

Analysis of GDP – FY14 and Q4 FY14

Overview:

GDP Growth in FY14 as per the provisional estimate was recorded in line with CARE’s estimate at 4.7%, while the growth in Q4FY14 stood at 4.6% compared with 4.4% in Q4 FY13. There were revisions in the Q1 and Q2 numbers to 4.7% and 5.2% respectively, thus breaking the chain of sub-5% growth for 5 quarters. The annual growth in FY14 has improved compared with 4.5% growth in FY13 however; it came in below the earlier official expectation of 4.9%.

Highlights:

The growth in GDP in FY14 was primarily on account of a significant improvement in ‘agriculture, forestry & fishing’, ‘electricity, gas and water supply’ and ‘finance, insurance, real estate and business services’

Table 1 captures the movement in GDP in Q4 FY14 over Q4 FY13 and also the overall GDP growth in FY14 over FY13.

Table 1: Q4 and FY14 GDP growth (%)

Sector	Q4FY13	Q4FY14	FY13	FY14
Agriculture, forestry & fishing	1.6	6.3	1.4	4.7
Mining & quarrying	-4.8	-0.4	-2.2	-1.4
Manufacturing	3.0	-1.4	1.1	-0.7
Electricity, gas & water supply	0.9	7.2	2.3	5.9
Construction	2.4	0.7	1.1	1.6
Trade, hotel, transport & communication	4.8	3.9	5.1	3.0
Finance, insurance, real estate & business services	11.2	12.4	10.9	12.9
Community, social & personal services	2.8	3.3	5.3	5.6
GDP at factor cost	4.4	4.6	4.5	4.7

Source: MOSPI

Strong performers

- ‘Agriculture, forestry and fishing’ witnessed a turnaround in Q4 FY14 as it clocked a growth of 6.3% as opposed to 1.6% in Q4 FY13. *A good rabi harvest has contributed to this growth.* The sector also recorded its highest growth in Q4 relative to other quarters in FY14. Lastly, upward revisions in the production of rice, wheat and sugarcane assisted the overall growth in FY14 to be estimated at 4.7%, sharply higher as compared with 1.4% growth in FY13.

- The ‘electricity, gas and water supply’ sector has recorded a healthy growth of 5.9% in FY14 as opposed to 2.3% in the previous fiscal driven primarily by the strong performance of the electricity companies.
- In FY14, ‘financing, insurance, real estate and business services’ has been a strong sector as it recorded an improvement in each quarter relative to the growth in the corresponding quarter of the fiscal. This has translated into an overall growth of 12.9% in FY14 over the 10.9% growth in FY13.

Weak performers

Overall the weak performance of the services sector has offset the growth registered by the primary sector particularly.

- ‘Trade, hotels, transport and communication’ has recorded a slowdown in FY14 at 3.0% vis-à-vis the growth of 5.15 in FY13. *Subdued activity in industry contributed to this low growth.* However, in Q4 in particular, the sector registered significant growth at 3.9% owing to the good rabi harvest which in turn led to higher demand for transportation and trade.
- ‘Construction’ continued to register another year of low growth at 1.6% owing to the low levels of infrastructure activity and industrial growth in FY14.
- Government’s restraint on expenditure in a bid to rein in the fiscal deficit has translated into lower growth in ‘community, social and personal services’ in FY14 at 5.6%. This got reflected more in the Q4 growth of 3.3% as the government reduced its expenditure to meet the fiscal deficit target for the year.
- ‘Manufacturing’ has arguably been the hardest hit sector in FY14 with a growth rate of -0.7% as opposed to the growth of 1.1% in FY13.

Expenditure breakdown

The Table 2 gives a breakdown of expenditures of GDP in Q4 FY14 and Q4 FY13.

Table 2: Consumption as a % of GDP (current prices)

Industry	Q4 FY13	Q4 FY14	FY13	FY14
Private Final Consumption Expenditure	53.6	54.7	57.1	57.1
Government Final Consumption Expenditure	11.4	10.8	11.8	11.8
Gross Fixed Capital Formation	30.3	27.6	30.4	28.3

Source MOSPI

The overall composition does not appear to have changed significantly.

- Private final consumption has remained status quo at 57.1% in FY14.
- Government's consumption expenditure also remained almost flat at 11.8% of GDP in FY14
- *Gross fixed capital formation as a proportion of GDP had a marked reduction from 30.4% in FY13 to 28.4% in FY14. Low demand, surplus capacity and high interest rates militated against fresh investment.*
- Expenditure on valuables declined to 1.5% in FY14 from 2.6% in FY13. This is a result of the curb on gold imports put forward by RBI earlier this year.

CARE's Outlook for FY15

- There is a wave of optimism in the economy after the 10 point plan charted out by the new PM which focuses most visibly on investments in infrastructure, time bound action and improved co-ordination between the Centre and State Governments to ensure smooth implementation of new Government policies. Such a method of governance is likely to foster growth in FY15. **Supported by these points, CARE's forecast for GDP growth in FY15 remains between 5.2-5.5%.** Note however that the recovery will remain gradual in nature and a significant turnaround will be witnessed late in the fiscal.
- As regards the credit policy, given the upward threat to inflation under the uncertain monsoon, RBI is likely to continue its inflation focus and interest rates are thereby forecast to remain stable during the year. In the event of inflation being reined in within RBI's comfort corridor, a 50 basis point cut in the repo rate can be expected in the best scenario. However, this in turn is expected only Q4- FY15.
- Further conjectures regarding the economy's performance will follow upon the announcement of the Union Budget for FY15.

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