

Three in a row

CRISIL First Cut | April 2018

Spectre of third straight year of normal monsoon brings cheer

The Indian Meteorological Department's (IMD) has predicted southwest monsoon (April-September) to be at 97% of the long period average (LPA) with a margin of error of +/- 5%. It has lined up five probabilities – a normal monsoon (42%), below normal (30%), deficient (14%), above normal (12%) and excess (2%).

Data for the last 50 years shows that in any five-year period, there have never been more than two bad monsoons, while three consecutive good monsoons have occurred. The last such period in recent history was 2010-2013 and 2005-2008 where the actual rainfall was 98.3% and 100.3%, respectively, on average.

A key point to note is that the first monsoon forecast for 2018 is slightly better than IMD's first one last year. Last year, southwest monsoon came in at 95% of normal (or LPA), only slightly below IMD's initial forecast of 96%.

Earlier, Skymet Weather Services forecast rainfall at 100% of the LPA (with an error margin of +/-5%). The probability being 5% for excess monsoon, 20% for above normal, 55% for normal, 20% for below normal and 0% for drought.

These, however, are early forecasts. Timely arrival of monsoons, followed by healthy monthly and regional distribution, would be crucial.

In 2017, the rainfall condition, though uneven, was less of a spoiler. Regions that witnessed weak rains were those that either enjoy a strong irrigation cover (Uttar Pradesh and Haryana with rainfall deficiency at 28% and 25% below normal, respectively) or those that contribute less to kharif production (parts of Madhya Pradesh, Karnataka and Maharashtra).

Meanwhile, storage levels in reservoirs are showing faster depletion. As of April 12, water storage at 91 major reservoirs in the country stood at 84% of what is considered normal, compared with 90% for the same period last year. **Indeed, the overall reservoir storage levels are less than the corresponding period of last year in the country as a whole and also less than the average storage of the last 10 years in the corresponding period.**

A normal monsoon is crucial to push economic growth, which slowed last year under the lingering impact of demonetisation and disruptions due to implementation of the goods and services tax (GST), both of which impacted private consumption demand as well as exports.

For fiscal 2019, our base case, given a normal monsoon, is that agricultural growth will be 3% – the same as in the previous fiscal. As for GDP growth during the fiscal, CRISIL's forecast is at 7.5%, up from 6.6% in fiscal 2018.

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