

# India Macro Flash

## Govt Pegs FY13 GDP<sup>1</sup> at 5%; Revising FY14 Estimates from 6.2% to 5.7%, but Shallow Recovery Rests on Continued Policy Action

- FY13 GDP skids to a 10-year low** — The government's first GDP estimate for FY13 pegs growth at 5%, lower than expectations (Citi: 5.4%; Consensus: 5.5%). The key reason for the lower print was the sharper than expected deceleration in services. Services, which accounts for 60% of GDP, saw growth slowing to 6.6% v/s our expectation of 7.5%. The sub-par monsoons saw agri coming in at 1.8% while trends in industry were broadly in line, up 3.1% (see *pg 2*). Key to note: (1) The govt had earlier revised the FY12 GDP down to 6.2% from 6.5% while FY11 GDP was revised up to 9.3% from 8.4% (2) With the full year GDP at 5% and 1H growth at 5.4%, this implies that growth in 2H was 4.7%, clearly not something on the radar.
- GDP by expenditure: Sharp deceleration in consumption; investments pick up** — While data remains an issue (GDP at market prices printing at 3.3%), the key takeaway from the expenditure side GDP is the near halving of consumption growth. As seen on *pg 2*, consumption, which had held steady at ~8% levels for the last 6 years, slowed to a mere 4.1% (both private and public). This could be attributed to the relatively higher rate environment and the containment in govt spending seen since Sept 12 (see [Latest Fiscal Update](#)). As regards investments – while gross saw a pickup to 3.9%, net investments slowed to 2.5%. However, trends remain way below the double-digit levels seen during FY07-FY11. In terms of contribution to growth, consumption contributed 2.9%, investments 1.7%, net exports -0.6% and discrepancies 0.4% (see *page 2 for details*).
- So what does this do to our FY14 numbers?** — Taking into account the 5% GDP estimate for FY13 and revisions to past data, we are revising our FY14 GDP estimate down to 5.7% from 6.2%. This factors in: (1) The RBI easing rates by a further 50bps by 1H13; (2) A pick-up in consumption as FY14 is a pre-election year and lower rates could help; (3) A marginal uptick in investments, which rests on continued government efforts – both policy change and execution. However, if current trends in projects stalled/new intentions do not improve (see *fig 3, pg 2*), the headline number could be lower by ~60-80bps.
- Policy action to remain centre-stage, ratios to be impacted** — While the govt has taken several measures since Sept 12 and growth is likely to have bottomed out in 3Q FY13 (Oct-Dec), continued action from all policy makers is needed to reverse the decline across all the macro variables. Key to note is that deficit ratios could see a deterioration as nominal GDP growth for FY13 is now at 11.7% v/s 14% projected earlier. This puts the govt's 5.3% fiscal deficit target at risk.

<sup>1</sup> CSO releases 4 sets of GDP data each year – Advance, Updated, Quick and Revised estimates. Advance estimates are released in Feb prior to the close of the current FY. Estimates are revised in June and finally next yr

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With thanks to  
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Figure 1. GDP Snapshot (%YoY)

	FY11	FY12	FY13 CSO	FY14 E
<b>Real GDP</b>	<b>9.3</b>	<b>6.2</b>	<b>5.0</b>	<b>5.7</b>
Agriculture	7.9	3.6	1.8	3.0
Industry	9.2	3.5	3.1	4.4
Services	9.8	8.2	6.6	7.0
Consumption	8.1	8.1	4.1	5.7
Pvt Consumption	8.6	8.0	4.1	5.5
Govt Consumption	5.9	8.6	4.1	7.0
Gross Capital Formation	16.2	1.5	3.9	4.2
Gross Fixed Cap Form	14.0	4.4	2.5	4.0

Source: CSO, Citi Research Estimates

### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Data Highlights

**Slowdown in growth was evident in all 3 sectors, services fell to 6.6%, with industry at 3.1% and agri at 1.8%**

**Slowdown in services is partly cyclical and structural arising due to:**

1. Cyclical downturn in global trade

2. Slowdown in banking services

3. Structural slowdown in communications – given that cellular penetration levels have crossed 80%...

... However, key to watch in FY14 is community services which could get a boost by govt spending.....

**FY13 Highlights:** Slowdown in growth was mainly due to services, which dropped sharply to 6.6% in FY13 vs. 8.2% in FY12. Agri growth was impacted by the weak monsoons while Industry trends moderated to 3.1% on the back of manufacturing and electricity.

**Outlook for FY14:** We believe growth has bottomed out and thus expect recovery across all sectors, with Agri growth reaching 3%, Industry at 4.4% as trends in manufacturing improve. Services would move up to ~7%. Consequently, GDP would move up to 5.7%.

Figure 2. Trends in GDP by Activity (%YoY)

	Wts	FY07	FY08	FY09	FY10	FY11	FY12	FY13 CSO	FY14E
<b>Agriculture</b>	13.7	4.2	5.8	0.1	0.8	7.9	3.6	1.8	3.0
<b>Industry</b>	27.0	12.2	9.7	4.4	9.2	9.2	3.5	3.1	4.4
Manufacturing	15.2	14.3	10.3	4.3	11.3	9.7	2.7	1.9	3.5
Mining & quarrying	2.0	7.5	3.7	2.1	5.9	4.9	-0.6	0.4	3.0
Elect. gas & water supply	1.9	9.3	8.3	4.6	6.2	5.2	6.5	4.9	6.0
Construction	7.9	10.3	10.8	5.3	6.7	10.2	5.6	5.9	6.0
<b>Services</b>	59.3	10.1	10.3	10.0	10.5	9.8	8.2	6.6	7.0
Trade, Transport & Comm	27.5	11.6	10.9	7.5	10.4	12.3	7.0	5.2	6.0
Financing & insurance,	18.7	14.0	12.0	12.0	9.7	10.1	11.7	8.6	8.4
Community, Social Services	13.0	2.8	6.9	12.5	11.7	4.3	6.0	6.8	7.0
<b>GDP</b>	100.0	9.6	9.3	6.7	8.6	9.3	6.2	5.0	5.7

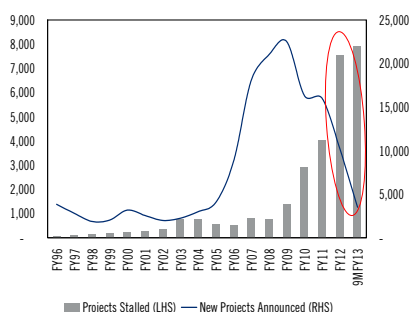
Source: CSO, Citi Research Estimates

### GDP by Expenditure

**FY13 Highlights:** Total consumption growth slowed significantly to 4.1% vs. 8.1% in FY12 due to a sharp drop in both private consumption (+4.1%), and public consumption (+4.1%). Investment growth was notably higher, at 3.9% vs 1.5% in FY12, which is a bit contrary to trends (see figure 3).

**Outlook for FY14:** Consumption could get a boost given that FY14 is a pre-election year while the uptick on investments would depend on policy action. Key to note is that the headline growth numbers could be lower by ~60-80bps if corrective steps are not taken immediately.

Figure 3. Projects Announced vs Projects Stalled (Rs bn)



Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 4. Trends in GDP by Expenditure (% to GDP, % YoY)

	FY07	FY08	FY09	FY10	FY11	FY12	FY13 CSO	FY14E
<b>Total Consumption (% GDP)</b>	69.2	68.4	71.9	70.9	69.4	70.5	71.0	71.5
%YoY	7.9	9.3	7.6	8.2	8.1	8.1	4.1	5.7
Pvt Consumption (% GDP)	58.8	58.1	60.8	59.4	58.3	59.2	59.7	59.9
%YoY	8.7	9.2	7.1	7.1	8.6	8.0	4.1	5.5
Public Consumption (% GDP)	10.4	10.3	11.1	11.5	11.0	11.3	11.4	11.6
%YoY	3.8	9.6	10.4	13.9	5.9	8.6	4.1	7.0
<b>Gross Capital Form (% GDP)</b>	36.3	38.8	36.0	38.2	40.2	38.3	38.6	38.4
%YoY	13.4	18.1	-5.2	16.7	16.2	1.5	3.9	4.2
Gross Fixed Cap Form (%)	31.9	33.5	33.9	33.3	34.3	33.7	33.5	33.2
%YoY	13.8	16.2	3.5	7.7	14.0	4.4	2.5	4.0
Change in Stocks (% GDP)	3.5	4.1	2.0	3.0	3.5	2.3	3.3	3.2
% YoY	31.6	31.3	-51.4	67.7	29.7	-30.6	47.6	2.7
Net Exports (% GDP)	-3.8	-4.6	-7.2	-7.0	-6.6	-8.8	-9.2	-10.3
<b>GDP at factor cost (%YoY)</b>	9.6	9.3	6.7	8.6	9.3	6.2	5.0	5.7
<b>GDP at Mkt prices (%YoY)</b>	8.3	10.5	2.3	9.7	10.5	6.3	3.3	5.1

Source: CSO, Citi Research Estimates

## Charting Trends in Annual GDP

Figure 5. Trends in Headline GDP (%YoY)

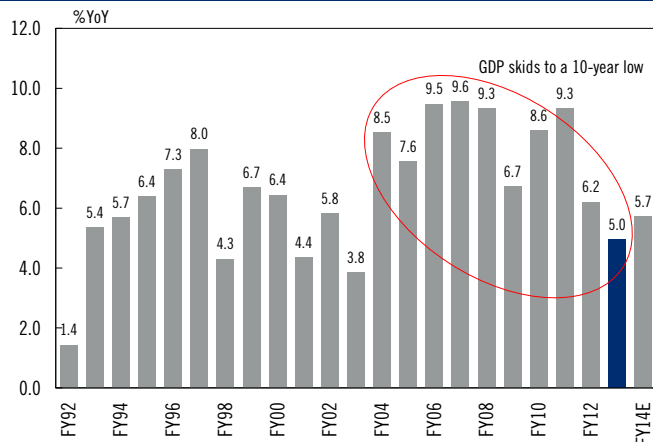


Figure 6. Trends in Agri Growth (%YoY)

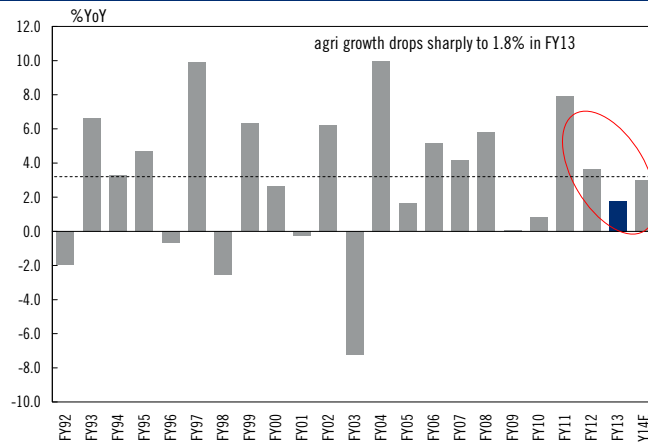


Figure 7. Trends in Industry (%YoY)

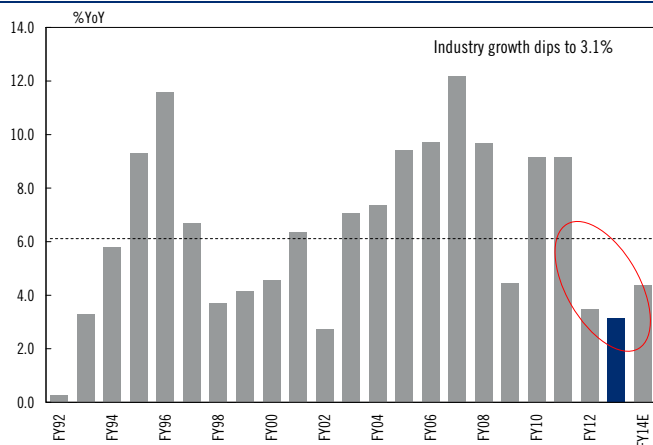


Figure 8. Trends in Services (%YoY)

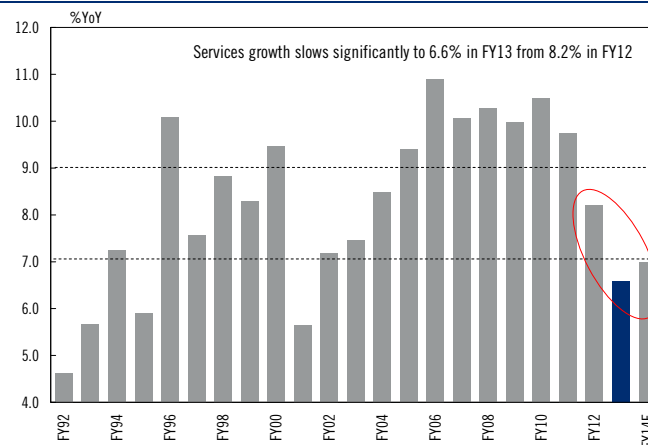


Figure 9. Trends in Consumption Growth (%YoY)

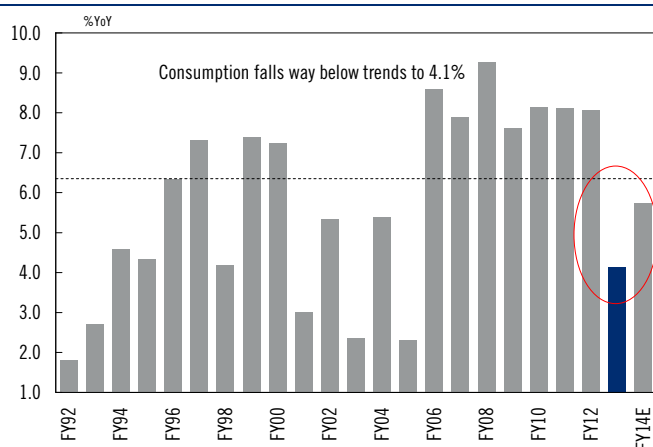
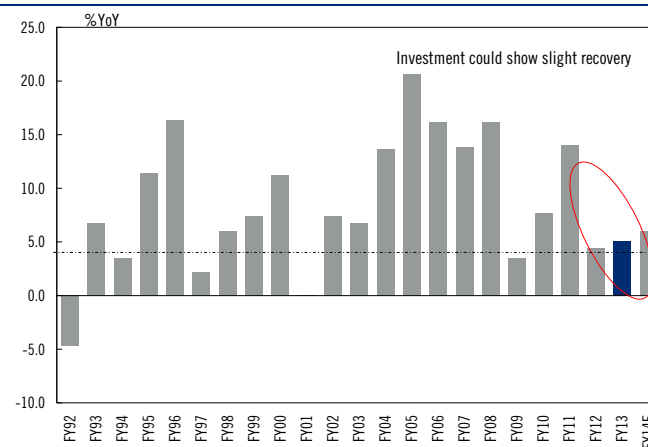


Figure 10. Trends in Fixed Capital Formation (%YoY)



Source: CSO, Citi Research

## Appendix A-1

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