

ASSOCHAM

BUSINESS

BAROMETER

'ASSOCHAM revises its GDP projections from 7.9 per cent to 7.6 per cent for fiscal 09'

July 2008

Prepared by: Nusrat Ahmad

THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA
1, Community Centre, Zamrudpur, Kailash Colony, New Delhi 110 048 (INDIA)
Tel: +91-11-46550555 (Hunting Line) **Fax:** 011-46536481/82, 46536497/98
Email: assocham@nic.in, research@assocham.com **Website:** www.assocham.org

Assocham downgrades its GDP projections from 7.9 per cent to 7.6 per cent for fiscal 09

Giving thumbs down to the economic outlook on high inflation and hardening interest rates, majority of 77 per cent of the 350 CEOs surveyed by the Assocham Business Barometer (ABB) do not expect GDP growth to surpass 7.6 per cent rate.

The ABB has revised its April GDP projections from 7.9 per cent to further southwards at 7.6 per cent, as double digit inflation coupled with tight monetary policy is pinching the industrial units due to increased interest and input costs. The CEOs fear that, RBI may take further steps with revision in interest rate if domestic inflation continues to remain in double digit.

The ABB found that industry leaders fear that economic growth may moderate in view of rising prices of fuel and manufactured goods, reduced consumer demand, global economic slowdown and negative sentiments in stock markets.

Sixty five per cent of the business heads felt the economy is double hit with high inflationary pressures caused due simultaneously rising energy and commodity prices and tightening money situation.

Overall growth in the GDP would have been even lower had agriculture and export driven sectors not been registering impressive growth, which will also show a decent performance of the economy at 7.6 per cent for FY '09 as stated by Mr. Sajjan Jindal, President ASSOCHAM

GDP Forecast for 2008-09

S.No.	Sectors	Growth (forecast) (In %)
1	Agriculture	4
2	Industry	7.2
3	Services	9.0
4	Overall	7.6

Source: ABB Survey

INDUSTRY

About 72 per cent of the ABB respondents were of the view that the **Industry** may witness a moderate growth rate of **7.2 per cent** in FY '09 as against 8.7 per cent in the previous fiscal. Manufacturing which constitute a share of 15.5 per cent in the total GDP

witnessed slowdown in the growth rate for the period April-May 2008-09 from 12.7 per cent to 5.3 per cent in the same period of the previous fiscal.

Ten out of the seventeen industries of the manufacturing group have experienced a slower growth in their output during April-May 2008-2009 as compared to the same period in the previous year.

The industry group witnessing deceleration in April-May '09 against the same corresponding period in the previous year include basic metal and alloy industries (19.5 per cent to 4.6 per cent), non-metallic mineral products (7.0 per cent to 1.4 per cent) and textile (6.2 per cent to 3.6 per cent) among others. Five sectors/group of industries posted a sharp decline that include food products (39.8 per cent to -7.9 per cent), wood and wood products (112.2 per cent to -17.4 per cent), rubber, plastic, petroleum and coal products (19.5 per cent to -5.2 per cent), Jute & other veg.fibre textiles (27.8 per cent to -10.1 per cent) and other manufacturing sector (-5.2 per cent to -1.5 per cent).

The growth in the electricity sector also registered a slowdown from 9.0 per cent (April-May '08) to 1.7 per cent (April-May '09).

The production of consumer goods and consumer non-durable goods slipped to 7.9 per cent and 8.8 per cent respectively in April-May '09 as compared to 11.6 per cent and 15.4 per cent respectively during the same period of the previous year.

Eighty eight per cent of ABB respondents felt that the consumer durables are becoming less affordable due to high interest rates, rising raw material cost, high fuel & power prices and costly transportation charges. They added that despite the rise in raw material cost like iron-ore and agri-products the consumer durable and non-durable firms are unable to increase the prices of finished products, as it will suppress demand further creating more pressure on companies' profit margins.

Growth during April-May '09 in capital goods slipped from 16.9 per cent to 6.5 per cent in the corresponding period of the last fiscal. Similarly, basic goods (9.4 per cent to 3.5 per cent) and intermediate goods (9.7 per cent to 2.3 per cent) registered low production. Sixty seven per cent of CEOs attributed the slowdown of goods to rising raw material cost, high fuel & power prices and costly transportation charges.

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 6.9 per cent in April-May '08 to 3.5 per cent during the same period of FY 09. Cement Production slipped from 7.8 per cent during the first two months of FY' 09 to 5.4 per cent compared to an increase of 7.8 per cent in same period of FY '08. The Finished (Carbon) Steel

production also registered slowdown by 4.5 per cent during April-May 2008-09 as compared to 5.6 per cent in April-May 2007-08.

According to 75 per cent of the CEOs the first quarter of FY'09 registered a satisfactory growth in automobile sales due to low base effect and marriage seasons in April and May. But the impact of rising prices of fuel, copper and steel coupled with high interest rate and low availability of credit might hit the sales by the next quarter of FY'09, as 71 per cent of ABB participants added.

In the automobile sector the total vehicle sales in the country were up by 8 per cent in April-June 2008-09, in terms of units, sale were up with 24,61,726 units, against 22,75,330 units in the previous fiscal. Among the segments, the three-wheeler recorded a flat sale, whereas commercial vehicles were up 10 per cent, and two-wheelers up by 7 per cent.

AGRICULTURE

For the agricultural sector that grew by 4.5 per cent during FY'08, the normal monsoon conditions have led to an increase in the food grain production but at the same time some cotton growing regions in the country witness sparse rain with sowing delayed by a fortnight that might hit the textile industry with decline in production and exports.

Almost 67 per cent of the CEOs responded that **agriculture sector** might maintain a decent growth of **4.0 per cent growth** in the financial year 2008-09 on account of rising food prices that will help boost the farmers to produce more.

SERVICES

In the services sector, FY '08 was a tough time with rupee appreciation and sub prime crisis forcing firms to cut on staff and project cost. The financial year '09 is providing an inflationary pressure that is compelling RBI to take tight monetary measures impacting the growth of banking and financial services.

61 per cent of the respondents felt that financial services, which contributes to 14.7 per cent share in GDP, may register lower growth if RBI uses further hike in CRR to contain inflation as stated by.

According to 73 per cent of the ABB participants, in the transportation sector, only the railways is helping the sector to sustain the growth as the rising petrol and diesel prices is hitting the road freight and private transport along with the hike in air turbine fuel reducing air traffic.

The **services sector** may witness deceleration in growth at **9.0 per cent** from the previous 10.8 per cent in FY '08 due to the slowdown in financial services and transportation sector, according to 79 per cent of the corporate heads. Most of them felt that other components of services like telecom, software, engineering services and services export (IT & BPO) will lead the growth of the sector.

EXPORT AND IMPORT

The overall growth rate in India's exports seems to be healthy both in terms of rupee and dollar at 20.6 per cent and 21.7 per cent respectively for the period April-May 2008-09 as compared to the period previous year.

Imports for the period April- May 2008-09 registered a growth of 31.7 per cent in dollar terms and 30.5 per cent in rupee terms over the same period last year. High oil prices and sustained rise in the non-oil imports have contributed to this growth. As a result, the trade deficit has widened sharply recording 24.5 per cent growth in April-May 2008-09.

TAX COLLECTION

The indirect tax collection slowdown owing to the deceleration in manufacturing sector with excise duty collection recorded 2.8 per cent growth in April-June 2008 compared with April-June 2007. Custom duty collection recorded a 20.9 per cent growth in April-June 2008 compared with April-June 2007.

But net direct tax collections in April-June 2008 recorded growth of 38.61 per cent at Rs.57, 373 crore compared with Rs 41,391 crore in April-June 2007.