

February 2013

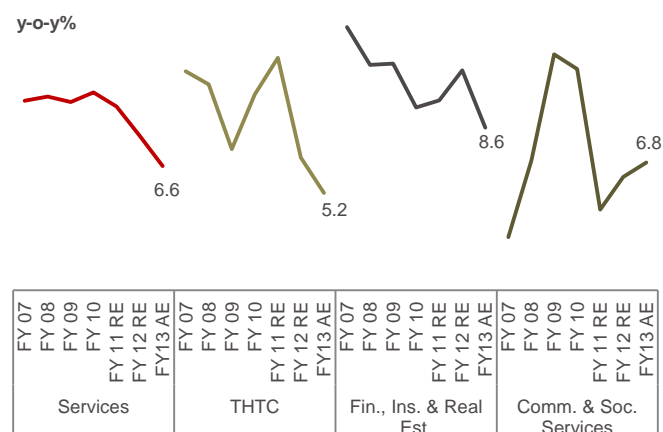
CRISIL Economy First Cut

GDP: Growth below 5 per cent in the second half of 2012-13

Overview: Indian economy grew at 5.0 per cent during 2012-13, below our expectation of 5.5 per cent. GDP growth, which is now at a decadal low, is estimated to have fallen well below even the 5 per cent mark in the second half of 2012-13, with growth at 5.4 per cent for the first half of the fiscal. Delayed monsoons led the agriculture to grow below its trend rate, at 1.8 per cent. Weakness in private consumption (4.1 per cent growth) and fixed investment (2.5 per cent growth) resulted in industrial growth falling to 3.1 per cent on an already low base of 3.5 per cent in 2011-12. Weakness in domestic demand along with fragile global economic scenario also resulted in the services sector growing at mere 6.6 per cent during 2012-13, its slowest growth since 2000-01. Data suggests that an inventory build-up (change in stocks) has increased in the economy due to the sluggish domestic consumption and export demand. An improvement in consumption demand over the next fiscal will help in lowering inventory build-up and increasing capacity utilization, but private investments need to be pumped up to raise and sustain growth beyond 2013-14. Revival of private consumption in 2013-14 will be aided by a higher agricultural growth (assuming normal monsoon), pre-election government spending and lower interest rates.

- Within industry, manufacturing sector has taken a deep hit, growing at 1.9 per cent. This is the slowest pace of growth for the manufacturing sector in the past fourteen years. Core sector industries have been performing poorly and their spill over effects are impacting the other sectors within manufacturing. Poor consumption and investment demand has also been hitting consumer goods and capital goods industries. Weakness in the industrial sector is also reflected in the weak IIP numbers.
- Much of the slowdown during 2012-13 can be attributed to a sharp decline in the services growth – the biggest contributor to GDP grew only at 6.6 per cent in 2012-13 compared to 8.2 per cent during the last fiscal. Trade, hotel, transport and communication and Financing, Insurance, Real Estate and Business services, together constituting over 75 per cent of the services output have witnessed a sharp slowdown. Community and social services grew at 6.8 per cent and is expected to post a healthy growth over the next fiscal given the election spending by the government.
- Private consumption posted a growth of 4.1 per cent, the lowest in the last decade. Fixed investment grew at 2.5 per cent. With a weak investment pipeline, investment growth is expected to remain at low levels even during the next fiscal. Though the RBI is expected to continue with its pro-growth stance and the government has taken significant steps towards structural reforms to curtail fiscal deficit, the revival of private investment through sorting out the mining and land acquisition issues will remain critical to improve the growth outlook.

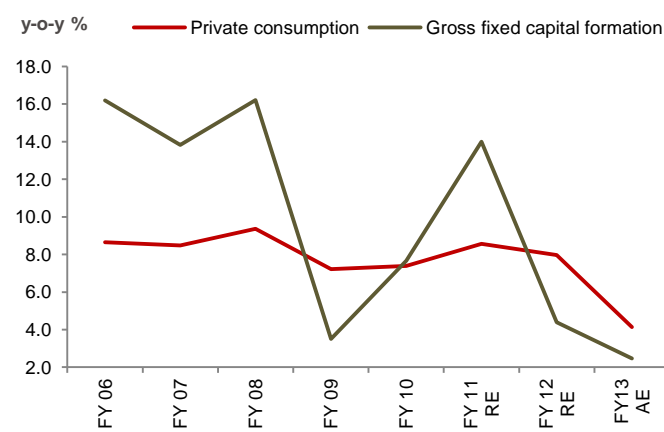
Figure 1: Services sector growth faltering



Note: THTC-Trade, hotels, transport and communication

Source: Central Statistical Office (CSO)

Figure 2: Pvt. Consumption and Investment heading south



Source: Central Statistical Office (CSO)

Table 1: Supply-side components (Growth, y-o-y %)

	FY10	FY 11 RE	FY 12 RE	FY13 AE
GDP at factor cost	8.6	9.3	6.2	5.0
Agriculture	0.8	7.9	3.6	1.8
Industry	9.2	9.2	3.5	3.1
Mining & Quarrying	5.9	4.9	-0.6	0.4
Manufacturing	11.3	9.7	2.7	1.9
Electricity, gas and water supply	6.2	5.2	6.5	4.9
Construction	6.7	10.2	5.6	5.9
Services	10.5	9.8	8.2	6.6
Trade, hotels, transport & communication	10.4	12.3	7.0	5.2
Financing, insurance, real estate and business services	9.7	10.1	11.7	8.6
Community, social & personal services	11.7	4.3	6.0	6.8

Table 2: Demand- side components (Growth, y-o-y %)

	FY10	FY 11 RE	FY 12 RE	FY13 AE
GDP at market price	8.5	10.5	6.3	3.3
Private Consumption	7.4	8.6	8.0	4.1
Govt. Consumption	13.9	5.9	8.6	4.1
Fixed Investment	7.7	14.0	4.4	2.5
Change in Stocks	67.7	29.7	-30.6	47.6
Exports	-4.7	19.7	15.3	5.1
Imports	-2.1	15.8	21.5	5.7

Source: Central Statistical Organisation (CSO)

- According to the revised data released by the Central Statistical Organization (CSO), growth for 2009-10 and 2010-11 has been revised upwards to 8.6 per cent and 9.2 per cent respectively, from 8.4 per cent for the two fiscals. Growth for 2011-12 has been revised downwards to 6.2 per cent from 6.5 per cent estimated earlier.
- Standard and Poor's now expects the US to grow at 3.0 per cent in 2013. Will believe that the situation over the US tax and spending cuts – fiscal cliff, will be 'managed'. Reduction in fiscal deficits and European Central Bank's announcement of unlimited support to government borrowings has provided some relief to the situation in the Eurozone and reduced the risk of recession.

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