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CRISIL EconomyFirstCut

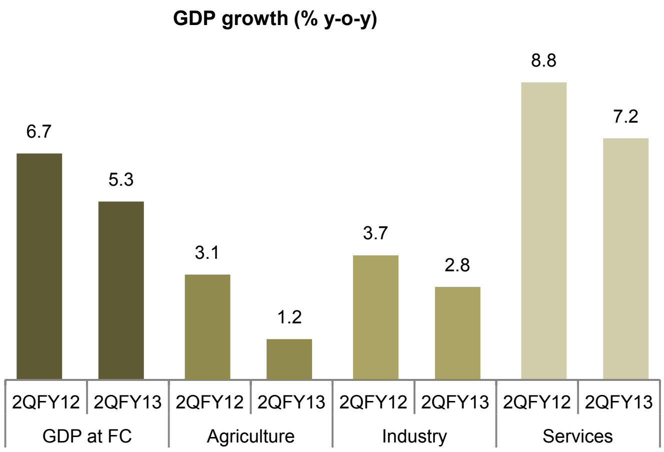
GDP: Industry keeps overall GDP growth weak at 5.3 per cent

Overview: The Indian economy grew at 5.3 per cent in the Q2FY13. This is the third consecutive quarter in which GDP growth has hovered around this level. Industry continues to be the weak link as it grew at 2.8 per cent in Q2FY13. This is the lowest industry growth in Q2 since 2004. Manufacturing, impacted by policy hurdles and slowing consumption/investment demand, grew at just 0.8 per cent. Services, the best performing among the three sectors, grew only at 7.2 per cent in Q2FY13, much lower than Q2FY12. Private consumption growth remained muted at 3.7 per cent due to depressed consumer sentiment and high interest rates. Exports witnessed a sharp slowdown reflecting weak global demand.

Given the global economic environment and the domestic policy hurdles, GDP growth is expected to remain subdued over the remaining quarters of this fiscal as well. We, therefore, expect GDP to grow at 5.5 per cent during FY13. Although government has announced some reforms and policy measures recently to revive growth, they will take a while to play out.

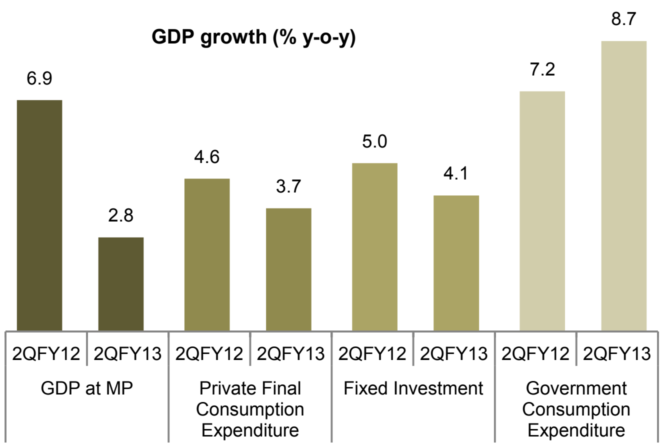
- Agriculture, adversely impacted by the delayed monsoons, grew at 1.2 per cent. Kharif output is expected to be lower by around 10 per cent. However, recovery in monsoons during the latter part of the season is likely to lead to a better rabi output.
- Within industry, mining continues to be impacted by policy logjam and grew at a mere 1.9 per cent. Industrial slowdown now looks both well entrenched and widespread as manufacturing output growth for the H1FY13 is mere 0.5 per cent after a dismal performance in FY12.
- Services growth recovered marginally from Q1FY13 marked by an improvement in trade hotels and transport services which grew at 5.5 per cent, still substantially lower than 9.5 per cent in Q2FY12.
- Private consumption growth in Q2FY13 is at its lowest since June 2009, indicating a sharp demand slowdown. Although fixed investment shows improvement in Q2FY13 as compared to Q1FY13, it is too early to conclude that investment cycle has bottomed out.
- Government consumption expenditure growth continued to be strong at 8.7 per cent in Q2FY13, not a good sign so far as fiscal health of the government is concerned.
- Exports saw a sharp decline in Q2FY13 and grew at 4.3 per cent, taking it closer to the global financial crisis levels. Imports also witnessed a slowdown due to a contraction in imports of gold and silver and precious metals and capital goods.

Figure 1: Industry slows further dampening growth



Source: Central Statistical Office

Figure 2: Private consumption and trade plunge



Source: Central Statistical Office

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

	FY12 RE	Q2FY12	Q1FY13	Q2FY13
GDP at factor cost	**6.5**	**6.7**	**5.5**	**5.3**
Agriculture	**2.8**	**3.1**	**2.9**	**1.2**
Industry	**3.4**	**3.7**	**3.6**	**2.8**
Mining & Quarrying	-0.9	-5.4	0.1	1.9
Manufacturing	2.5	2.9	0.2	0.8
Electricity, gas and water supply	7.9	9.8	6.3	3.4
Construction	5.3	6.3	10.9	6.7
Services	**8.9**	**8.8**	**6.9**	**7.2**
Trade, hotels, transport & communication	9.9	9.5	4.0	5.5
Financing, insurance, real estate and business services	9.6	9.9	10.8	9.4
Community, social & personal services	5.8	6.1	7.9	7.5

Source: Central Statistical Organisation (CSO)

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

	FY12 (RE)	Q2FY12	Q1FY13	Q2FY13
GDP at market price	**6.9**	**6.9**	**3.9**	**2.8**
Private Consumption	5.5	4.6	4.0	3.7
Govt. Consumption	5.1	7.2	9.0	8.7
Fixed Investment	5.5	5.0	0.7	4.1
Change in Stocks	2.4	2.8	-1.2	-0.1
Exports	15.3	19.7	10.1	4.3
Imports	18.5	27.0	7.9	6.6

Source: CRISIL Research; Note: RE- Revised Estimates

- According to the OECD global recovery over the next 2 years will remain hesitant and uneven. Growth in OECD area is expected to be 1.4 per cent 2012 as compared to 1.8 per cent in 2011. Even in 2013 OECD area growth is expected to remain at 1.4 per cent only. The OECD expects India's GDP growth to slowdown to 4.5 per cent in 2012.
- The crisis in euro area is expected to linger due to adverse feedback loop of government guarantees for banks and bank holdings of government bonds. However, the recent decision by IMF to release finances to the tune of 44 billion Euros to Greece, may inject some calmness in the near term into the otherwise volatile global financial market. The OECD expects the Euro zone to contract by 0.4 per cent in 2012.

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