

30 June 2009

Indian Monsoons

Sensex: 14786

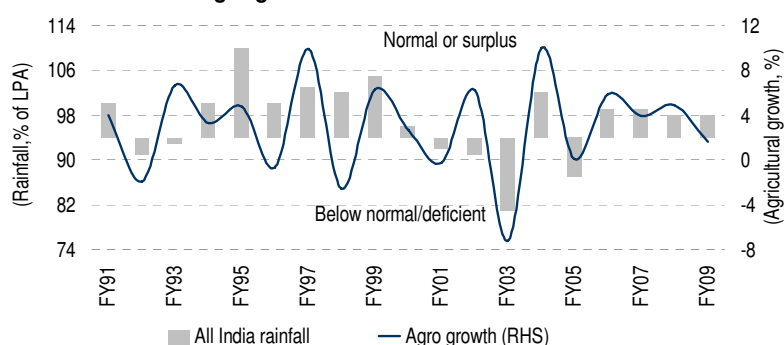
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Raining on a damp economic forecast

- Sub-normal.** A deficient monsoon could impact private consumption and further spur already high food inflation. Its impact on economic growth would be slight, given agriculture's share of GDP has shrunk to 17%. Sectors that could be negatively impacted include agri products (low farm output), autos (tractors and two-wheelers), consumer (rural-oriented companies), and banks (higher agri NPAs). The caveat: weather forecasting is an inexact science and what matters more than the all-India average rainfall is distribution patterns and timeliness, which will only be known in 3-4 weeks.
- Forecast of deficient rains.** The Indian Meteorological Department (IMD) on 24 Jun '09 revised its long-range forecast for the south-west (SW) monsoon to 'below normal'. Over the past 20 years, the IMD's forecasts have varied from -18% to +20% to actual rainfall. One has to go way back to 1992 to get an instance of when the IMD forecast of 'below normal' monsoon matched actual rainfall.
- Food inflation spike.** With food prices already high, a below-normal monsoon could further fuel inflation. On the brighter side, however, foodgrain stocks with the government are at their highest level since FY03, which is likely to contain the run in food inflation.
- Impact analysis.** Our analysis shows that private consumption (especially food consumption) has a high 0.8 correlation to agro growth. Food inflation has a negative correlation of 0.4 to agro growth, implying high inflation in below-normal rainfall years. Among sectors, consumer has the highest correlation, at 0.7, with agro growth.

India Research Team

Monsoon rainfall and agro growth



Source: Indian Meteorological Department and Anand Rathi Research

Correlation to agro growth

	Correlation (x)
Food inflation	-0.4
Private consumption	0.8
Food consumption	0.8
Agriculture growth	0.6
Fertilizer growth	0.6
Tractor volume growth	0.3
Banks credit growth	0.03
Cement consumption growth	-0.1
Consumer sales growth	0.7
Telecom rev growth	0.4

Source: Anand Rathi Research

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