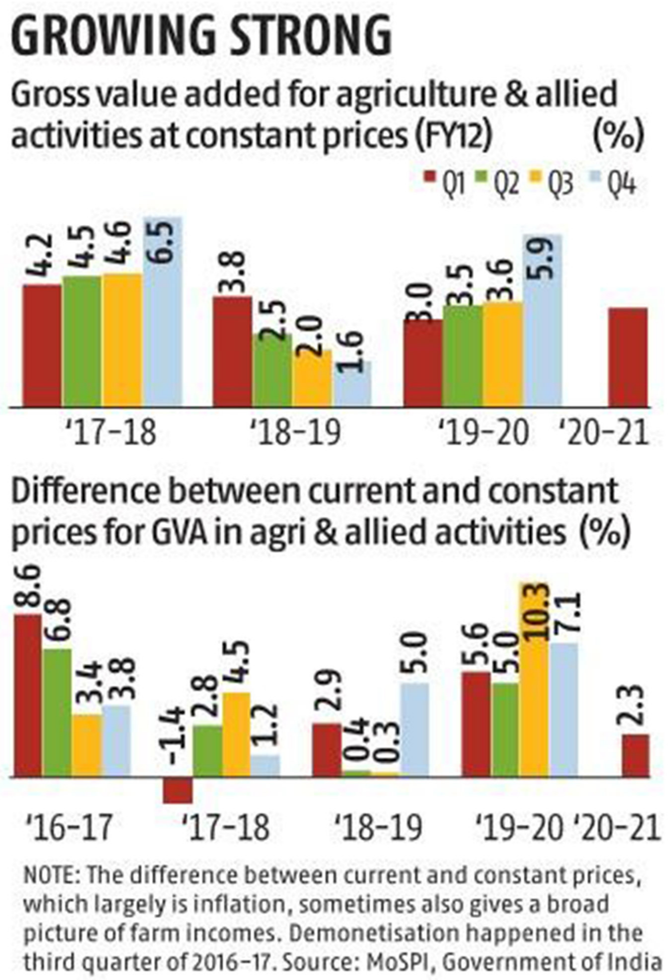
SILVER LINE EMERGES FROM AGRICULTURE SECTOR WITH 3.4% GROWTH IN GDP

Estimate for June quarter 2020 reported a contraction of 23.9 per cent in national GDP and it was expected due to the COVID-19 pandemic and the lockdown that followed which resulted in the cessation of economic activities. But what comes as a silver lining is the exceptional show of the agriculture sector. Agriculture was the only sector to have reported the positive growth. Agriculture was the only sector to grow for April-June 2020 among eight used to compute India's Gross Domestic Product (GDP). India's GDP shrank by 23.9 per cent according to the National Statistical Office's released estimates for the first quarter (Q1). The economy grew 5.2 per cent in the same period a year ago. GDP in monetary terms during the first quarter was estimated at Rs 26.90 lakh crore. This was Rs 35.35 lakh crore last year for the same quarter. This means there has been an overall loss of Rs 8.45 lakh crore. Gross value added (GVA) by agriculture has grown by 3.4 per cent in this quarter, compared to last year. In other words, the sector has added Rs 14,815 crore in the first three months of the fiscal in absolute monetary terms. In the overall GVA, the quarter experienced a contraction of 22.8 per cent in comparison to last year. The country had observed mobility restrictions as mandated under the lockdown measures for the better part of the first quarter of FY21.



Reserve Bank of India (RBI) released its Annual Report 2019-20 which showed that agriculture in 2019-20 recorded a real GVA growth of 4.0 per cent. This was due to the record food grain production. This accounted for 15.2 per cent of the overall economic growth. For the agriculture sector, this is a new record. It surpassed the industrial sector's contribution to economic growth that was just 4.7 per cent in 2019-20. This was for the first time since 2013-14 that agriculture regained this economic prominence. RBI estimated that this growth positively impacted the economy of 48.3 per cent of the country's total households. "As regards the evolution of aggregate supply conditions in 2019-20, agriculture and allied activities provided a silver lining, with record food grains and horticulture production and favourable terms of trade for the farm economy", said RBI, which otherwise has termed the last fiscal year as one of the worst in terms of economic growth. But it gave a warning as well which has been a nagging problem for farmers in recent years: the challenge of managing supply gluts, particularly in cereals. Farmers have not been earning a fair price for their produce even though food inflation has been high or consumers have been paying more for agricultural produce. In its prospect review for 2020-2021, the RBI annual report has suggested that without a fair term of trade for agriculture, the income would not be proportionate to the production. This is what haunts the farmers now: Will they reap a good economic harvest?

Himani Gautam

PhD Scholar, Department of Entomology,
Dr Y.S. Parmar University of Horticulture and Forestry,
Nauni, Solan (HP)

The 1Q-FY21 GDP *growth numbers highlight an extremely challenging outlook for the Indian economy with only one sector namely agriculture, showing positive growth on the output side, and only one demand segment namely, government final consumption expenditure, showing positive growth."* by Dr. D K Srivastava, Chief Policy Advisor, EY India

Industry	Apr-June (2019-20)	Apr-June (2020-21)
Agriculture, forestry & fishing	3.0%	3.4%
Manufacturing	3.0%	-39.3%
Trade, hotel, transport, communication & services related to broadcasting	3.5%	-47.0%
Public administration, defence & other services	7.7%	-10.3 %
Gross Value Added (GVA)	4.8%	-22.8%
Gross Domestic Product (GDP)	5.2%	-23.9%
(at Basic Prices in Q1 (April-June) of 2020-21		

AGRICULTURE ONLY SILVER LINING

However, amid the grim, one sector Agriculture emerged as the only saviour giving hope for future. Agriculture sector registered a 3.4 per cent GDP growth. Had it not been a robust performance in the Agri sector, India's GDP would have tumbled further.

"Positive agricultural output is the only positive element in the GDP print," says Nish Bhatt, Founder & CEO, Millwood Kane International.

The nationwide lockdown coincided with the Rabi season harvests and facilitated by relaxation in lockdown, may not have resulted in a big rise in income for a section of farmers. The latest GDP figure for agriculture is encouraging given the disruption in the supply chains and the subsequent impact on the income of farmers. India's rabi production in the 2019-20 crop year (July to June) is estimated to be around

149.60 million tonnes, 4.10 per cent more than the previous year. Of that, wheat output is estimated at a record 106.21 million tonnes, which is 2.51 per cent more than last year. The current estimate includes the agricultural production for the Rabi season (including production of dairy products, fishery and poultry). Evidence for this is gross value added (GVA) at current prices for agriculture and allied sectors rising 5.7 per cent in Q1 of 2020-21 against 8.6 per cent in the same quarter last year. This translates into an agricultural inflation rate of 2.3 per cent in Q1 2020-21. This was among the lowest increases in inflation in agriculture items in more than a year. Inflation, which is sometimes used as proxy for farmers' income, was down, according to some experts, largely due to a dip in prices of items in allied sectors which include horticulture, livestock, fisheries and dairy. Though prices of core crops remained largely steady during the lockdown months of April to June, mainly due to strong government procurement, prices of horticulture produce, namely vegetables and livestock items such as eggs, meat and milk dropped sharply at the producer's level due to disruption in supplies from mandis to consumers and unfounded rumours about the virus spreading to protein food. Perhaps this was a reason why there was a divergence between wholesale prices and consumer prices in the lockdown months and in July, after the restrictions were relaxed.

In the kharif season, the acreage has already surpassed recent records. Agriculture has attracted huge private investments in July-August, this is unusual, given the large number of farmers quitting farming in recent years. But the reverse migration to villages and the uncertainty of future livelihood has forced many to invest back on agriculture. Its economic impact would be known when the GDP estimate for the

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next quarter is released at the end of September. But what has emerged since last year is that agriculture is slowly gaining its relevance to the national economy. The surge in kharif average is a clear sign of revival of interest in agriculture, tractor sales went up by 38.5 per cent. This also means that farmers are investing more this kharif season, not just on inputs but also on big facilitating machinery like tractors. So, the profit has to be proportionate. But this depends on whether the farmers get the right price for their produce.

India imposed one of the strictest lockdowns in the world on March 25 to help stop the spread of COVID-19, bringing all economic activities to a grinding halt. The Indian economy is facing the most unprecedented shock in economic activities due to the lockdown. Govt. has started unlocking the country in a phased manner since June 1. Though businesses and economic activities have started picking up since then, India's economy still doesn't seem to be out of the woods.

A healthy economy grows over time and it's indicated in its increasing GDP or the value of the goods and services it produces. Recession is defined as a period when economic activities contract for two quarters in a row (or six months). Another contraction in the current July-September quarter and India would officially enter recession, which occurs when there is a contraction in business cycle, caused by shrinking economic activity and followed by a consequent decline in spending. July 2020 was worse than June 2020 and the data for August 2020 is also not very encouraging. So chances are very high that there would be another contraction in Quarter 2 of Financial Year 2020-21.