Aug’19 CPI inflation printed at 3.21%, but stripping aside gold and silver, CPI inflation actually declined in Aug’19 to 3.03%. Core inflation was at 4.25%. We expect FY20 CPI to average at 3.4%. However, given the rainfall scenario, it is hard to determine the exact course of production of major crops (rice, wheat, pulses and oilseeds) as both excess or deficit rains are not good for production and we have witnessed an uneven distribution of rainfall this year. In North, East and West India almost all the states (barring Punjab & Rajasthan) received deficient rainfall which might negatively impact price and wheat production. Central India, on the other hand, received excess rainfall where pulses and oilseeds are the major crops. Only Southern states received normal rainfall but these are the states where cash crops are primarily sown. However, it is likely that food grain production in current fiscal will be better than earlier estimates. It is thus imperative that Government does effective procurement of crops.

The data on quantum of food grain procurement by Government agencies shows that 38% rice and 36% of wheat and 8% of pulses have been procured out of their total production in 2019, while for pulses there is a slowdown in procurement in 2019 compared to previous year.

In this regard, given the slew of measures the Government is announcing for several sectors, it is also imperative that the rural sector gets due attention. We estimate that the actual impact of MSP pass through during July’18 and Aug’19 has been a negative 26 basis points. The declining trend is clearly showing that there has been inadequate procurement happening on the ground. In this context, Government can instruct that Model Agricultural Produce and Livestock Marketing (APLM) Act of 2017 is implemented by all the States within a specified timeframe.

Also, WPI data for Aug’19 will come in couple of days and we expect core WPI to turn negative at (-) 0.12% after exhibiting continuous fall from a high of 5.16% in Oct’18. The negative core WPI is eventually conveying weak pricing power. As such, on the growth front, we are now estimating GDP growth at 6.1% for FY20, with a definitive downward bias. Our leading indicators show an acceleration of only 30% indicators in the month of July (Q2) as against 35% acceleration in Q1 FY20 when the GDP growth was 5%. Also, the Jul’19 IIP numbers, look better than Jun’19 with June IIP now revised downwards to 1.2%. The good thing, is that GDP growth for Q2 might just be a tad better, with a favourable base and thus Q1GDP could be the trough!

We expect RBI to frontload rate cuts in October policy and cut rates by 40 basis points. We also expect RBI to take repo rate below 5% in the current fiscal. However, we still believe, monetary policy can only work up to an extent and aggressive rate cuts may not propel credit demand. In this context, we point out the similar conundrum regarding the possibility of whether GST cuts will rev up auto demand. Echoing the same logic, the question is if GST cuts are uncertain, whether interest rate cuts could also be uncertain in current circumstances!
**MONSOON 2019: UNEVEN SPATIAL DISTRIBUTION**

- Though the overall monsoon is 3% more than the LPA (i.e. normal), the spatial distribution is quite uneven. Of the 16 major states, 10 states have either deficient rains or excess rains. Only 6 states received normal rains. This will have major impact on foodgrains production and subsequently on CPI inflation and procurement policies of Government. In North, East and West India almost all the states (except Punjab & Rajasthan) received deficient rainfall which will have negative impact on rice and wheat production. Central India on the other hand received excess rainfall where pulses and oilseeds are the major crops. Only Southern states received normal rainfall but these are the states where cash crops are primarily sown.

- It is hard to determine the exact course of production of major crops (rice, wheat, pulses and oilseeds) as both excess or deficit rains are not good for production. However, it is likely that food grain production in current fiscal will better earlier estimates.

**NEED FOR EFFECTIVE PROCUREMENT**

- The data on quantum of food grain procurement by Government agencies shows that 38% rice and 36% of wheat and 8% of pulses have been procured out of their total production in 2019, while in 2018, the procurement figures stood at 34% for rice and 36% for wheat and 18% for pulses. There is a slow down in procurement of pulses in 2019 compared to previous year. Though the procurement window for pulses has not yet closed, this figure could slightly improve but may not match 2018 figure.

- In this regard, we believe time is now most opportune for Government to ensure that the Model Agricultural Produce and Livestocks Marketing (APLM) Act of 2017 is implemented by all the States, in order to get benefit from the Act. This will make marketing system more competitive by attracting new players and do away with the monopolistic and oligopolistic tendencies of the present players of the APMC markets.

**FRONTLOADING RATE CUTS**

- GDP growth has slowed down from 5.8% in Q4FY19 to 5.0% in Q1FY20 on account of slowing down of consumption, low automobile sales, deceleration in air traffic movements and declining Government capex. Further, our leading indicators show an acceleration of only 30% indicators in the month of July (Q2) as against 35% acceleration in Q1 FY20 when the GDP growth was 5%. We are now estimating GDP growth at 6.1% in FY20, with a clear downward bias.

- We believe that RBI could now frontload rate cuts of 40 bps in October policy. We also expect RBI to take repo rate below 5% in the current fiscal.

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