

Macroeconomics | **First cut**

Breaking through the clouds

May 30, 2024

Showers of relief or angst? Crucial season arrives

All eyes are peeled on the south-west monsoon, which has debuted in Kerala and the north-east.

Healthy, timely and well-distributed rains can lift agriculture incomes by bolstering rural demand, which was impacted in the past fiscal and is currently showing some signs of revival.

Robust crop output can control food inflation that has been hovering above 8% for six months. Combating food inflation, with non-food inflation already being low, can provide policy room for interest rate cuts.

Hence the need to track monsoon forecasts closely. As more information becomes available over the next few weeks, CRISIL's Deficient Rainfall Impact Parameter (DRIP) index will be employed to closely assess the impact of rains on states and crops after accounting for irrigation vulnerability.

The forecast

The verdict on 'overall' above-normal monsoons stands confirmed: Southwest monsoons arrived today in Kerala – two days before the normal date and as per the India Meteorological Department's (IMD)'s prediction for this year. Earlier this week, the IMD reaffirmed its April prediction of above-normal rainfall for the 2024 southwest monsoon, forecasting rainfall at 106% of long period average (or LPA) between June and September, with a model error of $\pm 4\%$ (*chart 1*).

In its April 9 forecast, Skymet, a private weather forecaster, too, had predicted rainfall at 102% of LPA for the season.

The weakened El Niño conditions are expected to allow La Niña conditions to develop in the latter part of monsoon. La Niña, following El Niño, generally favours the Indian monsoon, according to data of the past 72 years studied by the IMD.

At present, the Indian Ocean Dipole is neutral and likely to turn positive (benefitting Indian monsoons) in the latter part of the season.

Regional and temporal distribution: IMD's update on the regional spread also reaffirms possible worries for India's east and north-eastern parts, which are expected to receive below-normal rainfall. In contrast, northwest India sees a higher probability of normal rains amid the forecast of above-normal rains in central India and the southern peninsula.

Skymet's more granular forecast predicts a risk of deficit rains in Bihar, Jharkhand, Odisha, and West Bengal during the peak monsoon months of July and August, while the northeast, in general, is expected to see "less than normal rains during the first half of the season", the agency noted. It expects good rains in the south, west and northwest regions, and adequate rainfall in Madhya Pradesh and Maharashtra¹.

The IMD forecasts normal rains in June, but above-normal temperatures in most parts of northwest and adjoining

¹ <https://www.skymetweather.com/content/weather-news-and-analysis/skymet-weather-forecasts-normal-monsoon-for-india-in-2024/>

areas of central India (charts 2 and 3) that could cause some disturbance. Rainfall in July and August is crucial for agriculture, as most sowing activities take place during this period. However, the fields are ploughed and sowing begins in June. Above-normal temperatures predicted in the month could impact the availability of labour or the ability to work under extreme conditions. High temperatures also bring other challenges such as further depletion of reservoir levels—which are already 24% below capacity—due to faster evaporation.

Lessons from 2023: Regions and crops that cannot afford another year of deficit rains

Areas and crops that see weaker rains for a second straight year could suffer more than others. Using our results from last year’s DRIP², in charts 4 and 5, we highlight some such areas and crops which suffered in 2023. Notably, our results were broadly corroborated by the government’s second advance food production estimates for 2023-24.

In 2023, despite a normal overall southwest monsoon, its uneven distribution across states impacted many crops.

Of the states expected to receive deficit rains this year, Jharkhand, Bihar, West Bengal and Odisha require monitoring as they were impacted last year as well. Rice, tur and coarse cereals warrant a closer watch as last year’s uneven rains impacted production and pushed up inflation rates for these crops. Rice, for instance, saw an average inflation rate of 12.2% in fiscal 2024, tur 33.4% and coarse cereals 10.9% in 2023-24.

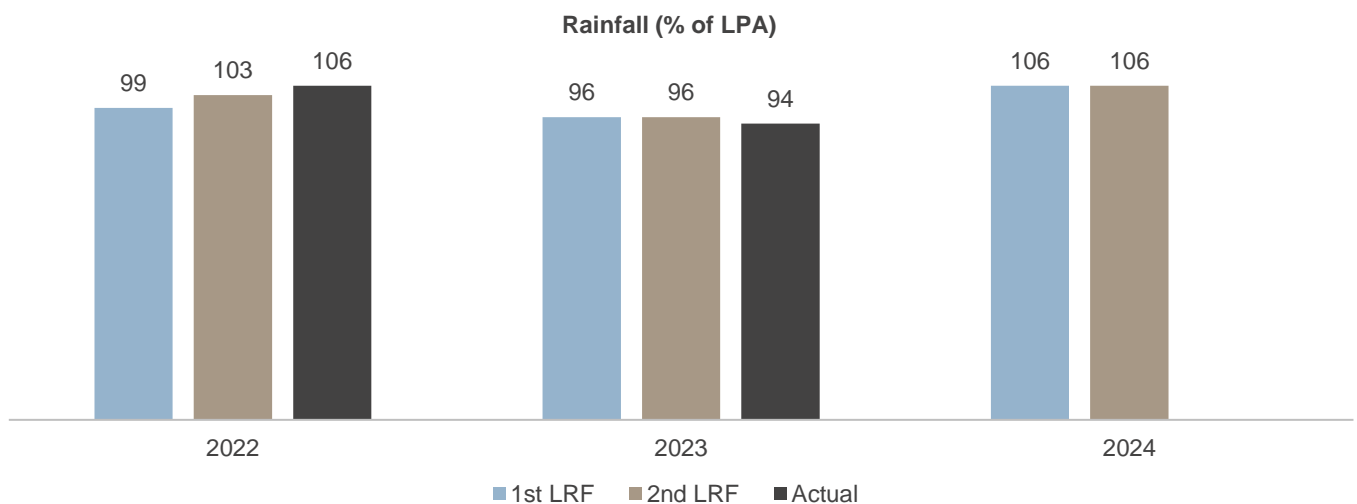
The scorching heatwave

This year, April and May have already witnessed more than the usual number of heatwaves, and June is expected to tread this path, too. While rains are predicted to be normal in June, the IMD is also expecting above-normal temperatures in most parts of northwest and adjoining areas of central India.

The spell of heatwaves this year began in April in the eastern and southern parts of India, while May has mostly seen heatwaves in Northwest and central India.

This year’s heatwave occurs outside the cropping season for major crops, unlike in 2022, when it hit during the wheat harvesting period in March. However, the impact could be borne by vegetables grown in summer, which could be mitigated by farmers shifting their cropping patterns; or even growing heat resistant crops such as millets in the current summer period.

Chart 1: Rainfall forecasts for the southwest season

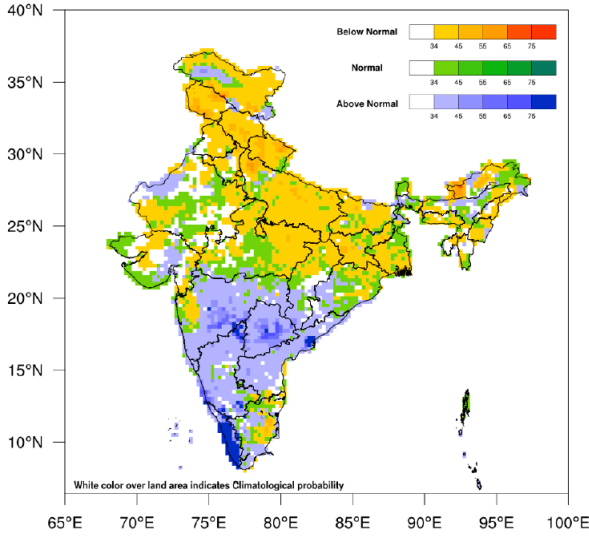


Note: First long-range forecast has a ±5% model error, while updated forecasts have ±4%

Source: IMD, CEIC, CRISIL

² DRIP index takes into account rainfall deficiency as well as dependence of states on rainfall (share of irrigation cover).

Chart 2: Rainfall forecast probability in June



Source: IMD

Chart 3: Heatwave forecast probability in June

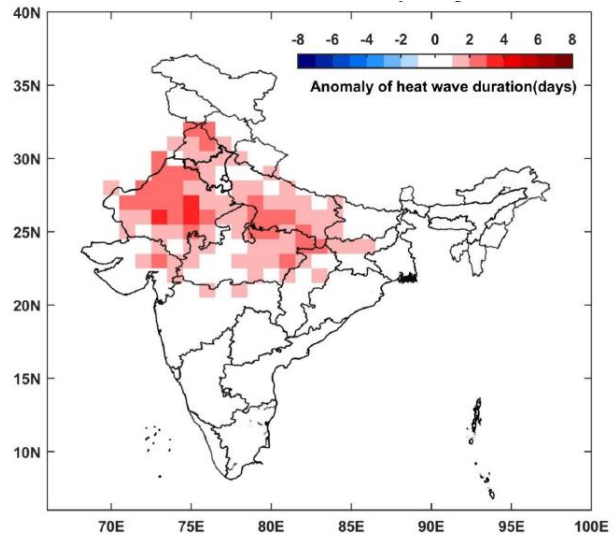


Chart 4: State-wise DRIP scores for 2023

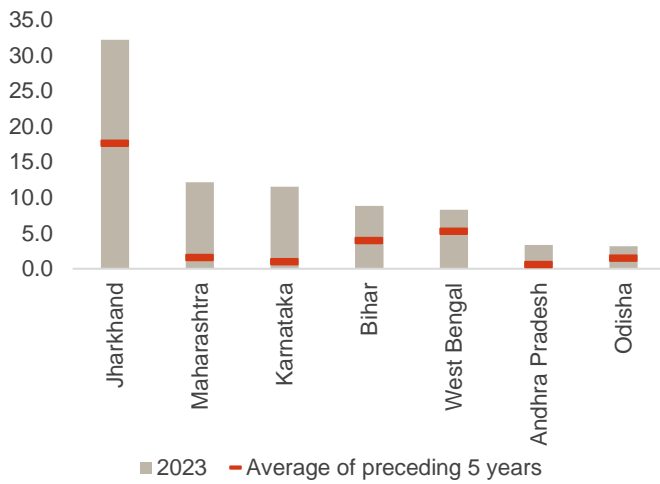
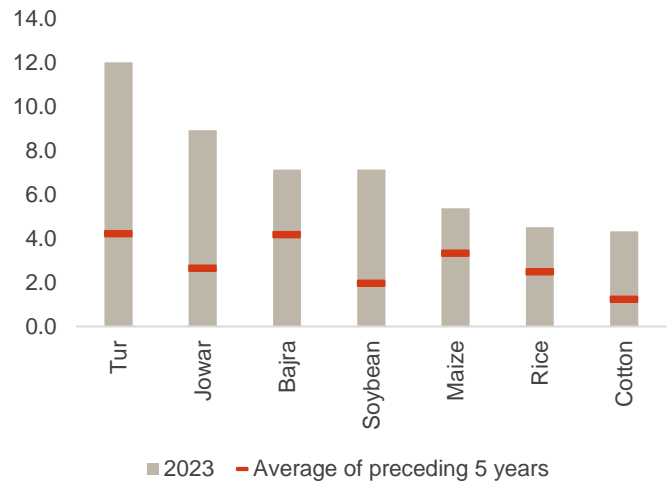


Chart 5: Crop-wise DRIP scores for 2023



Note: Higher the DRIP score in relative terms, higher is the stress in the state/crop

Source: CRISIL

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