ECONOMIC UPDATE

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Growth Performance – *H1 FY12*

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CARE Ratings
Professional Risk Opinion

The Central Statistical Office (CSO) has released the estimates of Gross Domestic Product (GDP) for Q2 FY12.

GDP growth for second quarter meets the lower expectation of just 6.9% growth as against a growth of 7.7% in Q1 FY12. This further lends some evidence to a slowdown in growth trajectory this financial year.

Highlights

- **Growth in GDP in Q2 FY12 touched 6.9%** (at constant prices) over the corresponding quarter of the previous year
- **Industrial sectors dragging down GDP growth in this quarter include** –
  - Mining and Quarrying (-2.9% in Q2 FY12 against 8.0% in Q2 FY11)
  - Manufacturing (2.7 in Q2 FY12 against 7.8% in Q2 FY11)
  - Construction (4.3% in Q2 FY12 against 6.7% in Q2 FY11)
- **Strong performers include** –
  - Trade, hotels, transport and communication (9.9% in Q2 FY12 against 10.2% in Q2 FY11)
  - Financing, insurance, real estate and business services (10.5% in Q2 FY12 against 10.0% in Q2 FY11)
- **On the expenditure front, performance appears to be relatively stable**, barring a decline in gross fixed capital formation on account of higher interest costs

Table1: Expenditure as % GDP

	Q2 FY11	Q2 FY12
Private Final Consumption Expenditure	59.4	59.6
Government Final Consumption Expenditure	10.9	10.7
Gross Fixed Capital Formation	30.3	28.0
Exports less imports	25.7	26.8

Source: CSO

Half-Yearly Performance

The agricultural sector has been a rather stable performer in FY12 so far. According to the first advance estimates, foodgrain production has registered a growth of more than 8.0% during the kharif season. Foodgrain Production of 124 lakh tonnes during this has been close to the target of 126 lakh tonnes. The target for the rabi season is set at about 119 lakh tonnes of foodgrains, which definitely appears achievable.

Interest rate sensitive sectors such as mining, manufacturing and construction have taken a beating in the first half this year, consequent on lower production and investments in the backdrop of rising interest rate regime.

Table 2: Sectoral Performance (%)

	H1 FY11	H1 FY12
Agri. & allied	3.7	3.6
Mining & Quarrying	7.7	-0.5
Manufacturing	9.1	4.9
Electricity, etc.	4.1	8.9
Construction	7.2	2.7
Trade, hotels, comm., etc.	11.1	11.3
Finance, ins. real estate, etc.	9.9	9.8
Community, social services	8.0	6.1
GDP (factor cost, constant prices)	**8.6**	**7.3**

Source: CSO

Key:

	Drag factor
	Push factor
	Stable performer

The financing services segment has however, not been unduly harmed by the same. Banking activities may maintain performance even in the following months.

Growth in electricity, gas and water supply has been robust at 8.9% in H1 FY12, as supported by strong contribution of electricity in IIP for the period April-September FY12. Increased financial and burden and operational inefficiencies in power discoms, combined with lower domestic coal production and higher cost of imports could impact this sector in the coming months.

Expectations for H2 FY12

Growth to improve in H2 FY12, supported by revival in manufacturing

We expect an increase in GDP growth in H2 FY12 to 7.8% from the current 7.3% in H1 FY12. ***The underlying assumption for this expectation is a revival of growth in the manufacturing sector in busy season with stable performance from agriculture and sustained contribution of financial services.***

Government services may be curtailed in a bid to reduce a deteriorated fiscal deficit position

The government may take a look at the social, community and personal services segment. With a widening fiscal deficit, limited tax revenue and thinning receipts from the disinvestment process this financial year, the government may consider contraction in public expenditure. Additionally, one has to factor in a base effect of non-tax revenue receipts from 3G/BWA auctions that had supported government finances last year, but will be largely absent this year.

Expectations for entire FY12

Growth to average to about 7.3% in FY12

Industrial production this year has been hit adversely. However, with status quo in rates and a gradual reversal in the current regime, an improvement in industrial production may be expected in the remaining months of FY12.

Based on this assumption, we expect GDP growth to settle at 7.3% for FY12.

Table 3: CARE Growth Projections for FY12

(%)	FY12
Agri. & allied	**3.5**
Industry	**6.2**
Of which	
Manufacturing	*6.8*
Services	**8.8**
GDP (factor cost, constant prices)	**7.3**

Sectoral growth rates are pegged at 3.5%, 6.2% and 8.8% for agriculture, industry and services sectors respectively. In particular, the performance of manufacturing and construction might recover, with growth projected at 6.8% for the year in the manufacturing sector.

Slippage in growth target could be prompted by failure in revival of industrial production

Industrial production, in particular the manufacturing sector continues to remain a major risk factor for GDP growth in FY12.

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