

Economics

29 February 2012 | 8 pages

India Macro Flash

Moderation in 3QFY12 GDP to 6.1% Priced In - Implementation of PMO's Recent Measures Key for FY13 Upgrades

- **3QFY12 GDP slows to 6.1%** — Following the 7.7% and 6.9% growth in 1Q and 2QFY12 respectively, GDP growth slowed further to 6.1%YoY during 3QFY12 (Citi & Consensus: 6.3%). Cumulative 9MFY12 growth was 6.9%YoY, vs. 8.1% last year. This implies that, in order for the government to meet its first advance GDP estimate of 6.9% for FY12 (see [Govt Pegs FY12 GDP at 6.9%; Trends Appear to Have Bottomed Out, but Tough Tasks Ahead for ~7% Growth in FY13](#)), growth in 4Q is likely to be 6.9%. The deceleration seen in growth supports our view of cumulative easing of 100bps, although oil remains a wildcard.
- **GDP by Activity: Industry is the Key Drag** — Weak growth was due to a slowdown in industry, to 2.6%YoY – led by a deceleration in manufacturing (+0.4%) and a contraction in mining (-3.1%). However, this has already been largely priced in (*the Index of Industrial Production averaged 1% during 3Q*). Service sector growth held up at 8.9%YoY, supported by healthy trends in trade and communication (+9.2%) and financing and insurance (+9%). Agri growth remained lackluster at 2.7%YoY (see p. 2)
- **GDP by Expenditure: Investments in the Red, Again** — On the expenditure front, Gross fixed capital formation posted a contraction (-1.2%YoY) for the second consecutive quarter, a result of policy-related bottlenecks and coal/gas shortages. A point to note is that past data has been revised down significantly (e.g growth during 1HFY12 was revised from ~3.5%YoY to 0.5%). However, consumption growth edged higher to 5.9%YoY, with trends supported by private consumption (+6.2%) while public consumption slowed marginally (+4.4%). Net exports widened to -7.8% of GDP as export growth moderated, even as imports posted double-digit growth.
- **Policy Thrust is Key to Outlook** — As highlighted earlier, the deceleration in growth in FY12 has been due to a collapse in investments. While we are maintaining our 7% GDP estimate for FY13 (see p. 4) , recent steps taken by the Committee of Secretaries, headed by Principal Secretary to the PM Singh - Pulk Chatterjee - are positive and could result in the investment cycle recovering in the latter half of the year. Key proposals include: (a) Fast track clearances for power and coal projects; (b) expansion in coal production of existing mines without fresh clearance; (c) Coal India instructed to sign Fuel Supply Agreements with power plants that have implemented PPAs.
- **Policy Implications** — Soft GDP data supports our view of the RBI easing the repo rate by 100bps in 2012, but the recent rally in commodities could influence rate decisions. Given that RBI has said that the quantum/timing of rate cuts would be dependent on fiscal consolidation, we expect the repo rate to be cut post the budget (on 16 March), during the RBI's 17 April policy. However, given tight liquidity conditions we expect the RBI to cut the CRR by 50bps in the March 15th policy.

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Figure 1. GDP – Snapshot (%YoY)

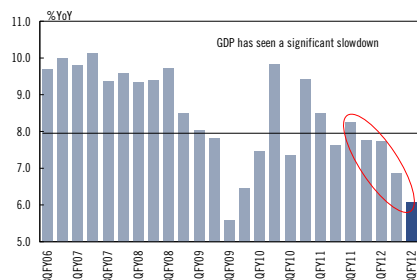
	3QFY12	3QFY11	FY12
Agri	2.7	11.0	2.5
Industry	2.6	7.6	3.9
Services	8.9	7.7	9.4
Consumption	5.9	7.1	6.0
Pvt Consumption	6.2	7.6	6.5
Govt Consumption	4.4	4.7	3.9
Gross Capital Formation	-0.5	14.2	5.8
Fixed Capital Formation	-1.2	11.1	5.6
GDP	6.1	8.3	6.9

* CSO's Advance Estimate. Source: CSO

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

Key Data Highlights

Figure 2. Trends in GDP (%YoY)



Source: CSO

GDP by Activity

On a sectoral basis, the key drag on growth was a slowdown in industry, to 2.6%YoY – led by a deceleration in manufacturing (+0.4%) and a contraction in mining (-3.1%). Poor industry data, however, had already been largely priced in and reflects the slowdown seen in the index of industrial production in recent months (*IIP avged 1% during 3Q*). Service sector growth held up at 8.9%YoY, supported by healthy trends in trade and communication (+9.2%) and financing and insurance (+9%). Agri growth remained lackluster at 2.7%YoY

Figure 3. GDP by Activity (%YoY)

	Wts	FY12				FY11		Full-Year		
		Q1	Q2	Q3	9M	Q3	9M	FY11	FY12*	FY13E
Agriculture	13.9	3.9	3.2	2.7	3.2	11.0	6.8	7.0	2.5	3.0
Industry	27.0	5.0	3.2	2.6	3.6	7.6	7.2	7.2	3.9	5.0
Manufacturing	15.4	7.2	2.7	0.4	3.4	7.8	7.6	7.6	3.9	4.6
Mining	2.0	1.8	-2.9	-3.1	-1.4	6.1	6.7	5.0	-2.2	3.0
Electricity	1.9	7.2	9.8	9.0	8.7	3.8	2.3	3.0	8.3	6.6
Construction	7.7	1.2	4.3	7.2	4.2	8.7	7.7	8.0	4.8	5.9
Services	59.0	10.0	9.3	8.9	9.4	7.7	8.9	9.3	9.4	9.0
Trade,hotels,comm	28.3	12.7	9.8	9.2	10.6	9.8	11.1	11.1	11.2	10.4
Financing, insurance	17.8	9.0	10.5	9.0	9.5	11.2	10.6	10.4	9.1	9.0
Community services	12.9	5.6	6.6	7.9	6.7	-0.8	2.7	4.5	5.9	5.8
GDP at factor cost	100.0	7.7	6.9	6.1	6.9	8.3	8.1	8.4	6.9	7.0

* CSO's Advance Estimate. Source: CSO, CIRA

GDP by Expenditure

Key Takeaways: (1) Gross fixed capital formation posted a contraction (-1.2%YoY) for the second consecutive quarter (-4%YoY during 2Q). (2) Consumption growth edged higher to 5.9%YoY, with trends supported by private consumption (+6.2%) while public consumption slowed marginally (+4.4%). (3) Net exports widened to -7.8% of GDP as export growth moderated, even as imports posted double-digit growth (4) Discrepancies narrowed to -0.4% of GDP (from -2.4% last qtr)

Figure 4. GDP by Expenditure (%)

	FY12				FY11		Full-Year		
	Q1	Q2	Q3	9M	Q3	9M	FY11	FY12*	FY13E
Total Consumption (% GDP)	70.9	70.1	72.6	71.3	72.9	72.7	70.1	69.1	68.4
%YoY	5.5	3.4	5.9	5.0	7.1	8.6	8.1	6.0	6.3
Pvt Consumption (% GDP)	60.5	59.5	60.4	60.2	60.4	61.4	58.7	58.1	57.6
%YoY	5.9	2.9	6.2	5.1	7.6	8.5	8.1	6.5	6.5
Public Consumption (% GDP)	10.4	10.6	12.2	11.1	12.5	11.4	11.4	11.0	10.8
%YoY	2.9	6.1	4.4	4.4	4.7	8.8	7.8	3.9	5.0
Gross Cap Form (% to GDP)	37.8	36.8	35.6	36.7	38.1	39.0	38.5	37.9	37.4
%YoY	6.2	-2.7	-0.5	0.9	14.2	12.5	11.1	5.8	5.9
Fixed Cap Formn (% GDP)	31.2	30.5	30.0	30.6	32.3	32.8	32.5	31.9	31.6
%YoY	4.9	-4.0	-1.2	-0.2	11.1	8.9	7.5	5.6	6.5
Change in Stocks (% GDP)	3.5	3.4	3.3	3.4	3.5	3.7	3.7	3.5	3.3
%YoY	1.8	-4.7	-0.4	-1.1	37.7	37.5	37.4	2.9	0.1
Net Exports (% to GDP)	-8.4	-4.6	-7.8	-7.0	-6.3	-7.3	-6.0	-7.3	-6.2
GDP at factor cost	7.7	6.9	6.1	6.9	8.3	8.1	8.4	6.9	7.0
GDP at mkt prices	8.5	6.7	6.3	7.1	10.1	9.5	9.6	7.5	7.4

*CSO's Advance Estimate. Source: CSO, CIRA

Contributions to Headline GDP at Mkt Prices:

Consumption: 6.2%

Fixed Capital Formation: 1.6%

Gross Capital Formation: 1.5%

Net Exports: -2.6%

Discrepancies: 1.2%

Charting Trends in Quarterly GDP

Figure 5. Quarterly Trends in GDP (%YoY)

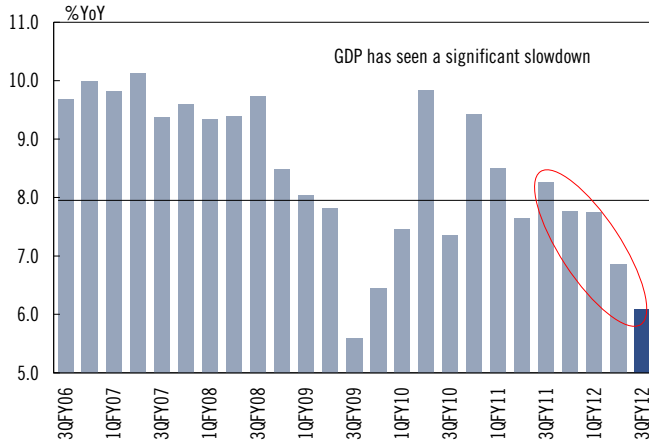


Figure 6. Quarterly Trends in Gross Fixed-Capital Formation (%YoY)

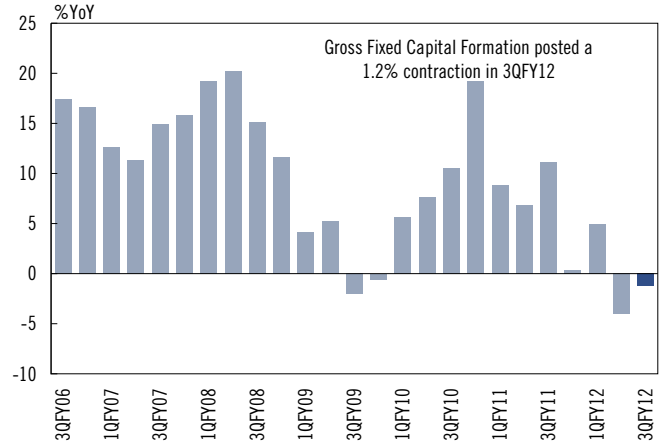


Figure 7. Quarterly Trends in Consumption (%YoY)

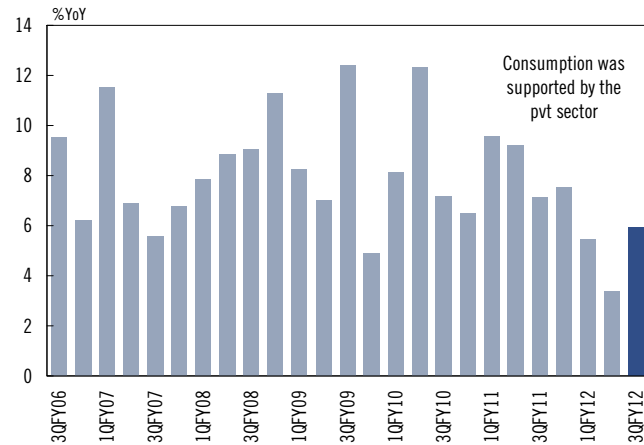


Figure 8. Quarterly Trends in Agriculture (%YoY)

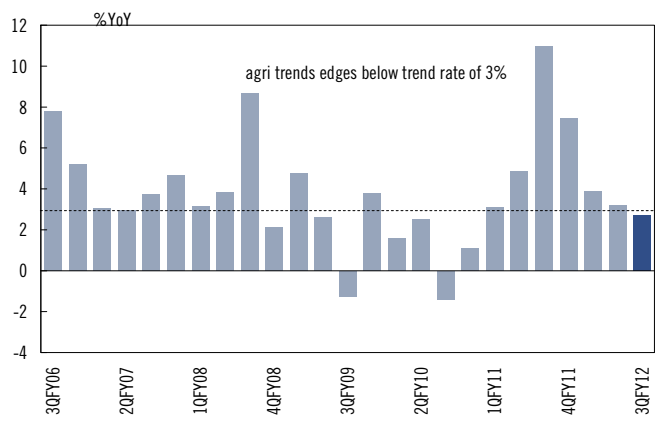


Figure 9. Quarterly Trends in Industry (%YoY)

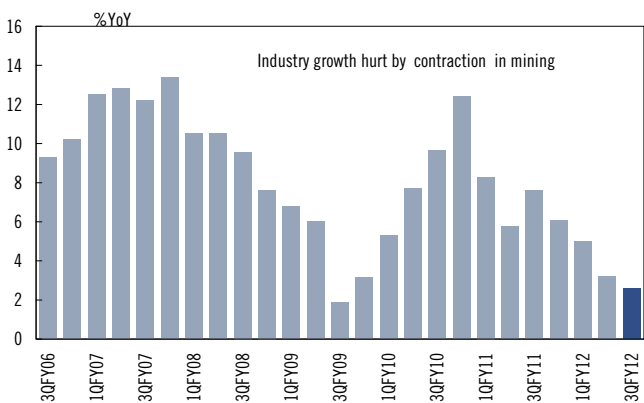
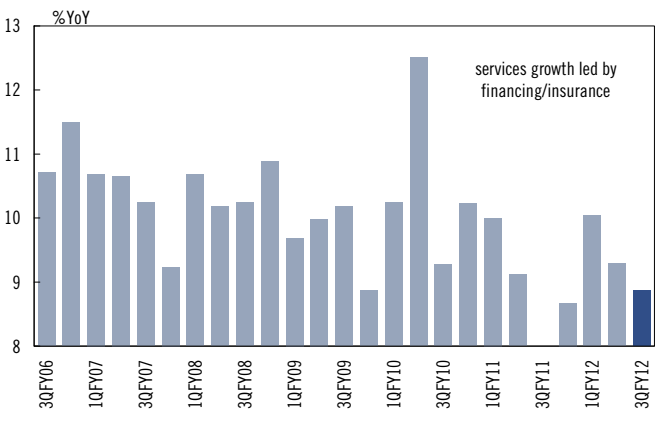


Figure 10. Quarterly Trends in Services (%YoY)



Source: CSO, CIRA

Source: CSO, CIRA

Statistical Snapshot

Figure 11. India – Macroeconomic Summary, FY00-13E (%)

Year to 31 March	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
National Income Indicators*														
Nominal GDP (Rs bn)	20,279	21,840	23,676	25,500	28,617	32,422	36,934	42,947	49,871	56,301	64,574	76,741	89,122	102,044
Nominal GDP (US\$ bn)	467	478	493	528	623.5	720.5	833.7	950.2	1240.6	1223.9	1362.3	1683.7	1,853	2,072
Per Capita GDP (US\$)	467	469	474	500	582	662	754	847	1,090	1,061	1,163	1,416	1,535	1,692
Real GDP growth (%)	6.0	4.4	5.8	3.8	8.5	7.6	9.5	9.6	9.3	6.7	8.4	8.4	6.9	7.0
Agriculture growth (%)	0.5	-0.2	6.3	-7.2	10.0	1.6	5.1	4.2	5.8	0.1	1.0	7.0	2.5	3.0
Industry growth (%)	4.6	6.4	2.7	7.1	7.4	9.4	9.7	12.2	9.7	4.4	8.4	7.2	3.9	5.0
Services growth (%)	9.5	5.7	7.2	7.5	8.5	9.4	10.9	10.1	10.3	10.0	10.5	9.3	9.4	9.0
By Demand * (%YoY)														
Consumption	7.2	3.0	5.3	2.3	5.4	2.3	8.6	7.9	9.3	7.6	8.1	8.1	6.0	6.3
<i>Pvt Consm</i>	6.1	3.4	6.0	2.9	5.9	2.1	8.5	8.7	9.2	7.1	7.0	8.1	6.5	6.5
<i>Public Consm</i>	13.2	0.9	2.3	-0.4	2.6	3.4	8.9	3.8	9.6	10.4	14.3	7.8	3.9	5.0
Gross Fixed Capital Formn	11.2	0.0	7.4	6.8	13.6	20.7	16.2	13.8	16.2	3.5	6.8	7.5	5.6	6.5
Cons; Invest, Savings ** (%GDP)														
Consumption	79.4	78.5	78.9	77.2	75.0	70.3	69.3	68.3	67.4	68.8	69.4	68.4	67.9	67.0
Capital Formation	25.3	23.8	22.3	24.6	26.9	32.8	34.7	35.7	38.1	34.3	36.1	35.8	35.4	36.0
Gross Domestic Savings	24.2	23.2	22.9	25.7	29.1	32.4	33.4	34.6	36.8	32.0	33.8	32.3	33.0	33.5
Real Indicators (%YoY)														
Cement despatches (domestic)	15.2	-1.9	9.8	8.7	5.8	8.1	10.1	10.2	9.8	8.5	11.2	4.8	8.0	9.0
Commercial vehicle sales	22.0	-11.9	-4.5	28.0	36.2	22.4	10.1	33.3	4.2	-21.4	39.2	27.0	14.1	15.0
Car sales	45.3	-5.3	3.2	7.8	27.2	17.8	7.7	20.7	12.1	0.3	25.7	29.3	-4.0	7.5
Two-wheelers	9.4	0.7	15.3	17.0	11.3	15.7	13.6	11.5	-7.8	2.7	25.9	25.8	15.0	11.0
Diesel consumption	5.6	-3.4	-3.7	0.3	1.2	6.9	1.4	6.7	11.1	8.5	8.9	6.5	6.0	6.0
Mobile Tele density	0.2	0.3	0.6	1.3	3.1	4.8	8.2	14.1	22.0	33.0	48.9	67.9	74.9	81.6
Monetary Indicators (% YoY)														
Money supply	14.6	16.8	14.1	14.7	16.8	12.0	21.4	21.3	21.1	19.3	16.7	16.0	17.0	17.0
Inflation – WPI (Avg)	3.3	7.1	3.6	3.4	5.5	6.5	4.4	6.5	4.8	8.0	3.6	8.6	9.0	7.0
CPI (Avg)	3.4	3.7	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	13.0	9.5	9.0	7.0
Bank credit growth	18.2	17.3	15.3	23.7	15.3	30.9	37.0	28.1	22.3	17.5	16.7	21.4	18.0	18.0
Deposit growth	13.9	18.4	14.6	16.1	17.5	13.0	24.0	23.8	22.4	18.0	17.0	15.8	17.0	17.0
Fiscal Indicators (% GDP)														
Centre's fiscal deficit)	-5.2	-5.4	-6.0	-5.7	-4.3	-3.9	-4.0	-3.3	-2.5	-6.0	-6.5	-5.2***	-5.8^	-5.5
State fiscal deficit	-4.5	-4.0	-4.1	-3.9	-4.2	-3.3	-2.4	-1.8	-1.5	-2.4	-3.3	-2.5	-2.5	-2.5
Combined deficit (Centre+State)	-9.0	-9.1	-9.5	-9.1	-8.1	-7.2	-6.5	-5.4	-4.1	-8.4	-9.6	-8.1	-8.3	-8.0
Off Balance Sheet Items	-	-	-	-	-	-	-0.5	-0.9	-0.6	-1.7	-0.2	NA	NA	NA
Combined liabilities (dom+ext)	73.8	77.1	82.0	85.5	85.4	85.2	83.0	79.3	76.1	76.1	75.0	71.1	68.8	68.5
External Sector (% YoY)														
Exports (US\$bn)	37.5	45.5	44.7	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.4	250.5	288.0	331.2
% YoY	9.5	21.1	-1.6	20.3	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	15.0	15.0
Imports (US\$bn)	55.4	57.9	56.3	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	381.1	457.3	521.3
%YoY	16.5	4.6	-2.8	14.5	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	26.7	20.0	14.0
Trade deficit (US\$bn)	-17.8	-12.5	-11.6	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-169.2	-190.0
Invisibles (US\$bn)	13.7	9.8	15.0	17.0	27.8	31.2	42.0	52.2	75.7	91.6	80.0	84.6	105.0	116.5
Current Account Deficit (US\$bn)	-4.1	-2.7	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-64.2	-73.6
% to GDP	-0.9	-0.6	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-3.5	-3.6
Capital Account (US\$bn)	9.5	8.8	8.6	10.8	16.7	28.0	25.5	45.2	106.6	6.8	51.6	62.0	62.1	72.6
% GDP	2.0	1.9	1.7	2.1	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.7	3.4	3.5
Forex Assets (excl gold) (US\$bn)	35.1	39.6	51.0	71.9	106.1	135.1	145.1	191.9	299.1	241.6	252.8	273.7	271.6	270.6
Months of imports	7.6	8.2	10.9	13.4	15.9	13.6	11.1	12.1	13.9	9.4	10.1	8.6	7.1	6.2
External Debt (US\$bn)	98.3	101.3	98.8	104.9	112.7	134.0	139.1	172.4	224.4	224.5	261.0	306.4	326.6	341.6
Short Term Debt	3.9	3.6	2.7	4.7	4.4	17.7	19.5	28.1	45.7	43.3	52.3	65.0	71.5	81.5
Exchange Rate														
US\$/INR - annual avg	43.4	45.7	48.0	48.3	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	48.1	49.3
% depreciation	2.8	5.3	5.0	0.6	-5.0	-2.0	-1.6	2.0	-11.1	14.4	3.0	-3.8	5.5	2.4
US\$/INR - year end	43.6	46.5	48.9	47.5	43.6	43.8	44.6	43.6	40.1	50.7	44.9	44.6	50.3	50.0
% depreciation	2.8	6.7	5.2	-2.9	-8.2	0.3	2.0	-2.3	-8.0	26.4	-11.4	-0.7	12.8	-0.6

*Using spliced data, FY12 GDP data are Advanced Estimates by the CSO ** At current prices. ***Revised deficit for FY11 is 4.7% of GDP ^Assuming oil at US\$105/bbl and partial payment of under-recoveries to oil companies Source: CSO, RBI, Ministry of Finance and CIRA Estimates

Appendix A-1

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