

Gross Domestic Product

August 30, 2011



Gross Domestic Product (GDP) Q1FY12 Update

India's economy grew at its slowest pace during the April-June quarter, as rising interest rates crimped the consumption and investment demand in economy. The slower performance in mining and quarrying, manufacturing and construction sector led to deceleration in the GDP growth to 7.7% from 7.8% in Q4FY11 & 9.3% in Q1FY11.

Evident from lower industrial production numbers the manufacturing sector grew by 7.2%, compared with 12.7% in Q1FY11. Also mining output decelerated by 1.8%, compared with 7.1% in Q1FY11. Financing, insurance, real estate and business service grew 9.1% vs 9% in Q4FY11; however, on yearly basis it fell from 9.8%. The construction sector declined by 1.2% from 7.7% in Q1FY11 due to production of cement declined by 0.9% and consumption of finished steel registered growth rate of 1.5%, during Q1FY12.

The farm sector in Q1FY12 grew by 3.9% from 2.4% in Q1FY11; however, it declined from 7.5% on sequential basis. Agriculture is expected to perform well for the second straight year after the government forecast a normal monsoon in 2011. The production of crops like rice, wheat, coarse cereals and pulses during the Rabi season of agriculture year 2010-11 (which ended in June 2011) recorded growth rates of 11.3%, 6.3%, 0.7% and 4.9% YoY. Among the commercial crops, the production of oilseeds increased by 12% during the Rabi season of 2010-11.

The economic activities in service sector which registered a significant growth are electricity, gas & water supply at 7.9% vs 5.6%, trade, hotels, transport and communication at 12.8% vs 12.6%, financing, insurance, real estate and business services at 9.1% vs 9.8% YoY. Among the services sectors, the key indicators of railways, namely, the net tonne km and passenger km have shown growth rates of 6.3% and 6.1%, respectively during Q1FY12. In the transport and communication sectors, the sales of commercial vehicles, cargo handled at major ports, cargo handled by the civil aviation, passengers handled by the civil aviation registered growth rates of 14.1%, 5.2%, 4.9% and 14.6% respectively during Q1FY12 over Q1FY11. The other key indicators, namely, aggregate bank deposits, and bank credits have shown growth rates of 18.7%, and 21%, respectively YoY.

On the expenditure side in Q1FY12, the private and government's final consumption growth marginally declined to 60.5% and 10.4% from 61.5% and 11.1% in Q1FY11. Investment activities in the country remained stable as the gross fixed capital formation expanded by 31.2% as compared to 31.4% in Q1FY11.

Outlook

Tighter monetary policy (due to higher inflationary pressures) has started to affect the consumer demand in the economy. Going forward higher crude oil & global commodity prices (demand from emerging markets to increase), inflation is likely to remain at elevated levels. The industrial production is likely to remain volatile on back of rising input costs, slower demand, rising interest rates in the near future. However, we expect the agriculture & service sector would continue to steer the Indian economy. On the expenditure side, the pick-up in investment activity will be important for driving growth and managing the supply side constraints.

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GDP at factor cost (%)

Sector	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Agriculture and allied activities	1.8	1.2	-1.6	1.1	2.4	5.4	9.9	7.5	3.9
Mining and quarrying	6.9	6.6	5.2	8.9	7.1	8.2	6.9	1.7	1.8
Manufacturing	2	6.1	11.4	15.2	12.7	10	6	5.5	7.2
Electricity, gas and water supply	6.2	7.5	4.5	7.3	5.6	2.8	6.4	7.8	7.9
Construction	5.4	5.1	8.3	9.2	7.7	6.7	9.7	8.2	1.2
Trade, hotels, transport, storage and communication	5.4	8.2	10.8	13.7	12.6	10.9	8.6	9.3	12.8
Financing, insurance, real estate and business services	11.5	10.9	8.5	6.3	9.8	10	10.8	9	9.1
Community, social and personal services	13	19.4	7.6	8.3	8.2	7.9	5.1	7	5.6
Real GDP	6.3	8.6	7.3	9.4	9.3	8.9	8.3	7.8	7.7

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