finexcel

INDIA : GROSS DOMESTIC PRODUCT

Q2 FY14 (July – Sept 2013)

Q2FY14 GDP grows @ 4.8% Y-o-Y (at factor cost) showing marginal improvement over Q1FY14 growth of 4.4%. Services sector surprises on the downside with growth of 5.9% Y-o-Y, lowest in the past 34 quarters (since the beginning of 2004-05 series), possibly due to government slowing down its spending. Agriculture fares better, but unable to make up for services sector slowdown.

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HIGHLIGHTS

Q2 FY14 Vs. Q2 FY13:

Gross Domestic Product - Change - Current Vs. Same Quarter last year

GDP at Factor Cost		GDP at Market Price	
Q2 FY13	Q2 FY14	Q2 FY13	Q2 FY14
5.2%	4.8%	2.5%	5.6%

Economic Activity Based Classification

Agriculture & Allied		Industry		Services	
Q2 FY13	Q2 FY14	Q2 FY13	Q2 FY14	Q2 FY13	Q2 FY14
1.7%	4.6%	1.3%	2.4%	7.6%	5.9%

Expenditure Based Classification

Government Final Consumption Expenditure		Private Final Consumption Expenditure		Gross Fixed Capital Formation	
Q2 FY13	Q2 FY14	Q2 FY13	Q2 FY14	Q2 FY13	Q2 FY14
6.9%	-1.1%	3.5%	2.2%	1.1%	2.6%
Exports		**Imports**		**Net Exports (Negative)**	
Q2 FY13	Q2 FY14	Q2 FY13	Q2 FY14	Q2 FY13	Q2 FY14
5.0%	16.3%	9.5%	0.4%	21.4%	-36.1%

Q2 FY14 Vs. Q1 FY14:

Gross Domestic Product - Change - Current Vs. Previous Quarter								
GDP at Factor Cost						GDP at Market Price		
Q1 FY14 4.4%	▲	Q2 FY14 4.8%				Q1 FY14 2.4%	▲	Q2 FY14 5.6%

Economic Activity Based Classification								
Agriculture & Allied			Industry			Services		
Q1 FY14 2.7%	▲	Q2 FY14 4.6%	Q1 FY14 0.2%	▲	Q2 FY14 2.4%	Q1 FY14 6.6%	▼	Q2 FY14 5.9%

Expenditure Based Classification								
Government Final Consumption Expenditure			Private Final Consumption Expenditure			Gross Fixed Capital Formation		
Q1 FY14 10.5%	▼	Q2 FY14 -1.1%	Q1 FY14 1.6%	▲	Q2 FY14 2.2%	Q1 FY14 -1.2%	▲	Q2 FY14 2.6%
Exports			Imports			Net Exports (Negative)		
Q1 FY14 -1.2%	▲	Q2 FY14 16.3%	Q1 FY14 0.7%	▼	Q2 FY14 0.4%	Q1 FY14 6.0%	▼	Q2 FY14 -36.1%

GDP AT FACTOR COST BY ECONOMIC ACTIVITY

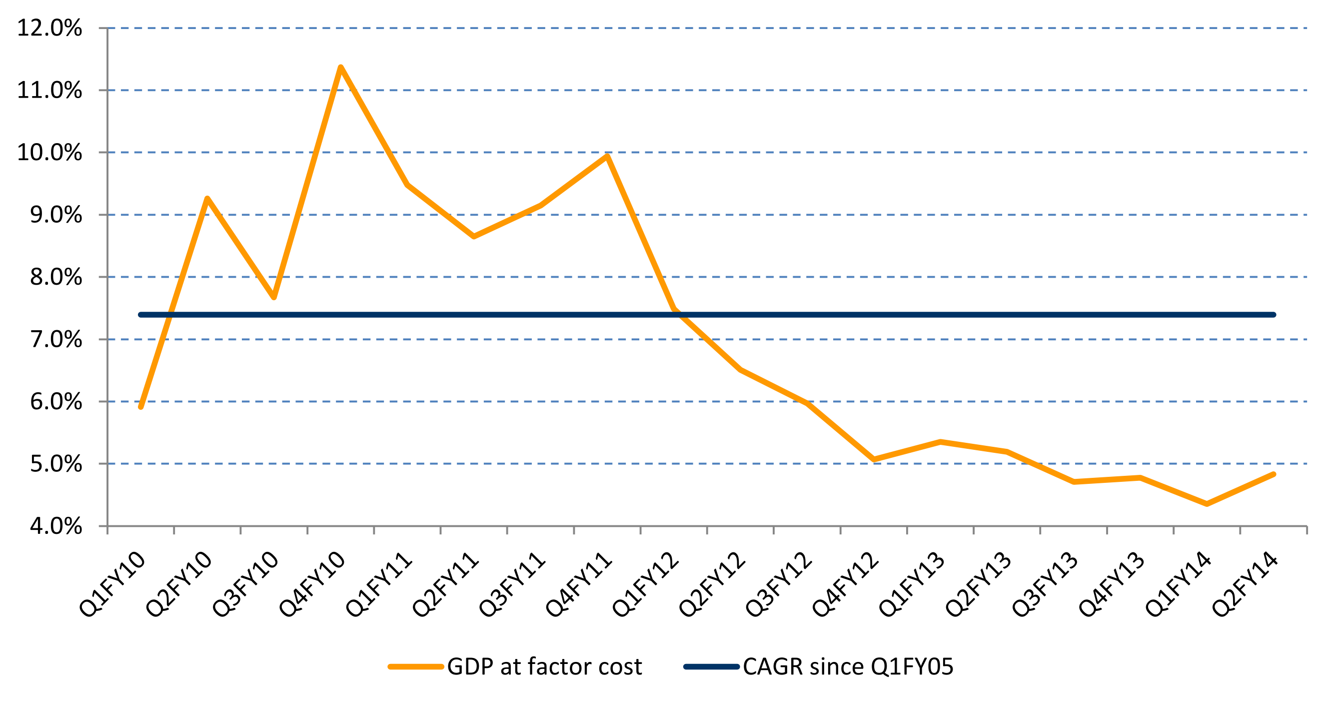
GDP grows @ 4.8% during Q2FY14:

GDP growth for the second quarter of FY14 came in line with estimates, with GDP at factor cost (at 2004-05 prices) growing at 4.8% compared to 4.4% in the previous quarter (Q1FY14) and 5.2% in the same quarter last year (Q2FY13).

GDP at Factor cost			
Vs Previous Quarter		Vs Same Quarter Last Year	
Q1 FY14 4.4%	Q2 FY14 4.8%	Q2 FY13 2.5%	Q2 FY14 4.8%

Components - Economic Activiry			
Services			
Q1 FY14 6.6%	Q2 FY14 5.9%	Q2 FY13 7.6%	Q2 FY14 5.9%
Industry			
Q1 FY14 0.2%	Q2 FY14 2.4%	Q2 FY13 1.3%	Q2 FY14 2.4%
Agriculture & Allied			
Q1 FY14 2.7%	Q2 FY14 4.6%	Q2 FY13 1.7%	Q2 FY14 4.6%

Fall from grace… ***(Quarterly Y-o-Y growth in %)***



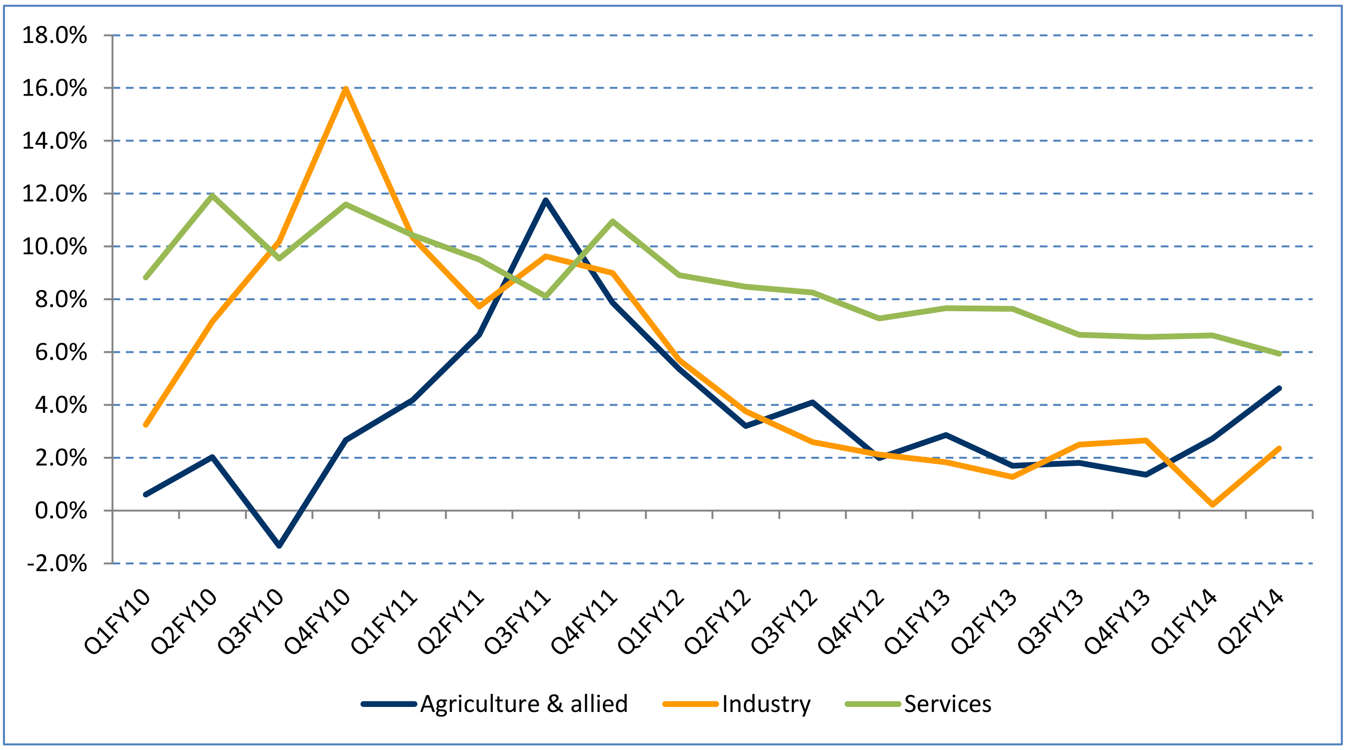
Source : CSO, Finexcel

- The slight pickup in growth compared to the previous quarter was driven primarily by the ***industrial sector***, which grew at 2.4% in the current quarter, compared to an almost flat growth of 0.2% in the previous quarter (Q1FY14) and 1.3% in the same quarter last year (Q2FY13). For the current quarter, industrial sector constituted almost 26% of GDP (at factor cost).

- The pickup in industrial sector was negated by the ***services sector***, which hit a speed-breaker, growing at an atleast 34-quarter low (since the beginning of 2004-05 series) of 5.9% in the current quarter, compared to 6.6% in the previous quarter (Q1FY14) and 7.6% in the same quarter last year (Q2FY13). This slowdown was mainly due to the slowdown in 'Community, Social & Personal services', which grew at 4.2% in Q2FY14, compared to 9.4% in the previous quarter (Q1FY14) and 8.4% in the same quarter last year (Q2FY13). This, read with the contraction in Government spending of 1.1% in Q2FY14, points to decreased government support to the GDP in the coming quarters. For the current quarter, services sector constituted almost 63% of GDP (at factor cost).

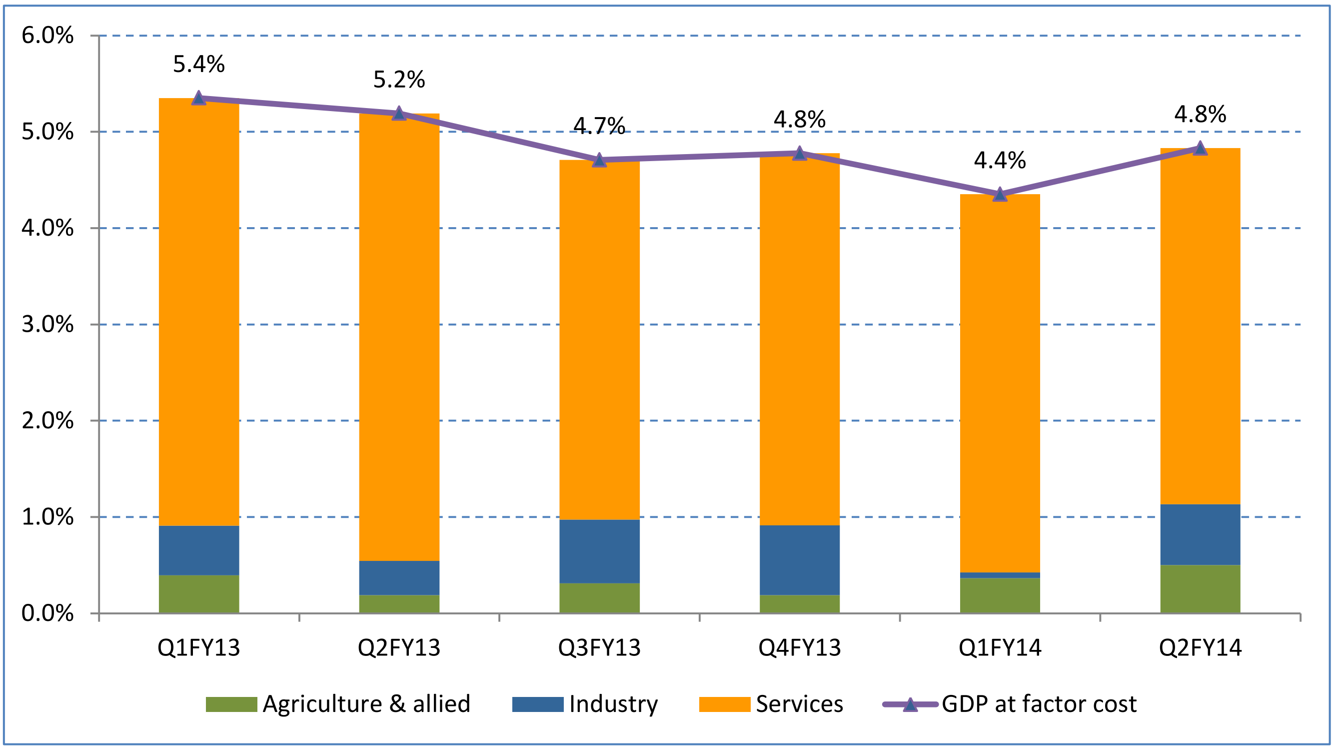
- ***Agriculture***, as expected, picked up, growing at 4.6% in Q2FY14, compared to 2.7% in the previous quarter (Q1FY14) and 1.7% in the same quarter last year (Q2FY13). For the current quarter, agricultural sector constituted almost 11% of GDP (at factor cost).

Sector-wise growth *(Quarterly Y-o-Y growth in %)*



Source : CSO, Finexcel

Sector-wise contribution to GDP at factor cost *(Quarterly Y-o-Y growth in %)*



Source : CSO, Finexcel

INDUSTRY :

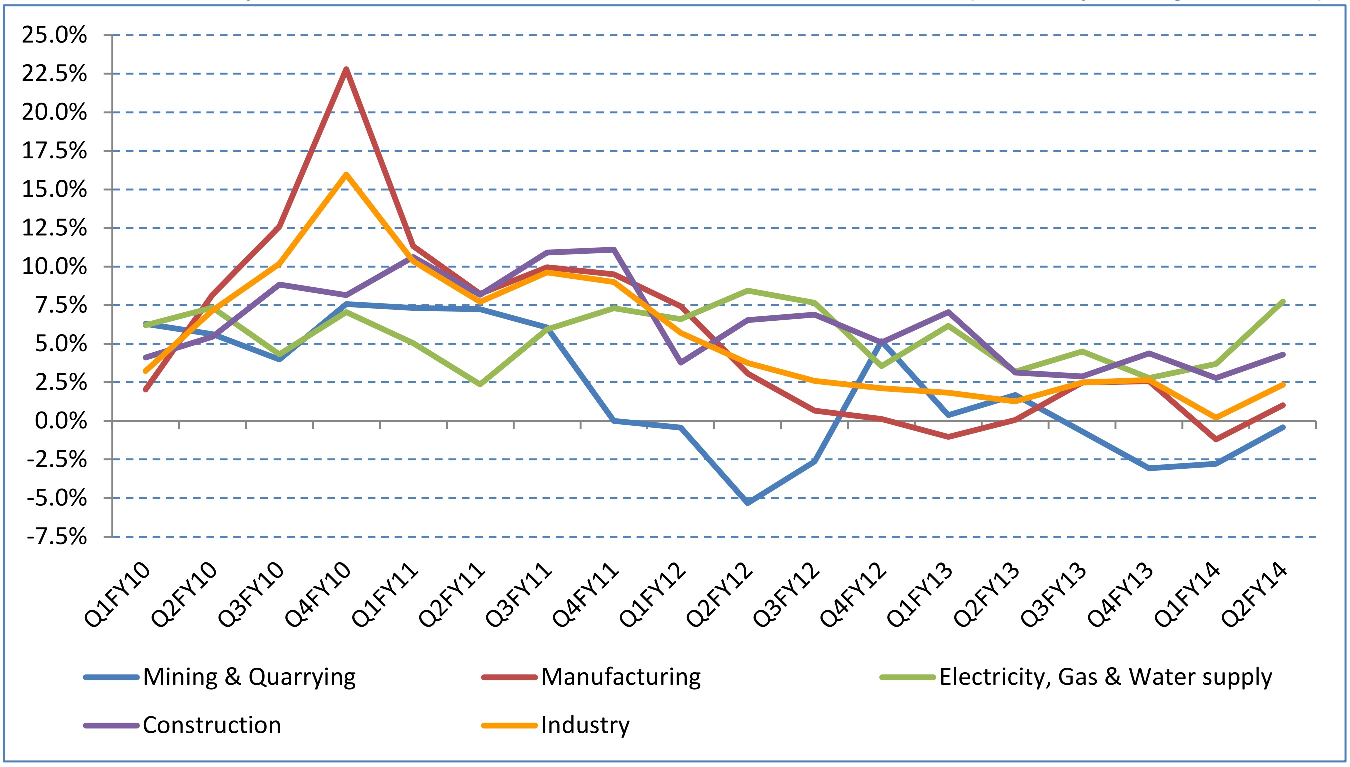
Industry grew @2.4% during the quarter, recovers from 2-year low of 0.2% recorded in the previous quarter, helped by Construction and Manufacturing

INDUSTRIAL SECTOR			
Vs. Previous Quarter		Vs. Same Quarter Last Year	
Q1 FY14 0.2%	Q2 FY14 2.4%	Q2 FY13 1.3%	Q2 FY14 2.4%

Components of Industrial Sector			
Manufacturing			
Q1 FY14 -1.2%	Q2 FY14 1.0%	Q2 FY13 0.1%	Q2 FY14 1.0%
Construction			
Q1 FY14 2.8%	Q2 FY14 4.3%	Q2 FY13 3.1%	Q2 FY14 4.3%
Electricity, Gas, Water supply			
Q1 FY14 3.7%	Q2 FY14 7.7%	Q2 FY13 3.2%	Q2 FY14 7.7%
Mining & Quarrying			
Q1 FY14 -2.8%	Q2 FY14 -0.4%	Q2 FY13 1.7%	Q2 FY14 -0.4%

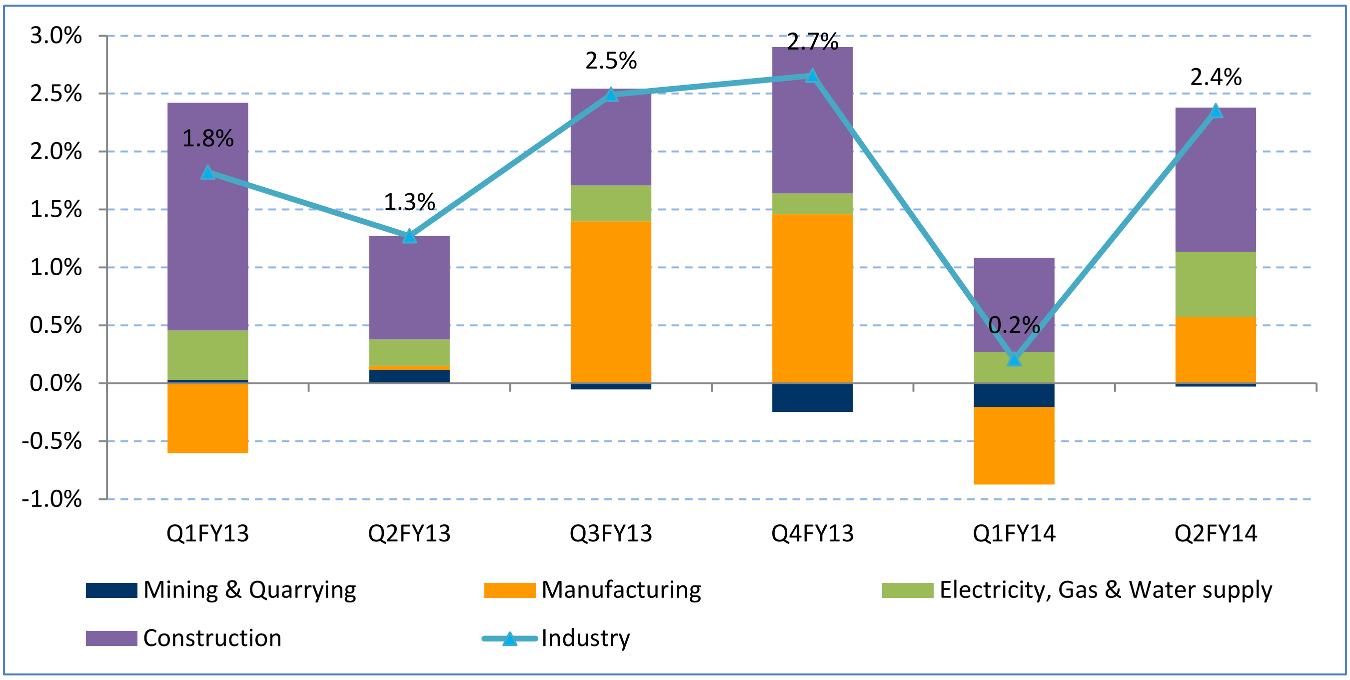
- Industrial sector, which constituted 26% of the GDP (at factor cost) in Q2FY14, grew at 2.4% for Q2FY14 compared to 0.2% in the previous quarter (Q1FY14) and 1.3% in the same quarter last year (Q2FY13).

Sector-wise break up ***(Quarterly Y-o-Y growth in %)***



Source : CSO, Finexcel

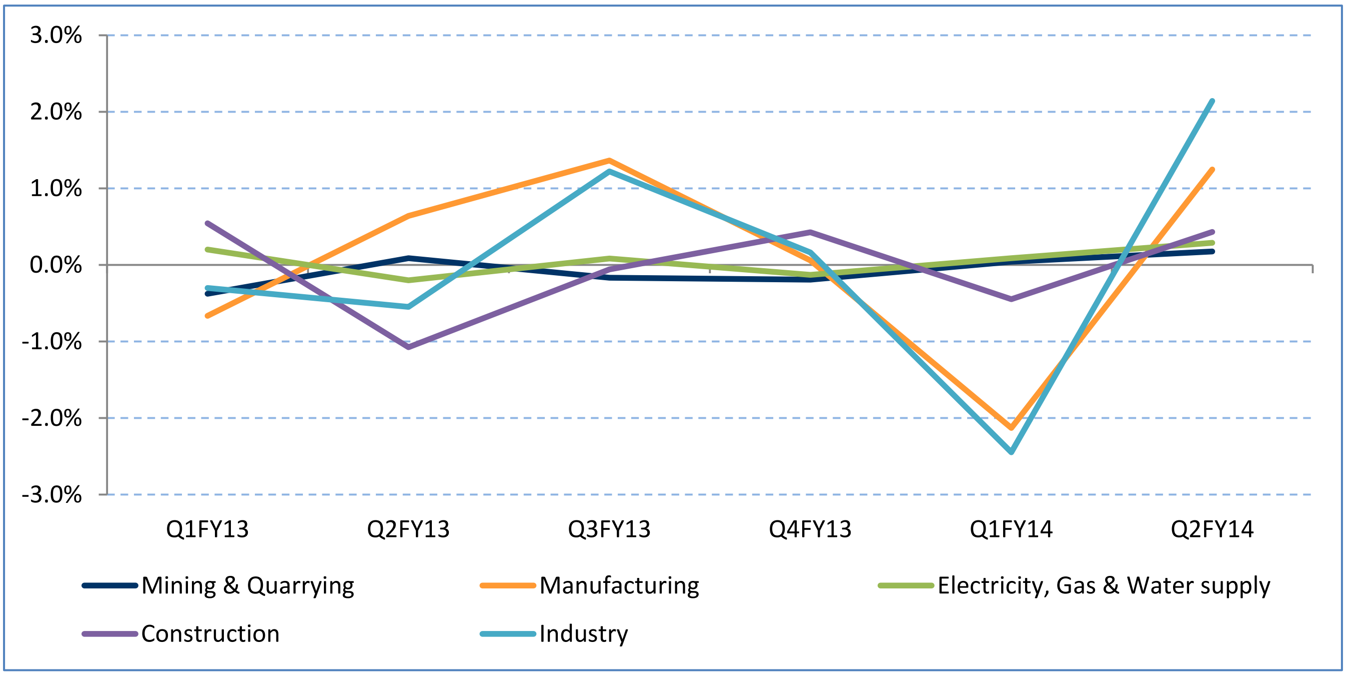
Industry-wise contribution to Industrial growth: Construction contributed half of the Industrial growth



Source : CSO, Finexcel

- ***Construction*** was the top contributor to the Industrial growth for the quarter, adding 1.2% to the total industrial growth of 2.4%. Manufacturing, and Electricity, gas and water supply contributed 0.6% each to the total.

Influencers of Quarter-on-Quarter change: Manufacturing drives the fluctuations in Industrial growth



Source : CSO, Finexcel

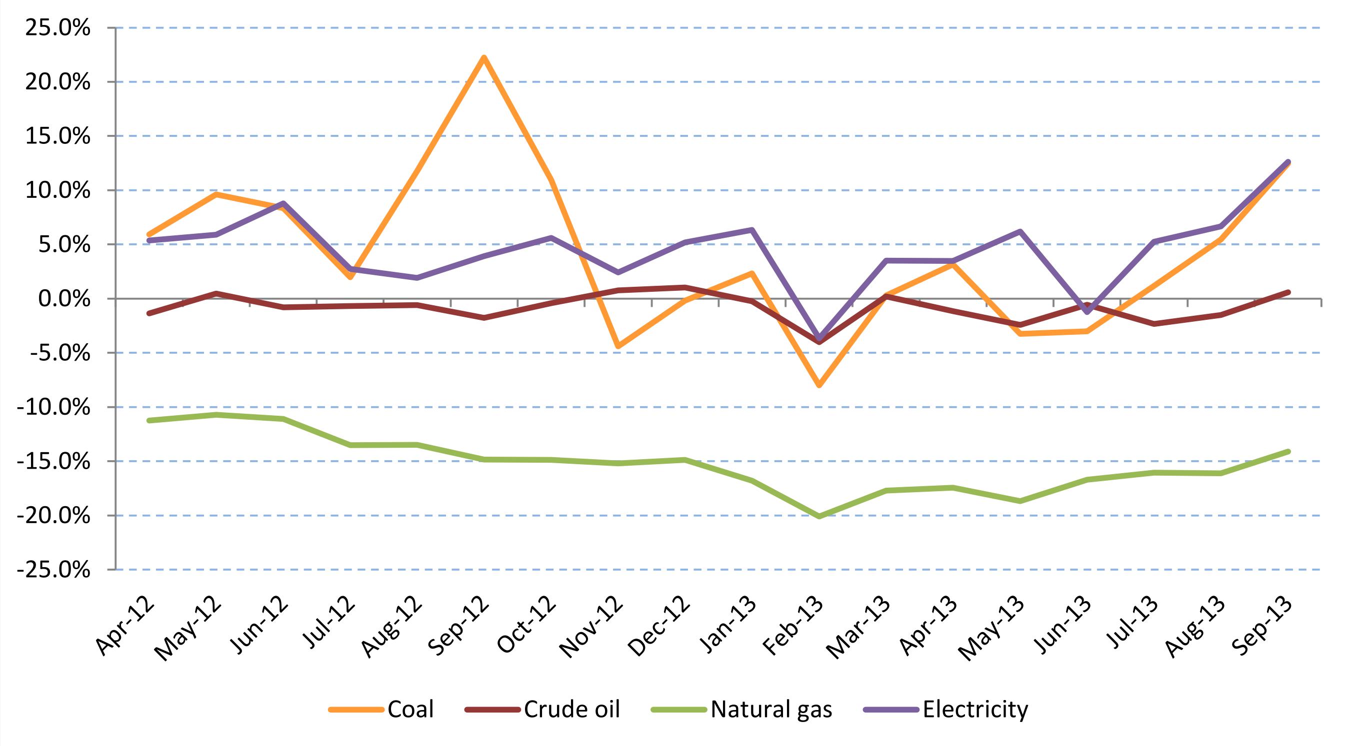
- The uptick industrial growth compared to the previous quarter was supported by the slight increase in the growth of ***manufacturing*** to 1% in the current quarter compared to a contraction of 1.2% in the previous quarter (Q1FY14) and 0.1% in the same quarter last year (Q2FY13).

- ***Manufacturing*** added 0.6% to the total industrial growth of 2.4% for the quarter. This is a positive compared to the fact that manufacturing shaved off 0.7% of growth from industrial growth of previous quarter (Q1FY14), and contributed nothing to the industrial growth reported for the same quarter last year (Q2FY13).

- ***Construction*** continued to support the industrial growth, growing at 4.3% in the current quarter, compared to 2.8% in the previous quarter (Q1FY14) and 3.1% in the same quarter last year (Q2FY13). Construction had a weight of 29.6% in the Industrial sector and 7.8% in GDP, for the current quarter. According to the latest estimates available on the Index of Industrial Production (IIP), the key indicators of construction sector- production of cement grew at 5.9%, and consumption of finished steel grew at 1.3% during the current quarter (Q2FY14).

- ***Electricity, Gas and Water supply*** recorded an impressive growth of 7.7% in the current quarter, compared to 3.7% in the previous quarter (Q1FY14) and 3.2% in the same quarter last year (Q2FY13). As indicated by the data relating to core industries, Coal generation has improved during the quarter, while Natural gas continued its downward slide. Crude oil continued to exhibit negative to flat growth during the quarter. Electricity also continued to grow at reasonably good rates during the quarter.

Core industries : Coal and Electricity records impressive growth ***(% growth over past one year)***



Source : CSO, Finexcel

- ***Mining*** continued to contract for the fourth quarter, contracting 0.4% for the current quarter, compared to contraction of 2.8% in the previous quarter (Q1FY14) and growth of 1.7% in the same quarter last year (Q2FY13). But mining is not a sub-sector that influences the GDP growth (at factor cost), having a weight of just 1.8% in GDP (at factor cost).

- ***HSBC India Manufacturing PMI*** recorded a reading of 49.6 for the month of October, which is the same as the month of September. This is the third month of contraction. (A reading below 50 indicates contraction and above 50 indicates expansion). (*Source : HSBC India Manufacturing PMI*)

SERVICES :

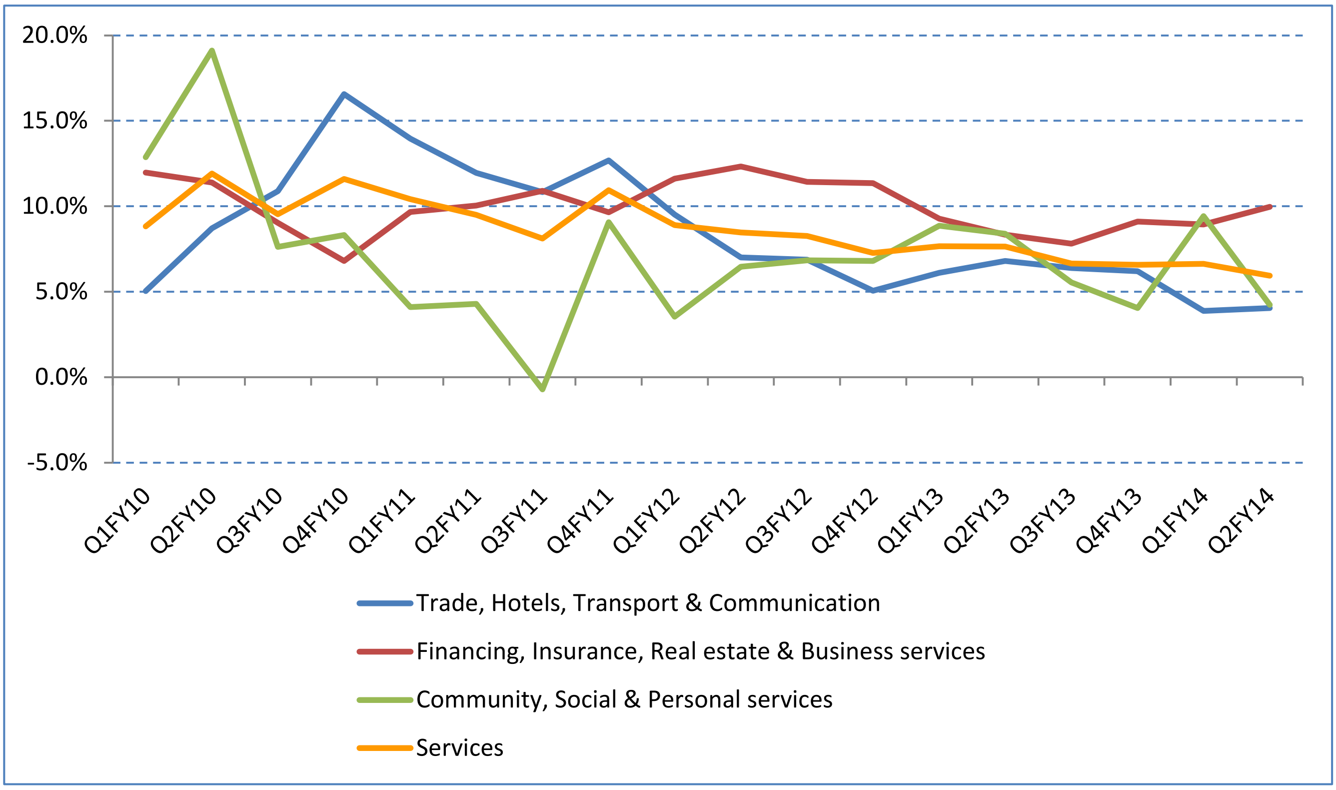
Services sector slowed down, growing at 3.7%, a 34-quarter low (since the beginning of the current 2004-05 series).

SERVICES SECTOR			
Vs. Previous Quarter		Vs. Same Quarter Last Year	
Q1 FY14	Q2 FY14	Q2 FY13	Q2 FY14
6.6%	5.9%	7.6%	5.9%

Components of Services Sector			
Trade, Hotels, Transport & Communication			
Q1 FY14	Q2 FY14	Q2 FY13	Q2 FY14
3.9%	4.0%	6.8%	4.0%
Financing, Insurance, Real Estate And Business Services			
Q1 FY14	Q2 FY14	Q2 FY13	Q2 FY14
8.9%	10.0%	8.3%	10.0%
Community, Social & Personal Services			
Q1 FY14	Q2 FY14	Q2 FY13	Q2 FY14
9.4%	4.2%	8.4%	4.2%

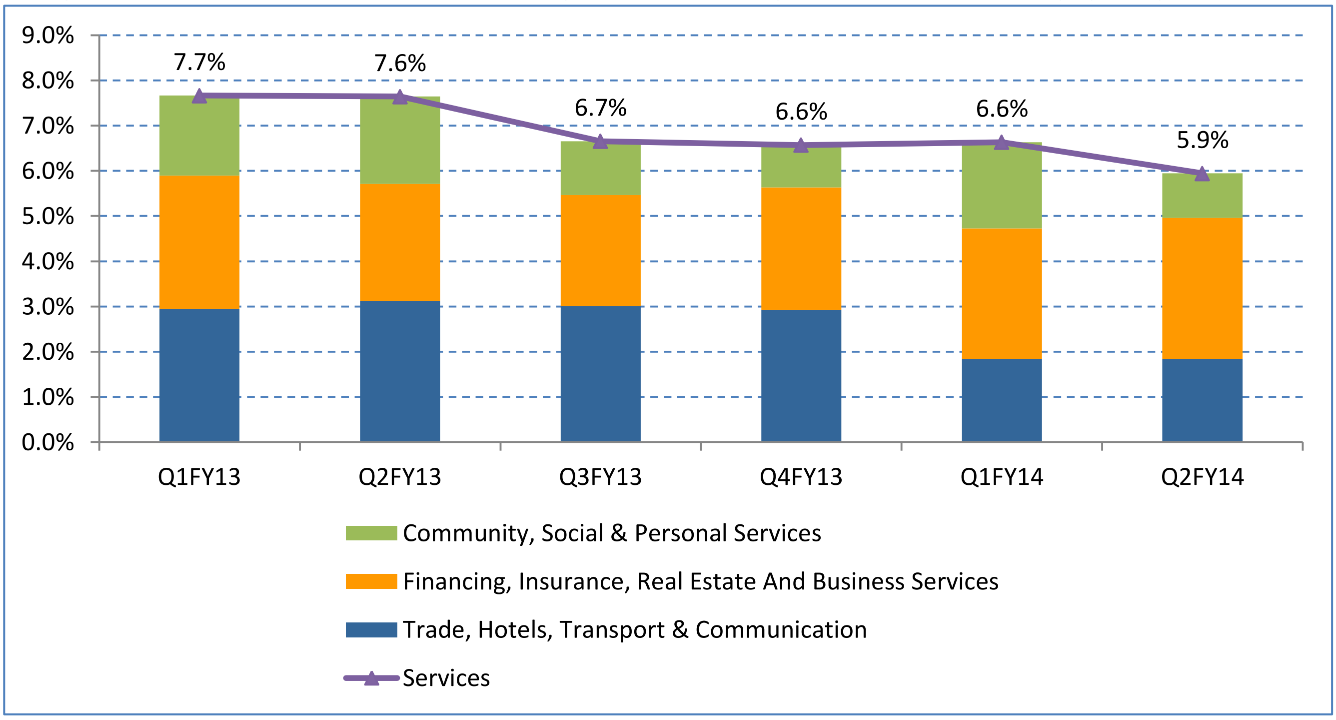
- Services sector, which constituted 63% of GDP, surprised on the downside, growing at 5.9% during the current quarter. This is the lowest in 34 quarters (since the beginning of the current 2004-05 series).

Services sector growth : Category-wise ***(Quarterly Y-o-Y growth in %)***



Source : CSO, Finexcel

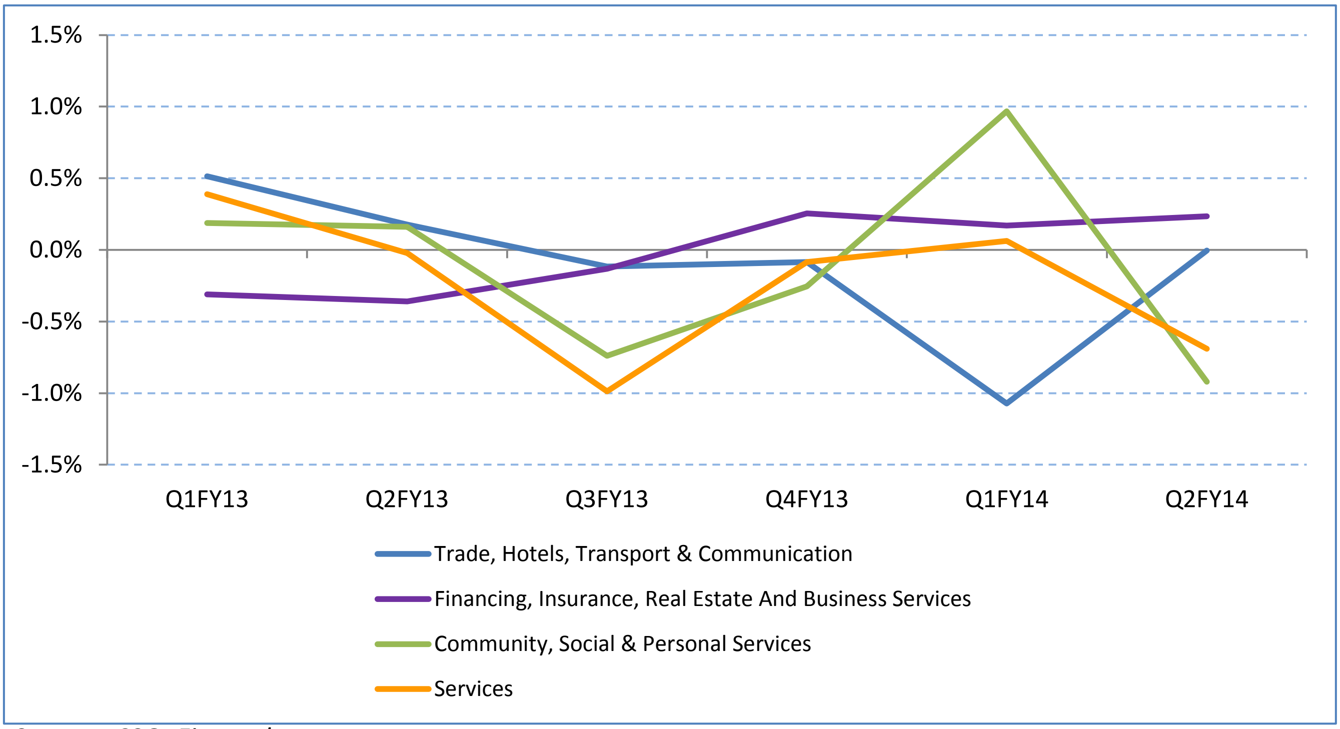
Category-wise contribution to Services sector growth : Financing etc. contributes to half of the growth



Source : CSO, Finexcel

- ***Financing, Insurance, Real Estate and Business Services*** was the top contributor to the Services sector growth for the quarter, adding 1.9% to the total services sector growth of 3.7%.

Influencers of Quarter-on-Quarter change in growth rate : Community, Social & Personal services drives the fluctuations in Industrial growth



Source : CSO, Finexcel

- ***Trade, Hotels, Transport & Communication,*** having a weight of 45% in the services sector and 28% of GDP (at factor cost) during Q2FY14, disappointed again, growing at 4% during the current quarter. This is no better compared to the 17-quarter low of 3.9% recorded in the previous quarter (Q1FY14) and way below 6.8% recorded in the same quarter last year (Q2FY13).
- ***Financing, Insurance, Real Estate and Business Services,*** supported yet again, growing at a very impressive 10% for the current quarter, compared to 8.9% in the previous quarter (Q1FY14) and 8.3% in the same quarter last year (Q2FY13). It contributed 3.1% to the Services sector growth and 1.9% to GDP growth at factor cost. Thus it was the top contributor to the GDP at factor cost, contributing to almost 40% to the GDP growth. This sub-sector has a weight of 32.5% in the services sector and 20% of GDP (at factor cost) during the current quarter.
- ***Community, Social & Personal Services*** slowed, growing at 4.2% in the current quarter compared to 9.4% in the previous quarter (Q1FY14) and 8.4% in same quarter last year (Q2FY13). This, read with the slowdown in Government spending, might mean that the government, having reached 76% of its full year fiscal deficit by September 2013, is embracing austerity going forward. This might get worse going forward, with the government reaching 84% of its full year fiscal deficit target.
- Among the services sectors, key indicators of railways, namely, the net tonne kilometers and passenger kilometers have shown growth rates of 3.7% and contraction of 2.5%, respectively the current quarter. In the transport sector, the sale of commercial vehicles contracted 22.1%, cargo handled at major ports grew 5.9%, cargo handled by the civil aviation grew 0.4% and passengers handled by the civil aviation grew 12.6%.

- ***HSBC India Services PMI*** reading for October 2013 came at 47.1 compared to September's four-and-a-half year low of 44.7. This was the fourth month of contraction of services output (A reading below 50 indicates contraction and above 50 indicates expansion). As per the survey, five out of the six sectors measured in the survey contracted, with the sharpest contraction noted in Hotels & Restaurants. (*Source : HSBC India Services PMI*)

EXPENDITURE OF GDP AT MARKET PRICES

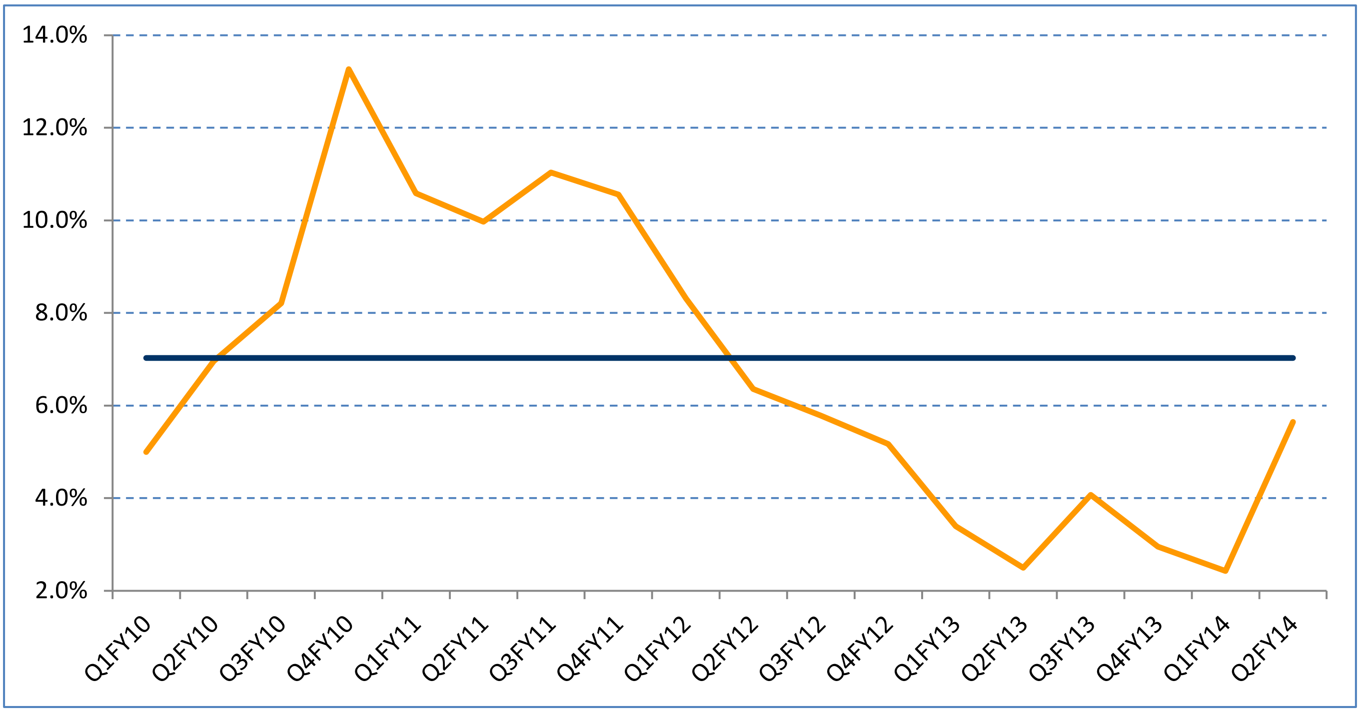
GDP grows @ 5.6% during Q2FY14:

Government spending contracts 1.1%, an 18-quarter low. Private consumption grew at 2.2%, recovers slightly from an at least 33-quarter low (since the beginning of 2004-05 series) of 1.6% growth recorded in the last quarter.

GDP at Market Prices					
Vs. Previous Quarter			Vs. Same Quarter Last Year		
Q1 FY14 2.4%	▲	Q2 FY14 5.6%	Q2 FY13 2.5%	▲	Q2 FY14 5.6%

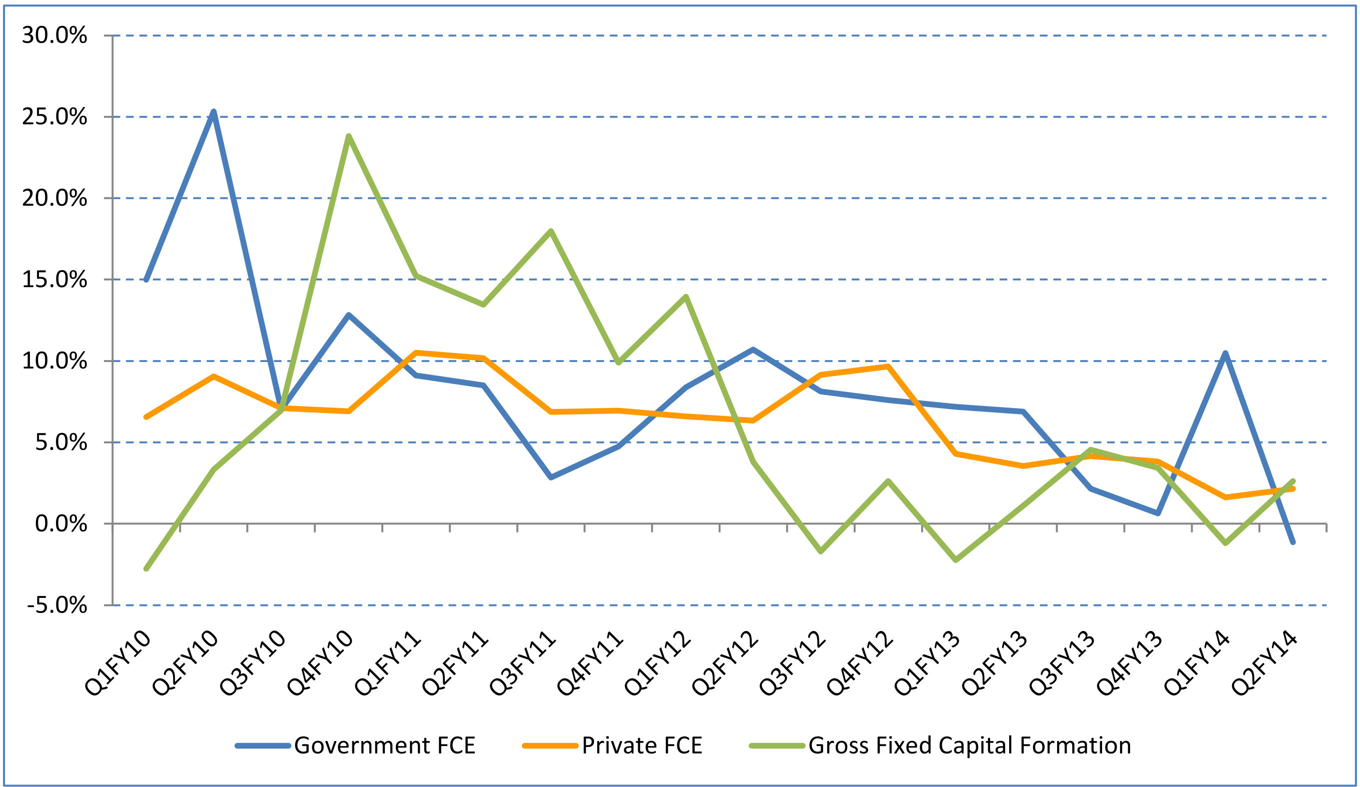
Components - Expenditure side					
Government Final Consumption Expenditure					
Q1 FY14 10.5%	▼	Q2 FY14 -1.1%	Q2 FY13 6.9%	▼	Q2 FY14 -1.1%
Private Final Consumption Expenditure					
Q1 FY14 1.6%	▲	Q2 FY14 2.2%	Q2 FY13 3.5%	▼	Q2 FY14 2.2%
Gross Fixed Capital Formation					
Q1 FY14 -1.2%	▲	Q2 FY14 2.6%	Q2 FY13 1.1%	▲	Q2 FY14 2.6%
Exports of Goods And Services					
Q1 FY14 -1.2%	▲	Q2 FY14 16.3%	Q2 FY13 5.0%	▲	Q2 FY14 16.3%
Imports of Goods And Services					
Q1 FY14 0.7%	▼	Q2 FY14 0.4%	Q2 FY13 9.5%	▼	Q2 FY14 0.4%
Net Exports (negative)					
Q1 FY14 6.0%	▼	Q2 FY14 -36.1%	Q2 FY13 21.4%	▼	Q2 FY14 -36.1%

GDP growth at Market prices (constant price: 2004-05) ***(Quarterly Y-o-Y growth in %)***



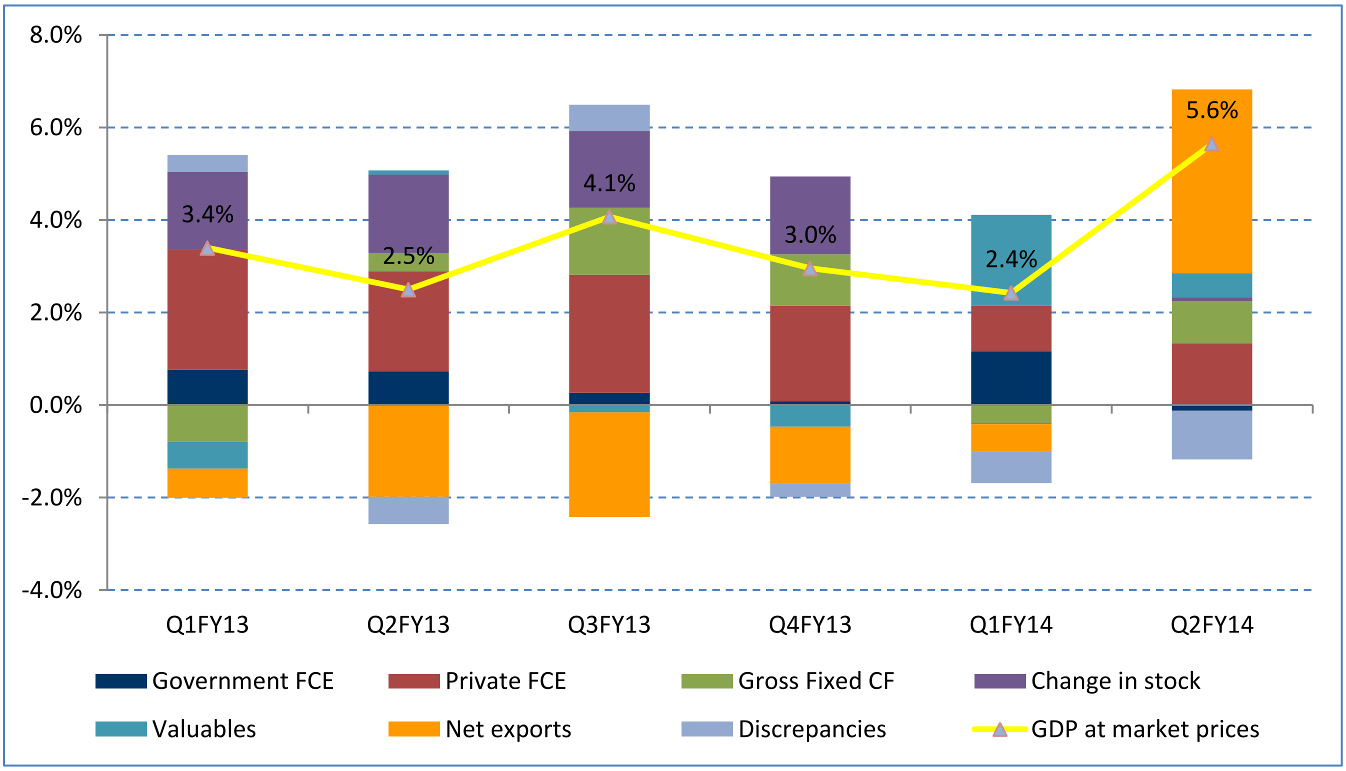
Source : CSO, Finexcel

Expenditure-wise growth break-up of GDP at Market prices (constant price : 2004-05): Quarterly Y-o-Y growth(%)



Source : CSO, Finexcel

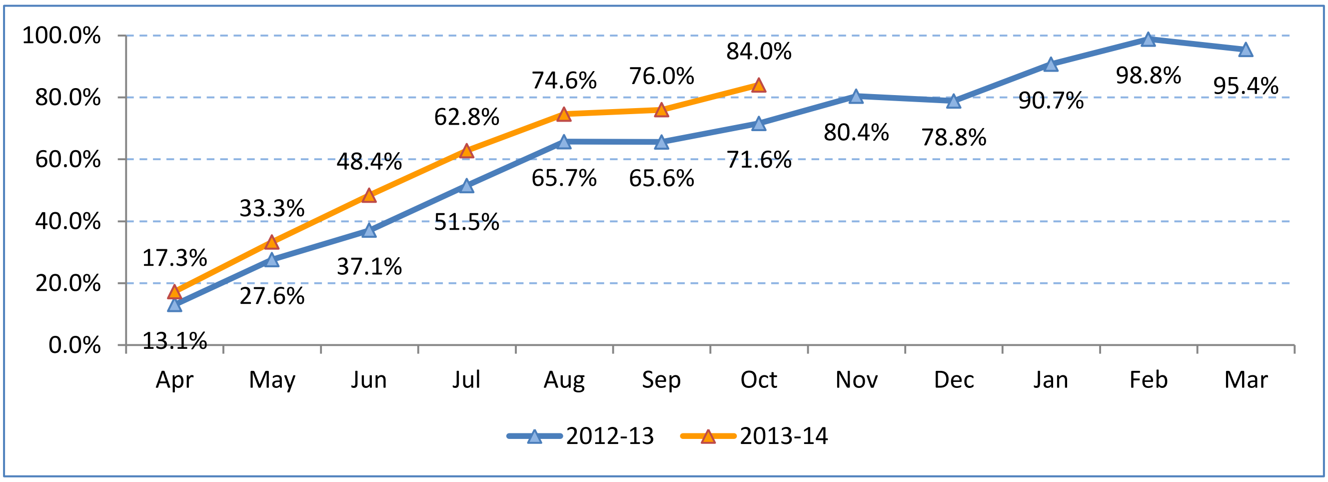
Expenditure-wise contribution to GDP at Market prices (constant price : 2004-05) : Quarterly Y-o-Y growth(%)



Source : CSO, Finexcel

- ***Government spending*** contracted during the quarter by 1.1% compared to the same quarter last year. This came at a time when the data released by the government shows that it has reached 76% of the budgeted fiscal deficit for the current financial year by September 2013. This means that, going forward, we cannot expect the government to spend the way it did in the previous quarter (Q1FY14). In Q1FY14 the government expenditure expanded by a staggering 10.5% (the highest since Q2FY12), and the government reached 48.4% of its budgeted full year fiscal deficit in just 3 months (compared to 37.1% in the same period last year). Government expenditure was just 10.3% of the GDP at Market prices, and this is the lowest in the past 12 quarters.

Fiscal deficit build-up (Year-to-date) as % of budgeted deficit for the full year: Fiscal Austerity ahead?

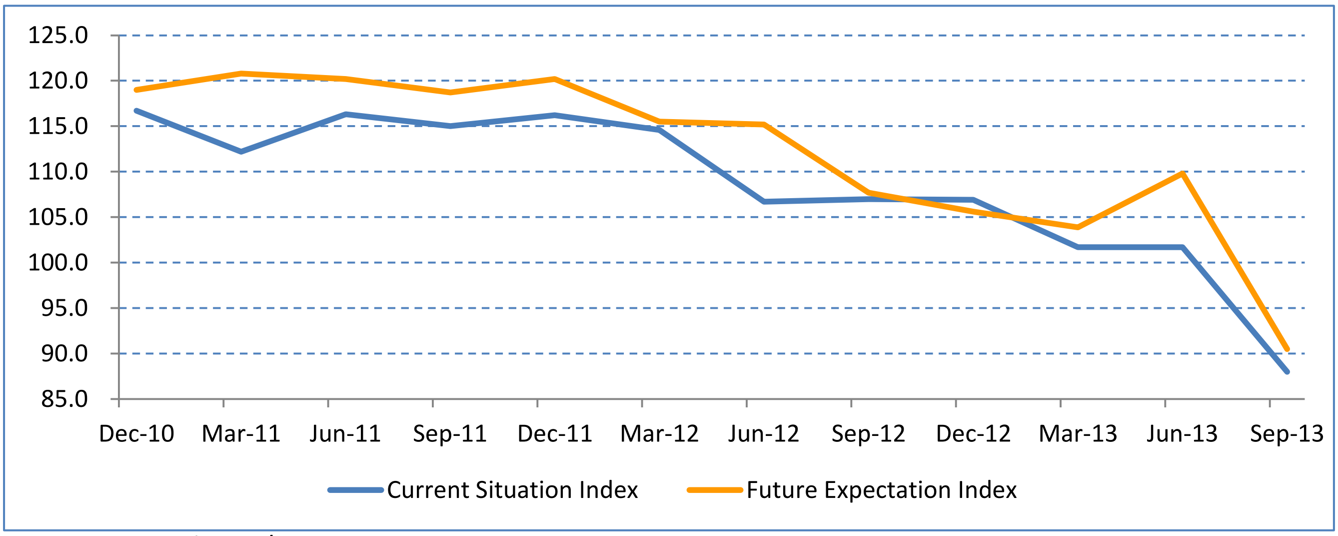


Source : Ministry of Finance, Finexcel

- ***Private consumption***, which constituted almost 60% of GDP in Q2FY14, recovered slightly from an at least 33-quarter low of 1.6% growth recorded last quarter (Q1FY14). It grew at a not-so-impressive 2.2% for the current quarter (Q2FY14) compared to 3.5% in the same quarter last year (Q2FY14). It contributed 1.3% to the GDP growth (at market prices) during the quarter, compared to just 1% in the previous quarter (Q1FY14) and 2.2% in the same quarter last year (Q2FY13).

- If the Consumer confidence survey released by the Reserve Bank of India is any indication, we are going to see further slowdown in consumer spending. As per this survey, the Current situation index and the Future expectation index are at the lowest level in at least 3 years.

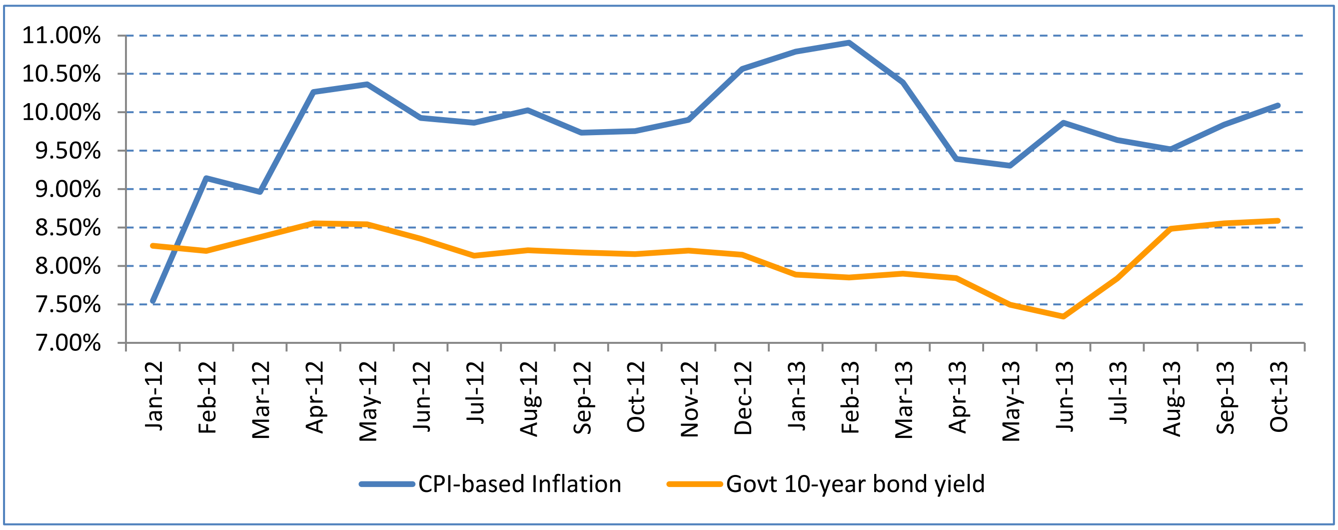
RBI Consumer Confidence Survey Index: Points to bad times ahead



Source : RBI, Finexcel

- Consumer-level inflation rose again to double digits, with the October print coming at 10.09% and September at 9.52%. Interest rate environment also remained in the higher levels during the current quarter. Both of these factors probably would have prevented the consumers from spending.

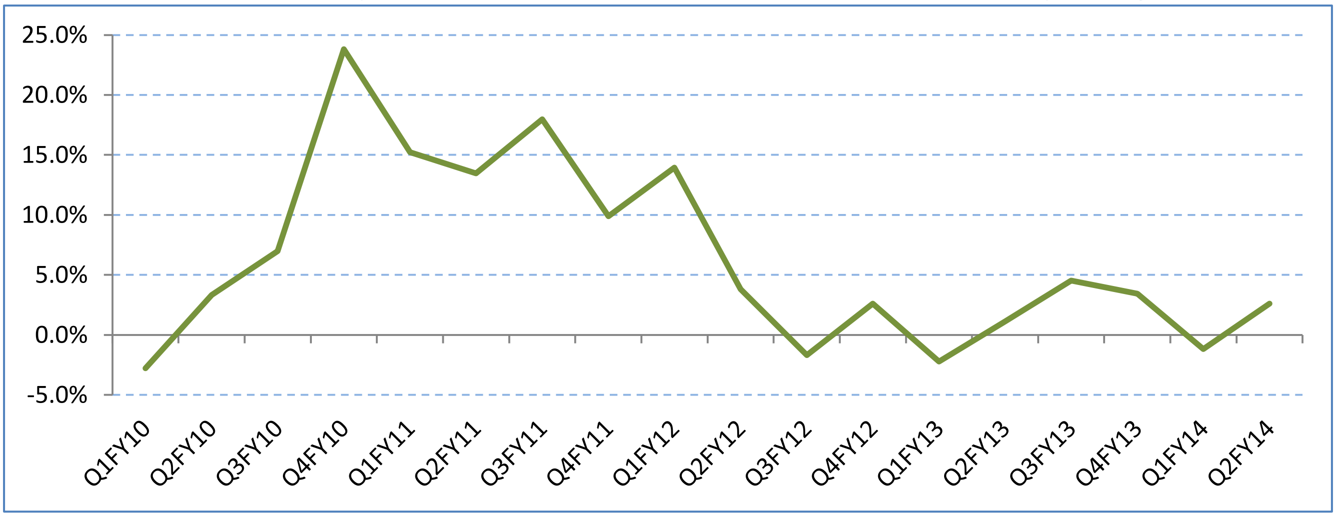
Consumer-price inflation & Government 10-year yield: Consumers are hesitant to spend (Annualised month-wise Y-o-Y change in %)



Source : CSO, Finexcel

- ***Gross Fixed Capital Formation*** recorded a growth of 2.6% in the current quarter, compared to a contraction of 1.2% in the previous quarter (Q1FY14) and a growth of 1.1% in the same quarter last year (Q2FY13). As a percentage of GDP (at market prices), GFCF constituted 33.6% of GDP in the current quarter compared to 32.6% in the previous quarter (Q1FY14) and 34.6% in the same quarter last year (Q2FY13).

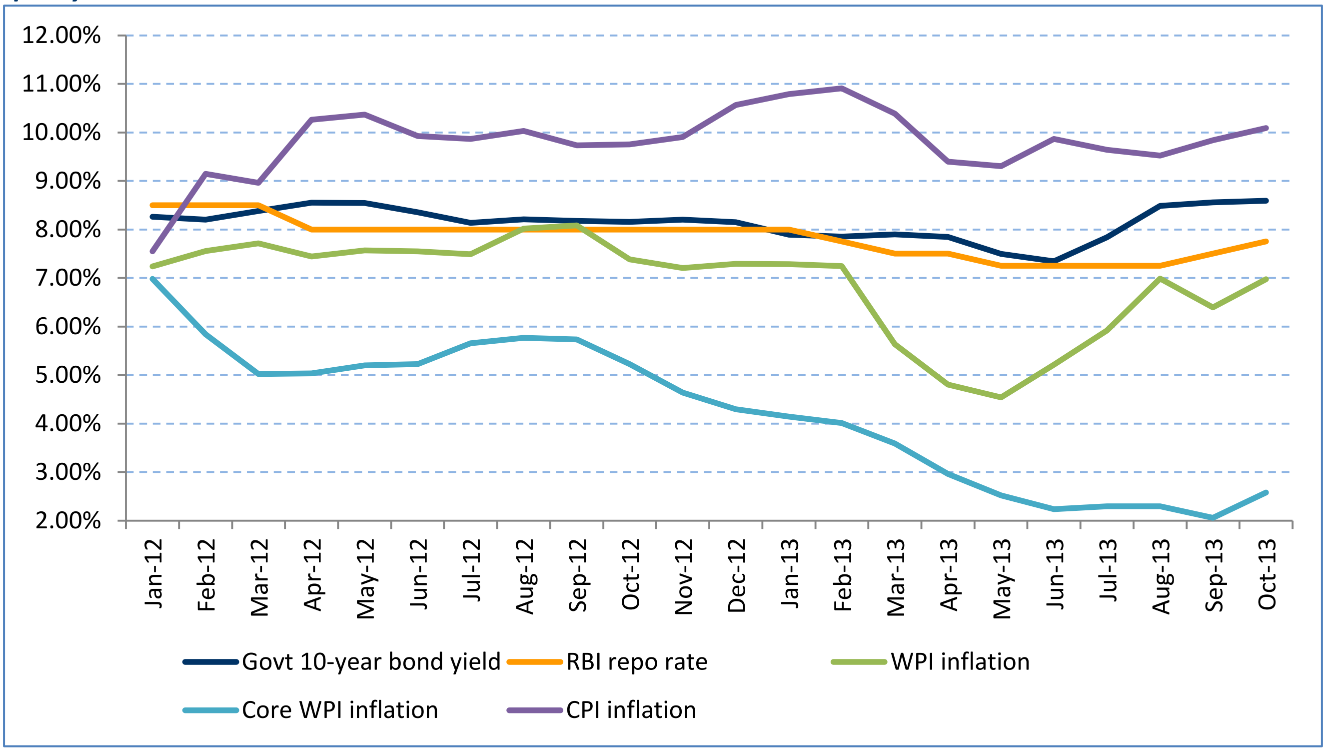
GFCF crawls around the zero percent mark ***(Quarterly Y-o-Y growth in %)***



Source : CSO, Finexcel

- With the Indian Rupee depreciating, and inflation rising, RBI raised the interest rates and the interest rate environment remained quite high during the quarter.

Inflation (WPI & CPI), RBI repo hikes and G-Sec movement : rising inflation preventing the RBI from reducing policy rates

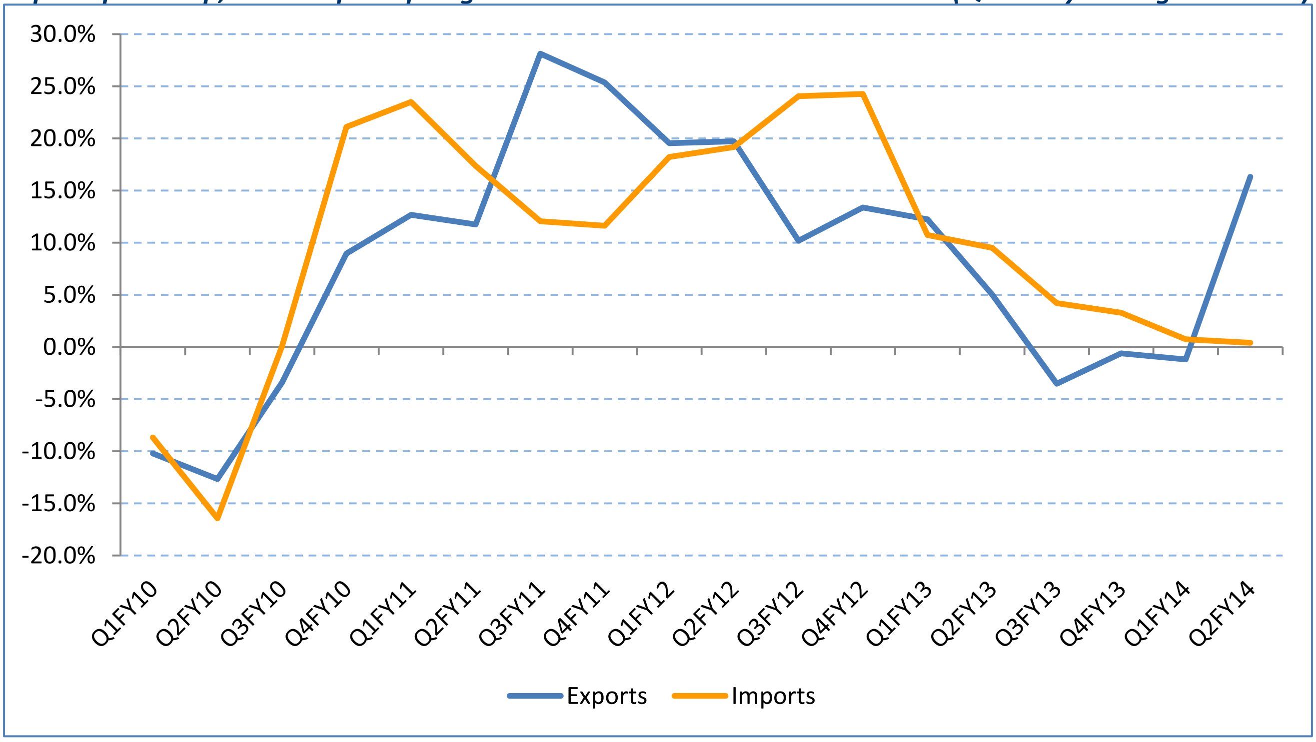


Source : CSO, RBI, Finexcel

- ***Exports*** rose as expected, growing at 16.3%, the highest in the past 8 quarters. It was also the highest contributor to GDP at market prices, contributing 4.1% percent to the total GDP growth (at market prices) of 5.6%. Exports staged a contraction of 1.2% in the past quarter (Q1FY14) and a growth of 5% in the same quarter last year (Q2FY13). This positive from the export sector is possibly due to the fact that the India Rupee depreciated significantly during the quarter.

- ***Import*** growth rate was flat at 0.4% during the quarter, again reflecting the positive effects of a depreciating rupee, with higher cost of imported goods leading to slowdown in imports. This is the slowest import growth in 15 quarters. Import growth during the previous quarter (Q1FY14) was 0.7% and during the same quarter last year (Q2FY13) was 9.5%. As per the data released by the Ministry of Commerce and Industry, the first half of the current financial year recorded a contraction in Non-oil imports (in USD terms at current prices) of 4.6%, while Oil imports increased by 3.6%. The result was an improvement in the trade deficit in the first half of FY14 to USD 80 billion compared to USD 92 billion in the same period last year (H1FY13).

Exports picked up, while imports plunged... ***(Quarterly Y-o-Y growth in %)***

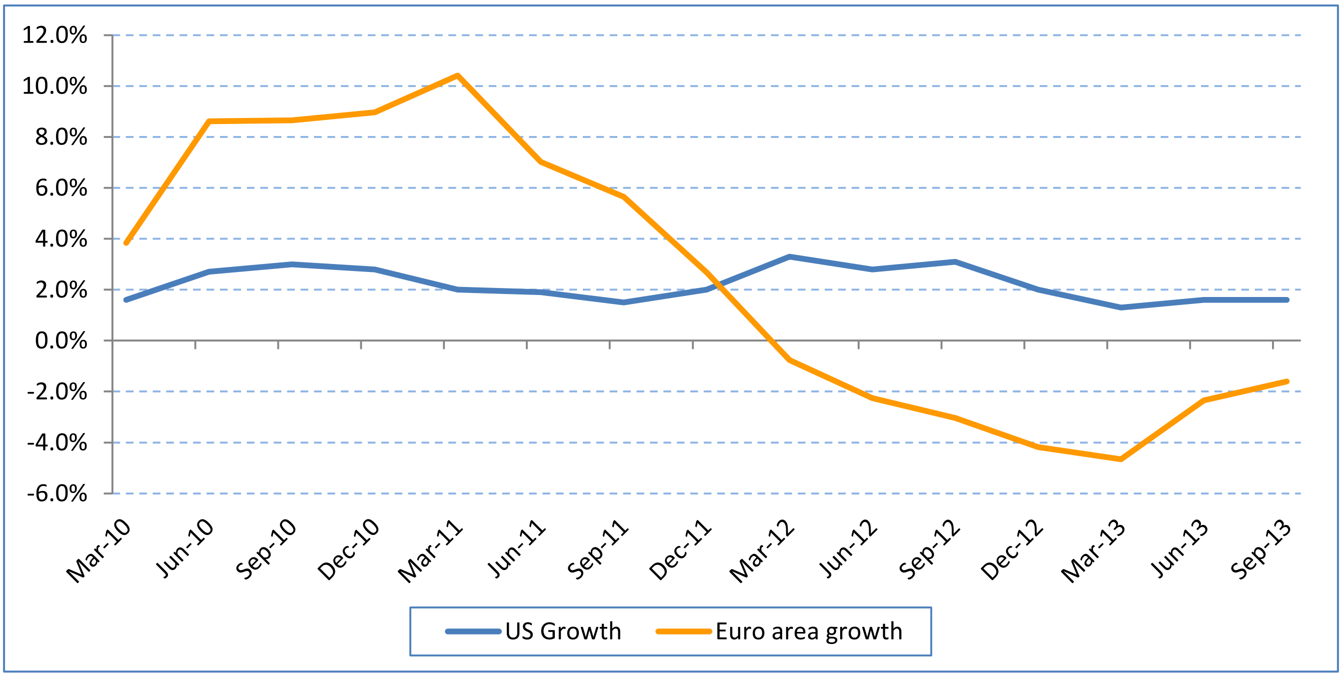


Source : CSO, Finexcel

Indian Rupee (INR / USD) depreciated to its historical low of INR 68.80 per USD and remained above INR 60 per USD for the second quarter, making Indian goods competitive in the International market, while making imports expensive…

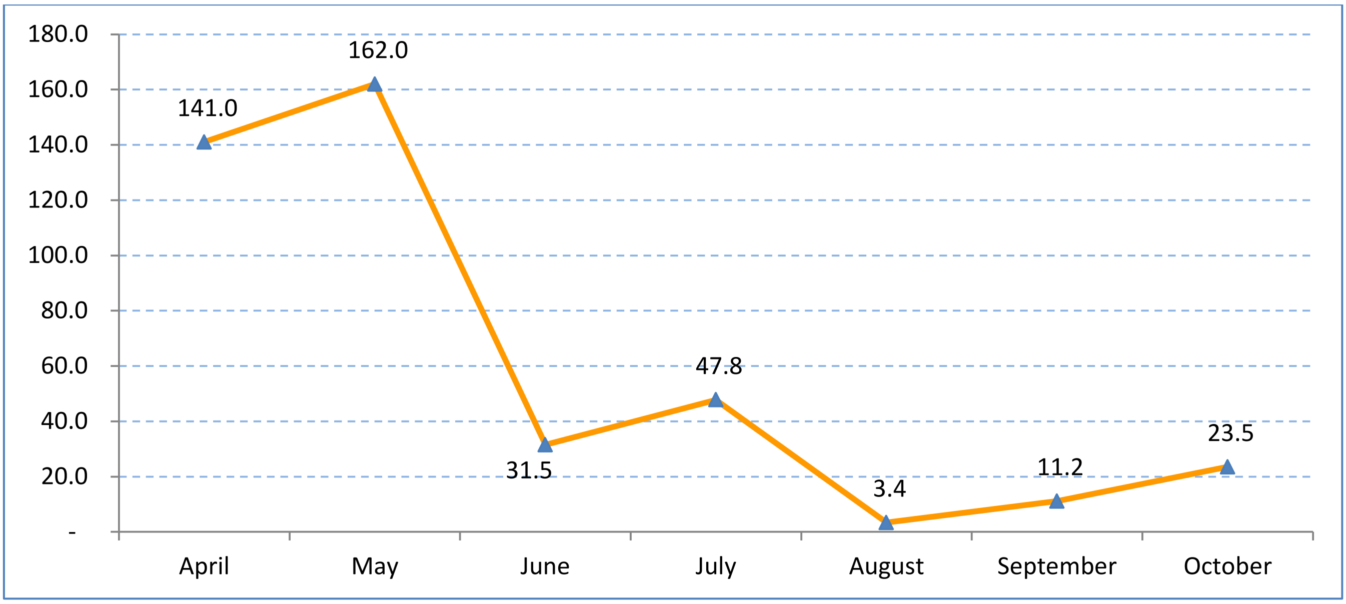
Source : Reuters

...but the key export markets are still under pressure... ***(Quarterly Y-o-Y growth in %)***



Source : Eurostat, OECD StatExtracts

... the sharp fall in imports was led primarily by gold imports falling sharply during the quarter, but picked up slightly in October 2013 ***(figures in Tonnes)***



- The government and the RBI took several measures to tame the rising gold imports, after the figure for May 2013 stood at 162 tonnes. This included the hike of import duty on gold to 10%, after three rounds of hikes. RBI also took several measures – stipulation of minimum of 20% export of imported gold (by banks and gold trading agencies), 100% cash payment for imports and restricting the import of gold on consignment basis by banks.

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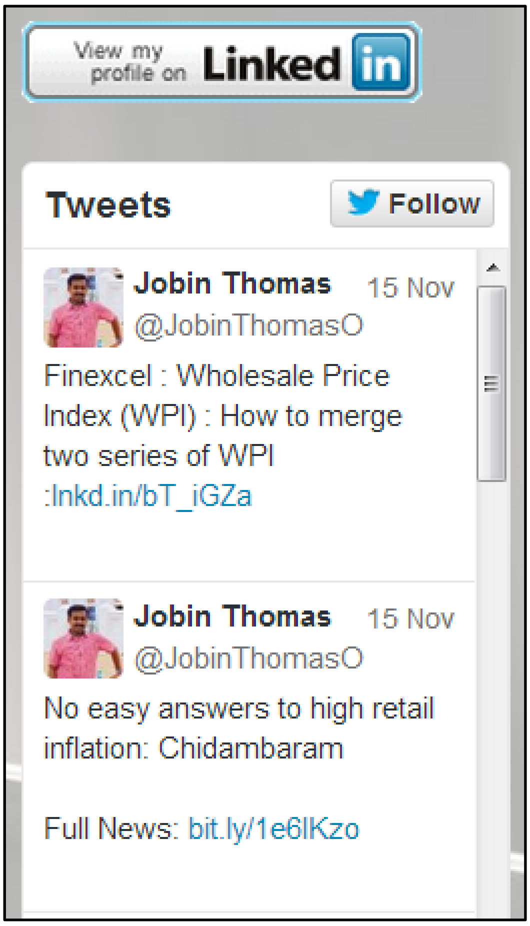

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