

India: Monthly Economic Report February 2014

British High Commission New Delhi

March 2014

Summary

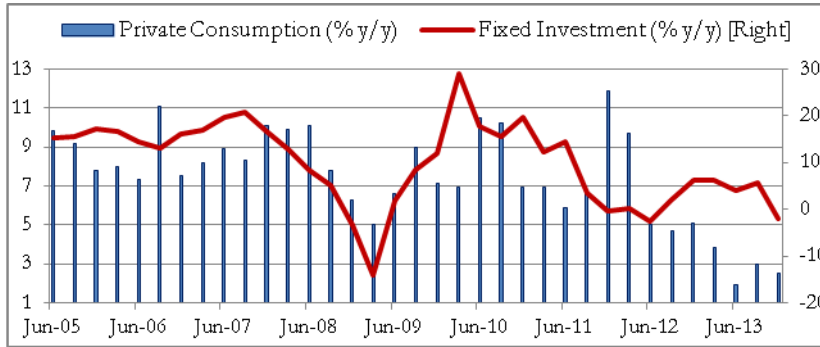
GDP growth declines in Q3 FY14. Similar picture for infrastructure. However, the services sector seems to be doing well. Rolling fiscal deficit breaches the end year target. Election dates announced – results by mid May.

Detail

GDP growth: Still waiting for recovery

Following 4.4% (y/y) and 4.8% growth in Q1 and Q2, growth in Q3 (Oct-Dec 13) was a lower than expected 4.7%. This implies that the economy has to grow by 5.7% in the last quarter if the government's expectation of 4.9% growth for the year is to be achieved. Although agriculture grew by 3.6%, it fell from 4.6% in the previous quarter. While trend agricultural growth is around 3% in a 'good' year, higher than normal rains had raised expectations for stronger growth. Industry contracted by 0.7% after 2.3% growth in the previous quarter, primarily driven by manufacturing and mining. Construction has also sharply slowed.

The services sector presents an interesting paradox. While the rest of the economy is slowing, it seems services (almost 60% of GDP) have decoupled. Q3 saw an uptick of 7.6%, up from 6% in the previous quarter and 6.7% in Q1. The major driver has been 'financing, insurance, real estate and business services' which has been steadily growing and clocked 12.5% in Q3. In fact this single sector, that accounts for only 19% of GDP, contributed nearly 50% to growth. This could be attributed to RBI's forex swap window to attract dollar deposits. It can also be correlated to the improvement in the global economy that means improving fortunes for India's IT sector.



On the expenditure side too, it seems that

the 'external' economy is keeping the show running. Exports are up by over 11%, while

contracted by 4%;

reaffirming the improving

	April – June FY14	April – June FY13
Electricity	5.2%	4.8%
Coal	1.3%	7.4%
Steel	4.1%	3.3%
Crude Oil	-0.2%	-0.4%
Refined petroleum	1.6%	30.2%
Cement	3.5%	8.1%
Natural Gas	-13.9%	-13.7%
Fertilizers	2.4%	-4.1%

imports around

global

scenario. The investment cycle is yet to pick up, contracting by around 2%. The graph shows the precipitous fall in consumption and investment growth compared to much of the last decade, with consumption growth levels presently lower than during the global downturn of 2008-09.

Sectoral glimpse: Aggregate production in the eight core industries grew by 1.6% (y/y) in January 2014 compared to 1.7% growth clocked in November and 2.1% growth registered in December 2013. As the table shows, electricity, fertilizers and steel seem to be doing better. The natural gas sector has seen two years of back to back contraction of close to 14%.

Fiscal deficit – Target Breached

The fiscal deficit in January 2014 was an improved £1.6 bn compared to over £6 bn in January last year, the best performance in the past seven years. However despite strong revenue collections in January (33% growth in tax revenue and 106% growth in non-tax receipts), coupled with expenditure cuts by the government; the cumulative fiscal deficit crossed the target fiscal deficit for the entire year of 4.6% of GDP. The government in its interim budget recently revised the target down from 4.8% of GDP. Total expenditure is at least two percentage points higher than it was in the same period last year, with sharp rises in capital expenditure (primarily defence related) and interest payments.

Election dates announced

Poll dates for India's general elections have been announced – elections begin on 7th April and will end on 12th May. Results will be announced on 16th May, and the new Parliament should be constituted by end of the month.

Our previous reports accessible [here](#).

Special focus: Auto sector

Auto sales in India are headed for the first annual drop since March 2002, with slowing economic growth, escalating fuel costs (government has been persistently hiking diesel prices to market levels) and general economic slowdown. These factors have defied expectations that auto sales would improve with the onset of the festive season from the second half of 2013-14.

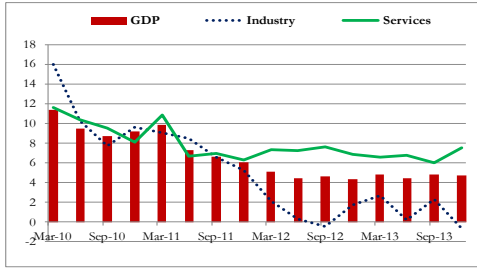
Car sales fell for the fourth straight month in January with a decline of 7.6%. There was a prolonged slump in the commercial vehicles (CV) segment, under which heavy and medium CVs saw their 23rd consecutive month of falling sales. Two wheelers & Tractors remain the only growing segments, indicative of a relatively stronger farm economy, which can be attributed to above average rainfall last year.

The current slowdown in automobile sales has forced vehicle manufacturers to revisit strategies and change tack; focusing more sharply on exports, higher localisation of parts, a stronger rural drive and move towards more flexible manufacturing lines.

The Finance Minister recently announced cuts in excise duty across various segments in his Interim Budget, resulting in some automakers dropping their product prices significantly. However producers and consumers still remain cautious.

GROWTH: GDP growth continues to be bleak in Q3 FY14 at below 5%

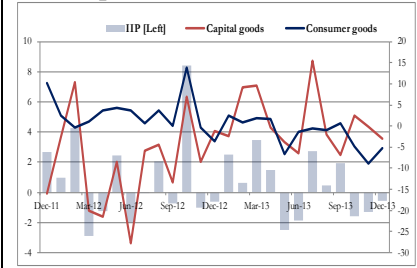
GDP



Projects Under Implementation

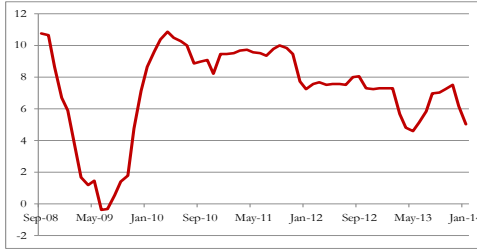


IIP/Capital/Consumer Goods

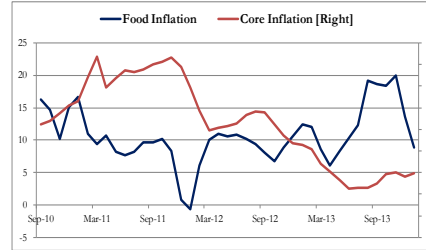


INFLATION: Retail inflation eased to a 24-month low of 8.79%

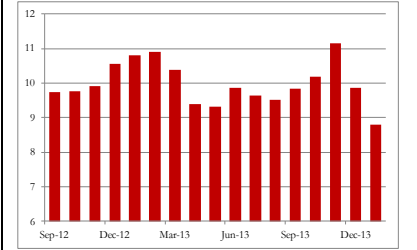
Wholesale Price Index (% y/y)



Food vs. Core Inflation (% y/y)



Consumer Price Index (% y/y)



MARKETS: Seem to suggest positive sentiment

SENSEX



USD/INR

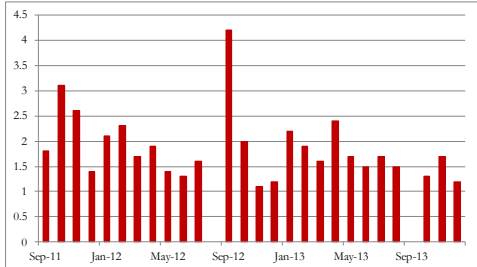


10yr Govt. Securities yield (%)

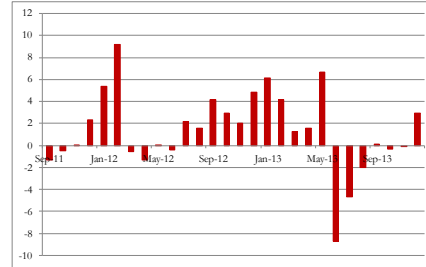


EXTERNAL: Current Account Deficit fell to its lowest in 8 yrs with curbs on gold imports

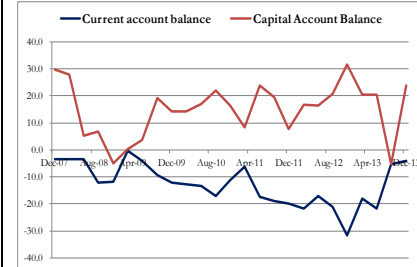
FDI (\$ Bn)



FII (\$ Bn)



Current vs. Capital A/c (\$ Bn)

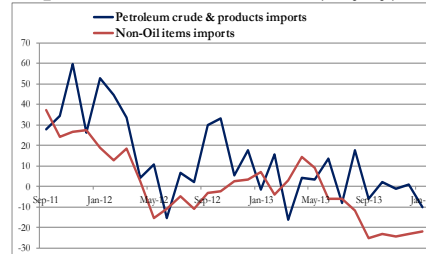


TRADE: As expected Trade Deficit narrows to \$9.9 bn

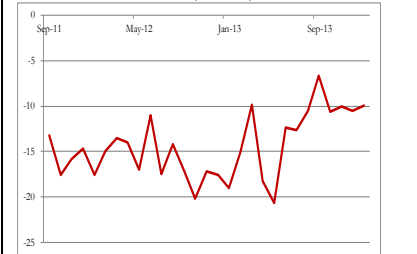
Export/Import Growth (% y/y)



Imports- Oil and Non Oil (% y/y)



Trade Balance (\$ Bn)



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