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‘GDP growth to moderate at 7.9 per cent for fiscal 09’

April 2008

GDP growth to moderate at 7.9 per cent for fiscal 09, says ABB

The Indian growth story is set to moderate with inflation and high interest rates impacting major industrial sectors and dampening consumer demand, according to 82 per cent of the CEOs surveyed by ABB, who have stated the GDP growth figure may remain close to 7.9 per cent for the fiscal 2008-09.

The growth rate recorded by Gross Domestic Product (**GDP**) was 8.7 per cent for the previous fiscal. It may slip down to **7.9 per cent for 2008-09**, according to ASSOCHAM Research Bureau Analysis based on the survey from 217 CEOs under the banner of Assocham Business Barometer (ABB) across different segments of the economy.

Sixty six per cent of the ABB participants stated that US recession, domestic inflationary pressures, high interest rates and supply constraints have started hurting industrial growth and consumer demand that may further impact the GDP growth in the current fiscal.

Around 75 per cent of the corporate heads consider the challenges thrown by appreciating rupee and soaring prices of international crude oil and industrial metals may come in the way of sustaining high growth rates by the Indian economy.

While the overall growth rate in India's exports seems to be healthy at 23 per cent in dollar terms for the period April-February 2007-08, slowdown in exports is visible in rupee terms with a meager 9 per cent growth.

Eighty three per cent of the corporate heads were of the view that in FY '09 it will be further difficult for the country to attain the export target of USD 200 billion due to

appreciating rupee, global inflationary pressures and tough competition from China in capturing new markets.

GDP Forecast for 2008-09

S.No.	Sectors	Growth (forecast) In per cent
1	Agriculture	2.6
2	Industry	7.6
3	Services	9.7
4	Overall	7.9

Owing to the depreciating US Dollar there has been a major decline in export growth of the sectors like textiles, petroleum products and engineering goods. These sectors clocked a growth rate of 8 per cent, 32 per cent and 21 per cent respectively over the first eleven months of FY2008 as compared to the much higher growth rates in the fiscal '07 at 11 per cent, 87 per cent and 38 per cent respectively. Slowdown in the economic activity has also started taking toll on employment outlook. As per the government estimates, around 20 lakh jobs were cut in the export dependent sectors distressed by the strong domestic currency.

About 72 per cent of the ABB respondents were of the view that the **Industry** may witness a moderate growth rate of **7.6 per cent** in FY '09 as against 8.7 per cent in the previous fiscal. The sectors that have witnessed maximum decline in their growth rates over Apr-Feb 2007-08 include manufacturing (from 12.2 per cent to 9.1 per cent) and construction (11.9 per cent to 10 per cent).

Ten out of the seventeen industries of the manufacturing group have experienced a slower growth in their output during April-February 2008 as compared to the previous year period.

These industries include textile (10.6 per cent to 4.0 per cent), paper (8.7 per cent to 2.5 per cent), machinery and equipments (14 per cent to 9.5 per cent), Transport equipments (15.1 per cent to 3.3 per cent) among others. Metals products and parts, has posted a negative decline of 3.1 per cent in production during April-February 2008, as compared to 7.7 per cent of the corresponding period in the preceding year.

The flow of credit to the industrial sector also decelerated to 21.08 per cent in FY 08 as compared to 27.07 per cent in the previous financial year, due to high interest rates and rising raw material cost.

The growth in the electricity sector also registered a slowdown in growth rate from 7.2 per cent to 6.6 per cent in the above-mentioned period.

Growth in capital goods and intermediate goods slipped to 17.5 per cent and 9.2 per cent respectively in April-Feb 2008 as compared to 18.3 per cent and 11.7 per cent respectively during the same period of the previous year. The production of consumer durables recorded a decline by 1.0 per cent during April-February 2007-08.

Seventy four per cent of those surveyed feel that the consumer durables are becoming less affordable due to high interest rates.

According to 69 per cent of the respondents, the outlook for the construction sector was quite bleak. The rising price of industrial raw material like steel and cement during the past 11 months may slow the growth of the sector.

Finished Steel and cement, which were witnessing huge demand arising from infrastructure projects being undertaken by the government and private bodies, are now recording decline in growth. In steel, the growth dropped from 11.1 per cent to 5.1 per cent, while in cement, the growth was 7 per cent, down from 9.9 per cent.

A monthly analysis of the six core infrastructure industries, which contribute 26 per cent to the total industrial production, has shown a fall in growth of crude oil production from 5.80 per cent in April-February '07 to 0.40 per cent during the same period of FY 08. Finished steel also slipped from 11.30 per cent during the 11-month period of 2006-07 to 5.0 per cent during the same period of the FY 08. The Index of Industrial Production (IIP) had grown at a 10-month low of 5.3 per cent in January 2008, against 11.6 per cent in the same month last year.

According to 75 per cent of the CEOs the prominent reasons being cited for falling automobiles sales were lack of availability of finance due to high interest rates and rising input costs especially of steel. Consequent to a fall in demand for transport vehicles, the related industries like auto parts are also suffering, the ABB participants added.

In the automobile sector the total vehicle sales in the country dropped by 4.7 per cent in 2007-08, in terms of units, sale were down with 96,48,105 units, against 10,123,988 units in the previous fiscal. Among the segments, the maximum brunt has been born by the two-wheeler industry, registering a decline by 7.92 per cent per cent with sales being 72,48,600 units, during FY2008 compared to 78,72,334 units during the previous fiscal.

Seventy eight per cent of the corporate heads felt that rejig in the income tax slab in the Budget'09 might leave consumers with higher disposable income boosting

consumption. However, its impact may get dampened with continuous tightening of the monetary policy by the Reserve Bank of India.

Agriculture grew by almost 3.5 per cent during April-December 2007-08 but capital formation continues to remain low with investment in the sector remaining stagnant at 2.5 per cent as a ratio to GDP. Agricultural crops are witnessing huge increase in demand for feed and bio-fuel purpose which is creating pressure on supply worldwide.

Almost 67 per cent of the CEOs expect that in view of the loan waiver support provided in the Union Budget, higher commodity prices encouraging more production and normal monsoon conditions, **agriculture sector** may maintain a decent growth of **2.6 per cent growth** in the financial year 2008-09.

Service sector has sustained the double-digit growth rate of 10.7 per cent in 2007-08 despite slowdown concerns in major sectors. Around 78 per cent of the ABB respondents felt that growth rate in services may settle to **9.7 per cent** owing to pressure on US and UK economy and slowing of industry in fiscal 09.

The IT sector that contributes almost 10 per cent to the service sector, may expect a fall in growth due to US financial turmoil accompanied with weak- dollar revenue growth, hiring pattern and margin recovery that would impact the growth rate of the sector, was the response from 64 per cent of ABB corporate heads.

Fifty seven per cent of the respondents feel that the financial sector might get affected, especially the banking sector by reporting a slow growth, if RBI uses further hike in CRR to contain inflation.

Buoyancy in the transportation sector has been maintained with cargo, air and railway traffic witnessing sustained growth momentum. The cargo traffic at major ports has

risen by 12.5 per cent during April- December 2007 as compared to 8.3 per cent in same period last year. The passenger traffic at air terminals grew by 26.8 per cent during the period April -Nov '08 on top of a 33.2 per cent increase in first eight months of FY07.

The total railway freight earnings recorded a low growth rate of 8.2 per cent during April-Dec '08 as compared to 9.7 per cent in the previous fiscal year.

The telecom sector is buzzing with addition of 50.8 million total telephone subscribers during April-Dec 2007, as compared to 35.2 million during the corresponding period in the previous year. However, the growth rate moderated from 101.2 per cent during nine-month period in 2006-07 to 44.4 per cent in the same period of the next fiscal.