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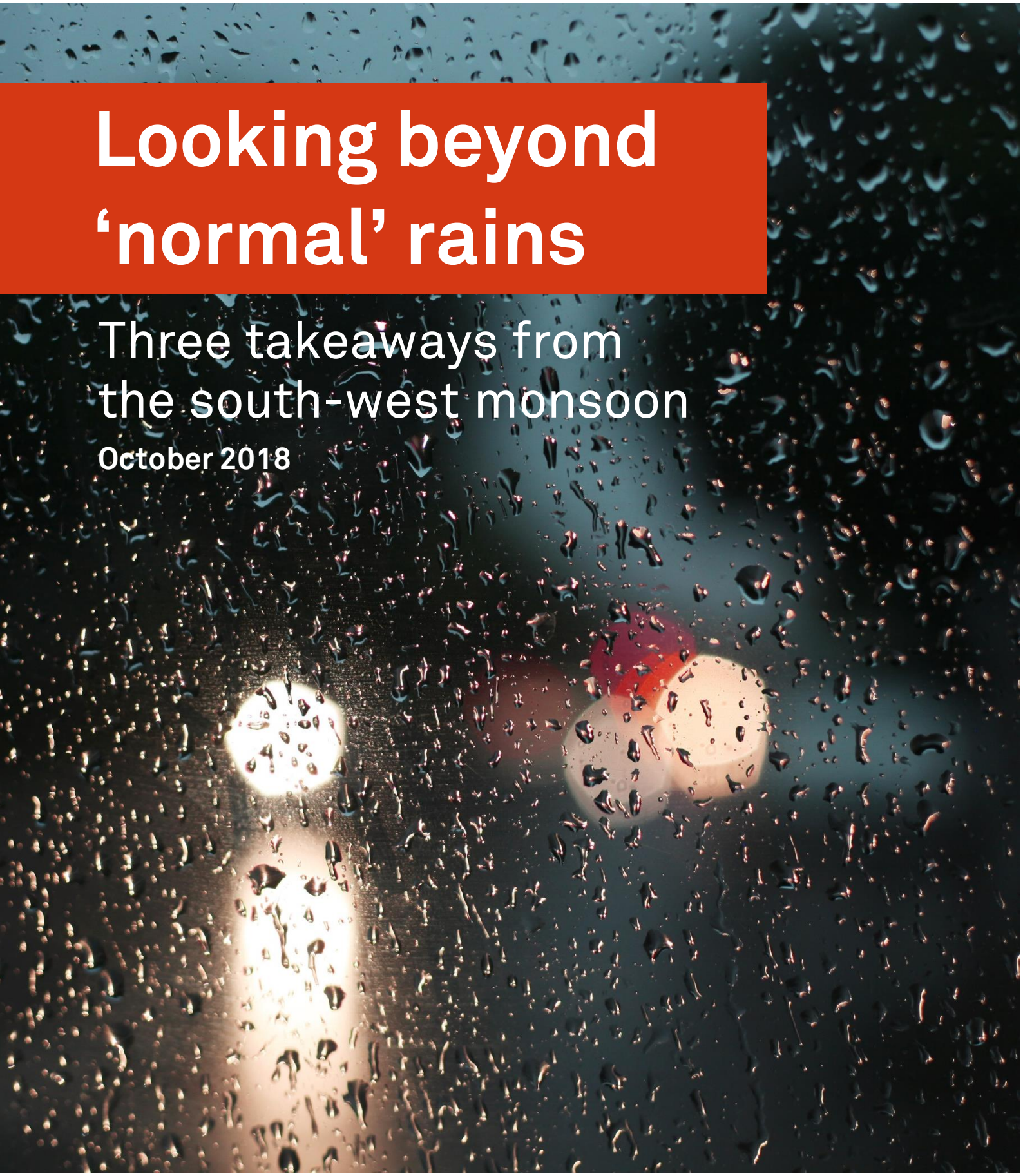

Looking beyond ‘normal’ rains

Three takeaways from the south-west monsoon

October 2018

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After the hat-trick

The curtains are down for the southwest monsoon in 2018. The season has ended with rainfall 9% short of the long period average (LPA), which is considered normal by the Indian Meteorological Department (IMD), thus marking three straight years of normal monsoon.

The last time the country saw a hat-trick was from 2010 to 2013 – four years of normal rains at the all-India level – that gave an average agriculture GDP growth of 4.7%.

For the current period, agriculture growth could trail this number, yet will be well above the trend. But there are some spoilers. Farmer income, for one, is down. Rainfall distribution has been patchy.

The good news is that the rural non-farm side is seeing better days compared with its other rural counterparts. Also, given healthy production, food inflation might stay contained. Depending on the government's procurement efficacy, the announced higher MSPs may offer a mild upside to food inflation.

We look at these in detail as we cover the following aspects of rains and the rural economy:

1. Performance of the southwest monsoon in 2018
2. What it means for rural incomes (both farm and non-farm)
3. The outlook on food inflation

Broadly, there are three takeaways:

First, despite normal rains, there are pockets of stress. Key kharif-growing states such as Gujarat, West Bengal and Bihar are hurting, while six others – Maharashtra, Rajasthan, Andhra Pradesh, Madhya Pradesh, Uttar Pradesh and Karnataka – are seeing pain points. The worry is now about the rabi crop because Gujarat, West Bengal and Maharashtra have deficient reservoir levels.

Yet, overall kharif production estimates are healthy. Crop-wise, there is strain in groundnut, cotton, tur, jowar and bajra. As for advance estimates, jowar and bajra are seen down 10-15% on-year, groundnut down 16%, cotton down 7% and tur down 4%.

Secondly, calendar 2018 is turning out to be another year where farmer incomes have not seen a material pick-up. This is despite government estimates of marginally higher kharif output. Higher minimum support prices (MSPs) have done little to lift crop profitability so far. Mandi prices have been trailing MSPs announced in July 2018. On the other hand, non-crops are doing a bit better. About 37% of agriculture income comes from fruits, vegetables, milk, poultry and fishing, and prices in some of these have risen this year.

By contrast, real non-farm incomes are on an uptrend. The government's thrust on constructing rural infrastructure, coupled with waning impact of demonetisation, likely helped create employment for low-skilled agricultural labourers and boost non-agricultural rural wages. Wage levels are modest, but there is a steady rise. About 52% of rural households are now dependent on non-agricultural sources of income. Therefore, this section of the rural population has a huge influence on demand.

Thirdly, continuous deflation in pulses, 'sugar and confectionery', and vegetables since July have subdued food inflation. These three commodities have about 10% weight in the CPI index, and account for a quarter of the CPI food basket. The decline in prices is happening at a time when global food prices are also soft.

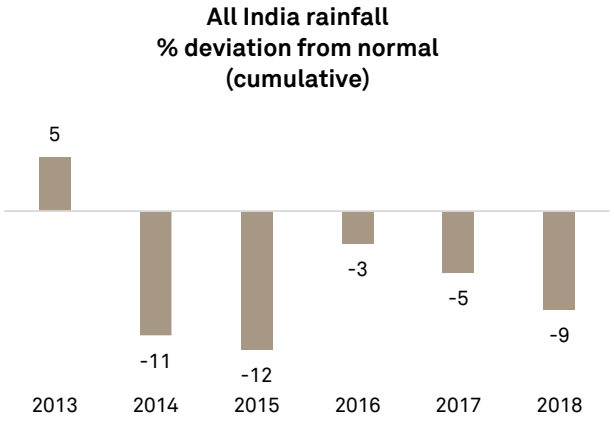
Meanwhile, despite plenty of noise around higher MSPs, we do not expect a large impact on food inflation this year. The combined weight of the 13 kharif crops on which MSP was hiked in CPI is only about 5%. Even if the increased MSP translates into commensurate increase in retail prices (which will happen only if there is adequate procurement by the government in a scenario of normal production), CPI inflation could go up by about 50 basis points (bps).

Deficiency seen in pockets

This year marks the third year of normal rains for India. At an overall level, the southwest monsoon – or rains between June and September – stood 9% below the LPA, which is regarded 'normal'. Last year, the rainfall deficiency was 5%.

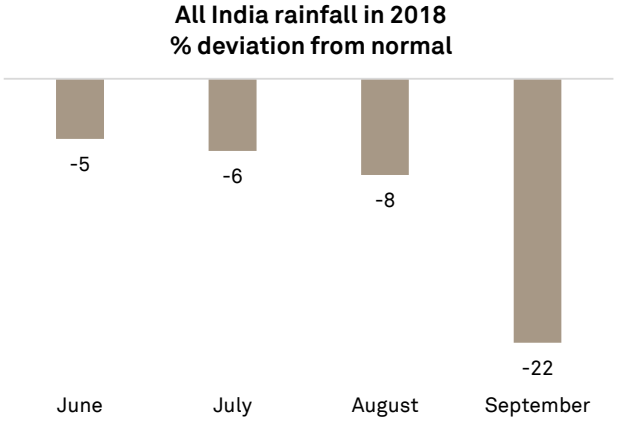
Yet, despite an overall normal monsoon year, distribution in 2018 (both, across time and regions) has been patchy with deficiency in pockets.

A hat-trick of normal monsoons



Source: IMD, CRISIL

Crucial July and August saw good rains



Source: skymetweather.com, CRISIL

Temporal and spatial distribution not very favourable

June rains covered most parts of the country, except northwest and east (chart). In the east, rains stayed deficient throughout, ending the season at 24% deficiency. In the northwest, rains caught up in September but played truant in the key kharif-growing states of Gujarat, Haryana and Punjab in the crucial months of July and August. While Haryana and Punjab were rescued by a reasonable irrigation cover, Gujarat faced the brunt.

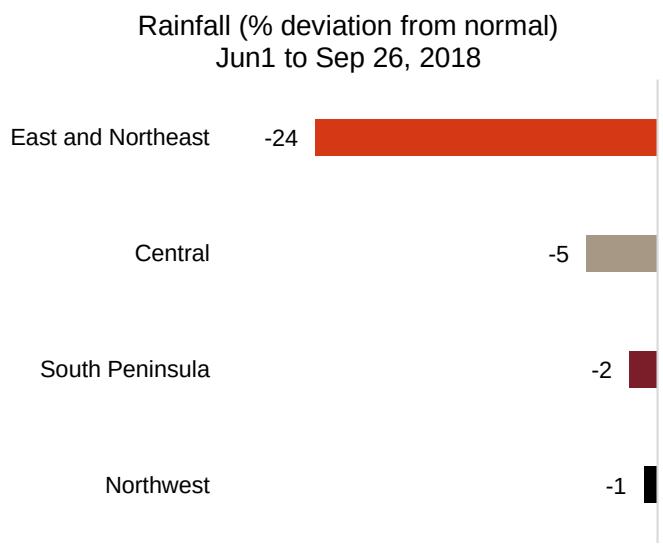
This time the retreat of the southwest monsoon was accompanied by a cyclone (Cyclone Daye) – which lasted for a short period – was strong and deluged a few states. Despite this, September ended on a deficient note.

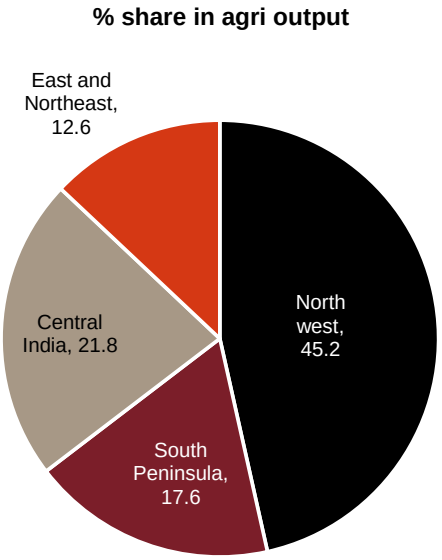
In states such as Punjab and Haryana, the southwest monsoon rains were largely deficient this season. However, with the deluge during the last 10 days of the season, cumulative rainfall for the period recorded a surplus (chart). For all practical purposes, rains should be considered deficient simply because it did not rain when it should have.

What makes the situation different for Punjab and Haryana is that they have a good irrigation cover which acts as a cushion for crops.

Interestingly, Punjab and Haryana have seen deficient rains for the seventh year in a row. This year Uttar Pradesh saw normal rains after witnessing four consecutive years of sub-normal. However, since irrigation systems in these states are replenished by perennial water sources, the damage to production may be avoided. But it increases the cost of procuring water. In contrast, irrigation in the western and southern states is centred on rain-dependent reservoirs, and hence monsoons play a critical role. The good news here is that Karnataka, which saw deficient rains for the past three years, received normal rainfall this year.

East and parts of northwest saw the most deficiency





Source: IMD, Ministry of Agriculture, CRISIL

Rains eluded some key states throughout the season

% deviation from normal (cumulative)	27-Jun-18	25-Jul-18	29-Aug-18	Sep	
				19-Sep-18	24-Sep-18
Gujarat	-61.0	7	-18	-27	-27
Jharkhand	-31.0	-32	-25	-25	-26
Assam	-20.0	-28	-26	-22	-19
Bihar	-33.0	-42	-20	-21	-23
West Bengal	-17.0	-23	-20	-20	-19
Haryana	-22.0	-12	-24	-20	-9
Punjab	53.0	6	-14	-15	8
Tamil Nadu	9.0	3	-10	-11	-12
Rajasthan	3.0	29	-9	-10	-6
Madhya Pradesh	-9.0	14	-7	-9	-7
Uttar Pradesh	-57.0	-40	-7	-9	-8
Andhra Pradesh	-4.0	1	-2	-8	-10
Maharashtra	30.0	27	6	-6	-7
Karnataka	23.0	8	2	-5	-7
Chhattisgarh	-19.0	4	3	-4	-3
Telangana	22.0	11	13	-1	-1
Odisha	-30	14	11	10	14
Kerala	19	20	36	26	24

Deluge

Note: Table above only includes states where total kharif output is more than 1% of all-India. Kerala is included since it is a major state
Source: IMD, CRISIL

Rainfall <-10% of normal | Rainfall = 10% of normal | Rainfall > -10% of normal

Sub-regional dynamics highlight pain points

A number of other states also recorded deficiency in pockets.

In Maharashtra, for instance, Marathwada recorded a 20% rainfall deficiency for the season. Similarly, eastern Madhya Pradesh was 12% deficient, while Rayalseema in Andhra Pradesh recorded a 36% deficiency, eastern Rajasthan 23%, northern Karnataka 30% and eastern Uttar Pradesh 14%.

This has had an impact on acreage for crops, for instance, sowing of jowar and bajra in Rajasthan and parts of Maharashtra. Similarly, sowing is estimated to be lower for jute in West Bengal and for cotton in Gujarat and parts of Maharashtra. Also, groundnut acreage is down in Gujarat and parts of Andhra Pradesh.

There are also other reasons cited for lower acreage this year. For instance, pest attacks have kept farmers from sowing cotton, whereas in some pulses varieties, the fall in prices last year led farmers to sow less.

Similarly, in Uttar Pradesh, Bihar, Haryana and Punjab, which have good levels of irrigation but mostly for paddy cultivation, the absence of rains has impacted the sowing of other crops – such as maize in Uttar Pradesh and Bihar and to some extent cotton in Punjab.

Data shows West Bengal had the most number of districts – as much of 79% – with deficiency of 15-54% for the season. And 74% of districts in Gujarat reported 13-64% deficiency.

Playing truant at the sub-regional level

States	Subdivisions	Rainfall deficiency (% deviation from normal)		Crops primarily grown and likely to be impacted due to deficient rains
		Jun- Sep 2018	Jun - Sep 2017	
Rajasthan	West	-23%	39%	Bajra, jowar
	East	4%	-8%	Bajra, maize, jowar
Madhya Pradesh	West	-3%	-15%	Soybean, maize, jowar
	East	-12%	-24%	Paddy, jowar
Uttar Pradesh	East	-14%	-27%	Paddy, sugarcane, maize
	West	2%	-30%	Paddy, sugarcane, maize
Andhra Pradesh	Coastal	2%	14%	Paddy, cotton
	Rayalseema	-36%	26%	Paddy, groundnut
Karnataka	Coastal	-1%	-17%	Paddy, ragi, jowar, bajra, maize
	North Interior	-30%	-1%	Paddy, sugarcane
	South Interior	1%	-1%	Paddy, sugarcane, jowar
Goa, Maharashtra	Konkan and Goa	-1%	10%	Sugarcane, soybean, paddy, jowar
	Madhya Maharashtra	-8%	18%	
	Marathwada	-20%	-4%	Soybean, cotton, jowar
	Vidarbha	-7%	-23%	Cotton, soybean, paddy, bajra

Source: IMD, Ministry of Agriculture CRISIL

Rainfall < -10% of normal

At an overall level, advanced estimates of production released by the Ministry of Agriculture mirror the agricultural production prospects highlighted by CRISIL's DRIP (Deficient Rainfall Impact Parameter). The advance estimates show a dip in output of groundnut, tur, jowar and cotton.

DRIP shows stress in Gujarat, West Bengal, Bihar, and groundnut and cotton

Rainfall volume data by itself is insufficient to gauge the impact of rainfall. We also need to consider the irrigation buffer that can offset the impact of deficient rainfall.

That is where CRISIL's DRIP provides a better assessment of deficiency, because it considers the irrigation buffer available for states and crops.

Measuring the granular impact of rains

The temporal and spatial distribution of rainfall is crucial for determining its impact on food production. A weak and slow monsoon affects sowing, while uneven distribution impacts output. We analyse these dimensions by computing the DRIP index at the state and district levels, and the progress of sowing.

Developed in 2002, the DRIP index – computed as a product of the percentage deviation in rainfall and in unirrigated area – captures both the magnitude of the shock (deficiency of rainfall) and the vulnerability of a region (percentage of unirrigated area). So the impact of deficient rainfall will be more pronounced for unirrigated crops and regions. For each crop, the index is computed for every state and then aggregated, weighting each state by its share in the all-India production of that crop. The value of the index falls between 0 and 100.

The DRIP index can also be calculated state-wise to assess the granular impact. DRIP scores of a state are arrived at by aggregating crop-wise scores, where the weight of each crop is its sown area as a share of total sown area for all crops.

$$\text{DRIP CROP}_j = \sum_i w_i \frac{\%\text{UNIRRIGATED}_{ij} * \%\text{RAINFALL DEF}_i}{100}$$

Where, $\%\text{UNIRRIGATED}_{ij}$ is the proportion of unirrigated area under crop j in state i

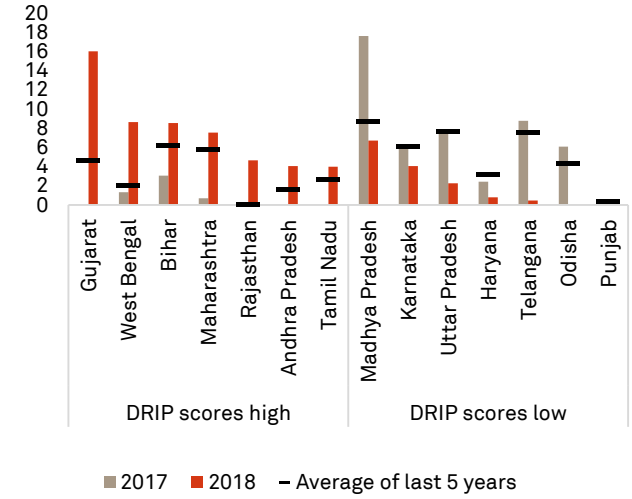
- $\%\text{RAINFALL DEF}_i$ is the % deviation of rainfall from normal in state i.
- If there is excess rainfall, rainfall deficiency is considered to be 0.
- W_i is share of state i in overall production of crop j in a normal monsoon year

The higher the DRIP score, the more adverse the impact of deficient rains.

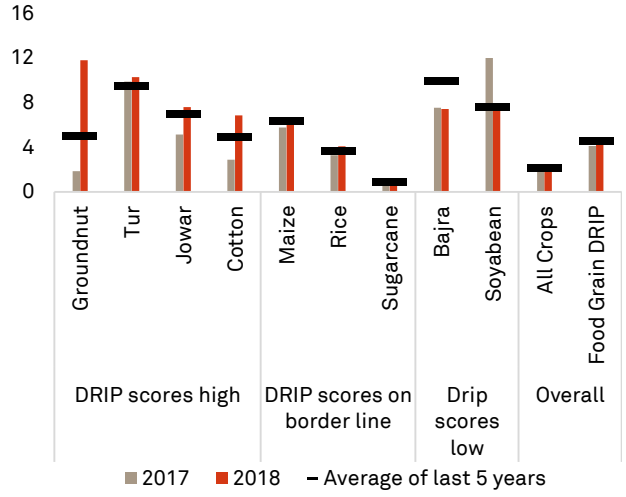
The final DRIP scores for the season highlight the strain in Gujarat, West Bengal, Bihar, Rajasthan, Andhra Pradesh and Maharashtra. In these states, scores are higher than last year as well as above the average of the past five years.

The final scores for crop-wise DRIP show stress in groundnut (largely cultivated in rain-deficient Gujarat and in parts of Andhra Pradesh), followed by tur (Gujarat and Maharashtra), jowar, to some extent bajra (Rajasthan and Maharashtra), and also cotton (Gujarat and Maharashtra).

Gujarat, West Bengal, Bihar laggards



Showing stress in groundnut, cotton



Note: Scores are high/low/border line compared to either last year, or past average, or both
Source: IMD, Ministry of Agriculture, CRISIL

Reservoirs present a mixed picture

Reservoir levels are important for the irrigation-dependent rabi season, which starts in October.

As of September 27, water storage at 91 major reservoirs in the country stood at 76% of live storage capacity. This is higher than the storage levels of 2018 and also above the past 10 years' average storage, and is attributed to late erratic showers in several parts of the country and some catch-up in early September.

In most states, therefore, the reservoir storage is healthy, but in Gujarat, West Bengal and Maharashtra, where it has not rained enough in the catchment areas, there is a shortage.

Deficient reservoirs raise some concern for the rabi crop, because these three states together contribute 53% of the rabi production of foodgrain and oilseeds.

Deficient reservoirs bode ill for rabi crop

States	Reservoir storage levels in 2018 (% deviation from normal levels) as of			
	28-Jun	26-Jul	30-Aug	27-Sep
Gujarat	-41	-34	-17	-29
West Bengal	65	-3	-20	-14
Maharashtra	-5	40	7	-5
Rajasthan	2	9	-16	5
Madhya Pradesh	34	-1	0	8
Karnataka	51	61	28	12
Odisha	-21	32	44	17
Kerala	99	114	59	17
Telangana	1	-31	82	18
Uttar Pradesh	-28	-20	5	24
Andhra Pradesh	-36	-30	9	43
Punjab	-35	-13	9	44
Tamil Nadu	-2	127	82	51

Source: Central Water Commission, CRISIL

Storage below normal | Storage at par / above normal

Farm income dips, non-farm income sees a modest rise

The performance of monsoon remains a critical monitorable for the Indian economy. This is because it has significant impact on agriculture – a sector that contributes 18% to GDP and provides employment to nearly half of all rural folk.

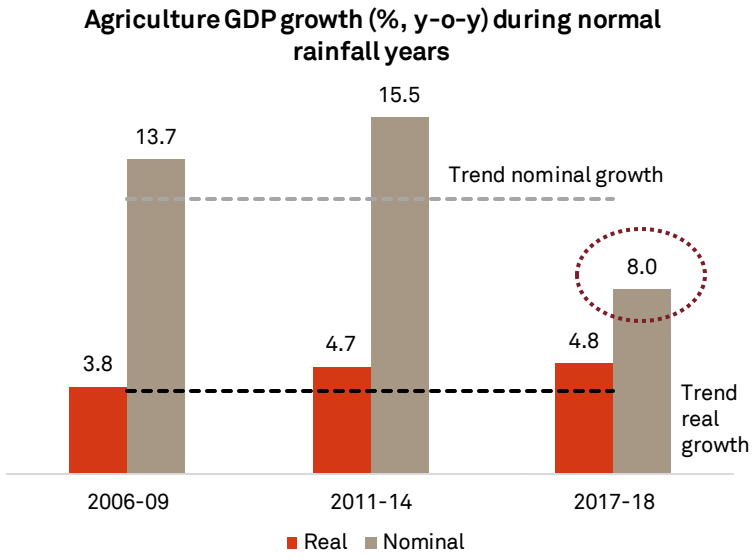
Including 2018, India has had three straight years of normal monsoons.

The last time the country ran such a hat-trick was from 2010 to 2013 – four years of normal rains at the all-India level – which gave an average agriculture GDP growth of 4.7%. Preceding that was the 2005-2008 period, when average agriculture growth was 3.8%.

For the current period (2016-2018), agriculture GDP growth is estimated to average 4.4%[1].

All these periods have logged average real growth rates higher than the past 15 years' trend growth rate of about 3.5%. But in terms of nominal GDP growth, the current period significantly underperforms relative to trend, hinting at a potential steep decline in farmer income despite bountiful rains.

Nominal agriculture GDP growth below trend



Note: Data pertains to fiscal years, 2006-09 refers to fiscals 2006 to fiscal 2009

Source: Ministry of Agriculture, Indian Meteorological Department, CEIC, CRISIL

Lower nominal growth in the current period may be explained by a number of factors – lower increases in MSP in the earlier years of the current period, falling global food prices, and release of food stocks that increased supply in domestic markets, among others.

[1] Assuming fiscal 2019 agriculture GDP grows at the trend rate of 3.5%

That said, increasingly, a much larger part of the rural population is now engaged in non-farm activities, such as construction, manufacturing and services. About 52% of rural income comes from these. Therefore, developments in the non-farm sector also matter.

Profitability of crops is still low

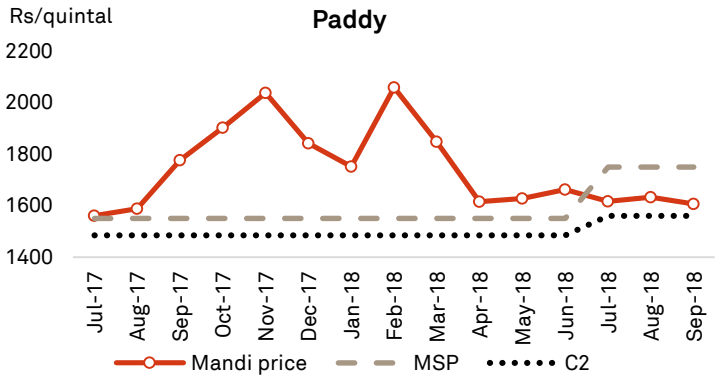
In July 2018, the government announced higher MSPs and an increase in the coverage of procured crops as per these MSPs.

However, higher MSPs have done little to lift crop profitability so far. Mandi prices of all kharif crops have been trailing the revised MSP rates. For pulses and groundnut, profitability has even turned negative as prices remained below the cost of production (as measured by "C2[2]" measure of CACP[3]) since last year.

Price trends in key kharif crops

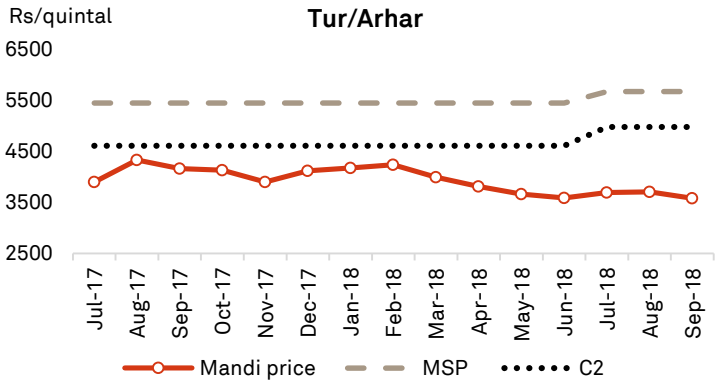
Paddy

- Prices have fallen below MSP so far in the kharif season of agricultural year (AY: July to June) 2019. In the previous year, mandi prices had remained above MSPs.
- The MSP of paddy has been increased by 13% on-year for AY 2019.
- Nevertheless, the crop remains profitable as mandi prices have remained higher than the cost of production.



Tur/Arhar

- Mandi prices have remained below MSP since last year and have also trended lower since the start of this year.
- The increase in MSP in AY2019 has done little to reverse the decline so far.
- More worrying is that market prices have remained below the cost of production till date.

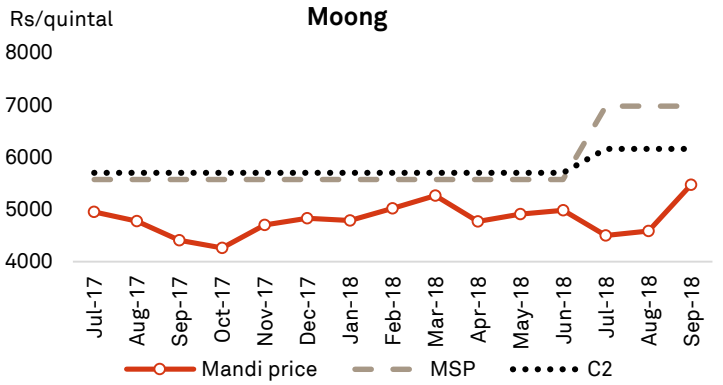


[2] C2 measure of cost of production includes the actual paid out costs (e.g, seeds, fertilisers, irrigation charges) plus imputed value of family labour, rent and interest on owned land and capital.

[3] Commission for Agricultural Costs and Prices

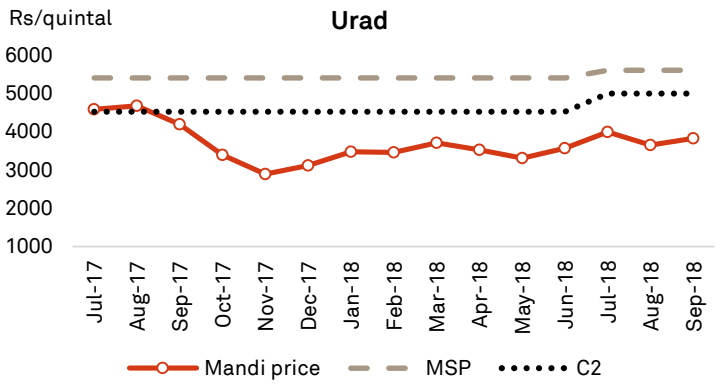
Moong

- Prices have remained below MSP and even the cost of production.
- However, prices have started to recover in September.



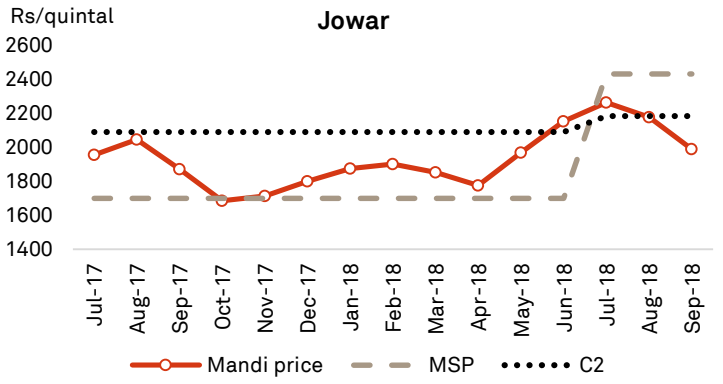
Urad

- Prices have remained below the MSP and the cost of production.
- While prices have been trending up in recent months, they have yet to catch up with cost of production and MSP.



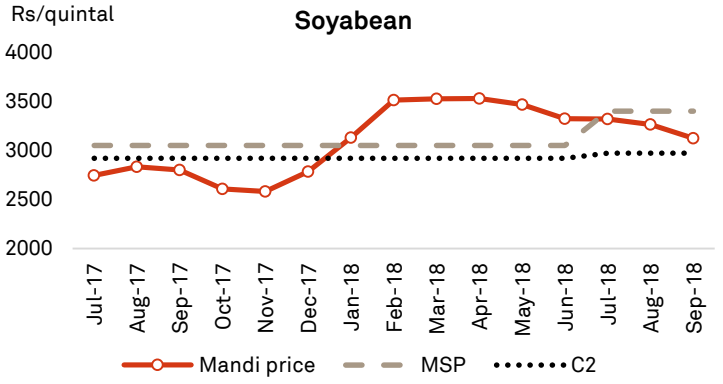
Jowar

- In AY 2019 so far, jowar prices have been on a downward trend, below the MSP. They even slipped below the cost of production in September.
- The previous year had seen prices persisting below the cost of production.



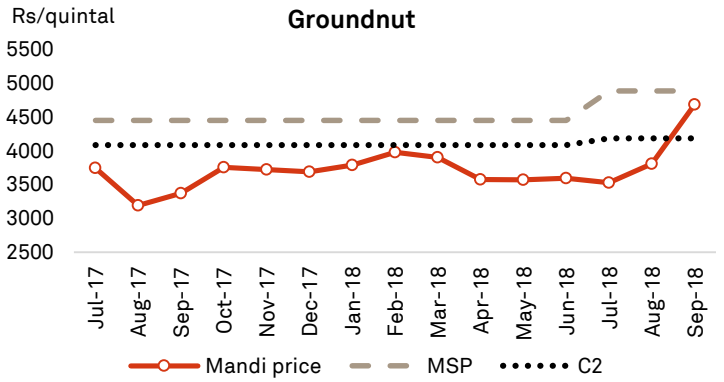
Soybean

- Soybean has turned profitable since the second half of AY 2018.
- However, prices have been trending lower since May, and slipped below the MSP announced for AY 2019.



Groundnut

- Prices have stayed below MSP and the cost of production.
- However, prices bounced above the cost of production in September and moved closer to the MSP for AY 2019.



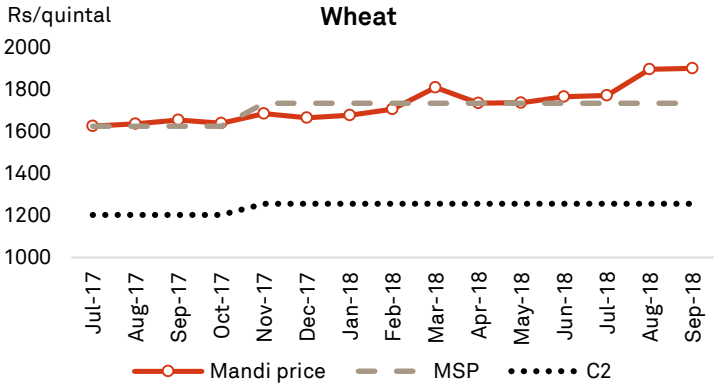
Note: The new MSP has been reflected from July 2018. They were announced in June 2018.

Source: Agmarknet, CACP, CRISIL

Price trends in key rabi crops

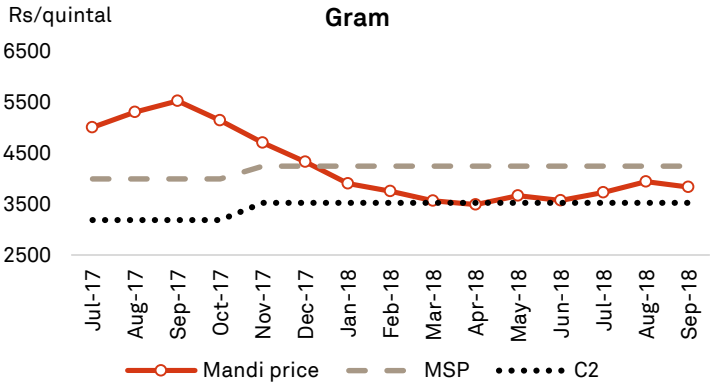
Wheat

- In AY 2019 so far, prices have been on a rising trend. They have also stayed above the MSP.
- Prices have been above the cost of production since last year.



Gram

- Gram, which had seen a sharp rise in profitability in AY 2017, saw its profitability fall starting the second half of AY 2018.
- Prices have fallen below the MSP since January 2018, though they still remain above the cost of production.



Note: The new MSP has been reflected from November 2017. They were announced in October 2017.

Source: Agmarknet, CACP, CRISIL

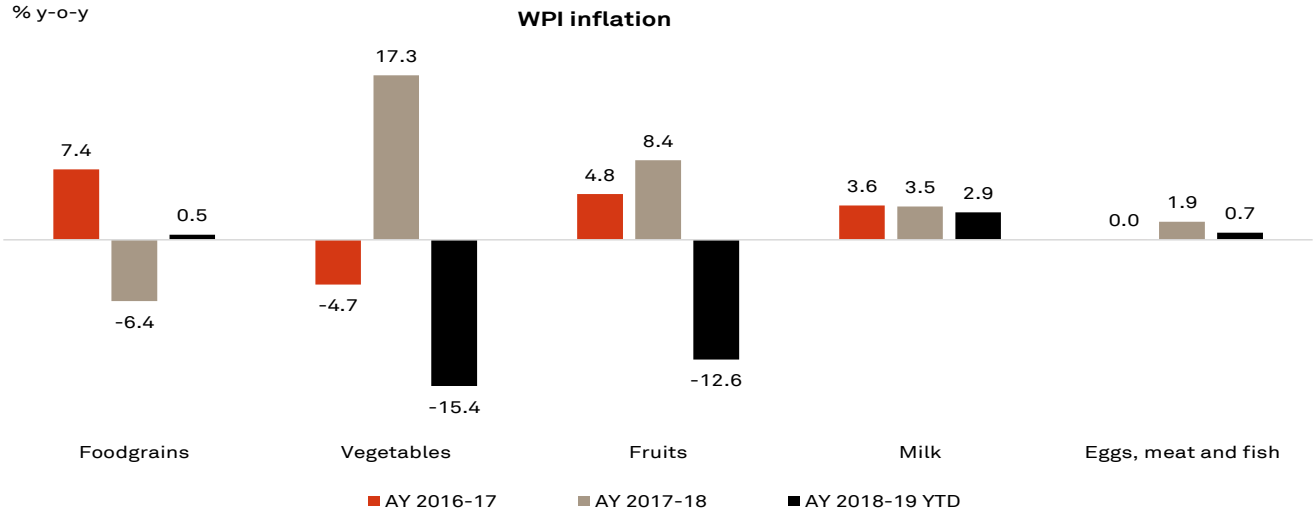
How are other crops and allied activities contributing towards farm income?

Besides MSP-linked crops given above, allied activities such as production of fruits, vegetables, milk, poultry and fishing contribute to farm income. Indeed, such activities constitute about 37% of total agriculture income[4].

Therefore, while profitability of foodgrains continues to be low, it might be useful to see how profitability in other allied activities is contributing to farm income. To gauge this, we compare the trends in wholesale prices (measured by WPI inflation) of foodgrain with prices of fruits and vegetables, milk and livestock products.

In the first two months of AY 2019 (July-August 2018), prices of fruits and vegetables have seen a sharper decline compared with foodgrains. However, prices of milk, eggs, meat and fish have continued to increase, and the inflation rate has been higher compared with foodgrains.

Non-crop inflation has been higher than crop inflation



Note: Years refer to agriculture year i.e. July-June for the given year. 2018-19 data is till August 2018.
Source: Office of the Economic Advisor

[4] Average share of non-crop GVA in total GVA of agriculture, forestry and fishing.

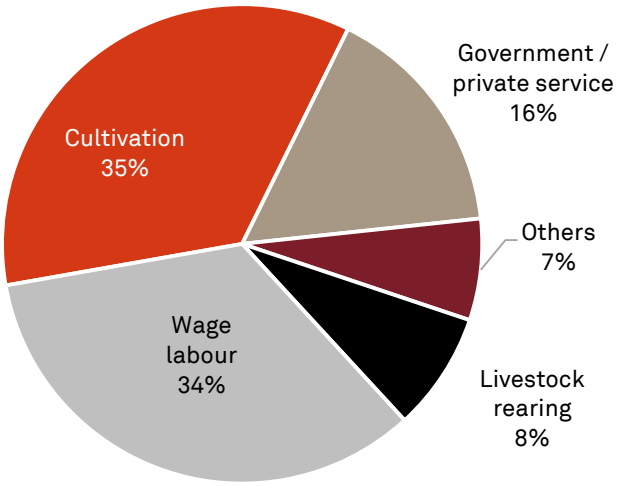
Off-farm income, the new ray of hope

The dominance of non-agricultural activities in rural income

Rural India is no longer driven just by agriculture. As per a National Bank for Agriculture and Rural Development (NABARD) survey[5], about 52% of the rural households are non-agricultural households.

Even among the agricultural households, on average, 65% of the total monthly income accrues from non-cultivation activities. Of this, 34% is from wage labour, 16% from government or private service and 8% from livestock rearing.

Average monthly agri household income



Source: NABARD All India Rural Financial Inclusion survey 2016-17, CRISIL

The dependence on wage labour is higher among marginal farming households. Wage labour incomes include gains from sources such as Mahatma Gandhi Rural Employment Guarantee Scheme (MNREGS), agricultural labour, skilled or unskilled non-agricultural labour.

The survey further highlights that agricultural households show a greater dependence on multiple sources, with about 87% households depending on two or more sources of income. This further stresses the importance of non-agricultural activities in rural livelihood.

Real non-agricultural wage growth outpacing agricultural wage growth

Overall, in AY 2018, rural wages grew at a sluggish pace. While real agricultural wage[6] growth slowed on-year, real non-agricultural wage[7] grew steadily.

Agricultural wage growth was depressed despite a normal monsoon due to muted growth in domestic and global food prices.

However, non-agricultural wages benefited from the boost to construction activities, specifically roads and houses, under Pradhan Mantri Gram Sadak Yojana and MNREGS. In fiscals 2018 and 2019, over 60% of the total MNREGS work involves construction of roads and houses, with the real[8] average daily wage rate growing at a steady 2.5% per year.

The government's thrust to improve rural infrastructure and connectivity, coupled with waning impact of demonetisation, is already propping up rural demand. Sales of two-wheelers and tractors are a case in

[5] NABARD All India Rural Financial Inclusion Survey 2016-17, August 2018

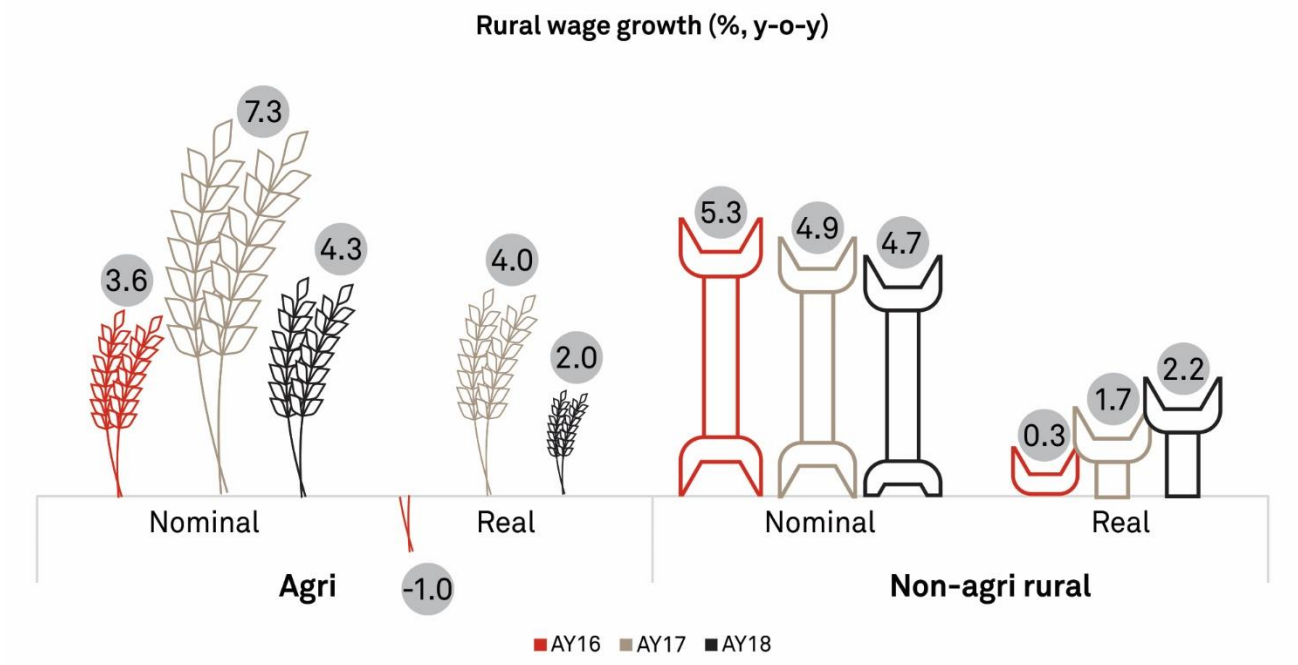
[6] Real agricultural wage growth is computed by adjusting the nominal wage growth for CPI inflation for agricultural labourers

[7] Real non-agricultural wage growth is computed by adjusting the nominal wage growth for CPI inflation for rural labourers

[8] Arrived at by adjusting the MNERGS average wage rate per day per person for CPI inflation for rural labourers

point. After slowing in fiscal 2017, domestic two-wheeler sales have grown at 10-15% in fiscals 2018 and 2019 so far (April-August 2018), while domestic tractor sales have cruised above 20%.

Continued policy focus on rural infrastructure will help create employment for low-skilled agricultural labourers and boost non-agricultural rural wages. Besides, road connectivity has positive spill-over effects on growth, employment, access to education, healthcare and markets. A World Bank pilot study[9] for Odisha estimates that construction of all-weather rural roads increases net farm output prices by 5% or more, and has positive spill-over effects on access to education and health services.



Source: Labour Bureau Government of India, CEIC, CRISIL

[9] Bell, C., van Dillen, S., How Does India's Rural Roads Program Affect the Grassroots? - Findings from a Survey in Orissa, Policy Research Working Paper 6167, World Bank, August 2012

Impact on food inflation

Why is food inflation low?

Inflation in food – which has a 40% weight in the Consumer Price Index (CPI) – has trended down since June and touched a low of 0.3% in August, as per latest available data. This is despite the low base of last year, when food inflation was negative. Clearly, this has helped keep overall inflation low at a time when fuel and core inflation have surged.

Continued deflation in pulses, 'sugar and confectionery' and vegetables since July has been behind subdued food inflation. Together these three commodities have a weight of ~10% in the CPI, or account for a quarter of the CPI food basket.

Is there a glut in agriculture?

Pulses production has remained high since fiscal 2017. The government's focus on incentivising farmers to produce more nutritious crops such as pulses, rather than excessively produce cereals such as rice and wheat, led to pulses production surging to 23.13 million tonne in fiscal 2017 (from 16.35 million tonne in fiscal 2016) and further to 25.23 million tonne in fiscal 2018. The trend seems to have continued in fiscal 2019, with kharif production of pulses coming in at 9.22 million tonne, similar to 9.34 million tonne in the year-ago period. Rest of the produce will come in the rabi season.

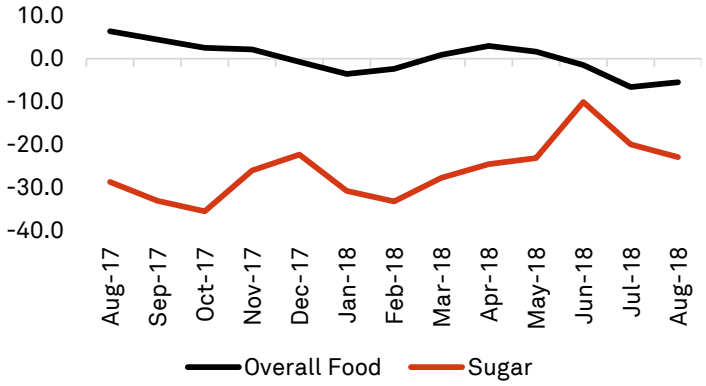
Sugarcane also witnessed a record production of 383.92 million tonne in AY 2019, up from 376.91 million tonne last year.

Vegetable production at 180 million tonne in AY 2018 is also higher than the last year. Interestingly, major vegetables (tomato, onion and potato) have recorded lower production this year.

Are domestic food prices in sync with global?

Food prices have been soft globally, too. According to the Food and Agriculture Organization, global food prices are down 1.9% in 2018 compared with 2017. The past three months have seen a decline in overall food prices, whereas sugar prices have been falling continuously.

Global food inflation trend (%, on-year)



Source: FAO

How can MSP policy impact food inflation? Which crops could see price pressure from hikes?

On July 4, 2018, the government announced MSP hikes for 13 kharif crops, in line with their promise to cover 150% of their cost of cultivation. The annual increase in MSP ranged from about 11.3% for paddy to 52.5% for ragi. The following table summarises the MSP hikes across categories:

Commodity	Variety	MSP Rs/quintal AY 2018	MSP Rs/quintal AY 2019	% change	Return over cost (%)
Paddy	Common	1550	1750	12.9	50.1
	Grade A	1590	1770	11.3	51.8
Jowar	Hybrid	1700	2430	42.9	50.1
	Maldandi	1725	2450	42.0	51.3
Bajra		1425	1950	36.8	97.0
Ragi		1900	2897	52.5	50.0
Maize		1425	1700	19.3	50.3
Arhar(Tur)		5450	5675	4.1	65.4
Moong		5575	6975	25.1	50.0
Urad		5400	5600	3.7	62.9
Groundnut		4450	4890	9.9	50.0
Sunflower Seed		4100	5388	31.4	50.0
Soybean		3050	3399	11.4	50.0
Sesamum		5300	6249	17.9	50.0
Nigerseed		4050	5877	45.1	50.0
Cotton	Medium Staple	4020	5150	28.1	50.0
	Long Staple	4320	5450	26.2	58.8

Source: pib.nic.in

The combined weight of these crops in CPI is only about 5%. Even if the increased MSP translates into a commensurate increase in retail prices (which is unlikely because of inadequate procurement by the government and normal production), CPI inflation could go up by about 50 bps. So, the MSP hike would add to CPI inflation, but the impact is not expected to be large.

Among the above crops, only rice and cotton are actively procured by the government. Hence, their prices can go up in coming months (rice mandi price was trailing MSP until August). For other crops, unless the government steps up procurement in coming months, prices may remain subdued. As such, there has been high production of crops, such as rice, maize and pulses, which may keep their prices subdued.

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