

Urban revival, key to picking up rural slack

With Budget allocations cut, a jump in agri exports and higher urban remittances may help the rural economy

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Consumer companies are less-than-enthusiastic about the rural economy as they point towards slowing demand conditions. While these indications appear out of sync with the recent robust government support to rural programmes, they may indeed be indicating a more complex situation.

The likelihood that the current slack will sustain is high given that government support to the rural sector has reached its peak. These include procurement and distribution of foodgrains, allocation for rural employment, and various subsidies.

Additionally, the profitability measure for the farm sector, that is, the terms of trade – which is arrived at as a ratio of price received on farm produce to cost paid – has failed to rise despite the aggressive government support to the foodgrain sector in the past three years.

For the rural sector, and particularly for the farm sector, the problem of a general rise in unemployment has led to forced absorption of the labour force displaced from the industrial and services sectors. CMIE data indicate that the farm

sector absorbed a substantial, two-thirds of the 25 per cent lower post-pandemic industrial employment and 3 per cent lower sector employment in the services sector.

Hence, unless job creation in the services, industrial, and urban sectors revives rapidly enough, the drawdown in cash flow to the rural sector due to the decline in fiscal support can lead to a further fall in per capita income and real wages in rural areas.

Lower allocations

Budget FY23 indicates a considerable easing in rural allocation, including the steep contraction in allocation under food and fertiliser subsidy and rural employment. Rural spending at ₹3.6 trillion is only 2 per cent higher than last year. The total central government spending on rural and agriculture at ₹6 trillion is budgeted to decline by 18 per cent in FY23BE.

Our estimate for agri sector terms of trade has continued to contract during 2021-22 (-0.7 per cent YoY) after rising by 8 per cent during 2019-20. The current level of ToT is still 6.5 per cent lower than 10 years back.

Reflecting the weak price realisation in the agri sectors, food infla-



Farm stress Decline in fiscal support

tion at the wholesale level averaged 3.1 per cent and 2.5 per cent in FY21 and FY22 YTD respectively despite the temporary supply shortage caused by the lockdown in mid-2020. These averages have been lower than the basic input costs like agri wages (averaging 4.5 per cent), and diesel and fertiliser prices.

The moderation in India's agri sector terms of trade contrasts with the aggressive support to the foodgrain sector (wheat and rice) by the government through a combination of peak level of procurement (100 million tonnes) to production ratio at 47 per cent in FY21, higher support prices (4-year average of 6 per cent), and buffer stock at an all-time high of over 80 million tonnes.

Thus, the aggregate value of gov-

ernment procurement had risen to peak levels of ₹2.5 trillion in FY21E and is expected to decline as the emergency interventions made during the height of the Covid pandemic ease as normalcy returns. While the higher 130 per cent current buffer/average off-take during non-Covid years reflects surplus in the foodgrain sector itself, the inability of agri terms of trade to rise despite large government support is indicative of weak economics in the broader agri sectors.

Thus, the 28 per cent decline in food subsidy in FY23 (Budget estimate) implies that the government procurement of foodgrain can come down substantially. If the production of wheat and paddy continues to grow at the past average of 3 per cent per annum, the lessening of government procurement from the peak proportion of 70 per cent of market surplus (net of produce held for self-consumption by farmers) can cause significant weakening in realised price in the open market.

Can agriculture exports be an answer? Possibly yes. Up till now, agri exports, in quantity terms, have gained insufficiently from the surge in global prices. Indian agriculture exports growth has aver-

aged 23 per cent during FY21 and FY22. The World Bank's agri commodity index averaged a 17 per cent rise in line with the synchronous rise in global commodity prices. Thus, in quantity terms, agri exports grew by a modest 6 per cent. This is much lower than the FY12 peak of 42 per cent.

The spike in wheat exports has been strong in recent months and has provided some support to domestic prices. Contrastingly, high exports of rice in 2021 also saw a 27 per cent decline in global prices. Thus, higher rice exports failed to benefit domestic price realisation, which is still 3.5 per cent lower than January 2019. The scope for further gains is limited as the conversion of Indian MSP in dollar terms is almost equal or higher than global export prices of wheat and rice.

The slackening rural demand outlook thus intensifies the relevance of a quick revival in industrial and urban service sectors. It can enable reversal of excess supply of rural labour, and regenerate urban remittances.

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