

## Economics

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# India Macro Flash

## IMD Raises 2010 Monsoon Forecast to 102% of LPA + Latest Monsoon Trends

- IMD Raises Monsoon Forecast to 102% of LPA** — Following its 1<sup>st</sup> stage forecast for the summer rains (June-Sept) released in April, which predicted that rainfall would be 98% of the Long Period Average of 89cm; the Indian Meteorological Department's (IMD) released a 2<sup>nd</sup> revised forecast earlier today. New forecasts estimate rainfall at 102% of the LPA (*this falls within the 'normal' category of 96-104% of the LPA*). Rainfall in July and August is estimated to be at 98% and 101% of LPA respectively. Given that current trends indicate that cumulative rainfall during 1-24 June is 11% below normal (see p. 3), forecasts bode well for the July rains – crucial for crop sowing. But, apart from the quantum of rainfall, the timeliness and distribution are equally important.
- ... But how accurate are forecasts?** — Similar to the past, the updated forecasts are based on (1) a 6-parameter model with a model error of +/- 4% (vs. a 5-parameter one used in April) and (2) models prepared by domestic as well international institutes. They are further supported by the dissipation of the El Nino phenomenon and the possible development of La Nina conditions during June-August 2010, which could result in abundant rainfall in some parts of the country. However, what needs to be kept in mind is that rainfall has not always been in line with IMD's projections, as seen during recent drought years (*see p. 2*)
- A good monsoon would help quell price rises** — We are maintaining our 8.4% GDP estimate for FY11 led by a growth of 4% in agri, and 9.1% in both industry and services. Given the emergence of new growth drivers, the monsoons are playing a diminishing role in growth over the last few years. *As seen last year, despite the worst drought in nearly four decades, headline GDP growth remained over 7% with agriculture coming in at -0.2%*. However, a good monsoon is critical for price stability; particularly given that primary product inflation has remained sticky at 16-18% YoY over the last five months.

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**Figure 1. Progress of the Monsoons ( No of Subdivisions)**

No of Subdivisions	22-Jun-05	21-Jun-06	20-Jun-07	25-Jun-08	17-Jun-09	23-Jun-10
Excess	3	6	8	17	4	9
Normal	5	11	23	10	4	11
<b>Total</b>	<b>8</b>	<b>17</b>	<b>31</b>	<b>27</b>	<b>8</b>	<b>20</b>
Deficient	9	17	3	8	12	11
Scanty	19	2	2	1	15	5
No rain	0	0	0	0	1	0
<b>Total</b>	<b>28</b>	<b>19</b>	<b>5</b>	<b>9</b>	<b>28</b>	<b>16</b>
<b>TOTAL</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>

Source: IMD

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

# Key Highlights

Given that 2/3rds of the population still depends on agriculture for its livelihood, the monsoons play a crucial role in supporting economic growth. The correlation between rainfall and agri growth is 64%

Our forecasts factor in agri growth at the trend rate of 4% YoY in FY11, but the quantum, timeliness and distribution of rainfall would play a crucial role

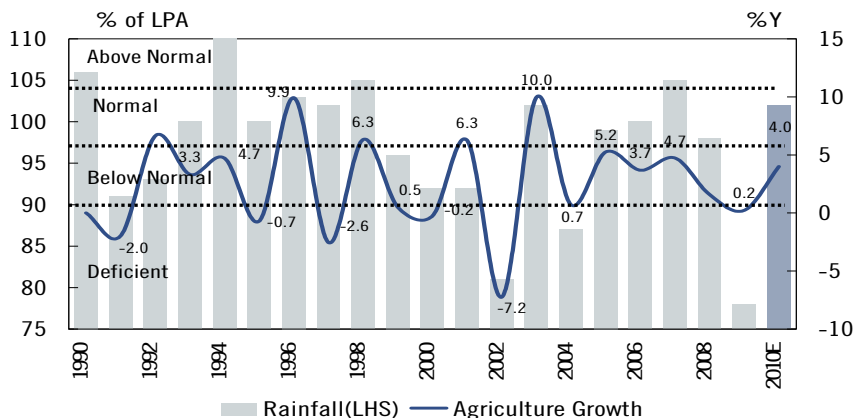
While the IMD's rainfall estimates have not always been on track ...

... 2nd stage forecasts are encouraging and bode well for crop sowing. Estimates are backed by forecasts of various domestic and international institutes

Given the changing composition of GDP, coupled with the fact that the govt's employment guarantee program would help support rural consumption, the impact of a good monsoon on headline GDP would be muted.

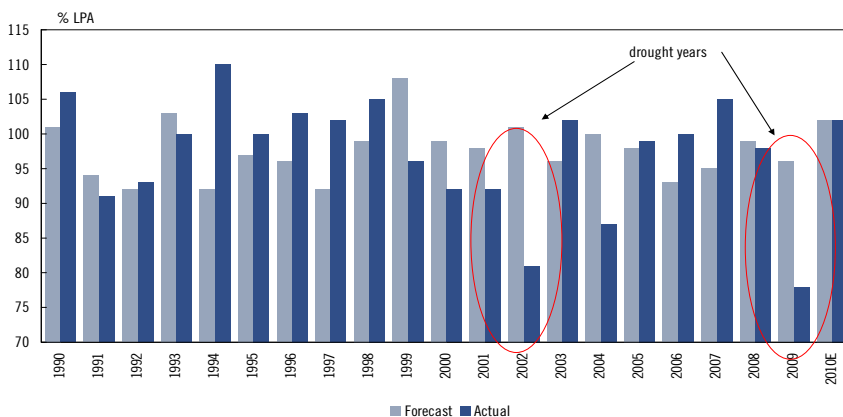
However, the key is the impact on inflation, which has crossed double-digit levels. A good monsoon would help quell primary product prices which, as per the latest weekly data, are now trending at 17.6% YoY

Figure 2. Trends in Rainfall and Agri Growth (%)



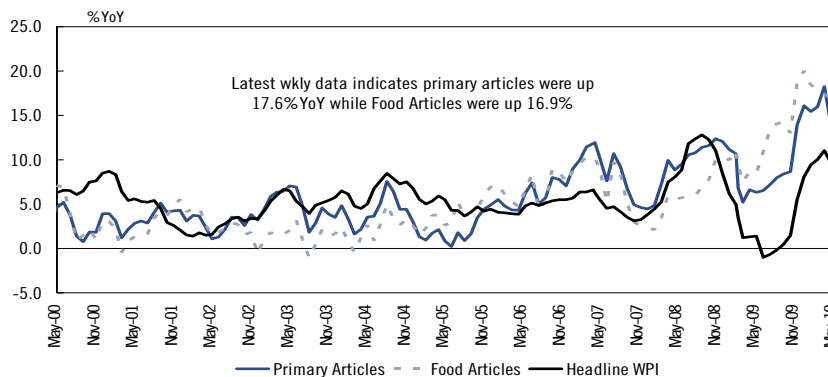
Source: IMD, CIRA

Figure 3. Rainfall Trends – IMD Forecasts vs. Actuals (% LPA)



Source: IMD

Figure 4. Trends in the WPI – Primary, Food and Headline (% YoY)

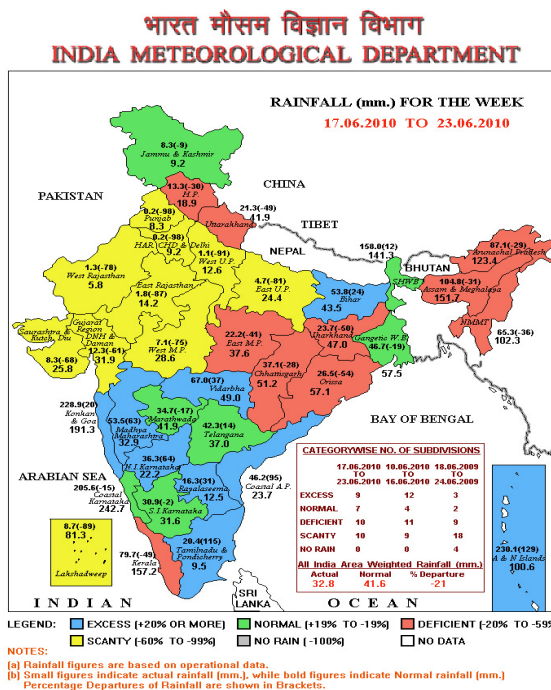


Source: Office of the Economic Advisor

# Monsoon Monitor

Monsoons continue to remain in the red, with rainfall 21% below normal for the week ended 23 June.

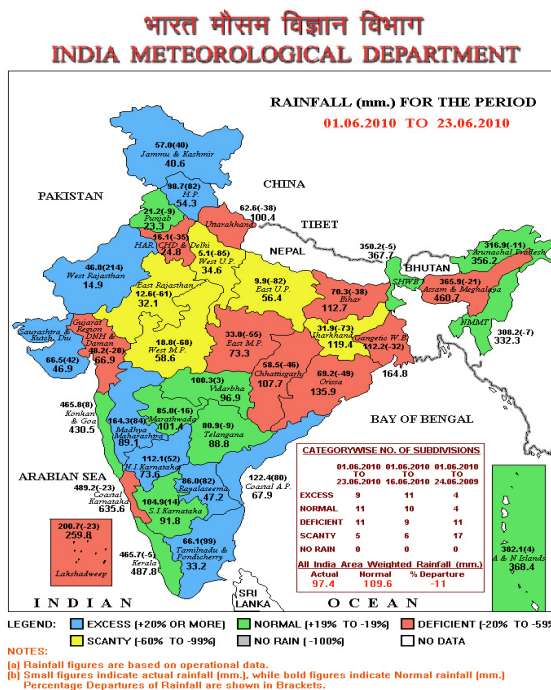
Figure 5. Weekly Rainfall: Week Ended 23 June : 21% BELOW Normal



Source: IMD

On a cumulative basis, rainfall during 1 Jun-23 Jun was 11% below normal.

Figure 6. Seasonal Rainfall : 1 June -23 June: 11% BELOW Normal



Source: IMD

## Appendix A-1

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