National Accounts

 February 7, 2012

FY2012 advance estimates reiterate growth slowdown. CSO's (Central Statistical Organization) advance estimates for FY2012 GDP growth at 6.9% clearly underlined the slowdown story for India. Importantly, the slower pace is broad-based across agriculture, industry and services. The 2HFY12E growth, as per CSO, is now at 6.5%, lower than the 7.3% growth in 1HFY12. We have not altered our growth estimates of 6.7% FY2012E and continue to view the headwinds for the next fiscal year to persist. We anticipate the RBI (Reserve Bank of India) may start its monetary policy easing cycle by cutting the repo rate by 25 bps in April 2012.

FY2012E real GDP growth likely at 6.9%; mining and manufacturing contribute to slowdown

The advance estimates from CSO indicate FY2012E real GDP growth at 6.9% when compared to 8.4% in FY2011 and FY2010. The mid-year analysis of the economy published by the Government pegged the GDP growth between the range of 7.25-7.75% for FY2012E. The RBI, on the other hand, was slightly more negative with a figure of 7%. Manufacturing is expected to drop to 3.9% in FY2012AE from 9.7% in FY2010 and 7.6% in FY2011. Mining and quarrying is projected to have contracted by 2.2% in FY2012AE, due to a stoppage in the coal production on account of environmental issues.

Agriculture sector growth likely to be below trend; services sector to see some moderation

The CSO expects agriculture growth to be around 2.5% after a strong growth of 7% in FY2011. Early indications on the sowing patterns on *rabi* points to a relatively healthy *rabi* season though sowing of pulses and oilseeds are lower than last year. The lower-than-expected growth rate may also be due to the strong base of last year which saw record production of a number of crops. The Services sector growth for the full year is estimated at 8.8%, slightly higher than our own estimate of 8.5%. The key area of departure is the construction sector where we anticipate an even lower growth of 3.1% (4.8% of CSO). We believe that the construction sector growth may not be as strong, given that the project investments have continued to weaken over the year.

Real GDP at market prices to grow at 7.5%; consumption and investment growth to slow down

From the demand-side perspective, real GDP is likely to grow at 7.5% compared to 9.6% in FY2011. As expected, the advance estimates indicated weakness in consumption and fixed investments growth. Private consumption is estimated to grow at about 6.5% against 8.1% in FY2011. Gross fixed capital formation is expected by the CSO to grow at 5.6% in FY2012AE. Growth in 1HFY12 has been around 3.6% and hence the implicit growth target

QUICK NUMBERS

- CSO estimates FY2012 GDP growth at 6.9%
- Agriculture growth at 2.5%, manufacturing at 3.9% and services at 8.8%
- Real consumption growth at 6.5%; GFCF growth at 5.6%

for 2HFY12E is placed at 7.6%. To a certain extent this may reflect the base effects adjustments out of the FY2011. Net trade also is likely to drag down the GDP growth from the expenditure side as pace of exports slows and that of imports picks up significantly.

We hold on to our FY2012E estimate of 6.7% for now

Overall, we hold on to our GDP growth expectations at 6.7% for FY2012E and we anticipate that growth may continue into FY2013E (current Kotak estimate at 6.6%). While there could be some improvement in the private consumption cycle in FY2013E on account of cooling off of food prices, any significant revival of the investment cycle might not be anticipated. We have factored in that the RBI may cut its repo rate by 100-125 bps in FY2013E, starting April 2012. However, the fiscal space remains limited and the government might also be forced to move away from its fiscal accommodation (via an increase in the excise tax rate and widening of the services tax net). Further, as demand conditions remain hazy, manufacturers might not be willing to add to capacity. The net external demand might also continue to be a drag on growth as global oil prices stay sticky and exports out of India fail to revive. Sentiments might however change post the state elections if the government is able to carry forward reforms in key areas.

CSO estimates GDP growth at 6.7%

Growth in real GDP at factor cost and components, March fiscal year-ends, 2010-2013E (%)

Sector	2010	2011	1QFY12	2QFY12	3QFY12E	4QFY12E	2012E	2012AE	2013E
Agriculture and allied activities	**1.0**	**7.0**	**3.9**	**3.2**	**3.5**	**2.0**	**3.1**	**2.5**	**3.5**
Industry	**8.9**	**6.8**	**6.7**	**2.8**	**1.1**	**1.8**	**3.0**	**3.6**	**3.9**
Mining and quarrying	6.3	5.0	1.8	(2.9)	(4.5)	(3.0)	(2.2)	(2.2)	1.2
Manufacturing	9.7	7.6	7.2	2.7	1.0	2.0	3.1	3.9	3.9
Electricity, gas and water supply	6.3	3.0	7.9	9.8	9.0	6.0	8.1	8.3	6.7
Services	**10.0**	**9.2**	**8.9**	**8.7**	**8.3**	**8.3**	**8.5**	**8.8**	**8.1**
Construction	7.0	8.0	1.2	4.3	4.0	3.0	3.1	4.8	3.6
Trade, hotels, transport, storage and communication	10.3	11.1	12.8	9.9	10.0	10.5	10.8	11.2	9.8
Financing, insurance, real estate and business services	9.4	10.4	9.1	10.5	9.5	9.0	9.5	9.1	9.0
Community, social and personal services	12.0	4.5	5.6	6.6	6.0	6.0	6.0	5.9	5.9
Real GDP at factor cost	**8.4**	**8.4**	**7.7**	**6.9**	**6.1**	**6.1**	**6.7**	**6.9**	**6.6**
Non-agricultural GDP	9.8	8.6	8.4	7.3	6.6	6.8	7.2	7.6	7.2

Source: CSO, Kotak Economic Research estimates

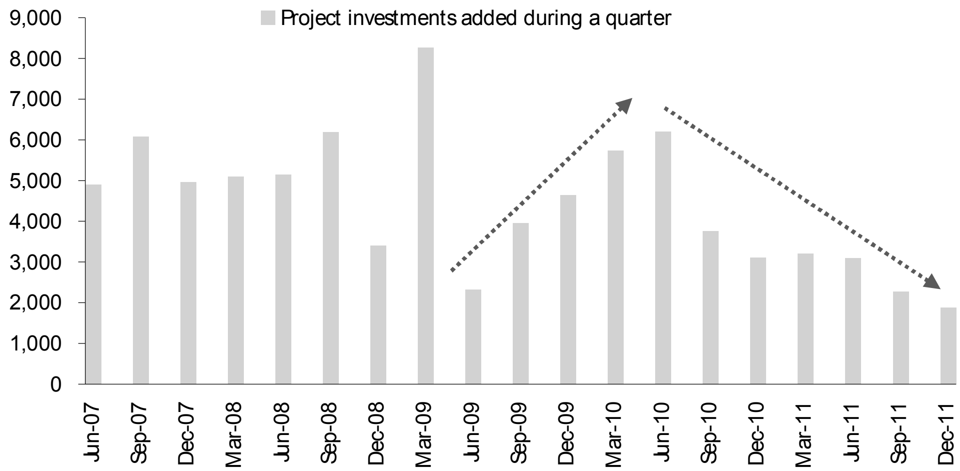
Consumption and investment expenditure expected to slow down

Growth in real GDP at market prices and components, March fiscal year-ends, 2010-2012AE (%)

	2010	2011	3QFY11	4QFY11	1QFY12	2QFY12	2012AE
Private Final Consumption Expenditure	7.3	8.1	8.6	8.0	6.3	5.9	6.5
Government Final Consumption Expenditure	16.4	7.9	1.9	4.9	2.1	4.0	3.9
Gross Fixed Capital Formation	7.3	7.5	7.8	0.4	7.9	(0.6)	5.6
Change in Stock	90.9	37.4	5.1	4.6	4.7	1.5	2.9
Valuables	54.2	32.4	18.5	32.3	39.3	25.7	2.5
Exports	(5.5)	22.7	24.8	25.0	24.3	27.4	14.3
less Imports	(1.8)	15.6	0.4	10.3	23.6	10.9	17.5
Real GDP at market price	**9.1**	**9.6**	**9.2**	**7.7**	**8.5**	**6.7**	**7.5**

Source: CSO, Kotak Economic Research

Investments have slumped since the start of the rate hikes
Trend of addition of projects in a quarter (Rs bn)



Source: CMIE, Kotak Economic Research