

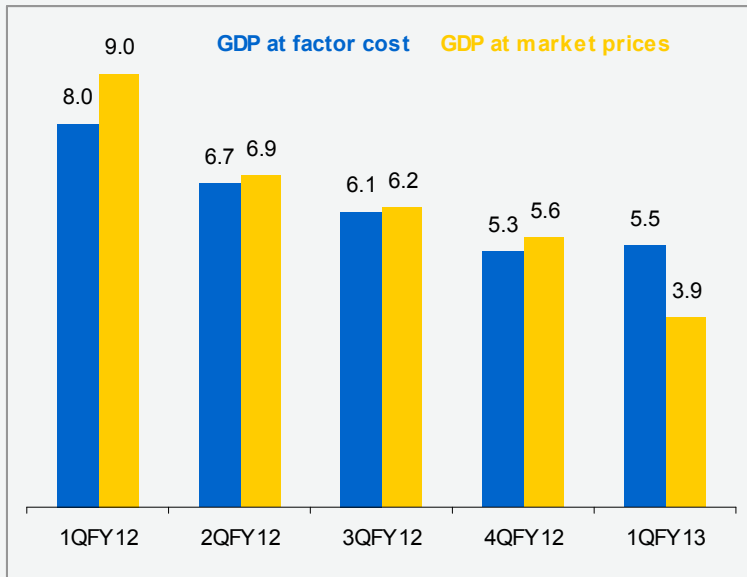
# Economy Update - GDP



High interest rates and policy log jam bite into growth

31 August, 2012

**Real GDP remains weak in 1QFY13 (y-o-y%)**



- Real GDP growth at factor cost inched up marginally to 5.5 per cent in 1QFY13, as compared to 5.3 per cent posted in the previous quarter. However, from demand-side, GDP at market prices decelerated sharply to near 3 year low of 3.9 per cent in the reporting quarter.

- Though GDP growth beat estimates and surprised on the positive side in the first quarter, the continuing uncertainty in the Euro Zone, falling domestic investment demand, and a policy logjam, are expected to keep the Indian economy's growth prospects weak for this fiscal.

- Notwithstanding the pick-up in rainfall towards end-August 2012, this year is likely to end in a net rainfall deficit, thus exacerbating the downside risks to growth. The weak performance of agriculture due to the drought will rub on industry and services given the inter-linkages between them.

**Supply-side components**

(y-o-y%)	2QFY12	3QFY12	4QFY12	Q1FY13
<b>GDP at factor cost</b>	6.7	6.1	5.3	5.5
<b>Agriculture</b>	3.1	2.8	1.7	2.9
<b>Industry</b>	3.7	2.5	1.9	3.6
<b>Services</b>	8.8	8.9	7.9	6.9
Mining & quarrying	-5.4	-2.8	4.3	0.1
Manufacturing	2.9	0.6	-0.3	0.2
Construction	9.8	9.0	4.9	6.3
Electricity, gas & water supply	6.3	6.6	4.8	10.9
Trade, hotels, transport & communication	9.5	10.0	7.0	4.0
Financing, insurance, real estate & business services	9.9	9.1	10.0	10.8
Community, social & personal services	6.1	6.4	7.1	7.9

- Agricultural output growth accelerated to 2.9 per cent in 1QFY13 from 1.7 per cent in the previous quarter mainly due to a low base of last year.

- Industrial sector growth also increased to 3.6 per cent in the 1QFY13 as compared to an anemic 1.9 per cent in the previous quarter. The jump was mainly driven by a good performance by the construction and electricity, gas & water supply sector.

- Economy's bellwether, services sector growth dropped to 6.9 per cent in 1QFY13- the sector's lowest quarterly growth since March 2009. The deceleration was underpinned by a sharp slide in growth of trade, hotels, transport and communication sector.

**Demand-side components**

(y-o-y%)	2QFY12	3QFY12	4QFY12	Q1FY13
<b>GDP at market prices</b>	6.9	6.2	5.6	3.9
Private Consumption	4.6	6.4	6.1	4.0
Govt. Consumption	7.2	4.7	4.1	9.0
Fixed Investment	5.0	-0.3	3.6	0.7
Change in Stocks	2.8	0.4	-0.4	-1.2
Exports	19.7	6.1	18.1	10.1
Imports	27.0	27.0	2.0	7.9

- High interest rates in the economy severely impacted private final consumption expenditure growth as it slid to its lowest ever data print of 4 per cent in the new series of 2004-05 base year.

- Fixed investment growth continued to remain weak at 0.7 per cent in 1QFY13, reflecting the persistent weakness in the investment scenario in the economy currently.

- In contrast, government consumption expenditure growth jumped to 9.0 per cent in the 1QFY13.

Source: Central Statistical Organization (CSO)

**Outlook:** An increased Euro Zone uncertainty along with continued domestic policy logjam and lower investment demand will impact growth adversely in the current fiscal. Industrial growth will remain weak mainly due to weak investment demand. While agriculture sector output will remain subdued due to a likelihood of a deficient monsoon this year, services sector growth will also remain muted due to its inter-linkages with industrial and agricultural sector. Thus, on a balance we are in for a weak GDP growth for the current fiscal, possibly even lower than the 6.5 per cent posted last year.