

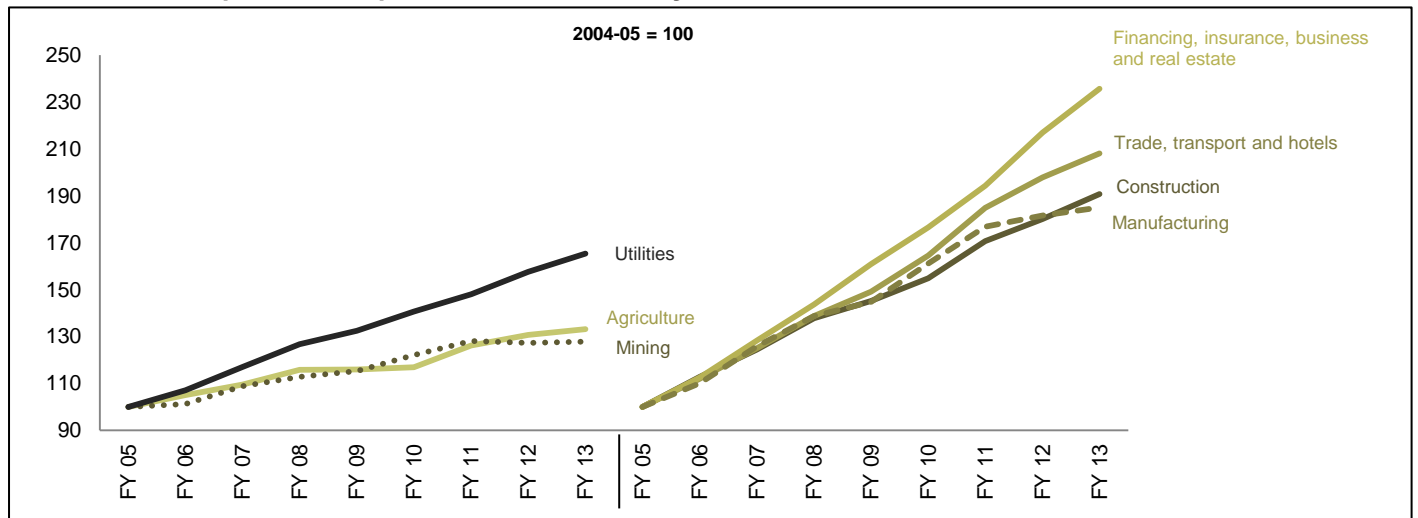


May 2013

CRISIL Economy First Cut

GDP: Weak inputs, weak output

Sectoral GDP expansion – Input industries fare badly



Source: CSO, CRISIL Research

The economy grew by only 4.8 per cent between January-March 2013. Mining GDP contracted by over 3 per cent, utilities sector (electricity, gas, and water supply) growth fell to 2.8 per cent and agriculture growth was below trend at 1.4 per cent. These are the key input sectors in the economy. Almost all sectors in an economy require these inputs. It is difficult to see how, given the slowing growth in these strategic input industries, other sectors of the economy, especially manufacturing, can grow strongly. In fact, growth in the input sectors has slowed to just 2 per cent in 2012-13 from 7.3 per cent in 2010-11.

A decline in mining output in the past two years has adversely affected power generation, which in turn is impacting other sectors of the economy. In 2012-13, manufacturing output grew by merely 1 per cent, on the back of a mild 4.4 per cent growth in 2011-12. Slowing private consumption growth and weak exports too hurt the manufacturing sector. Overall GDP growth fell to a decadal low of 5 per cent in 2012-13, as growth in the services sector fell below the 7 per cent mark for the first time in last 10 years.

Moreover, prices of most of these inputs continue to rise, driving up input costs for various industries. When inputs are scarce and costly, the rate of return on investment falls, deterring the private sector to undertake new investment. In 2012-13, fixed investment growth slowed to 1.7 per cent from 4.4 per cent in the previous year. Until and unless measures are taken to revive the input sectors, specifically mining and power, an investment-led recovery seems a tall order.

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

	FY13PE	Q4FY12	Q3FY13	Q4FY13
GDP at factor cost	5.0	5.1	4.7	4.8
Agriculture	1.9	2.0	1.8	1.4
Industry	3.1	2.1	2.5	2.7
Mining & Quarrying	-0.6	5.2	-0.7	-3.1
Manufacturing	1.1	0.1	2.5	2.6
Electricity, gas and water supply	4.2	3.5	4.5	2.8
Construction	4.3	5.1	2.9	4.4
Services	6.6	7.3	6.7	6.6
Trade, hotels, transport & communication	6.4	5.1	6.4	6.2
Financing, insurance, real estate and business services	8.6	11.3	7.8	9.1
Community, social & personal services	6.6	6.8	5.6	4.0

PE – Provisional Estimates

Source: Central Statistical Organisation (CSO), CRISIL Research

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

	FY13PE	Q4FY12	Q3FY13	Q4FY13
GDP at market price	3.2	5.2	4.1	3.0
Private Consumption	4.0	9.7	4.2	3.8
Govt. Consumption	3.9	7.6	2.2	0.6
Fixed Investment	1.7	2.6	4.5	3.4
Change in Stocks	73.4	-32.4	75.8	76.0
Exports	3.0	13.4	-3.5	-0.6
Imports	6.8	24.3	4.2	3.3

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Last updated: March 7, 2013.



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