

Minutes of the Tenth Monthly Briefing Meeting under NCAER Project on Agricultural Outlook held on 31 August 2012.

Tenth monthly briefing under NCAER Project on “Outlook and Situation Analysis for Food Security” was held on 31th August, 2012, at 3.00 pm in Committee Room No. 142, Krishi Bhawan, New Delhi under the Chairpersonship of Secretary (A&C).

The agenda covered two presentations: (1) “Measuring the impact of deficient rainfall: Monsoon 2012”, by Dr. D.K. Joshi, Chief Economist, CRISIL, Mumbai and (2) “Update on Crop Outlook Study”, by Shashanka Bhide, NCAER. List of participants is attached.

Sh. Mukesh Khullar, Joint Secretary, DAC, welcomed the Secretary (A&C) and other participants in the Tenth Briefing meeting of the NCAER project on Outlook and Situation Analysis for Food Security.

Dr. Bhide, Sr. Research Counsellor, NCAER introduced Mr. Dharamkriti Joshi, Chief Economist, CRISIL, to the participants and explained the importance of the subject “Measuring the impact of deficient rainfall: Monsoon 2012” in assessing crop outlook for the year.

1.Presentation by Mr. D.K. Joshi, CRISIL:

Initiating the presentation, Dr. Joshi said under the projected rainfall deficiency of 15 per cent for the entire monsoon season, agricultural growth is likely to be flat. He explained the concept of Deficient Rainfall Impact Parameter (DRIP) where both the percentage area un-irrigated and percentage rain fall deficiency are taken into account to measure the impact on the production of a particular crop in a particular State. It is then aggregated across states for each crop and for each state. DRIP covers nine principal crops and 13 major producing states. The index has been developed to provide an assessment of the implications of emerging rainfall scenario to agriculture as soon as rainfall information is available. He made it clear that this is a very simple exercise to get an indication of the likely impact of rainfall on agriculture.

Comparing of DRIP score for this year with previous years and crop-wise/ State-wise DRIP score over the years was also made. Mr. Joshi noted that adverse impact of rainfall in 2012, which was as bad as 2009 till July end, is less pronounced now due to improved rains in August’2012. Gujarat, Karnataka, Maharashtra and Bihar are worst impacted states. Gujarat and Karnataka are worse than 2009. Jowar, Bajra, Tur, Groundnut and cotton are worst impacted crops. Rainfall in groundnut producing regions is worse than 2009.

Dr. J. P. Mishra, OSD to Agriculture Commissioner, pointed out that the DRIP index does not take into account the requirement of water or rainfall by specific crops. Therefore,

aggregating the index over the states does not capture the true effect of variations in rainfall from one year to another on crop output.

Mr. Joshi pointed out some other limitations of the index. The DRIP (Deficient Rainfall Impact Parameter) does not factor in the adverse impact of excess rain fall, information on progress in sowing and the implications of consecutive droughts or conditions in the previous year's monsoon in assessing the implications to crop output. However, it serves as a good indicator of agricultural output scenario given the rainfall conditions in the country. A review of the DRIP scores also indicates unusual patterns of rainfall in terms of excessive rains in short periods, and thus helps in drawing inferences taking into account such patterns.

Commenting on the impact of rainfall or production conditions on prices, Mr. Joshi stated that agricultural price formation is a complex process and the surge in affordability in an environment of weak agricultural production is one of the major reasons leading to the recent persistence of high food inflation. The growth of nominal value of agricultural output has been much faster than the growth in real terms, reflecting the rise in prices relative to output growth in agriculture. The consumers are able to pay more for agricultural produce as reflected even in the real wage rates. The average real wage rates in rural areas for casual labour increased by 13.7 per cent per year during 2008-09 and 2009-10 as compared to an increase of 8.8 percent per year during 2004-05 to 2007-08.

Thanking Mr. Joshi for the presentation, Secretary (A&C) raised the issue of validation of the DRIP scores and improvement in the index taking into account some of the points made at the meeting. Mr. Joshi explained that CRISIL has not done any extensive work in this regard but they have found the measure to be valuable in providing a quick overview of agricultural outlook for the year. He said that if data are made available to CRISIL they would make further improvements to the Index.

2.Presentation by Dr. Shashanka Bhide, NCAER:

Dr. Bhide presented an update on the Crop Outlook Study focusing on new developments in the global outlook and their implications to trade and price scenarios for Indian agriculture.

The global production forecasts of major agricultural commodities such as wheat, corn, soybean have been revised by USDA. In its August 2012 report, the USDA has revised downward its production estimates for wheat, corn and soybean for 2012-13 over its reports of May, June and July. Although India's own weak monsoon has not affected 2012 wheat estimates, the lower rice and coarse grain output has been reflected in the new estimates.

Despite the downward revision in global production estimates in the last three months, production level in 2012-13 is expected to be nearly the same or higher than in the previous year in the case of rice, soybean, soy oil and meal and total oilseeds. Only in

the case of wheat, maize and coarse grains as a whole, production in 2012-13 is expected to decline as compared to the previous year. First assessment of sugar output for 2012-13 is now available from USDA which suggests slightly higher production than in the previous year. However, there were other reports of adverse effects of recent untimely rains on sugarcane harvest in Brazil. There has been an update of production estimates of sugar. In the case of milk there are no updates of production over the estimates provided in June 2012 report. The new estimates of global grain output by International Grains Council are along the same lines as USDA.

The immediate impact of the lower production estimates for 2012-13 from the previous assessment has been felt in the spot and futures prices of commodities except for sugar, where spot prices are in fact softening unlike spot prices in the other commodities such as cereals and oilseeds or oils where prices are firming up. The FAO food price index has increased by 6 per cent in July 2012 as compared to its level in June 2012. FAO price index for sugar has also increased sharply in July 2012 over June 2012 unlike the CBOT futures price trend which suggests a decline in the coming months. The CBOT futures price information suggests that food commodity prices are expected to peak by the end of the year and begin to decline, thereafter. Under this global price scenario, improving domestic marketing framework will remain as important as production support to reduce price volatility.

Dr. Bhide presented the elasticity of domestic prices (WPI) to the international commodity prices based on a time series model. The short term effects of changes in international prices are lower than the long term effects but such effects in many of the commodities selected for analysis are positive and statistically significant. The analysis also indicates significant impact of changes in exchange rate on domestic prices. In other words, the increases in international prices that we observe now are likely to be translated into increases in domestic prices also in varying degree across commodities. The analysis also indicates that the time needed to transmit these effects from international prices to domestic fully is relatively long: in the case of rice and wheat it is 14 months and shorter in the case of sugar, soybean and soybean oil.

The rise in international prices also improves competitiveness of Indian commodity exports. The recent data on rice, maize and wheat prices shows that the international prices are rising above Indian commodity prices. The rising international prices also make imports more expensive. In the case of pulses and vegetable oils, we need to watch the price scenario for these commodities.

The implications of lower estimates of global production in the case of wheat and lower production of rice in the country to our trade scenario was presented in the framework of supply-demand balance sheets for rice and wheat. The lower global production of wheat does not have implications to supply conditions for India but points to scope for exports when international prices are favourable. In the case of rice, lower production in 2012-13 still leaves scope for exports. The analysis showed that export of 5 million tonnes of wheat would still leave year-end stock of 25 million tonnes in the country, mainly with the government. In the case of rice, export of 4 million tonnes would leave a year-end stock of 21.7 million tonnes, lower than the stock at the end of 2011-12 marketing year but more than the requirements of PDS.

Following the supply-demand balance sheet analysis, Dr. Bhide also presented forecast of wholesale prices in Delhi for a number of commodities using a methodology which captures short term cycle of one year and longer term cycle of 3 years. The findings pointed to the rising trend in prices for many commodities until the end of the calendar year 2012 before decline in the subsequent period.

3. Discussion:

A number of points were raised on the presentation and discussed, as summarized below:

Dr. B.S. Bhandari, Adviser, DES and Dr. Anandi Subramaniam, Member-Secretary, CACP noted that in the supply-demand balance sheet analysis, we need to have only one policy control lever and not many. We should have either stocks as a control or exports as a control. The methodology for balancing the supply and demand should be clear. For instance, calculation of quantities for 'food use' should be based on appropriate methodology. The large year to year variations in this item should be explained.

Mr. Siraj Hussain, Additional Secretary, DAC asked whether there is scope for exports of rice and wheat in 2012-13?. Dr. Bhide was of the view that the analysis shows that there is enough scope for exports. In the case of wheat, the analysis had considered export of 5 million tonnes and for rice, 4 million tonnes. Rice exports can be well above this level given the stock levels. However, consideration of expanded PDS in the context of Food Security Bill would have to be considered. Prof. Ramesh Chand, Director, NCAP pointed to the need for distinction between strategic policies on trade and merely liberal trade policy.

Prof. Nilabja Ghosh pointed out that the time needed for the transmission from international prices to domestic prices would vary from commodity to commodity. This is because of the trade policies in place and also the flexibility in domestic supply that may vary from one commodity to another. Prof. Ramesh Chand also indicated the need for accounting for 'abnormal' years in the analysis so that these effects are not influencing overall results.

Ms. S. Bhavani, Pr. Adviser (A&C) desired that the price volatility in the present deficient rainfall situation should be analysed in terms of the short and long term perspectives. The analysis should decompose the short-run and long-run components of projected prices. Prof. Ramesh Chand also noted that the forecasting analysis seemed to work better for commodities where there is a distinct cyclical pattern in prices such as potato and onion.

The meeting ended with a vote of thanks to the Chair.

List of participants of the Tenth monthly briefing under NCAER Project held on 31st August, 2012, at 3.00 pm in Krishi Bhawan, New Delhi.

- 1 Sh. Ashish Bahuguna, Secretary (A&C) **Chair**
- 2 Dr. S. Bhavani, Pr. Adviser, DAC
- 3 Sh. Anup K. Thakur, Additional Secretary (A&C)
- 4 Sh. Siraj Hussain, Additional Secretary (A&C)
- 5 Sh. Balvinder Kumar, Additional Secretary (A&C)
- 6 Sh. R. Viswanathan, ESA
- 7 Sh. Mukesh Khullar, Joint Secretary (Crops), DAC
- 8 Dr. B. Gangaiah, Adviser, DES
- 9 Dr. S. K. Mukherjee, Adviser, DES
- 10 Dr. Rajeev Lochan, Adviser, DES
- 11 Dr. B. S. Bhandari, Adviser, DES
- 12 Sh. S. Chandarsekar, Adviser, DES
- 13 Sh. Amar Singh, Adviser, DES
- 14 Dr. Ramesh Chand, Director, NCAP, Delhi
- 15 Dr. Anandi Subramanian, Member Secretary, CACP
- 16 Sh. V. V. Sadamte, Additional Commissioner (Ext.), DAC
- 17 Sh. Shushil Singla, Director (Hort.), DAC
- 18 Dr. J.P. Mishra, OSD to Agriculture Commissioner
- 19 Dr. Dalip Singh
- 20 Sh. Rakesh Aggarwal, Dy. Dir., DES
- 21 Dr. Nilabja Ghosh, IEG, University of Delhi, North Campus, Delhi-110007.
- 22 Dr. Anita Kumari Gupta, University of Delhi, North Campus, Delhi-110007.
- 23 Dr. S. Bhide, Sr. Research Counsellor, NCAER
- 24 Dr. A. Govindan, Consultant, NCAER
- 25 Sh. V. P. Ahuja, Consultant, NCAER
- 25 Sh. S. K. Mondal, Consultant, NCAER.

