I. OUTPUT

With global growth remaining subdued and structural impediments continuing to hinder recovery at home, the downshift in India's growth persisted during Q4 of 2012-13. Domestic policy uncertainties, governance concerns, the impact of earlier monetary tightening and slack external demand conditions, apart from a weak monsoon, had weighed down on the growth process for the year as a whole. This brought down growth to a 10-year low of 5.0 per cent during 2012-13. While moderate improvement in growth during 2013-14 is expected, on the back of good monsoon, the downside risks have increased as a result of the global interest rate cycle starting to turn.

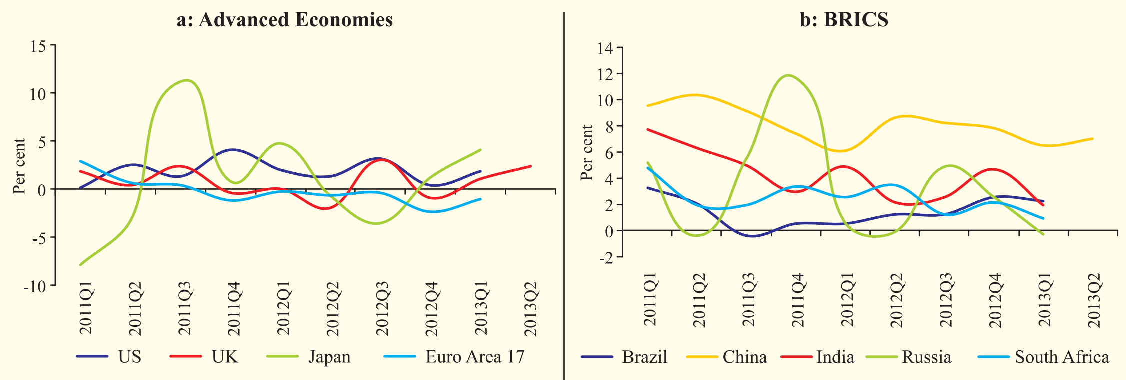
Global recovery prospects remain weak

I.1 Global growth stayed subdued, with improvements in some advanced economies (AEs), especially the US and Japan, getting counterbalanced by slowing growth in key emerging market and developing economies (EMDEs), including China and India. Moreover, the prospects of global recovery remains weak. With the global interest rate cycle turning, volatile financial conditions have emerged that may reduce capital flows to EMDEs. These are likely to affect macro-financial conditions in EMDEs and may protract their current slow growth. Although currently AEs seem to be on a recovery track, the fiscal drag continues to be an inhibiting factor.

I.2 The International Monetary Fund (IMF) in its July 2013 update of the World Economic Outlook (WEO) has projected that global growth will stay subdued at 3.1 per cent in 2013, the same as in the previous year. This marks a downward revision of 0.2 percentage points from its earlier growth forecast made in April 2013. Growth for 2014 has also been revised downward by 0.2 percentage points to 3.8 per cent. The cuts in forecasts for both the years have been sharper for EMDEs, with a significant downgrade of growth projections for Brazil and China. The IMF has projected India to grow at 5.6 per cent in 2013-14 and 6.3 per cent in 2014-15.

I.3 During Q1 of 2013, AEs witnessed a multi-paced recovery. US GDP grew at 1.8 per cent (seasonally adjusted annualised quarter-on-quarter growth rate, q-o-q saar), up from 0.4 per cent growth in Q4 of 2012 (Chart I.1a). Growth came from personal consumption expenditure, private inventory investment and residential fixed investment, while cuts in federal, state and local government spendings, as also low exports dragged growth down.

Chart I.1: Growth in Advanced Economies and BRICS (Q-o-Q SAAR)



Source: Eurostat

Source: OECD, Stat Extracts

Japan's economy grew at 4.1 per cent in Q1 2013 (q-o-q saar), the fastest pace among G-7 countries, mainly driven by an aggressive monetary and fiscal stimulus. The UK registered a growth of 2.4 per cent and 1.1 per cent (q-o-q saar) in Q2 and Q1 of 2013, respectively, as against a decline of 0.9 per cent in Q4 of 2012.

I.4 In contrast, the euro area (EU-17) continued to be in recession with continued contraction for the sixth consecutive quarter. Its GDP declined by 1.1 per cent (q-o-q saar) in Q1 of 2013 after a 2.4 per cent decline in the previous quarter. France slipped back into recession in Q1, while Italy and Spain continued in a prolonged contraction mode. Germany managed to avert falling into recession with a meagre positive growth of 0.3 per cent (q-o-q saar) during Q1 of 2013.

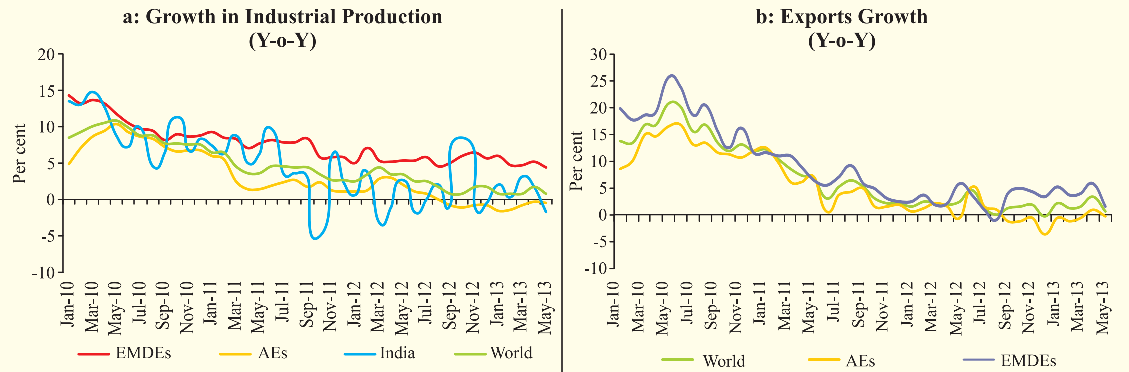
I.5 Among EMDEs, growth has slowed across the BRICS nations which in past had been an engine for global recovery. During Q1 of 2013, growth in Brazil slowed to 2.2 per cent (q-o-q saar), down from 2.6 per cent (q-o-q saar) in the previous quarter (Chart I.1b). Russia's GDP contracted in Q1 of 2013. China's GDP growth picked up in Q2 of 2013 to 7.0 per cent (q-o-q saar) from 6.6 per cent in Q1. South Africa slowed to an annualised growth of 0.9 per cent in Q1 of 2013, which was lower than 2.1 per cent in Q4 of 2012.

I.6 Apart from GDP growth, labour market conditions have also diverged in the AEs, with a distinct improvement in the US, but continued dampened conditions in the euro area. Non-farm payroll in the US economy increased by 195,000 jobs in June 2013 and the numbers for the previous two months were also revised upwards significantly. Although the unemployment rate remained unchanged at 7.6 per cent in June due to the improved rate of labour force participation, the overall data suggest that the economy is gaining some traction. However, the unemployment rate in the euro area continues to increase, and touched a new high of 12.2 per cent in May 2013. For some time now, the unemployment rates in Spain and Greece have continued to be anchored around 26 per cent, with their youth unemployment rates at over 55 per cent. Overall, growth and employment have been dented by slow expansion in industrial growth and global trade (Chart I.2).

Slowdown persists in the Indian economy

I.7 India's growth continues to languish. Although India is still growing faster than most EMDEs, the deceleration in growth over the last two years has been marked. The year-on-year (y-o-y) growth, as also the seasonally adjusted growth rate in Q4 of 2012-13, were marginally higher than in the previous quarter,

Chart I.2: Global Industrial Production and Exports



Source: World Bank

Source: CPB

Table I.1: Sector-wise Growth Rates of GDP (2004-05 prices)

(Per cent)

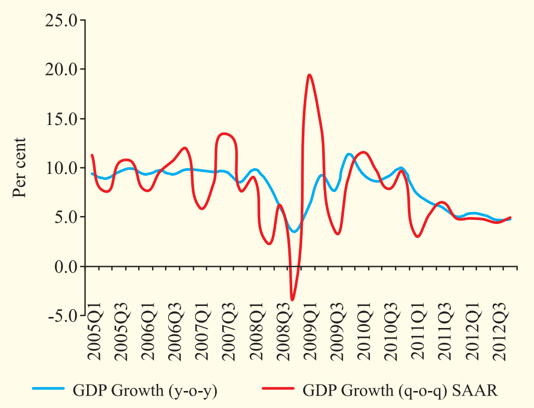
Item	2011-12*	2012-13#	2011-12 Q1	Q2	Q3	Q4	2012-13 Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11
1. Agriculture, forestry & fishing	**3.6**	**1.9**	**5.4**	**3.2**	**4.1**	**2.0**	**2.9**	**1.7**	**1.8**	**1.4**
2. Industry	**2.7**	**1.2**	**6.5**	**2.7**	**0.9**	**1.0**	**-0.2**	**0.5**	**2.3**	**2.0**
2.1 Mining & quarrying	-0.6	-0.6	-0.4	-5.3	-2.6	5.2	0.4	1.7	-0.7	-3.1
2.2 Manufacturing	2.7	1.0	7.4	3.1	0.7	0.1	-1.0	0.1	2.5	2.6
2.3 Electricity, gas & water supply	6.5	4.2	6.6	8.4	7.7	3.5	6.2	3.2	4.5	2.8
3. Services	**7.9**	**6.8**	**8.3**	**8.2**	**8.1**	**7.0**	**7.6**	**7.1**	**6.2**	**6.3**
3.1 Trade, hotels, transport, storage and communication	7.0	6.4	9.5	7.0	6.9	5.1	6.1	6.8	6.4	6.2
3.2 Financing, insurance, real estate and business services	11.7	8.6	11.6	12.3	11.4	11.3	9.3	8.3	7.8	9.1
3.3 Community, social & personal services	6.0	6.6	3.5	6.5	6.8	6.8	8.9	8.4	5.6	4.0
3.4 Construction	5.6	4.3	3.8	6.5	6.9	5.1	7.0	3.1	2.9	4.4
4. GDP at factor cost (Total 1 to 3)	**6.2**	**5.0**	**7.5**	**6.5**	**6.0**	**5.1**	**5.4**	**5.2**	**4.7**	**4.8**

*: First Revised Estimates. #: Provisional Estimates.
Source: Central Statistics Office.

but were still not indicative of recovery setting in (Table I.1 and Chart I.3). The persistence in slowdown is reflected in below-trend growth for the seventh consecutive quarter since Q2 of 2011-12 (Chart I.4).

I.8 The year 2012-13, as a whole, witnessed a moderated GDP growth of 5.0 per cent – the lowest since 2002-03. Domestic policy uncertainties, governance concerns, the impact of earlier monetary tightening, slack external demand conditions and a weak monsoon, weighed down on the growth process during the year.

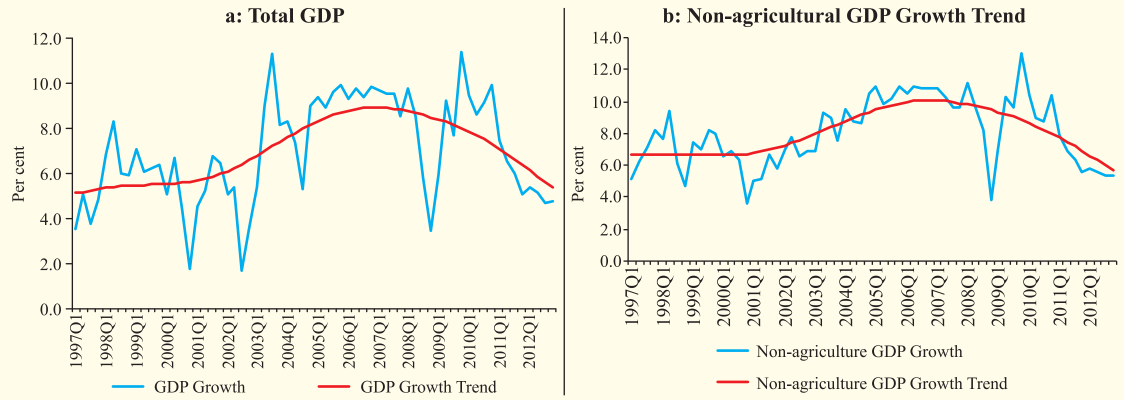
Chart I.3: Momentum Indicator of Growth



Agriculture growth is expected to pick up

I.9 The south-west monsoon of 2013 arrived on time and is forecasted to be normal by the India Meteorological Department (IMD). The progress of the monsoon has also been encouraging, with 29 out of 36 sub-divisions receiving excess or normal rainfall as of July 24, 2013 as against 14 last year. Six of the seven sub-divisions in east and north-east India besides the sub-division of 'Haryana and Chandigarh' have received deficient rainfall so far. However, the temporal and spatial progress of rainfall during the rest of the monsoon season may also influence the overall size of the *kharif* crop. In this context, the IMD forecast of normal rainfall during August 2013 at 96 per cent of the long period average (LPA) augurs well for *kharif* crops. The Reserve Bank's foodgrains' production weighted rainfall index for the period June 1 - July 24, 2013 indicate that the

Chart I.4: GDP Growth



rainfall was 17 per cent higher than the long period average compared with 24 per cent deficiency in the same period last year. *Kharif* sowing until July 26, 2013 was nearly 18 per cent higher than that of the previous year (Table I.2). It was also somewhat higher than the normal area sown at this point of time. Due to heavy rainfall in the current monsoon season so far, storage level of 85 major reservoirs as on July 25, 2013 was 66 per cent higher than the last 10 years' storage level. Although we are only half way through the monsoon season, it is expected that the performance of the agricultural sector during 2013-14 would be better than last year.

I.10 The current stock of rice and wheat, at 73.95 million tonnes, is lower by around 7 million tonnes than during last year, largely due to lower procurement on account of a decline in production and higher off-take under the public distribution system (PDS) during 2012-13. The higher off-take under PDS is expected to help reduce the prices of cereals, which have remained elevated in recent months. The drawdown of foodgrain stocks would also help reduce the carrying cost and ease the strains on

Table I.2: *Kharif* Production and Sowing

(Area in million hectares and production in million tonnes)

Crop Name	Sowing*		*Kharif* Production			Percentage Change		
	2012	2013	2010	2011	2012	Sowing	Production	
						2013	2011	2012
1	2	3	4	5	6	7	8	9
Foodgrain	34.1	41.9	120.9	131.3	128.2	22.9	8.6	-2.4
Rice	18.4	19.6	80.7	92.8	92.8	6.5	15.0	0.0
Coarse cereals	11.7	14.9	33.1	32.4	29.5	27.4	-2.1	-9.0
Pulses	4.0	7.4	7.1	6.1	5.9	85.0	-14.1	-3.3
Oilseeds	13.8	16.7	21.9	20.7	20.9	21.0	-5.5	1.0
Sugarcane	5.0	4.8	342.4	361.0	339.0	-4.0	5.4	-6.1
Cotton#	9.7	10.5	33.0	35.2	34.0	8.2	6.7	-3.4
Jute and mesta##	0.8	0.8	10.6	11.4	11.3	0.0	7.5	-0.9
All-crops	63.5	74.8	-	-	-	17.8	-	-

* : As on July 26. - : Not available.
#: Million bales of 170 kg each. ## : Million bales of 180 kg each.
Source: Ministry of Agriculture, GoI.

the storage capacity. Although the existing stocks of foodgrain are sufficient, the requirements may have to be re-assessed in light of the expected higher off-take under the National Food Security Bill (NFSB), when implemented.

Industrial sector growth remains subdued

I.11 The Index of Industrial Production (IIP) nearly stagnated during 2012-13, registering a dismal 1.1 per cent growth on a low base of 2.9 per cent in the preceding year. During April-May 2013, the IIP registered a marginal growth of 0.1 per cent as compared with 0.6 per cent during April-May 2012 (Table I.3). The pervasiveness of the slowdown is reflected across a wide range of industrial classifications. The contraction of the mining sector and capital goods continues to affect the overall performance of the industrial sector. Excluding capital goods and mining, the growth of the IIP during April-May 2013 was 1.0 per cent (Chart I.5). Excluding volatile items, the truncated IIP (96 per cent of IIP) growth in April-May 2013 was 0.2 per cent (Chart I.6).

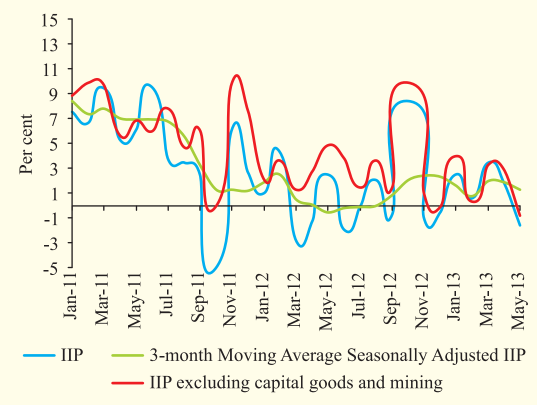
Table I.3: Index of Industrial Production: Sectoral and Use-Based Classification of Industries

(Per cent)

Industry Group	Weight in the IIP	Growth Rate		
		Apr-Mar 2012-13	April-May 2012-13	April-May 2013-14P
1	2	3	4	5
Sectoral				
Mining	14.2	-2.4	-1.7	-4.5
Manufacturing	75.5	1.2	0.4	0.1
Electricity	10.3	4.0	5.2	5.3
Use-Based				
Basic Goods	45.7	2.4	3.2	0.7
Capital Goods	8.8	-6.1	-15.2	-1.5
Intermediate Goods	15.7	1.6	0.8	2.1
Consumer Goods (a+b)	29.8	2.4	4.0	-1.0
a) Consumer Durables	8.5	2.0	7.5	-9.6
b) Consumer Non-durables	21.3	2.7	1.1	6.7
General	**100**	**1.1**	**0.6**	**0.1**

Note: P: Provisional
Source: Central Statistics Office.

Chart I.5: Industrial Growth (y-o-y)



I.12 Manufacturing sector growth remained almost stagnant during April-May 2013. Important industries such as machinery and equipment, basic metals, fabricated metal products, computing machinery, food products and motor vehicles registered contraction in output during the period.

I.13 Persistent power shortages affected the capacity utilisation of the manufacturing sector. As a result, backlogs of work accumulated in the sector. The growth of power generation has remained at 5.3 per cent during April-May 2013. However, going forward, power generation is

Chart I.6: IIP vis-a-vis Truncated IIP (Y-o-Y)

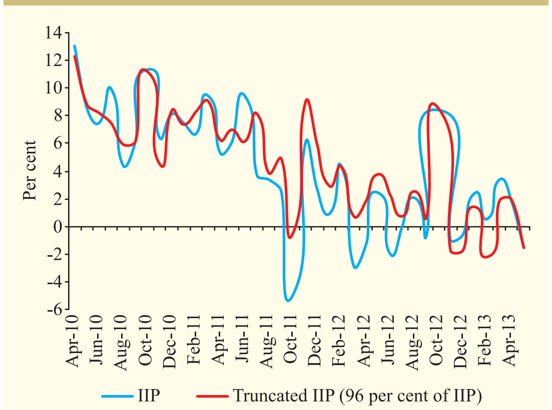
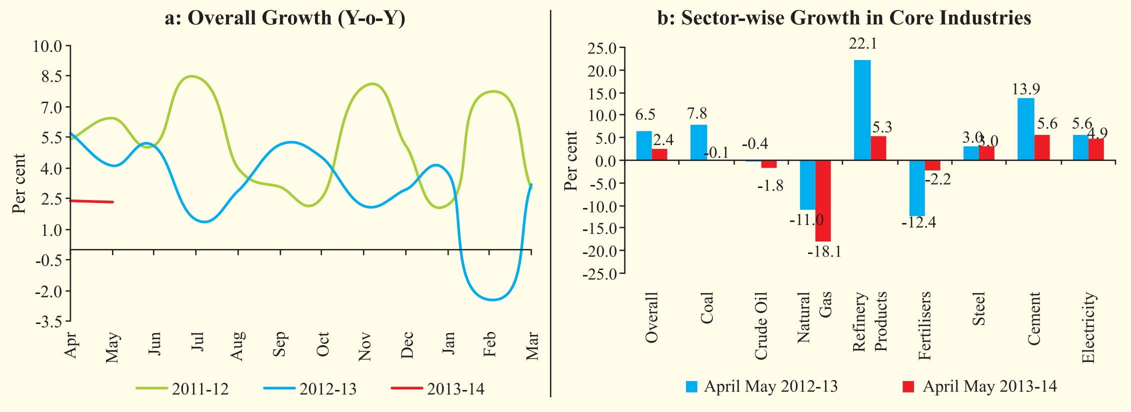


Chart I.7: Growth in Core Industries



expected to accelerate during the year with a normal monsoon and capacity additions, although the supply of coal may remain a constraint.

I.14 As per the use-based classification of industries, with the exception of intermediate goods and consumer non-durables, the growth of all other categories declined during April-May 2013 (Table I.3). The output of consumer durable goods has declined since December 2012, mainly due to a fall in the production of passenger cars and motor-cycles. The contraction of the capital goods sector continued in 2013-14. However, fast-tracking of investment projects is expected to generate higher demand for machinery and construction-related items and is, thus, likely to augment production in the capital goods sector.

Supply bottlenecks constraining core industries

I.15 Core industries continued to be adversely affected by supply bottlenecks and infrastructure constraints, thereby growing only at 2.4 per cent during April-May 2013-14, which is much lower than in the corresponding period of the previous year. While the output of coal, natural gas, fertilisers and crude oil contracted during the period, there was deceleration in the production of electricity, petroleum refinery products and cement (Chart I.7).

I.16 The recent initiatives by the government are expected to somewhat ease supply bottlenecks in the core industrial sector. In particular, the Union Cabinet's approval for setting up an independent regulatory authority for the coal sector is likely to benefit coal-dependent industries such as power, steel and cement. The envisaged changes in the gas pricing policy will incentivise investment in the Indian upstream sector and help boost production. Also, the target of rolling out ₹1 trillion worth of PPP projects in the infrastructure sector in the next six months will provide a boost to industry.

Capacity utilisation increased

I.17 Capacity utilisation (CU), as measured by the 21st Round of the Order Books, Inventories and Capacity Utilisation Survey (OBICUS) of the Reserve Bank, recorded a seasonal increase in Q4 of 2012-13 over the previous quarter (http://www.rbi.org.in/OBICUS21). However, it remained well below the peaks observed in Q4 of 2010-11 and 2011-12. There is broad co-movement of the CU and de-trended IIP (Chart I.8). Although new orders continued to increase, its growth was lower than in the previous quarter. The raw material inventory to sales ratio, which had been increasing since Q1 of 2012-13, reversed its trend in Q4 of 2012-13, whereas the finished goods inventory to sales ratio increased considerably after reaching its lowest level in the previous quarter.

Chart I.8: Capacity Utilisation and De-trended IIP (Manufacturing)

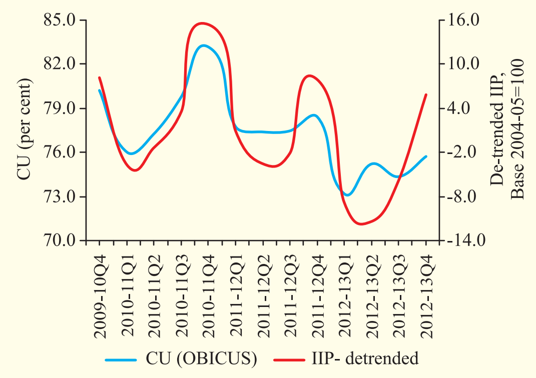
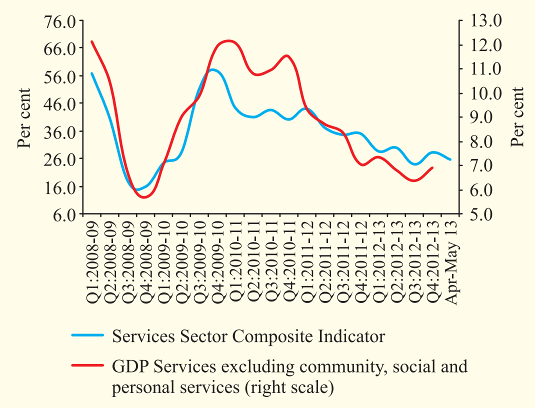


Chart I.9: Services Sector Composite Indicator



Services sector signals slowdown in growth

I.18 The services sector recorded the lowest growth in 11 years at 6.8 per cent during 2012-13. Activity in the 'financing, insurance, real estate & business services' and 'trade, hotels, restaurant, transport & communication' sectors decelerated. The decline in lead indicators, such as automobile sales, cargo handled at major ports and civil aviation sector, during April-June 2013 signal a further slowdown in the services sector (Table I.4). The Reserve Bank's services sector composite indicator, which is based on growth in indicators of construction, trade and transport and finance, showed an upturn in Q4 of 2012-13, but indicated a slight fall during April-May 2013 (Chart I.9).

Employment scenario weakened during 2011-2013

I.19 There has been a continuous decline in employment generation in the eight key sectors over the years. As per the Labour Bureau Survey, there was a significant decline in employment growth during 2012-13 compared

Table I.4: Lead Indicators of Services Sector Activity

(Growth in per cent)

Services Sector Indicators	2010-11	2011-12	2012-13	April-June 2012-13	April-June 2013-14
1	2	3	4	5	6
Tourist arrivals	10.0	9.7	2.9	1.7	1.8
Cement	4.5	6.7	9.3	13.9#	5.6#
Steel	13.2	10.3	2.5	3.0#	3.0#
Automobile sales	16.8	11.1	2.6	9.8	-2.1
Railway revenue-earning freight traffic	3.8	5.2	4.1	4.8	4.9
Cargo handled at major ports	1.5	-1.6	-2.5	-5.5	-1.0
Civil Aviation					
Domestic cargo traffic	23.8	-4.8	-3.4	2.0*	-6.8*
International cargo traffic	17.7	-1.9	-4.2	-6.0*	-0.2*
International passenger traffic	10.3	7.6	5.5	5.7*	8.3*
Domestic passenger traffic	18.1	15.1	-4.3	8.3*	-0.2*

Note : *: Data refers to April. #: Data refers to April-May.
Source: Ministry of Statistics and Programme Implementation, Ministry of Tourism, Press Information Bureau, Indian Ports Association, SIAM and CMIE.

Table I.5: Changes in Employment

(million)

Industry/Group	2009-10	2010-11	2011-12	2012-13
1	2	3	4	5
Textiles, including Apparel	0.06	0.1	0.09	0.14
Leather	0.01	0.03	-0.02	0.01
Metals	0.09	0.09	0.08	0.04
Automobiles	0.08	0.11	0.03	0.02
Gems and Jewellery	0.07	0.00	0.03	0.02
Transport	-0.01	0.00	0.04	0.00
IT/BPO	0.69	0.67	0.58	0.12
Handloom/Power loom	0.07	-0.01	0.00	0.00
Overall	**1.07**	**0.98**	**0.83**	**0.35**

Source: Employment Surveys, Labour Bureau.

with the previous year (Table I.5). The IT/BPO sector, which has been taking the lead in employment generation, performed badly during 2012-13, reflecting the bearish business sentiments across the globe. However, as reported by the Labour Bureau, during January-March 2013, with the exception of transport, all sectors have shown a rise in employment compared with the same period last year.

I.20 As per the NSSO 68th Round (2011-12), the unemployment rate in terms of usual principal and subsidiary status (UPSS) increased in 2011-12 to 2.2 per cent (Chart I.10a). On a current daily status (CDS) basis, however, the unemployment rate continued its fall from 6.6 per cent in 2009-10 to 5.6 per cent in 2011-12, which reflects an increase in seasonal/contract employment (Chart I.10b). The Report shows that the CDS unemployment rate has decreased at a higher pace for females than males during 2011-12 over 2009-10.

Growth likely to improve at a slow pace

I.21 India's GDP growth is expected to improve in 2013-14, with recovery expected to take shape as the year progresses. The pace of recovery is, however, likely to be slow in view of the structural constraints. Recent policy measures by the government in various segments, especially in the infrastructure sector, are likely to help improve production activity. Timely, normal and well-spread rainfall will have a positive impact on agriculture production, which, in turn, may improve rural demand for industrial goods and services. The improvement in water storage levels in reservoirs due to heavy rainfall would enable the hydro power sector to enhance capacity utilisation. On the global front, the pick-up in growth in the US and Japan is likely to have a positive impact on global trade. The recent rupee depreciation, augurs well for India's exports. However, risks to growth in 2013-14 have increased significantly, with prospects that the global interest rate cycle could turnaround and diminish capital inflows to India.

Chart I.10: Unemployment Rate