



GDP Growth, Q4FY11: Growth Moderates in Q4FY11 as expected; Growth for April-December 2010 Revised Upwards

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In the fourth quarter of fiscal year 2010-11 (Q4FY11), the gross domestic product (GDP) at factor cost (constant prices) expanded by 7.8% in year-on-year (y-o-y) terms in line with expectations, led by an 8.7% expansion of the services sector and boosted by a considerable 7.5% growth of the agricultural sector. Growth was dampened in Q4FY11 by a slowdown in the pace of industrial expansion to 6.1%, with manufacturing recording a growth of 5.5%. Additionally, the Central Statistics Office (CSO) has released revised quarterly GDP figures for FY11; growth rates have been upwards to 9.3% from 8.9% for Q1FY11 and to 8.3% from 8.2% for Q3FY11.

The pace of GDP growth recorded a deceleration over the course of FY11 (9.3% in Q1FY11, 8.9% in Q2FY11, 8.3% in Q3FY11 and 7.8% in Q4FY11). Notwithstanding this moderation, average growth improved to 8.5% in FY11 from 8% in FY10, led by the turnaround in agricultural growth (to 6.6% in FY11 from 0.4% in FY10). The pace of industrial growth was largely steady at 7.9% in FY11 relative to 8% in FY10, albeit with considerable deceleration over the course of FY11 related to an adverse base effect. The pace of services sector growth declined somewhat to 9.4% in FY11 from 10.1% in FY10.

Table 1: Growth of GDP & Components (in %, constant 2004-05 prices, y-o-y)

	2009-10		2010-11		2009-10	2010-11
	Q3	Q4	Q3	Q4	FY	FY
Agriculture & Allied	-1.6%	1.1%	9.9%	7.5%	0.4%	6.6%
Industry	9.5%	12.4%	7.1%	6.1%	8.0%	7.9%
Services	9.4%	10.2%	8.4%	8.7%	10.1%	9.4%
GDP at factor cost	7.3%	9.4%	8.3%	7.8%	8.0%	8.5%
PFCE	7.0%	6.6%	8.6%	8.0%	7.3%	8.6%
GFCE	9.6%	6.2%	1.9%	4.9%	16.4%	4.8%
GFCF	8.7%	19.2%	7.8%	0.4%	7.3%	8.6%
Exports	-4.3%	9.5%	24.8%	25.0%	-5.5%	17.9%
less Imports	1.3%	19.6%	0.4%	10.3%	-1.8%	9.2%
GDP at market prices	9.2%	12.6%	9.2%	7.7%	9.1%	8.8%

Source: Central Statistics Office (CSO), ICRA Estimates

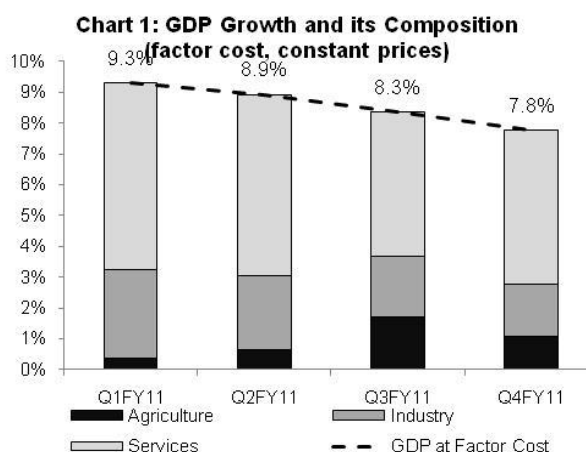
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Growth of GDP at market prices (at constant 2004-05 prices), reflecting demand-side factors, moderated significantly to 7.7% in Q4FY11, from 9.1%-9.4% in the previous three quarters, with a sharp slowdown in gross fixed capital formation (GFCF) growth (led by an adverse base effect) and a moderation in private final consumption expenditure (PFCE) growth in Q4FY11 relative to the previous quarter. While Government final consumption expenditure (GFCE) growth remained low, exports recorded a sharp growth boosting overall economic activity in Q4FY11. In contrast to the pick-up in the growth of GDP at factor cost observed in FY11 relative to FY10, expenditures of GDP at market prices expanded at a slower pace of 8.8% in FY11 as compared to 9.1% in FY10, with a slowdown in the growth of indirect taxes less subsidies.

Pace of growth of GDP at factor cost moderates to 7.8% in Q4 FY11

GDP growth at factor cost (at constant 2004-05 prices) displayed a moderation over the course of FY11 (refer *Chart 1*). GDP growth moderated to 7.8% in Q4FY11 relative to the 8.3% growth recorded in Q3FY11, led by a decline in the growth of the agricultural and industrial sectors, even as the pace of services growth improved somewhat to 8.7% in Q4FY11 from 8.4% in Q3FY11. Industrial growth declined to 6.1% in Q4FY11 from 7.1% in Q3FY11, led by a slowdown in the growth of mining & quarrying, construction and manufacturing. While agricultural growth moderated somewhat from a robust 9.9% in Q3FY11, it remained healthy at 7.5% in Q4FY11, providing a boost to the overall GDP growth. The slowdown in GDP growth in Q4FY11 partly reflected an adverse base effect; GDP growth had improved to 9.4% in Q4FY10 from 7.3% in Q3FY10.

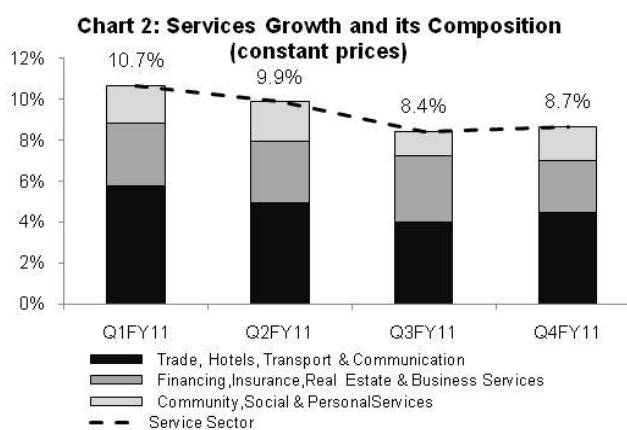


Source: CSO, ICRA Estimates

The contribution of the services sector to the overall GDP growth increased in Q4FY11 even as that of the agricultural and industrial sectors declined in Q4FY11 relative to Q3FY11.

Revised estimates place GDP growth for FY11 at 8.5%, somewhat lower than the advance estimate of 8.6% released previously by the CSO. While the pace of growth of agriculture; community, social & personal services; and electricity, gas & water supply exceeded the advance estimates, the pace of growth of trade, hotels, transport & communication; financing, insurance, real estate & business services; manufacturing; and mining & quarrying fell short of the advanced estimates released previously by the CSO.

Services sector growth improves relative to Q3FY11: The services sector expanded by 8.7% in Q4FY11, relative to the 10.2% growth recorded in Q4FY10, an improvement as compared to the 8.4% growth recorded in the previous quarter. The contribution of the services sector to the GDP growth improved to 64% in Q4FY11 from 56% in Q3FY11. Overall, the services sector recorded a healthy growth of 9.4% in FY11 relative to 10.1% in FY10.



Source: CSO, ICRA Estimates

While the pace of growth for Q3FY11 was revised downwards to 8.4% from 8.8%, the growth rates were revised upwards for Q1FY11 (to 10.7% from 9.3%) and, to a smaller extent, Q2FY11 (to 9.9% from 9.8%).

The improvement in the pace of service sector growth in Q4FY11 relative to the previous quarter was driven by trade, hotels, transport & communication (THTC) and community, social & personal services (CSPS). The pace of growth of THTC improved to 9.3% in Q4FY11 from 8.6% in Q3FY11 despite an adverse base effect; the growth performance of this sector had improved to 13.7% in Q4FY10 from 10.8% in Q3FY10.

CSPS, which include public administration & defence and other services, expanded by 7% in Q4FY11, relative to 5.1% in Q3FY11, reflecting the trend in government expenditure highlighted by the demand-side data related to government final consumption expenditure. The pace of growth in H2FY11 at 6.1% was lower than that recorded in H1FY11 (8%), despite a sharp easing of the base effect; growth of CSPS had slowed to 8% in H2FY10 from 16.4% in H1FY10.

The pace of growth of financing, insurance, real estate & business services (FIRB) declined to 9% in Q4FY11 from 10.8% in Q3FY11. Overall, growth of FIRB improved to 9.9% in FY11 from 9.2% in FY10.

Industrial growth decelerates further: The industrial sector expanded by 6.1% in Q4FY11 substantially slower than the healthy growth of 12.4% recorded in Q4FY10. While the pace of growth for Q3FY11 was revised upwards to 7.1% from 6.4%, the growth rates for Q1FY11 (to 10.2% from 11.3%) and Q2FY11 (to 8.4% from 8.9%) were revised downwards.

Although the pace of industrial growth was steady at 7.9% in FY11 relative to 8% in FY10, industrial growth declined over the course of FY11 (refer *Chart 3*) led primarily by a slowdown in the pace of growth of manufacturing related to an adverse base effect (refer *Chart 4*).

Monthly data provided by the Index of Industrial Production (IIP) indicate substantial volatility in manufacturing growth during FY11. In Q4FY11, the pace of manufacturing growth improved sharply to 7.9% in March 2011 from 3.6% in January 2011 and February 2011, led by a turnaround in the growth of capital goods, which is likely to reflect completion of orders prior to the end of the fiscal year rather than a sustained pick-up in the investment cycle.

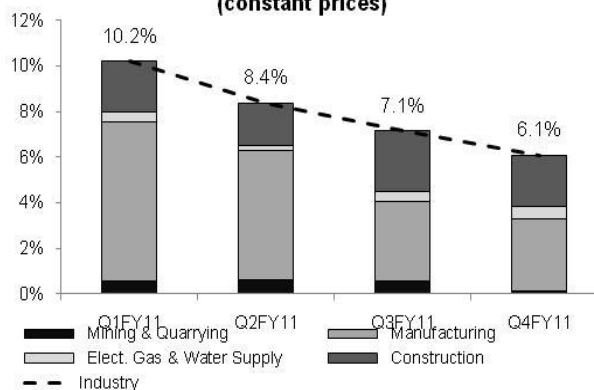
Construction growth slowed to 8.2% in Q4FY11 from 9.7% in Q3FY11, on the back of a healthy 9.2% growth in Q4FY10. Notably, construction was the only industrial sub-sector that displayed an improvement in growth in FY11; the pace of growth rose to 8.1% in FY11 from 7.0% in FY10.

The rise in demand for construction is likely to reflect the improved economic growth momentum, consumer confidence and demand from the rural economy, following the favourable monsoons and healthy agricultural growth in FY11.

The growth of mining & quarrying slowed considerably to 1.7% in Q4FY11 from 7.4% in April-December 2010, related to an adverse base effect (with high 8.9% growth in Q4FY10) as well as delays in various clearances that have impacted project execution in recent months. Electricity, gas & water supply recorded an improved growth of 7.8% in Q4FY11 relative to the 6.4% growth in Q3FY11 and 2.8% growth in Q2FY11.

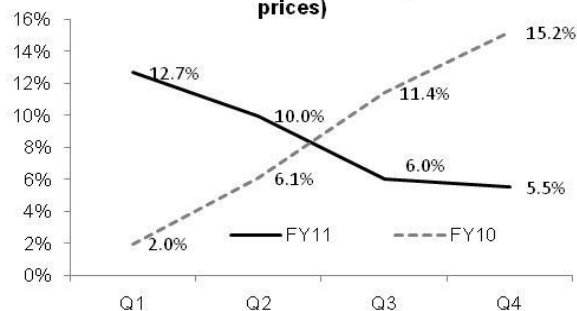
Agriculture growth healthy at 6.6% in FY11; 7.5% in Q4FY11: As compared to a marginal 0.4% growth in FY10, the agriculture and allied sector recorded a healthy 6.6% growth in FY11, reflecting the favourable monsoon rainfall in 2010 and the consequent replenishment of reservoirs. The agricultural sector displayed a robust 7.5% expansion in Q4FY11 relative to the low 1.1% growth in Q4FY10. Additionally, the pace of agricultural growth has been revised upwards for Q2 FY11 (to 5.4% from 4.4%) and Q3FY11 (to 9.9% from 8.9%) following an upward revision in the estimated output of wheat, pulses, oilseeds and sugarcane in the Third Advance Estimates of crop production released by Government of India (GoI).

Chart 3: Industrial Growth and its Composition (constant prices)



Source: CSO, ICRA Estimates

Chart 4: Manufacturing Growth (constant prices)



Source: CSO, ICRA Estimates

Growth of real GDP at market prices slows to 8.8% in FY11; 7.7% in Q4FY11

Expenditures of GDP at market prices (at constant 2004-05 prices), reflecting the demand side factors, expanded by 8.8% in FY11, marginally slower than the 9.1% growth recorded in FY10. However, the pace of growth of GDP at market prices slowed considerably to 7.7% in Q4FY11 from 9.1%-9.4% in the previous three quarters, partly related to an adverse base effect, with a sharp 12.6% growth in Q4FY10.

Pace of growth of private consumption expenditure moderates further: Although the growth of private final consumption expenditure (PFCE) improved to 8.6% in FY11 from 7.3% in FY10, the pace of growth eased over the course of FY11; the pace of growth declined to 8% in Q4FY11 from 8.9% in H1FY11 and 8.6% in Q3FY11, indicating a moderation in consumption growth in line with the persistently elevated inflationary conditions and rising interest rates.

Notably, the pace of growth of PFCE was revised upwards for Q1FY11 (to 8.9% from 7.0%) and Q2FY11 (to 8.9% from 8.6%), while the growth rate for Q3FY11 was revised downwards to 8.6% from 9%.

Pace of growth of gross fixed capital formation decelerates considerably: Gross fixed capital formation (GFCF) expanded by 8.6% in FY11, higher than the 7.3% growth in FY10. However, this masked considerable deceleration over the course of FY11; growth slowed to a marginal 0.4% in Q4FY11 from 17.4% in Q1FY11, 11.9% in Q2FY11 and 7.8% in Q3FY11. While private investment growth did not gather steam during FY11, the cost of funds started to rise reflecting monetary transmission. Additionally, there was an adverse base effect in Q4FY11 arising from 19.2% growth in Q4FY10.

Sharp growth of exports: Exports expanded by a robust 25% in Q4FY11, similar to the 24.8% growth recorded in Q3FY11 in y-o-y terms. The pace of growth recorded by exports strengthened in H2FY11 relative to H1FY11 (10.3%) despite the partial waning of the base effect; exports had expanded by a low 2.5% in H2FY10 as compared to a contraction of 12.9% in H1FY10. Imports expanded by 10.3% in Q4FY11 relative to the marginal 0.4% growth in Q3FY11, which may be related to the rise in commodity prices.

Low growth of government consumption expenditure: Government final consumption expenditure (GFCE), which had recorded a sharp 16.4% growth in FY10, witnessed a moderate 4.8% growth in FY11. The pace of growth increased to 4.9% in Q4FY11 from a low 1.9% in Q3FY11 (as compared to the initial estimate of a 3% contraction in GFCE in Q3FY11).

Outlook

Overall, the economic environment remains challenging. With inflation remaining elevated, the Reserve Bank of India may persist with monetary tightening to curtail inflationary expectations, which is likely to exert pressure on interest rates over the course of the fiscal year and dampen growth in the short-term. With elevated crude oil prices exerting pressure on the subsidy bill of the Central Government, an adequate revision in the retail prices of fuel products would dampen aggregate demand; private consumption demand has already begun to display signs of moderation. Conversely, the Central Government may resort to higher than budgeted borrowings, which may crowd out private investment in a scenario where the private capex remains sluggish.

While the IIP data indicated a considerable pick-up in manufacturing growth in March 2011, this is likely to be transient, with manufacturing growth likely to remain moderate in the early months of FY12. Nevertheless, manufacturing growth is likely to be supported by buoyant exports, benefiting from the recent diversification to newer export markets. The growth outlook for mining & quarrying would be influenced by various policy decisions taken by the Government, and the growth of this sector is likely to remain low in H1FY12. Rising interest rates may dampen construction growth to an extent. Even with a favourable magnitude, timing and dispersion of monsoon rainfall, the agricultural sector is likely to display moderate growth in FY12 given the high base effect, providing a limited boost to overall economic growth. The services sector is expected to continue to support economic growth in the ongoing fiscal year.

Given the challenging outlook, ICRA expects economic growth to moderate to 7.8-8% in FY12 from the 8.5% growth recorded in FY11.

Annexure

Table 2: Growth of GDP & its components (constant 2004-05 prices)

	2009-10				2010-11			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP at factor cost	6.3%	8.6%	7.3%	9.4%	9.3%	8.9%	8.3%	7.8%
Agriculture, Forestry & Fishing	1.8%	1.2%	-1.6%	1.1%	2.4%	5.4%	9.9%	7.5%
Industry	3.7%	5.9%	9.5%	12.4%	10.2%	8.4%	7.1%	6.1%
<i>Mining & Quarrying</i>	6.9%	6.6%	5.2%	8.9%	7.1%	8.2%	6.9%	1.7%
<i>Manufacturing</i>	2.0%	6.1%	11.4%	15.2%	12.7%	10.0%	6.0%	5.5%
<i>Electricity, Gas & Water Supply</i>	6.2%	7.5%	4.5%	7.3%	5.6%	2.8%	6.4%	7.8%
<i>Construction</i>	5.4%	5.1%	8.3%	9.2%	7.7%	6.7%	9.7%	8.2%
Services	9.0%	11.7%	9.4%	10.2%	10.7%	9.9%	8.4%	8.7%
<i>THTC</i>	5.4%	8.2%	10.8%	13.7%	12.6%	10.9%	8.6%	9.3%
<i>FIRB</i>	11.5%	10.9%	8.5%	6.3%	9.8%	10.0%	10.8%	9.0%
<i>CSPS</i>	13.0%	19.4%	7.6%	8.3%	8.2%	7.9%	5.1%	7.0%

Source: CSO, ICRA Estimates

Table 3: Growth of GDP & its components (constant 2004-05 prices)

	2009-10	2010-11
GDP at factor cost	8.0%	8.5%
Agriculture, Forestry & Fishing	0.4%	6.6%
Industry	8.0%	7.9%
<i>Mining & Quarrying</i>	6.9%	5.8%
<i>Manufacturing</i>	8.8%	8.3%
<i>Electricity, Gas & Water Supply</i>	6.4%	5.7%
<i>Construction</i>	7.0%	8.1%
Services	10.1%	9.4%
<i>THTC</i>	9.7%	10.3%
<i>FIRB</i>	9.2%	9.9%
<i>CSPS</i>	11.8%	7.0%

Source: CSO, ICRA Estimates

Table 4: Growth of GDP & its components (constant 2004-05 prices)

	2009-10	2010-11
GDP at market prices	9.1%	8.8%
PFCE	7.3%	8.6%
GFCF	16.4%	4.8%
Exports	-5.5%	17.9%
less Imports	-1.8%	9.2%
Gross Domestic Capital Formation	13.8%	9.3%
GFCF	7.3%	8.6%
Change in Stocks	90.8%	7.4%
Valuables	54.2%	24.8%
Discrepancies	-133.6%	473.0%

Table 5: Growth of GDP & its components (constant 2004-05 prices)

	2009-10				2010-11			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP at market prices	6.5%	7.6%	9.2%	12.6%	9.4%	9.1%	9.2%	7.7%
PFCE	7.3%	8.5%	7.0%	6.6%	8.9%	8.9%	8.6%	8.0%
GFCF	21.3%	37.5%	9.6%	6.2%	6.7%	6.4%	1.9%	4.9%
Exports	-11.7%	-14.1%	-4.3%	9.5%	10.0%	10.7%	24.8%	25.0%
less Imports	-8.3%	-16.0%	1.3%	19.6%	15.5%	11.6%	0.4%	10.3%
Gross Domestic Capital Formation	6.1%	7.1%	15.2%	25.3%	17.4%	12.1%	8.2%	2.2%
GFCF	-0.4%	0.3%	8.7%	19.2%	17.4%	11.9%	7.8%	0.4%
Change in Stocks	78.9%	86.1%	95.4%	102.1%	11.7%	9.0%	5.1%	4.6%
Valuables	56.7%	52.4%	43.9%	66.5%	28.0%	21.2%	18.5%	32.3%
Discrepancies	281.2%	-149.7%	23.1%	119.4%	36.4%	31.0%	338.3%	-4.5%

Source: CSO, ICRA Estimates



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