September 05, 2011

Economic Weekly

Policy & Research Unit

DhanlaxmiBank
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Economic Weekly

Indian Economy

*** FY12 Q1 GDP growth at 7.7% YoY:** Q1 FY12 GDP growth came down to 7.7% YoY compared with 8.8 % YoY in the same quarter a year ago. The slowdown in GDP growth was largely in line with our ex pectations. Slower industrial growth of 5.1% YoY pulled down GDP growth. Services growth of 10% YoY and agriculture growth of 3.9% YoY lifted the declining GDP numbers.

*** WPI Primary Articles Inflation:** WPI primary articles inflation on August 20, 2011, increased to 12.93% YoY from 12.40 % YoY a week ago due to rise in food and minerals prices during the week. Primary articles index rose by 1.21% WoW.

*** Forex Reserves Increased By $1 bn:** Forex reserves increased to $319.2 billion in the week end- ing August 27, 2011, due to a rise in foreign currency assets. During the week, forex reserves increased by $1 billion.

*** Speeches by RBI:** RBI's Executive Director Deepak Mohanty delivered a speech on Monetary Policy Response in India on September 03, 2011. The speech focuses on RBI's action and inflation dynamics in the country.

Global Economy

*** Rate Cut in Brazil:** On August 31, 2011, Brazil became the second country in G-20 after Turkey to go for a rate cut. Turkey last month had reduced interest rates by 50 bps citing potential risk to the Turkish econ omy. Brazil's rate cut also came as a surprise. It reduced benchmark interest rates by 50 bps to 12%. The Bra zilian central bank also said that a slowdown in the global economy could force a deceleration in Brazil. While both the central banks faced flak from inflation watchers, but some economic observers also felt that the cen tral banks could be ahead of the curve in the current slowing global landscape.

Table of Contents	Page

Q1 FY12 GDP Growth declines to 7.7% YoY

Q1 FY12 GDP growth came down to 7.7% YoY compared with 8.8% YoY in same quarter a year ago. GDP growth slowdown was largely in lines with our expectations. Slower industrial growth of 5.1% YoY resulted in the decline in the GDP growth. Services growth of 10% YoY and agriculture growth of 3.9% YoY lifted the declining GDP numbers.

- **Industry led the decline in GDP growth: S**lower industrial growth resulted in decline of GDP growth in Q1 FY12. Industry growth was impacted due to poor mining and construction growth during the quarter. Manufacturing growth stood modest at 7.2% YoY while slowdown was much more pronounced in mining and construction. Mining growth stood at 1.8% YoY versus 7.4% YoY a year ago. Construction growth slowdown was the sharpest to 1.2% YoY from 7.7% YoY a year ago.

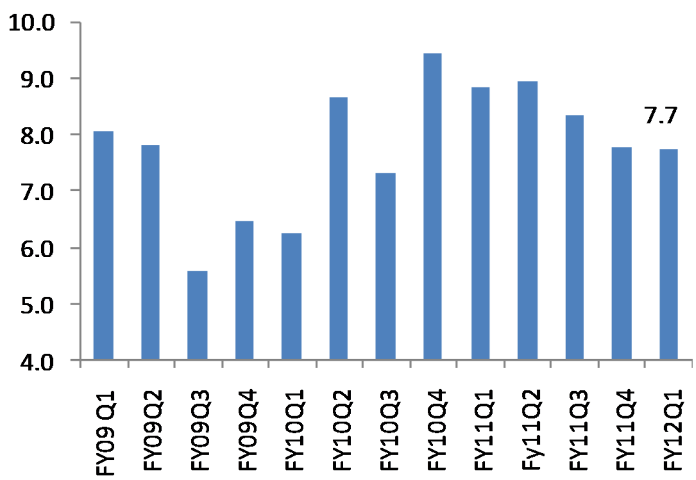
- **Services growth keeps momentum :** Services growth maintained its momentum with 10% YoY growth compared with 10.4% YoY a year ago. Services growth points to a healthy consumption side. Trade, hotels and transport grew higher at 12.8% YoY compared with 12.1% YoY a year ago. Finance, real estate and business services also maintained a decent pick-up of 9.1% YoY compared with 9.8% YoY a year ago. Community and social services — which largely accounts for Government spending — grew at 5.6% YoY compared with 8.2% YoY a year ago, reflecting the impact of fiscal consolidation.

- **Agriculture growth higher** : Higher agriculture growth stood at 3.9% YoY compared with 2.4% YoY a year ago due to healthy output and a low base. Going ahead, the impact of a high base would be much more evident and agriculture growth is expected to decline in FY12. Agriculture growth in FY11 stood at 6.3% YoY.

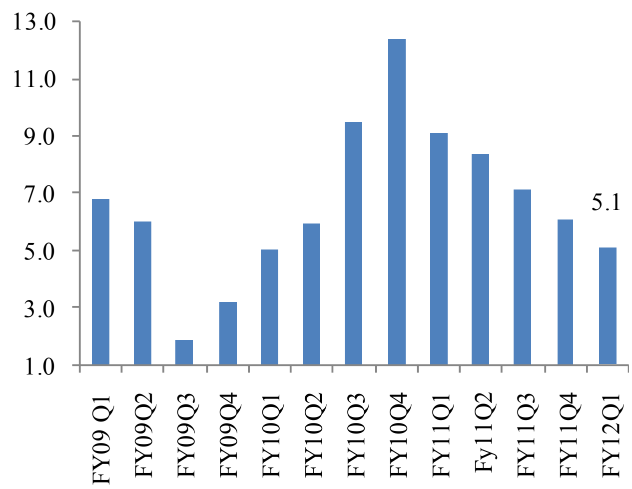
- **Demand Side of GDP:** Demand side of GDP (at constant 2004-05 market prices) grew at 8.5% YoY compared with 7.7% YoY a quarter ago. Demand side of GDP remained healthy as investments growth picked up to 9.6% YoY in Q1 FY12 compared with 2.2% YoY in Q4FY11. Private final consumption growth also remained modest though lower at 6.3% YoY compared with 8% YoY a quarter ago. Share of private consumption stood at 60.5%, Government spending at 10.4% and investments at 37.8% of the total GDP.

- **Growth Outlook:** While pick-up in investments from previous quarter has been a favourable trend, the slowdown in consumption is the outcome of higher inflation. As the Reserve Bank has indicated it will pursue a tighter monetary policy to rein in sticky and higher inflation, this is likely to further impact GDP growth. Higher interest environment and inflation is likely to impact consumer demand on the expenditure side of GDP while it will have bearing on industry growth in GDP by output.

GDP Growth, % YoY



Industry Growth, % YoY



Detailed GDP Data

Quarterly GDP Trends:

% YoY						
At Factor Cost, Constant 2004-05 Prices	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	**Jun-11**
Gross Domestic Product	**9.4**	**8.8**	**8.9**	**8.4**	**7.8**	**7.7**
Agriculture & allied	**1.1**	**2.4**	**5.4**	**10.0**	**7.5**	**3.9**
Industry	**12.4**	**9.1**	**8.4**	**7.1**	**6.1**	**5.1**
Mining & quarrying	8.9	7.4	8.2	6.9	1.7	**1.8**
Manufacturing	15.2	10.6	10.0	6.0	5.5	**7.2**
Electricity, gas & water supply	7.3	5.5	2.8	6.4	7.8	**7.9**
Construction	9.2	7.7	6.7	9.7	8.2	**1.2**
Services	**10.2**	**10.4**	**9.9**	**8.4**	**8.7**	**10.0**
Trade, hotel, transport & comm.	13.7	12.1	10.9	8.6	9.3	**12.8**
Finance, insurance, real estate and business services	6.3	9.8	10.0	10.8	9.0	**9.1**
Social & personal services	8.3	8.2	7.9	5.1	7.0	**5.6**

Demand Side of GDP, 2004-05 (Market Prices), % YoY

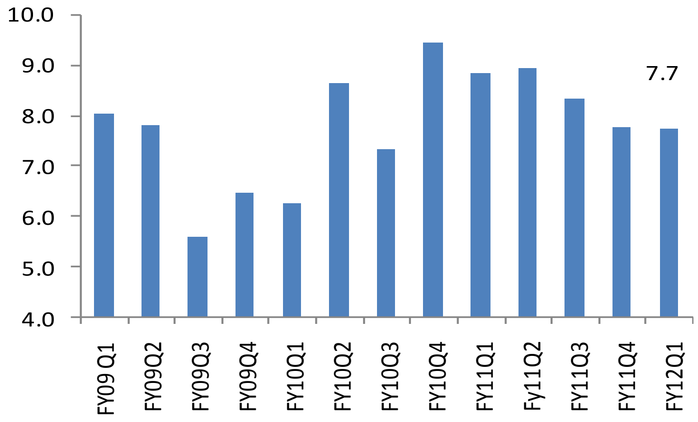
% YoY	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
GDP by demand	13.3	9.1	9.1	9.2	7.7	**8.5**
Private final consumption expenditure	7.2	9.5	8.9	8.6	8.1	**6.3**
Government final consumption expenditure	0.6	6.7	6.4	1.9	4.9	**2.1**
Gross capital formation	28.2	12.1	12.1	8.2	2.2	**9.6**

Demand Side, as a % of GDP

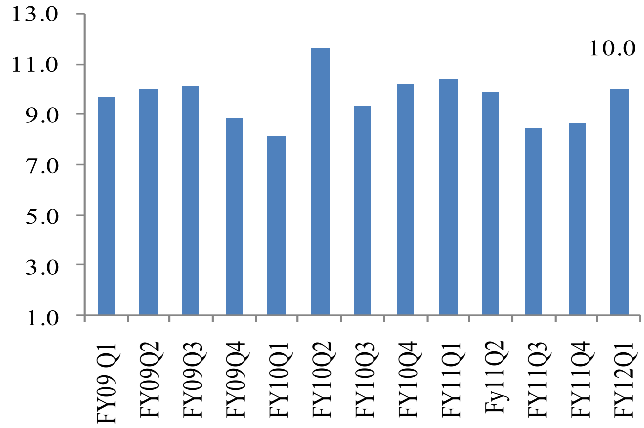
	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Private Consumption	52.4	61.7	60.1	60.1	52.6	60.5
Government Expenditure	10.8	11.1	10.9	12.2	10.5	10.4
Gross Capital Formation	39.8	37.4	38.7	36.0	37.8	37.8
Net Exports	-6.5	-7.7	-7.6	-3.8	-3.9	-8.6

Quarterly Trends:

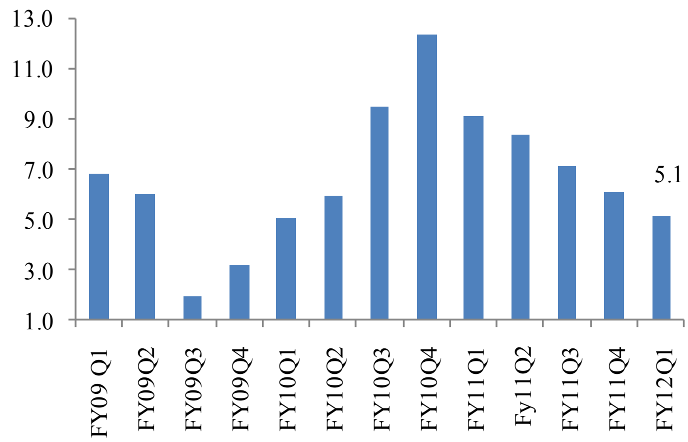
GDP Growth, % YoY



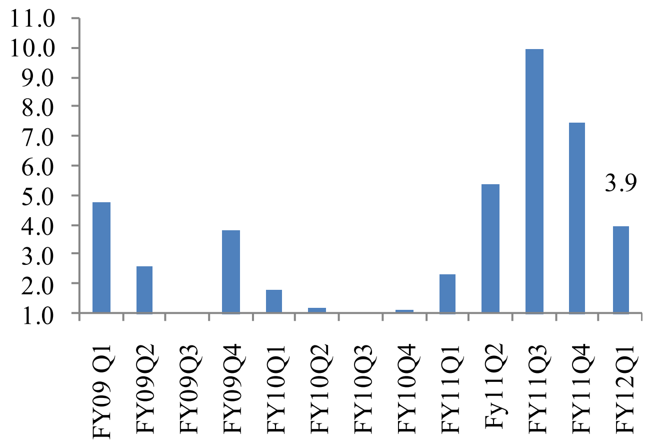
Services Growth, % YoY



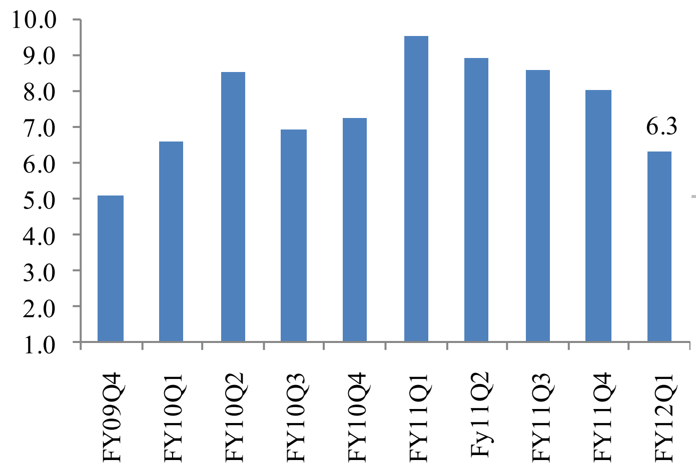
Industry Growth, % YoY



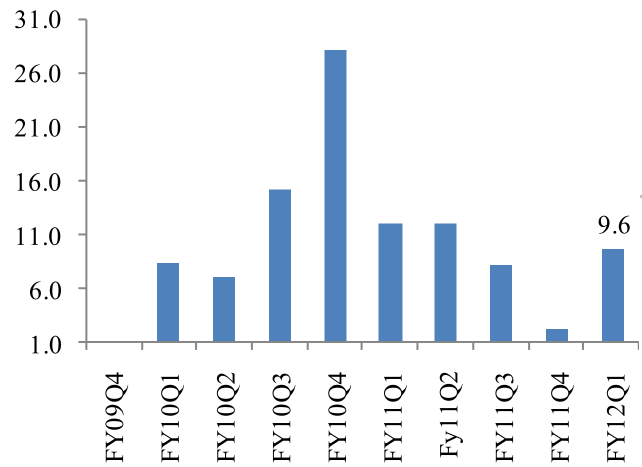
Agriculture & Allied Growth, % YoY



Private Consumption (PFCE), % YoY



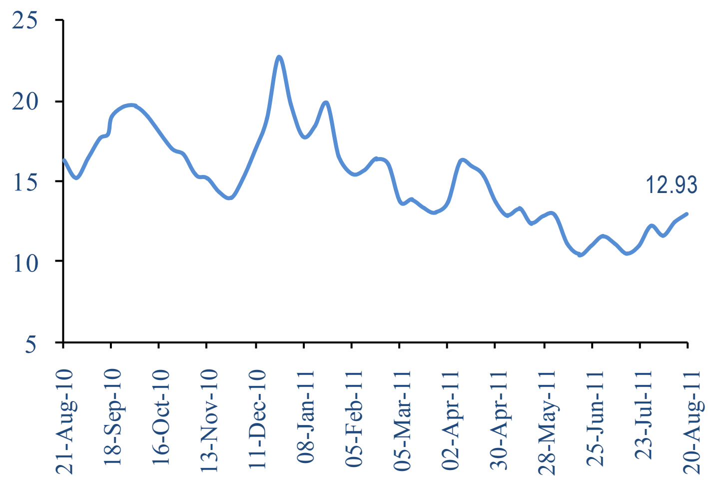
Investments (GCF), % YoY



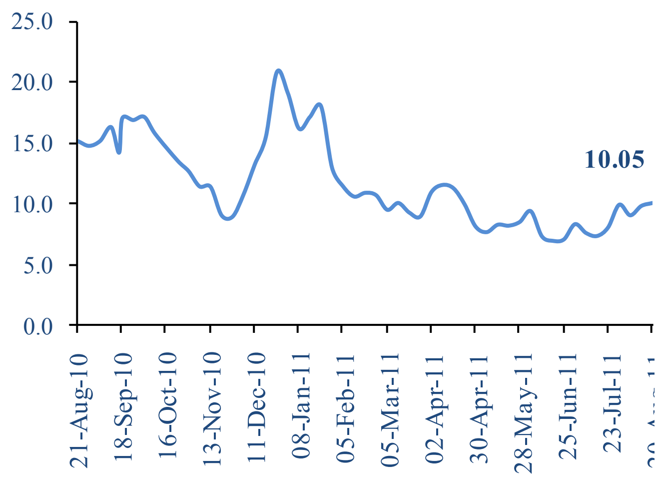
WPI Primary Articles Inflation Rises to 12.93% YoY:

WPI primary articles inflation on August 20, 2011, increased to 12.93% YoY from 12.40% YoY a week ago due to a rise in food and minerals prices during the week. Primary articles index rose by 1.21% WoW.

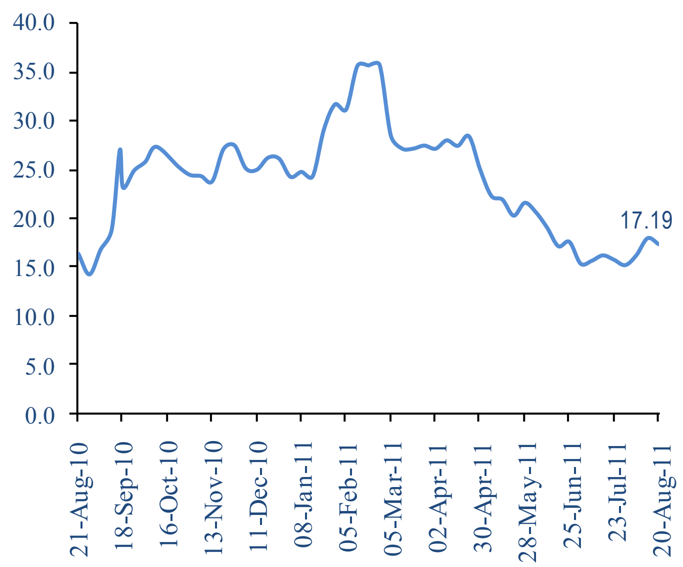
Primary Articles Inflation, % YoY



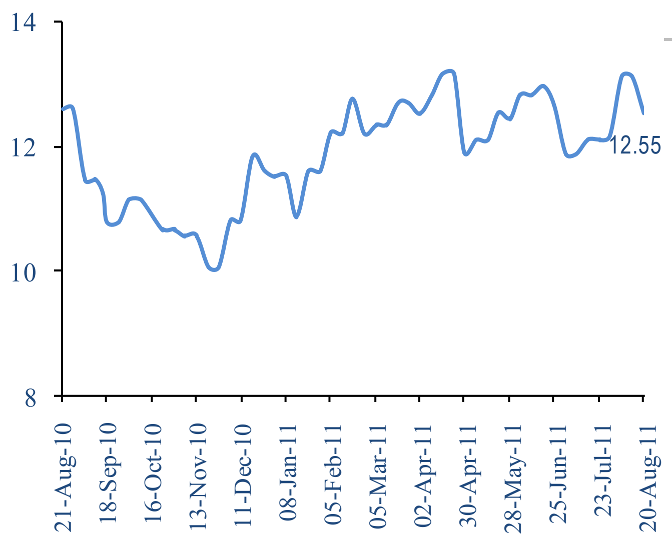
Food Inflation, % YoY



Non Food Articles Inflation, % YoY



Fuel Inflation, % YoY



Trends In Primary Articles Inflation:

- Food inflation jumped to 10.05% YoY in the week ending August 20, 2011, compared with 9.80% YoY a week ago. Food articles index increased by 1.19% WoW due to rise in prices of fruits & vegetables, marine fish and pulses.

- Non-food Inflation declined to 17.13% YoY in the week ending August 20, 2011, compared with 17.80% YoY a week before. Non food index remained unchanged during the week.

- Minerals inflation stood at 24.42% YoY compared with 20.69% YoY last week as the index jumped by 3.05% WoW.

WPI Sub groups	Index	% YoY	% YoY	% WoW	% WoW
	20-Aug-11	20-Aug-11	13-Aug-11	20-Aug-11	13-Aug-11
Primary articles	200.9	12.93	12.40	1.21	0.51
Food Articles	195.0	10.05	9.80	1.19	0.42
Non Food Articles	181.3	17.19	17.80	0.00	1.63
Minerals	310.8	24.42	20.69	3.05	-0.46
Fuel	166.8	12.55	13.13	-0.24	0.00

Fuel Inflation stood lower at 12.55% YoY as the index declined by 0.24% during the week.

Forex Reserves at $319.2 billion

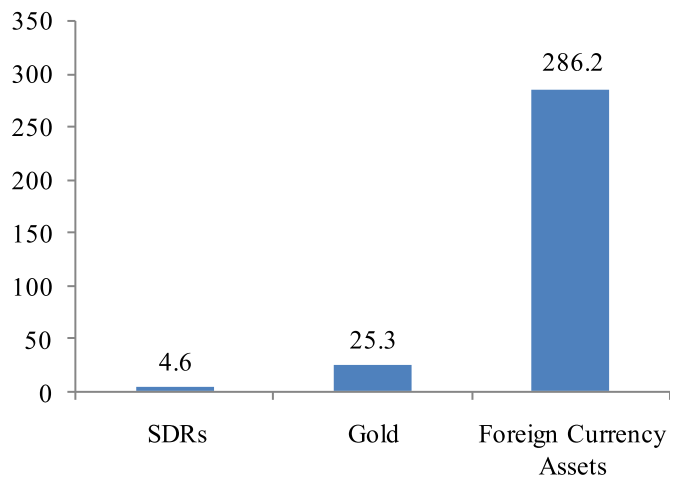
Forex reserves increased to $319.2 billion in the week ending August 27, 2011, due to a rise in foreign currency assets. During the week, forex reserves increased by $1 billion.

Total forex reserves comprise foreign currency assets, SDRs and the central bank's position in gold, all of which are measured in US dollars.

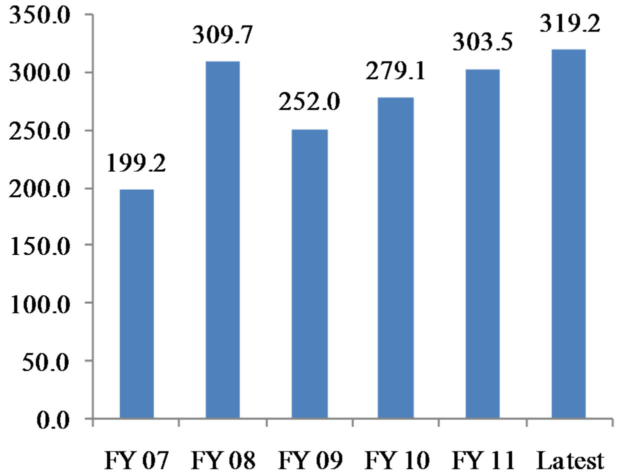
- During the week ending August 27, 2011, foreign currency assets increased by $1 billion to $286.2 billion due to revaluation changes which led to rise in the overall position in forex reserves.
- Position in Gold , Reserve position with IMF and SDRs remained unchanged during the week.

US$ bn	Forex reserves	SDRs	Reserve Position in IMF	Gold	Foreign currency assets
06-Aug-11	317.2	4.6	3.0	25.3	284.3
13-Aug-11	316.6	4.6	3.0	25.3	283.7
20-Aug-11	318.2	4.6	3.0	25.3	285.3
27-Aug-11	319.2	4.6	3.0	25.3	286.2

Forex Reserves Components (in $ billion)



Forex Reserves Annual Trends (in $ billion)



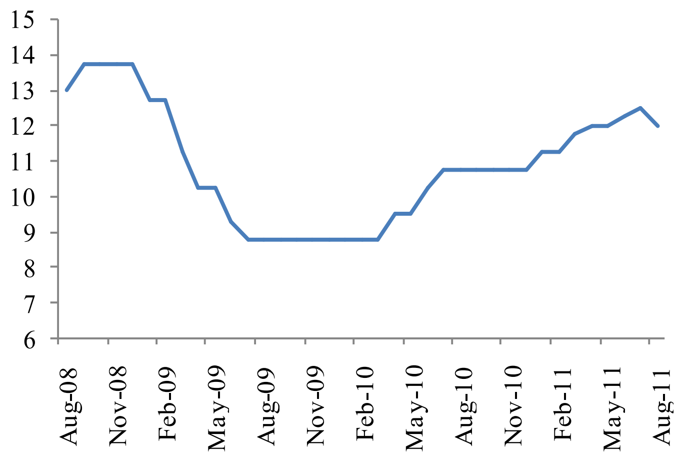
Surprise Rate Cut by Brazil:

Brazil on August 31, 2011, became the second country in G-20 after Turkey to go for a rate cut. Turkey last month had reduced interest rates by 50 bps to 5.75% citing potential risk to economy. The Brazil rate cut also came as a surprise. It reduced benchmark interest rates by 50 bps to 12%. The Brazilian central bank also said that the global slowdown could force a deceleration in Brazil. Both the central banks faced flak by inflation watchers but could be ahead of the curve in the current slowing global landscape.

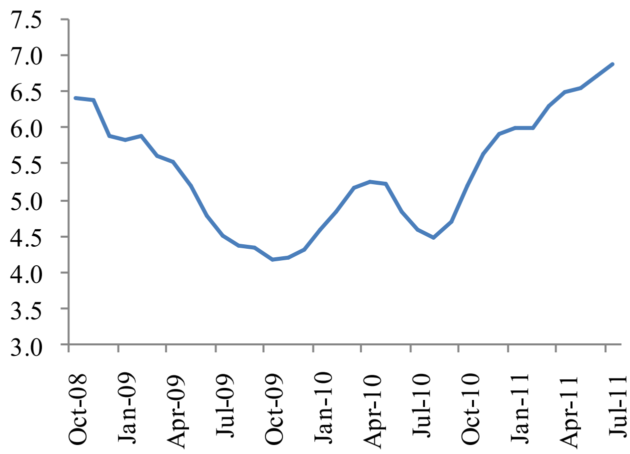
- **Rate Cut in Brazil:** The Brazilian Central bank's board, led by President Alexandre Tombini, decided to cut the benchmark rate a by 50 bps to 12% after raising it at each of its previous five meetings. The central bank in its statement cited "substantial deterioration" in the global economy may be "prolonged" and could slow trade, investment and credit flows to Brazil.

- **Growth Concerns:** According to Brazilian centrals bank's survey, GDP growth will slow down to 3.9% YoY in 2011 after growing at 7.5% YoY growth in 2010. Brazil's concern on global slowdown downplayed the risk of high inflation. Brazil's action can set a trend for other developing economies to assist growth in the event of global slowdown.

Brazil's Benchmark Interest Rates %



Brazil CPI inflation, % YoY



Speeches by RBI:

RBI Executive Director Deepak Mohanty delivered a speech on Monetary Policy Response in India on September 3, 2011. The speech focuses on RBI's action and inflation dynamics in the country**.** The speech in divided into the following sections:

- Why do we need to worry about inflation?
- How did the inflation dynamics evolve over the past two years?
- What was the monetary policy response?
- Conclusion

The speech concludes with the assertion that high inflation is not the new normal for the economy as RBI aims to bring inflation down to 3% in the medium term.

More Details: ***http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=598***

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