

Economy Macro Tailwind : Steady Progress of Monsoon

Monsoon season started on a weak note with a rainfall deficiency of 12% at the end of June. Deficit was largely covered in the month of July with rainfall being just 1% below normal as of July 25. Estimates suggest that there has been normal or above normal rainfall in the regions that account for 84% of the total food production. The east and northeast, which account for 16% of total foodgrain production are deficient in rain.

Good rains have resulted in more area being used for sowing. Comparing with the normal area sown on a date, it was 10% above normal as on July 15.

Irrigation plays an important role after sowing. With reservoir storage at 83% of last year's storage and 101% of last ten years' average the scenario is extremely positive.

Agriculture GDP growth averaged 0.4% in the last two fiscals, much below the long-term trend of 3%. This year normal monsoon is expected to revive rural demand, pushing up private consumption in automobiles, and consumer durables. Foodgrain output will also help to tackle the inflation

Risk

According to the IMD, the probability of normal or above normal rainfall in a La Nina event is 74%. La Nina is usually accompanied by high/excess rainfall. The effect of La Nina is usually the strongest towards September - the time when crops are nearing maturity. This would be unfavorable to agricultural output and remains a risk.

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