I. OUTPUT

After subdued activity in H1 of 2013-14, growth may improve a tad in H2 on the back of a rebound in agriculture output and improved export performance. However, industrial growth continues to languish and most segments of the services sector continue to underperform. Clear signs of a pickup are yet to emerge, though with some improvements in the business climate, modest recovery is likely to shape up in 2014-15. On the global front, advanced countries have recorded better-than-expected growth led by the recovery in the US. However, the acceleration in growth could lose some steam with the gradual withdrawal of accommodative policies. Nevertheless, with improved prospects for global growth in 2014, external demand could lend some support to domestic growth. Durable domestic recovery, however, remains contingent on addressing persistent inflation and bottlenecks facing the mining and infrastructure sectors.

Global growth prospects improve, though downside risks still exist

I.1 After three years of deceleration, global growth is poised to improve in 2014, but risks to outlook remain with uncertainties about how growth will withstand the withdrawal of extraordinary monetary accommodation on the back of unconventional monetary policies and risks of renewed deflation in the euro area. Though growth in advanced economies (AEs) may improve, negative output gaps may persist. Recovery in the large emerging market and developing economies (EMDEs) is expected to be slow, in part, due to tighter financial conditions. The International Monetary Fund (IMF) in its January 2014 World Economic Outlook update, projected the global growth to be higher in 2014, at 3.7 per cent as compared with 3.0 per cent in 2013. The latest projection is 0.1 percentage point higher as compared with October 2013 forecast and reflects mainly an improved growth outlook for AEs.

I.2 The US GDP increased at an annual rate (seasonally adjusted annualised quarter-on-quarter growth rate, q-o-q saar) of 4.1 per cent in Q3 of 2013 as against 2.5 per cent in Q2. This was primarily due to a deceleration in imports and acceleration in both private inventory investments and state and local government spending that were partly offset by deceleration in exports. The United Kingdom continued on a recovery path for the third consecutive quarter in Q3 of 2013 with a growth of 3.1 per cent (q-o-q saar). However, the expectation of faster growth has diminished for Japan with q-o-q deceleration for two successive quarters. Also the prospects of its recovery in 2014 have been diminished by consumption tax increases that are scheduled for April. The euro area also slowed down in Q3 of 2013, though maintaining positive growth.

I.3 Among the EMDEs, China's GDP growth in Q4 of 2013 slowed down to 7.4 per cent (q-o-q saar) as compared with 9.1 per cent in Q3. China's local government debt and financial sector problems pose a downside risk. Growth imbalances continue in China with sustained reliance on investment-led growth and rising local government debt levels. Brazil's GDP witnessed a contraction of 1.9 per cent (q-o-q saar) in Q3 of 2013 in contrast to a growth of 7.2 per cent in Q2.

I.4 Gradual improvement in labour market conditions continue in the US with the unemployment rate dropping from 7.9 per cent in January 2013 to 6.7 per cent in December. The United Kingdom also witnessed a distinct decline in the unemployment rate to 7.1 per cent during September-November 2013. However, the euro area continued to witness high

Table I.1: Slow growth persists with slack in industrial output and under-performance of services sector

Sector-wise GDP growth rates (2004-05 prices)

(Per cent)

Industry	2011-12*	2012-13#		2012-13				2013-14		2012-13	2013-14
		Growth	Share	Q1	Q2	Q3	Q4	Q1	Q2	H1	H1
1	2	3	4	5	6	7	8	9	10	11	12
1. Agriculture, forestry & fishing	**3.6**	**1.9**	**13.7**	**2.9**	**1.7**	**1.8**	**1.4**	**2.7**	**4.6**	**2.3**	**3.6**
2. Industry	**2.7**	**1.2**	**18.9**	**-0.2**	**0.5**	**2.3**	**2.0**	**-0.9**	**1.6**	**0.2**	**0.3**
2.1 Mining & quarrying	-0.6	-0.6	2.0	0.4	1.7	-0.7	-3.1	-2.8	-0.4	1.0	-1.6
2.2 Manufacturing	2.7	1.0	15.1	-1.0	0.1	2.5	2.6	-1.2	1.0	-0.5	-0.1
2.3 Electricity, gas & water supply	6.5	4.2	1.9	6.2	3.2	4.5	2.8	3.7	7.7	4.7	5.7
3. Services	**7.9**	**6.8**	**67.4**	**7.6**	**7.1**	**6.2**	**6.3**	**6.2**	**5.8**	**7.3**	**6.0**
3.1 Trade, hotels, transport & communication	7.0	6.4	27.8	6.1	6.8	6.4	6.2	3.9	4.0	6.4	4.0
3.2 Financing, insurance, real estate and business services	11.7	8.6	18.7	9.3	8.3	7.8	9.1	8.9	10.0	8.8	9.5
3.3 Community, social & personal services	6.0	6.6	13.0	8.9	8.4	5.6	4.0	9.4	4.2	8.6	6.6
3.4 Construction	5.6	4.3	7.8	7.0	3.1	2.9	4.4	2.8	4.3	5.1	3.5
4. GDP at factor cost	**6.2**	**5.0**	**100.0**	**5.4**	**5.2**	**4.7**	**4.8**	**4.4**	**4.8**	**5.3**	**4.6**

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

unemployment rate at 12.1 per cent in November 2013. The unemployment rate in Japan remained unchanged at 4 per cent in November 2013.

Growth deceleration in India arrested in Q2 of 2013-14

I.5 Growth in India's GDP picked up moderately in Q2 of 2013-14 reversing the direction of the previous quarter's movement (Table I.1). The pickup was confirmed by the trend in the GDP growth saar (Chart I.1). However, despite this pickup, the growth rate in H1 of 2013-14 was lower than in H1 of last year. Inflationary pressures and structural bottlenecks are some of the factors weighing down the growth process.

Prospects for rabi crops improve due to post-monsoon rainfall

I.6 After a normal south-west monsoon, the post-monsoon rainfall added to the soil moisture and major reservoirs continued to have water storage above the previous year's level. The absence of extreme climatic events has further helped the progress of *rabi* sowing. Preliminary data suggest that sowing under all *rabi* crops till January 24, 2014 was 5.3 per cent higher than in the previous year (Table I.2). The confluence of these favourable factors is expected to boost agricultural growth prospects significantly during 2013-14. The production of

Chart I.1: Momentum indicator confirms pickup in growth

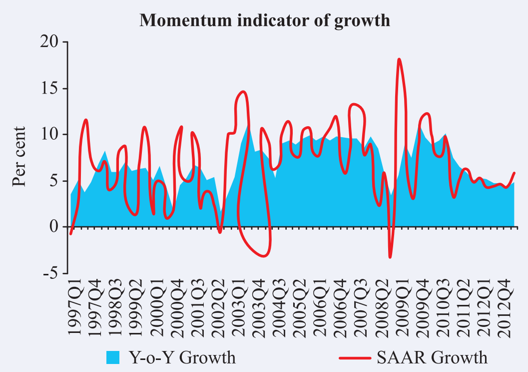


Table I.2: Prospects for *rabi* crop are satisfactory

Progress of rabi sowing 2013-14

(Area in million hectares)

Crops	Sowing as on January 24, 2014			Percentage Change
	Normal as on Date	2014	2013	
1	2	3	4	5
Foodgrains	**50.8**	**54.7**	**51.8**	**5.6**
Wheat	28.9	31.5	29.6	6.4
Rice	1.3	1.5	1.1	36.4
Coarse Cereals	6.3	6.0	6.2	-3.2
Pulses	14.4	15.7	14.9	5.4
Oilseeds	8.8	8.8	8.6	2.3
All Crops	**59.7**	**63.5**	**60.3**	**5.3**

Source: Ministry of Agriculture, Government of India.

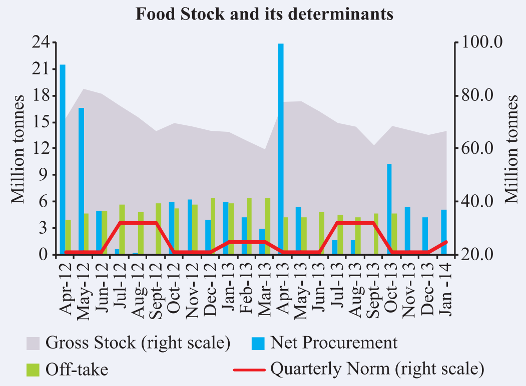
most *kharif* crops as per the first advance estimates has been estimated to be higher than the previous year.

I.7 However, the prices of food articles in recent months, particularly of vegetables and fruits, witnessed spikes due to the high cost of delivery, inefficient supply chain and demand persistently outstripping supply. In this context, there is a need to relook at the Agriculture Produce Market Committee (APMC) Act and its functioning. The current stock of foodgrains at 66.7 million tonnes (till mid-January 2014) is sufficient to meet various obligations However, a reassessment of the food management strategy may be required keeping in view the expected higher off-take with the phased implementation of the National Food Security Act at the all-India level, as also the need for greater open market sales to tackle rising food prices (Chart I.2).

Prospects of industrial sector remain uncertain

I.8 Subdued investment and consumption demand resulted in contraction in industrial output during April-November 2013, which is reflected in a decline in the production of capital goods and consumer durables (Table I.3). This

Chart I.2: Stock of foodgrains remains above stipulated norms



Note: 1. 1.Data for off-take is up to Oct 2013 and stock as at mid-Jan 2014.
2. Off-take data are monthly figures.
3. Data for procurement is up to Jan 15, 2014.

apart, contraction of the mining sector due to regulatory and environmental issues has also contributed to the overall decline in the industrial output.

Table I.3: Industrial slowdown continues mostly due to consumer durable and capital goods

Sectoral and use-based classification of industries of IIP

(Per cent)

Industry Group	Weight in the IIP	Growth Rate		
		April-March 2012-13	April-November 2012-13	April-November 2013-14P
1	2	3	4	5
Sectoral				
Mining	14.2	-2.3	-1.6	-2.2
Manufacturing	75.5	1.3	0.9	-0.6
Electricity	10.3	4.0	4.4	5.4
Use-Based				
Basic Goods	45.7	2.5	2.8	0.7
Capital Goods	8.8	-6.0	-11.3	-0.1
Intermediate Goods	15.7	1.6	1.8	2.7
Consumer Goods (a+b)	29.8	2.4	3.6	-2.6
a) Consumer Durables	8.5	2.0	5.2	-12.6
b) Consumer Non-durables	21.3	2.8	2.3	6.3
General	**100**	**1.1**	**0.9**	**-0.2**

P: Provisional
Source: Central Statistics Office.

I.9 Output in the manufacturing sector declined by 0.6 per cent during April-November 2013 as compared with a growth of 0.9 per cent last year highlighting moderation in aggregate demand. Notably, 11 out of the 22 industries within the sector recorded a decline in output. Major industries which registered a decline in output include basic metals, machinery & equipment, radio, TV & communication equipment, motor vehicles and fabricated metal products. Excluding volatile items the truncated IIP (96 per cent of IIP) growth in April-November 2013 was (-)0.9 per cent.

I.10 Among the use-based industries, the growth of intermediate goods and consumer non-durables improved in comparison with last year (Chart I.3). However, falling discretionary consumption demand in face of high inflation and weak consumer confidence impacted consumer durables that contracted 21.5 per cent in November.

Core industries remain a drag on industrial growth

I.11 Recovery in industrial sector is constrained by the continued sluggishness in the growth of core industries. The index of eight core industries registered a lower growth of 2.5 per cent during April-November 2013 as compared with 6.7 per cent in the corresponding period of the previous year. While natural gas and crude oil output contracted during the period, there was also deceleration in the production of coal, petroleum refinery products and cement.

I.12 Natural gas production has been contracting on a y-o-y basis primarily due to the fall in production in the KG-D6 basin. Crude oil production has been stagnating with delays in commissioning of new discoveries, especially the oilfields in Rajasthan. The deceleration in petroleum and refinery products comes on a high base of capacity additions in the private sector in the preceding year. Coal production continues to witness disappointing growth due to a failure to ramp up production.

Capacity utilisation increased

I.13 Capacity utilisation (CU), as measured by the 23rd round of the Order Books, Inventories and Capacity Utilisation Survey (OBICUS) of the Reserve Bank, picked up in Q2 of 2013-14 but remained lower than the level achieved in Q2 of 2011-12 (http://www.rbi.org.in/OBICUS23). This is also reflected in the detrended Index of Industrial Production (IIP) (Chart I.4). New orders' growth increased in Q2 of 2013-14 both on q-o-q as well as y-o-y basis. Finished goods inventory to sales and raw material inventory to sales ratios declined in Q2

Chart I.3: Performance of consumer durables remains weak

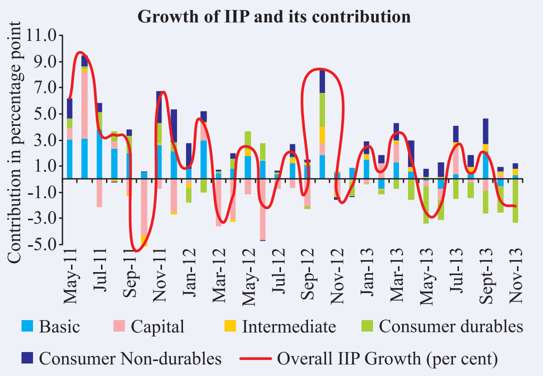
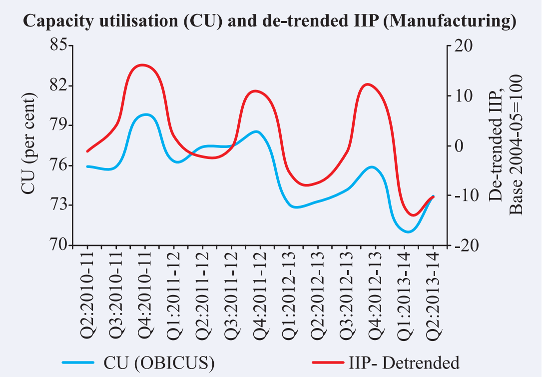


Chart I.4: Capacity utilisation picked up in Q2 of 2013-14

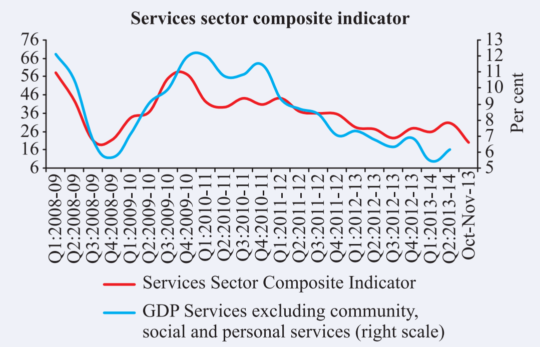


of 2013-14 over the previous quarter and were also lower than that in Q2 of the previous year.

Lead indicators suggest mixed picture for services sector growth in Q3

I.14 The services sector recorded the lowest growth in 12 years at 5.8 per cent during Q2 of 2013-14. This was largely due to the moderation in the growth of 'Trade, hotels, restaurant, transport & communication' and 'Community, social & personal services' sectors. Various lead indicators of the services sector portrayed a mixed picture during Q3 of 2013-14 (Table I.4). The Reserve Bank's services sector composite indicator, which is based on growth in indicators of construction, trade & transport and finance witnessed an upward trend in Q2 of 2013-14, but showed a downturn in October-November 2013 (Chart I.5). However, partially available data for December suggest some pick up.

Chart I.5: Services sector composite indicator showed a downturn during October-November 2013



Growth stays muted for now, recovery will require further efforts

I.15 During the current fiscal so far, the Indian economy has experienced an adverse mix of slowing growth and high inflation. However, an expected rebound in agriculture on the back of better *kharif* and *rabi* crops and a pickup in exports driven by improved global growth prospects and depreciated exchange rate is likely to keep growth in H2 of 2013-14 a tad higher than it was in H1. The government, in recent months, has been taking several policy initiatives to speed up infrastructure investment but these measures will take some time to fructify. Nonetheless, these may provide a toehold for recovery as we enter into 2014-15.

Table I.4: Services sector witnessed a mixed picture in Q3

Lead indicators of services sector activity

(Growth in per cent)

Services Sector Indicators	2011-12	2012-13	H1		Q3	
			2012-13	2013-14	2012-13	2013-14
1	2	3	4	5	6	7
Tourist arrivals	9.7	2.0	1.7	4.3	2.1	4.9
Cement	6.7	7.7	9.1	4.5	3.3#	2.6#
Steel	10.3	2.5	2.6	4.5	1.6#	3.7#
Automobile Sales	11.1	2.6	3.5	1.2	6.3	4.1
Railway revenue earning freight traffic	5.2	4.1	4.8	6.2	5.9	1.9
Cargo handled at major ports	-1.6	-2.5	-3.3	2.3	-2.6	1.1
Civil aviation						
Domestic cargo traffic	-4.8	-3.4	-0.8	0.6	-3.8*	21.9*
International cargo traffic	-1.9	-4.2	-4.9	-0.9	-2.5*	7.1*
International Passenger traffic	7.6	5.5	2.7	12.0	-2.4*	12.1*
Domestic Passenger traffic	15.1	-4.3	-3.7	6.6	-15.6*	11.3*

* Data refer to Oct.; # Data refers to Oct.-Nov.

Source: Ministry of Statistics and Programme Implementation, Ministry of Tourism, IPA, SIAM and CMIE