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India Economics

Quick Comment: GDP Growth Remains Strong in 3Q10

GDP growth remains strong at 8.9% in QE Sept 2010: The Central Statistical Organization (CSO) announced that GDP growth in the quarter ended Sept 2010 (QE Sept 2010) was at 8.9%. This compares with 8.9% in QE Jun 2010 (revised upwards from 8.8% reported earlier) and 8.6% in QE March 2010. The GDP growth in QE-Sept was above our expectation of 8.4-8.6% and consensus expectation (as per Bloomberg survey) of 8.2%. The surprise in our numbers (vs. the actual) largely came from higher-than-expected growth in the ‘trade, hotels, transport & communication’ subcomponent under the services segment.

The CSO has revised the GDP growth numbers for previous quarters using the new WPI series (base 2004-05) and also subsequent revision in Index of Industrial Production (IIP) from April 2008.

Agriculture growth accelerated in QE Sept 2010: The agriculture output accelerated to 4.4% in QE Sept 2010 from 2.5%YoY in the previous quarter due to higher summer (kharif) crop production. The Ministry of Agriculture’s first advance estimate of summer (Kharif) crop production indicated that food grain output should grow by about 10.4%YoY this year. The growth in mining and quarrying decelerated to 8% in QE Sept 2010 (vs. 8.4% earlier) on high base effect.

Industry output growth decelerated in QE Sept 2010: The industry segment growth decelerated to 9% in QE Sept 2010 compared to 11.6% in the previous quarter. Within industry, the manufacturing segment growth moderated to 9.8% (vs. 13% earlier) partly on base effect. Growth in the electricity, gas & water supply and construction segments decelerated to 3.4% and 8.8% (vs. 6.2% and 10.3% in QE Jun 2010).
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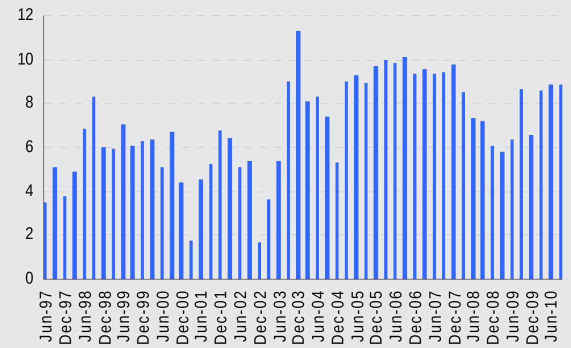
Exhibit 1
Quarterly GDP Growth Trend (YoY %)



Source: CSO, Morgan Stanley Research

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Services segment growth accelerated further: Growth in the services sector accelerated to 9.8% in QE Sept 2010, compared with 9.3% in the previous quarter. Within services, the growth in the trade, hotels, transport & communication segment accelerated to 12.1% (vs. 10.9% earlier). The financing, insurance, real estate & business services growth picked up to 8.3% in QE Sept 2010 compared to 7.9% in the previous quarter. The growth in the community, social & personal services segment, on the other hand, decelerated to 7.3% (vs. 7.9% in QE Jun 2010).

On the demand-side GDP growth data, CSO has made significant revisions in the *past quarter* data: The GDP growth (at market prices) in QE Jun 2010 was at 10.3% (revised upwards from 10% earlier). Looking at the sub components, consumption expenditure growth was revised upwards to 8% in QE-June from 5.5% reported earlier. The fixed investment growth was revised upwards sharply to 19% in QE-June from 7.6% reported earlier. Similarly, net exports contribution to growth was revised to -0.7% in QE-June from +0.7% reported earlier. A part of it seems to be explained by revisions in GDP deflator.

Consumption accelerated, investment slowed in QE Sept 2010: The consumption expenditure growth accelerated to 9.3% from 8% in the QE Jun 2010. Within this, both private and government consumption expenditure growth accelerated to 9.3% and 9.2% in QE Sept 2010, respectively, (vs. 7.8% and 9% in the previous quarter). Rural consumption has improved, due to better crop output on account of normal monsoons. Fixed investment growth, on the other hand, decelerated to 11.1% in QE Sept 2010, compared with 19% in the previous quarter. Net export contribution to growth was +0.2%, compared with -0.7% in the previous quarter, as the expansion in exports more than offset the pick-up in imports.

We see upside risks to our 8.5% GDP growth forecast for F2011 (12-months ended March 2011): The strong services sector growth and rise in rural demand support poses upside risks to our F2011 GDP growth forecast of 8.5%.

Exhibit 2

Quarterly GDP Growth by Industry (F1Q2008-F2Q2011, YE March)

(YoY%)	FY2008				FY2009				FY2010				FY2011	
Sector	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Agriculture and allied activities	**2.9**	**4.0**	**8.2**	**2.5**	**3.1**	**2.3**	**-1.0**	**2.8**	**2.7**	**2.3**	**-0.5**	**2.5**	**3.4**	**5.0**
---Agriculture	3.1	3.9	8.7	2.1	3.2	2.4	-1.4	3.3	1.9	0.9	-1.8	0.7	2.5	4.4
---Mining & Quarrying	1.1	4.6	4.4	5.1	2.6	1.6	2.7	-0.3	8.2	10.1	9.6	14.0	8.4	8.0
Industry	**11.5**	**11.1**	**10.1**	**7.9**	**5.6**	**4.9**	**1.5**	**2.4**	**5.4**	**8.3**	**11.3**	**13.2**	**11.6**	**9.0**
---Manufacturing	12.1	10.3	10.7	8.3	5.4	5.3	1.3	0.6	3.8	8.4	13.8	16.3	13.0	9.8
---Electricity, gas & water supply	10.2	9.1	7.1	7.8	3.3	4.3	4.0	4.1	6.4	7.7	4.7	7.1	6.2	3.4
---Construction	10.7	13.1	9.6	7.1	6.7	4.3	1.1	5.7	8.4	8.3	8.1	8.7	10.3	8.8
Services	**10.7**	**10.2**	**10.2**	**10.9**	**9.6**	**9.7**	**11.4**	**8.3**	**7.9**	**10.5**	**7.2**	**8.4**	**9.3**	**9.8**
---Trade, hotels, transport & communication	11.9	9.5	10.7	10.9	10.3	9.8	4.4	5.7	5.6	8.2	10.2	12.4	10.9	12.1
---Financing, insurance, real est. & busi. Services	14.0	13.8	13.3	4.0	9.2	8.9	10.2	12.3	11.7	11.3	7.9	7.9	7.9	8.3
---Community, social & personal services	4.2	7.0	5.3	9.8	8.7	10.4	28.7	8.8	7.6	14.0	0.8	1.6	7.9	7.3
GDP at factor cost	**9.3**	**9.4**	**9.7**	**8.5**	**7.3**	**7.2**	**6.1**	**5.8**	**6.3**	**8.7**	**6.5**	**8.6**	**8.9**	**8.9**

Source: Central Statistical Organization (CSO), Morgan Stanley Research

Exhibit 3

Quarterly GDP Growth by Expenditure (F1Q2009-F2Q2011, YE March)

	YoY%										% Point Contribution to Growth					
	F2009				F2010				F2011		F2010				F2011	
Sector	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2
Consumption Expenditure	**7.6**	**7.5**	**13.2**	**4.6**	**5.9**	**9.8**	**4.8**	**2.6**	**8.0**	**9.3**	**4.3**	**6.9**	**3.6**	**1.7**	**5.9**	**6.7**
--Private Final Consumption Expenditure	8.6	7.7	6.4	5.1	4.3	6.7	5.3	2.6	7.8	9.3	2.7	4.1	3.2	1.5	4.8	5.7
--Government Final Consumption Expenditure	2.0	5.8	59.0	2.5	15.4	30.2	2.5	2.1	9.0	9.2	1.6	2.8	0.3	0.3	1.0	1.0
Gross Capital Formation	**-1.1**	**0.6**	**-4.9**	**-2.9**	**3.1**	**4.0**	**8.4**	**17.3**	**18.9**	**11.5**	**1.1**	**1.5**	**2.9**	**6.1**	**6.6**	**4.3**
--Gross Fixed Capital Formation	5.4	6.7	-0.1	2.7	3.1	4.0	8.8	17.7	19.0	11.1	1.0	1.4	2.8	5.8	6.2	3.8
--Change in Stocks	-61.8	-61.8	-61.9	-62.2	-0.8	3.5	8.7	11.1	15.3	12.4	0.0	0.0	0.1	0.1	0.2	0.2
--Valuables	10.3	23.4	30.0	19.8	9.0	6.0	-0.8	14.3	21.3	22.2	0.1	0.1	0.0	0.2	0.2	0.3
Net Exports	**31.0**	**101.4**	**77.7**	**-29.4**	**13.2**	**-7.6**	**-0.3**	**-113.4**	**12.2**	**-2.9**	**-0.7**	**0.7**	**0.0**	**4.0**	**-0.7**	**0.2**
Exports	35.2	34.0	12.3	1.4	-14.1	-14.9	-7.5	14.2	10.5	9.7	-3.8	-4.2	-1.7	3.1	2.3	2.2
less Imports	34.5	45.8	23.2	-4.4	-9.7	-13.1	-5.8	-3.7	10.9	6.5	-3.1	-4.8	-1.7	-0.9	3.0	1.9
Statistical Discrepancies	*-35.0*	*-116.4*	*70.8*	*51.2*	*-28.2*	*-413.9*	*-36.6*	*-73.8*	*67.8*	*37.3*	*0.9*	*-2.5*	*0.8*	*-0.6*	*-1.5*	*-0.7*
GDP at market price	**5.5**	**5.2**	**3.0**	**3.8**	**5.6**	**6.6**	**7.3**	**11.2**	**10.3**	**10.6**	**5.6**	**6.6**	**7.3**	**11.2**	**10.3**	**10.6**

Source: Central Statistical Organization, Morgan Stanley Research

Exhibit 4

Annual GDP Growth by Industry (F2007-F2013E, YE March)

	Share of GDP* (F2010)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Agriculture and allied activities	**17.1%**	**4.3%**	**4.6%**	**1.6%**	**1.6%**	**4.8%**	**3.5%**	**3.9%**
---Agriculture	14.6%	3.7%	4.7%	1.6%	0.2%	4.3%	2.6%	3.0%
---Mining & Quarrying	2.4%	8.7%	3.9%	1.6%	10.6%	8.1%	8.4%	8.7%
Industry	**26.0%**	**13.2%**	**10.1%**	**3.5%**	**9.6%**	**8.6%**	**9.0%**	**9.1%**
---Manufacturing	16.1%	14.9%	10.3%	3.0%	10.7%	8.9%	9.0%	9.0%
---Electricity, gas & water supply	2.0%	10.0%	8.5%	3.9%	6.5%	4.9%	8.5%	8.0%
---Construction	8.0%	10.6%	10.0%	4.4%	8.4%	9.0%	9.0%	9.5%
Services	**56.9%**	**10.2%**	**10.5%**	**9.7%**	**8.5%**	**9.6%**	**10.1%**	**10.4%**
---Trade, hotels, transport & communication	26.5%	11.7%	10.7%	7.4%	9.2%	11.5%	11.7%	12.0%
---Financing, insurance, real est. & busi. Services	17.3%	14.5%	13.2%	10.2%	9.6%	8.4%	11.0%	11.6%
---Community, social & personal services	13.2%	2.6%	6.7%	13.9%	5.6%	7.3%	5.5%	5.2%
GDP at factor cost	**100.0%**	**9.7%**	**9.2%**	**6.6%**	**7.5%**	**8.5%**	**8.7%**	**9.0%**

E = Morgan Stanley Research estimates; Note:* The share of GDP is calculated on the basis of GDP data for F2010 (at factor cost)
Source: Central Statistical Organization, Morgan Stanley Research

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