



CRISIL

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ECONOMY

CRISIL Insights

Through the monthly CRISIL Insights Economy series, we offer incisive analysis of macroeconomic parameters of the country. In the August issue, we analyse how slowing domestic demand has impacted the services sector.

Slowing domestic demand impacts services growth

There has been a perceptible decline in service sector growth in 2012-13 as compared to the 2000s. The growth has slowed to 7.1 per cent in 2012-13 from almost 9 per cent in the 2000s. Even though weak external demand played its part in the slowdown, a sharp and prolonged decline in domestic demand (for services from industries and households) is primarily responsible dragging down growth in the service sector. In 2011-12 and 2012-13, growth in services' sub-sectors that largely depend on domestic demand slowed sharply. For instance, average growth in sectors such as hotels and restaurants, railway and other transport, communication, and community, personal and social services fell to 6.0 per cent in 2011-12 and 2012-13 from 9.2 per cent in the 2000s. Over the years, rising private (household) consumption supported by increasing incomes has also been a key growth driver for the services sector. A slowdown in private consumption growth will also affect the demand for services from households.

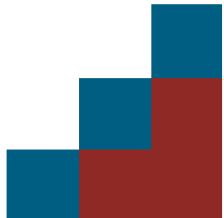
Within the service sector, the sub-sector 'business services' with a share of 8 per cent in services GDP is most exposed to external demand. This sector has been relatively resilient in the recent past. Within business services, IT/ITeS (which has grown at a CAGR of 18.9 per cent between 2005-06 and 2011-12 on the back of external demand) has a 72 per cent share. In 2011-12, growth in business services remained strong, aided by robust performance of the IT/ITeS sector, while other sectors saw declining growth. This suggests that it's incorrect to lay the blame of decline in services growth on external factors.

The recent sharp and prolonged decline in industrial activity is extending weakness to the service sector. Moreover, an industrial slowdown is mainly policy-led, unlike the service sector, where sluggishness is more a fallout of lower domestic demand. A recovery in the service sector, therefore, depends largely on policies adopted to revive industrial growth. A push to private sector investments will hold the key to raising domestic demand and, in turn, demand for services.

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Monsoons

Monsoon boost to agricultural growth

Industrial Production

Industrial output sees further contraction

Inflation

WPI-based inflation rises further in July

MONSOONS

- Till the week ending August 7, average rainfall across the country has been 15 per cent above normal. Between June 1 and August 7, 44 per cent area of the country's land mass has received excess rainfall and 42 per cent has received normal rainfall.
- Among the 4 regions, Central India received the highest rainfall of 41 per cent above normal, while Southern and Northern India received 21 to 28 per cent above normal rainfall, respectively. The North-East region though has seen 33 per cent below normal rainfall.
- Assuming that total rainfall will be normal this year, agriculture is expected to grow at 3.5 per cent in 2013-14.

INDUSTRIAL PRODUCTION

- Industrial output fell by 2.2 per cent in June compared to a 2.8 per cent fall in May. While output of manufacturing and mining sector fell by around 2.2 and 4.1 per cent respectively in June, electricity output remained at the same level as a year earlier.
- Capital goods output fell by 6.6 per cent in June. Last month, too, capital goods output had fallen, but at a much less sharper pace of 2.6 per cent.
- Output of eight core infrastructure industries with nearly 38 per cent weightage in IIP, slowed to 0.1 per cent in June from 7.9 per cent in the same month last year.

INFLATION

- WPI-based inflation rose to 5.8 per cent in July from 4.9 per cent in the previous month. In July, CPI based inflation fell to 9.6 per cent from 9.9 per cent in June.
- Food inflation (primary + manufacturing) rose to 9.5 per cent in July from 8.6 per cent in June.
- Core inflation as measured by non-food manufacturing inflation rose to 2.4 per cent in July after falling to a 42 month low of 2.0 per cent in June.

Interest Rate

Government bond yields rise during July

- Yields on both 10-year and 1-year G-Sec rose in July as RBI tightened liquidity in an effort to stabilize the Rupee. FII outflows from the debt market, higher monthly borrowings by the government and rising inflation expectations drove yields upwards.
- While yield on the new 10-year 7.16 per cent 2023 bond rose by 73 bps to 8.17 per cent as of July-end, yields on the 1-year G sec jumped steeply by 246 bps to 9.96 per cent.
- As a result of the liquidity tightening measures, borrowings under Liquidity Adjustment facility fell to Rs 503.5 billion in July from 650 billion in June.

INTEREST RATE

Rupee

Rupee ends July on a record low

- As of August 16, the rupee touched a low of 61.8 per US\$. The US Federal Reserve's indication of a possible withdrawal of its quantitative easing program triggered foreign capital outflows since mid-May, resulting in the depreciation of the rupee.
- The rupee ended July at 61.1 per US\$. On a monthly average basis, the Indian rupee depreciated to 59.8 per US\$ in July from 58.4 per US\$ in June.
- In July, FIIs pulled out US\$2.9 billion from the market with bulk of the exiting the debt market. FIIs had pulled out US\$7.3 billion in June.

RUPEE

Trade

Trade deficit shows signs of relief in July

- While exports recorded a growth of 11.6 per cent y-o-y, imports fell by 6.2 per cent y-o-y in July. The trade deficit hence was 30 per cent lower y-o-y in July.
- Within imports, while oil imports fell by 8.0 per cent, non-oil imports fell by 5.3 per cent y-o-y in July.
- On a cumulative basis, while exports rose by 1.7 per cent during April-July 2013 as compared to the same period last year, imports recorded a growth of 2.8 per cent during the same period.

TRADE

Source: CRISIL Research



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