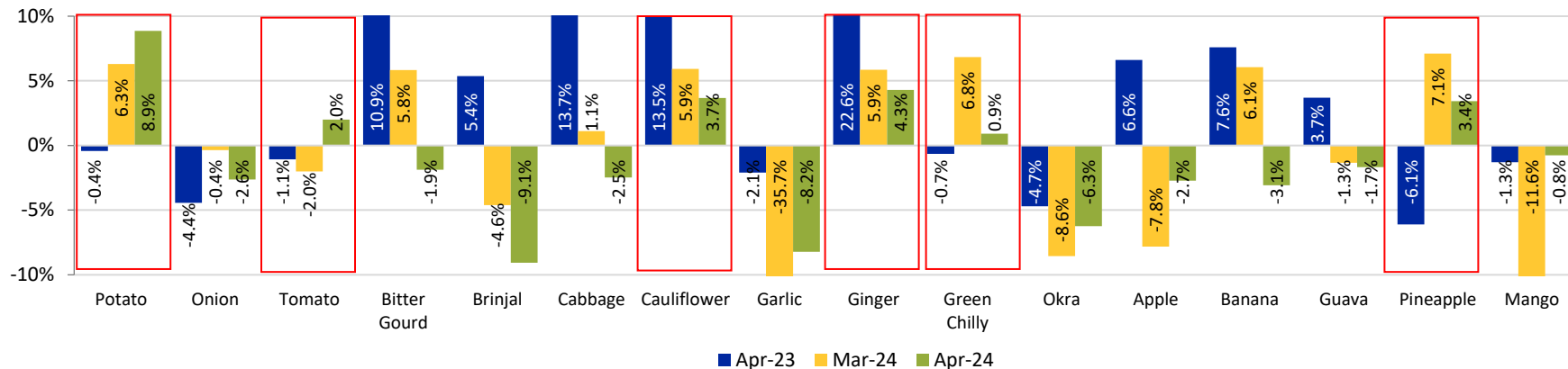
- Typically, ~75% of the overall kharif sowing gets completed by end-July. Thus, while the expected development of La Nina conditions in August-September 2024 would augur favourably for the overall monsoon rainfall, the volume and dispersion of the same needs to be adequate in June-July 2024, to improve the prospects for output and farm cash flows, as well as the prices of food items.
- Assuming a normal and well distributed monsoon, ICRA expects the GVA growth of agriculture, forestry and fishing to improve to 3.4% in FY2025 from the 0.7% predicted for FY2024. We have placed the growth rate for the sector at 2.5% in H1 FY2025, similar to the levels seen in H1 of FY2023-24. Thereafter, the growth is likely to improve to ~4.0% in H2 FY2025, supported by a favourable base (-0.7% expected in H2 FY2024; +2.6% in H1 FY2024).



Heat wave likely to exert upward pressure on perishable prices in Q1

Perishable prices displayed mixed trend in Apr 2024 so far; likely to pick up in coming weeks amid expectations of above-normal temperatures

EXHIBIT: MoM trends in retail prices of perishables

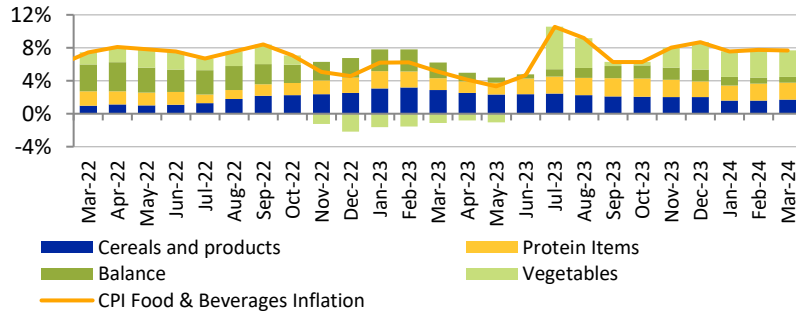


*Data for Apr 2024 is available up to Apr 14, 2024; Source: DCA; CEIC; ICRA Research

- Items like potato, tomato, green chilly and pineapple have witnessed sequential hardening in prices in April 2024 so far, compared to the MoM deflation in April 2023, while cauliflower and ginger saw sequential uptick in both of these months. On the contrary, onion prices have softened with demand trailing the supply owing to the “Navaratri” season even as the production in 2023-24 is estimated to be lower than last year. Besides, the current trend is favourable for other fruits and vegetables.
- However, **this trend is likely to reverse in the coming weeks owing to seasonality as well as above-normal temperatures and higher number of heatwave days, which are likely to prevail until June 2024 as per the IMD. This will likely push up the prices of perishables, thereby posing upside risks to the inflation trajectory in the immediate term.**

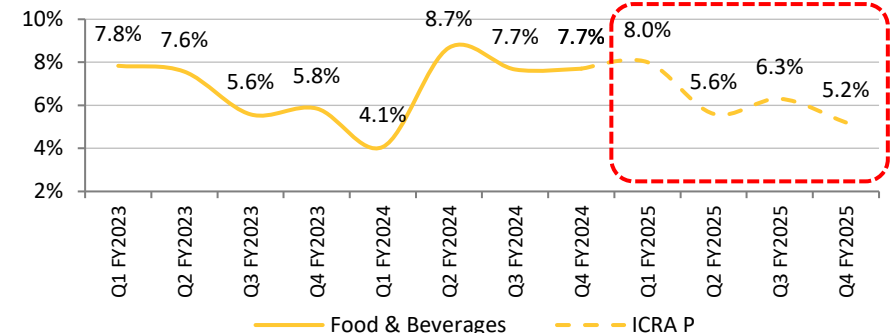
Food and beverage inflation may harden in Q1 FY2025; likely to soften to 6.2% in overall fiscal year based on premise of normal monsoon

EXHIBIT: Composition of CPI Food and Beverages inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Quarterly trends in CPI Food and Beverage Inflation (YoY; %)



Source: NSO; CEIC; ICRA Research

- While the retail inflation in food and beverages (with a weight of 45.9% in the CPI) softened marginally to 7.7% in March 2024 (+5.1% in March 2023) from 7.8% in February 2024 (+6.3% in February 2023), it remained above 7% mark for the fifth consecutive month.
- The seasonal as well as heatwave-led hardening in perishable prices, along with the persistent pressure on the prices of pulses and rice owing to the weak output in 2023-24, and the unfavourable base for Q1 FY2025, is likely to keep food inflation elevated at ~8.0% during Q1 FY2025. Nevertheless, the impending favourable base for the months of Q2 FY2025 is likely to temporarily lead to an appreciable correction in the food inflation to sub-6% in the quarter.
- Presuming a well-distributed and normal monsoon, ICRA projects the average CPI-food and beverage inflation to soften to 6.2% in FY2025 from 7.0% in FY2024. While the current indications of the development of La Nina conditions during the H2 of monsoon season are likely to augur well for food prices, any unpleasant surprises on the agro-climatic front could push up the food inflation trajectory, and also pose the risk of food price pressures transmitting to the core segment.**



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