

Economics

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India Macro Flash

1QFY11 GDP up 8.8%; Maintain Full Year Estimates of 8.4%

- 1QFY11 GDP up 8.8%** — 1QFY11 GDP rose 8.8% in line with ours and consensus expectations with growth led by Industry up 10.3%, services up 9.7% and agri up 2.8%. On a seasonally adjusted QoQ basis, growth was up 1.9% v/s 3.2% the previous quarter. With the favorable base effect likely to fade, we expect GDP to moderate in the coming quarters and maintain our full year estimate of 8.4%. We expect the RBI to hike 50bps by end 2010.
- GDP by Activity: Likely to have peaked** — The 8.8% growth was led by (i) Double-digit **industrial** growth for the third consecutive quarter led by manufacturing up 12.4% and mining up 8.9% (ii) Continued uptrend in **services** led by trade & hotels up 12.2%, financial services up 8% and (iii) A good winter harvest resulting in **agri** output up 2.8%. The industry numbers in the coming quarters are likely to moderate resulting in full year growth at 8.4%.
- GDP by Demand: Numbers need a closer watch** — Two surprises were (i) Overall consumption slowing to 0.2%YoY from 2.6% in the previous quarter and Investments (net of stocks) posting a sharp deceleration, to 3.7%YoY in 1QFY11 from 17.7%YoY in the previous quarter and (ii) The wide variation between GDP at factor cost (8.8%) and at market prices (+3.7%) which could possibly be attributed to the price effect/subsidies/taxes. In addition to the data appearing to be at odds with current trends, in terms of contribution to growth, discrepancies accounted for 2.3% of the total GDP. (see pg 2 for details)
- Maintain our Full Year GDP estimate of 8.4%** — While we maintain our FY11 GDP estimate of 8.4%, faster than expected fading of the favorable base effect on industry prompts us to revise our industry estimates down to 9% from 9.4%. However, strong trends in summer crop sowing will likely result in agri coming in at 5% thus leaving the headline number unchanged at 8.4%. On rates, taking into account trends in non-food credit, non-oil imports, inflation and growth, we maintain our view of a further 50bps of tightening in 2010. This would take the repo and reverse-repo rate to 6.25% and 5% by Dec 2010

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Figure 1. GDP Snapshot – Trends and Forecasts (%YoY)

	1Q11	1Q10	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
Agriculture	2.8	1.9	5.2	3.7	4.7	1.6	0.2	5.0	3.0
Industry	10.3	4.6	9.3	12.7	9.5	3.9	9.3	9.0	9.4
Services	9.7	7.9	11.0	10.2	10.5	9.8	8.5	9.0	9.5
Consumption	0.2	4.7	8.9	7.5	9.8	8.3	5.3	6.5	7.3
Private Consumption	0.3	2.9	9.0	8.2	9.8	6.8	4.3	6.5	7.5
Public Consumption	-0.6	15.3	8.3	3.8	9.7	16.7	10.5	6.5	6.5
Gross Capital Formation	5.0	-0.3	15.3	16.1	14.8	-1.7	7.1	9.4	11.5
Fixed Capital Formation	3.7	-0.7	15.3	14.3	15.2	4.0	7.2	9.0	13.0
GDP	8.8	6.0	9.4	9.7	9.2	6.7	7.4	8.4	8.6

Source: CSO, CIRA

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

Key Data Highlights

With the favorable base effect likely to fade, we expect GDP to moderate in the coming quarters and maintain our full-year estimate of 8.4%. We expect the RBI to hike 50bps by end 2010

GDP by Activity

On a sectoral basis, growth during 1QFY11 was led by **industry**, up 10.3%YoY. While this marks moderation from the 13.3% industry growth seen in the previous quarter, trends were supported by buoyancy in manufacturing. **Service sector** growth, up 9.7%YoY vs. 8.4% last quarter, was largely on the back of a recovery in trade and community services. **Agri growth** was up 2.8%YoY in 1QFY11, on the back of improved pulse and sugarcane production.

Figure 2. Trends in GDP by Activity (%YoY)

(% YoY)	Wts	FY11					FY10			Full Year	
		Q1	Q1	Q2	Q3	Q4	FY09	FY10	FY11E	FY12E	
Agriculture	14.6	2.8	1.9	0.9	-1.8	0.7	1.6	0.2	5.0	3.0	
Industry	28.5	10.3	4.6	7.8	11.1	13.3	3.9	9.3	9.0	9.4	
Manufacturing	16.1	12.4	3.8	9.1	13.8	16.3	3.2	10.8	9.4	10.0	
Mining	2.4	8.9	8.1	10.1	9.6	14.0	1.6	10.6	5.0	5.0	
Electricity	2.0	6.6	6.6	7.7	4.7	7.1	3.9	6.5	7.0	7.5	
Construction	7.9	7.5	4.6	4.7	8.1	8.7	5.9	6.5	10.0	10.0	
Services	56.9	9.7	7.9	10.7	7.2	8.4	9.8	8.5	9.0	9.5	
Trade,hotels,comm	26.5	12.2	5.5	8.5	10.2	12.4	7.6	9.3	10.5	10.9	
Financing, insurance	17.2	8.0	11.8	11.5	7.9	7.9	10.1	9.7	9.3	10.0	
Community services	13.1	6.7	7.6	14.0	0.8	1.6	13.9	5.6	5.7	6.0	
GDP at factor cost	100.0	8.8	6.0	8.6	6.5	8.6	6.7	7.4	8.4	8.6	

Source: CSO, CIRA

GDP by Expenditure

Real GDP by expenditure indicates a growth of 3.7% - far lower than real GDP by activity which was up 8.8%. While GDP by demand is calculated at market prices taking into account taxes and net of subsidies, to eliminate the price effect, the series is re-computed at base year prices. Thus, a possible cause of the divergence between GDP at factor cost and market prices could be the price effect. Overall consumption slowed to 0.2% from 2.6% last qtr, while investments (net of stocks) also posted a sharp deceleration, to 3.7%YoY in 1QFY11 from 17.7%YoY last qtr. While the contraction in public consumption could be attributed to the base effect, the lack-lustre growth in private consumption is at odds with consumption trends seen in autos, durables etc.

Contribution to growth:

Discrepancies accounted for 2.3% of the total GDP

Investments: 1.7%,

Consumption: 0.1%

Net exports had a negative contribution of 0.4%.

Figure 3. Trends in GDP by Expenditure (%YoY)

	FY11	FY10				Full-Year			
		Q1	Q1	Q2	Q3	Q4	FY09	FY10	FY11
Total Consumption (% GDP)	69.0	71.4	71.5	73.4	62.3	70.9	69.4	68.4	67.1
%YoY	0.2	4.7	9.6	4.8	2.6	8.3	5.3	6.5	7.3
Pvt Cons (% GDP)	58.0	59.9	60.1	60.4	51.1	59.5	57.6	56.8	55.8
%YoY	0.3	2.9	6.4	5.3	2.6	6.8	4.3	6.5	7.5
Public Cons(% GDP)	11.0	11.5	11.3	13.1	11.2	11.5	11.8	11.6	11.3
%YoY	-0.6	15.3	30.5	2.5	2.1	16.7	10.5	6.5	6.5
Gross Capital Form (% GDP)	34.1	33.7	36.0	34.6	37.1	35.6	35.4	35.9	36.6
% YoY	5.0	-0.3	2.1	8.4	17.3	-1.7	7.1	9.4	11.5
Gross Fixed Cap Form	31.2	31.2	33.2	31.9	34.6	32.9	32.8	33.1	34.2
%YoY	3.7	-0.7	1.6	8.8	17.7	4.0	7.2	9.0	13.0
Change in Stocks (% GDP)	1.3	1.3	1.4	1.3	1.3	1.3	1.3	1.5	1.4
%YoY	4.7	-0.9	4.2	8.7	11.1	-61.2	5.9	26.3	0.0
Net Exports (% to GDP)	-5.1	-4.8	-8.7	-6.7	0.4	-6.1	-5.1	-4.9	-4.2
Real GDP at factor cost	8.8	6.0	8.6	6.5	8.6	6.7	7.4	8.4	8.6
Real GDP at mkt prices	3.7	5.2	6.4	7.3	11.2	5.1	7.7	8.0	9.4

Source: CSO, CIRA

Charting Quarterly Trends in GDP

Figure 4. Trends in Headline GDP (%YoY)

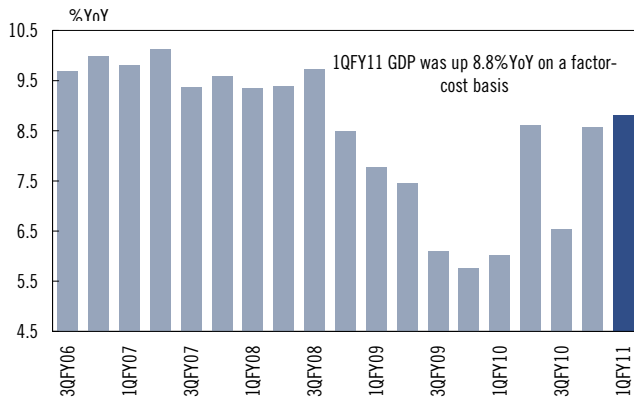


Figure 5. Discrepancies between GDP at Mkt Prices & Factor Cost

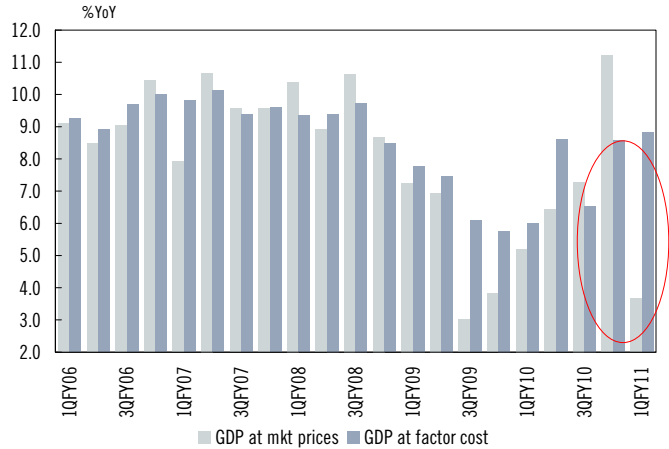


Figure 6. Trends in Industry (%YoY)

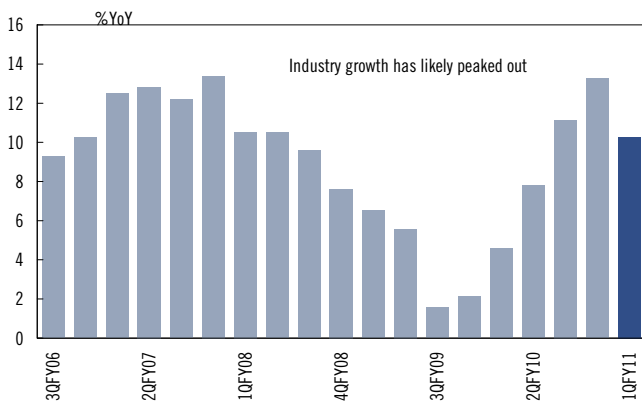


Figure 7. Trends in Services (%YoY)

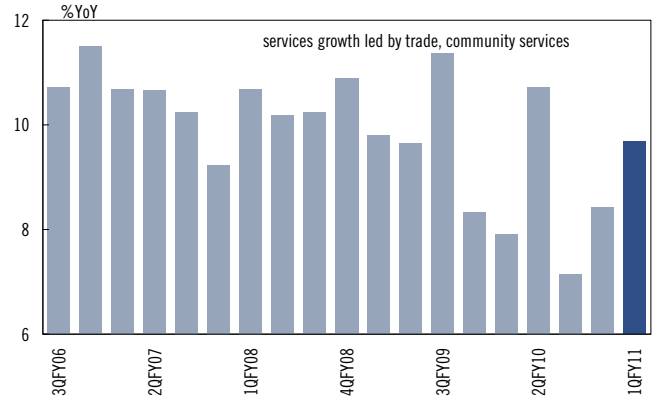


Figure 8. Trends in Consumption Growth (%YoY)

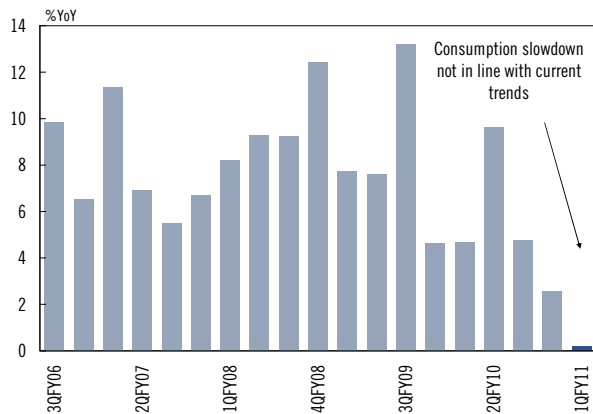
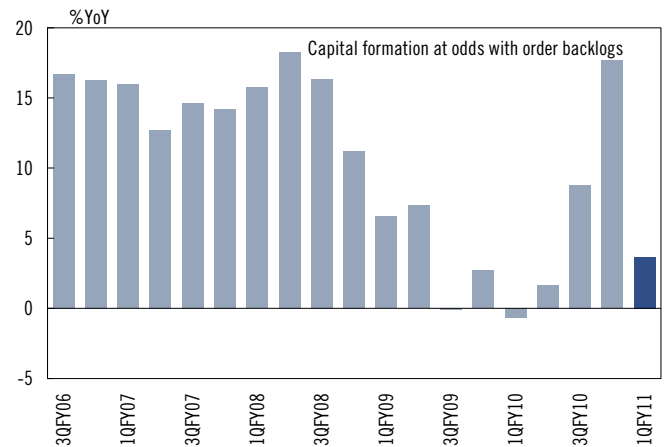


Figure 9. Trends in Fixed Capital Formation (%YoY)



Source: CSO, CIRA

Appendix A-1

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