I. Output

GDP growth, estimated at 8.6 per cent during 2010-11, reverted to its recent trend, aided by rebound in agricultural growth. Industrial growth moderated in the second half of the year reflecting the effect of higher base and some moderation in investment demand. The services sector maintained momentum in most of its segments. Buoyant overall agricultural performance and continued services sector growth momentum augur well for growth in 2011-12. However, risks to growth ahead arise from rising prices of oil and industrial raw materials, decelerating investment demand and high inflation.

Indian economy grew at around its trend rate in 2010-11

I.1 Real GDP growth in 2010-11 reverted to near trend growth rate, following two successive years of below trend growth (Chart I.1a). Non-agricultural GDP growth, however, was slightly below the trend (Chart I.1b). The main impetus to the growth in 2010-11 came from agriculture which benefited from a normal monsoon, while industry and services registered mild deceleration (Table I.1). This moderation was primarily during the second half of the year due to the waning of the favourable base effect as well as deceleration in Government-spending related services. Growth is expected to stay near its trend during 2011-12 with upside factors such as buoyant private consumption demand and improved external demand getting counter-balanced by likely adverse impact from high fuel and commodity prices and prevailing risks to global growth from the debt crisis in parts of the Euro zone. Demand conditions are discussed in Chapter II of this report.

Agriculture sector outlook remains strong

I.2 Agricultural production rebounded in 2010-11 after drought conditions in the preceding year caused a contraction. Foodgrain production reached a new record with both *Kharif* and *Rabi* crops turning out to be good. A satisfactory North-East monsoon following the normal South-West monsoon coupled with favourable sowing and reservoir positions improved the prospects for agricultural production during 2010-11. At 2 per cent and 21 per cent above their respective long period averages (LPA), this is the first time in the last ten years that both the South-West and the North-East monsoons surpassed their respective LPAs. There

Chart I.1: GDP Growth and Trend

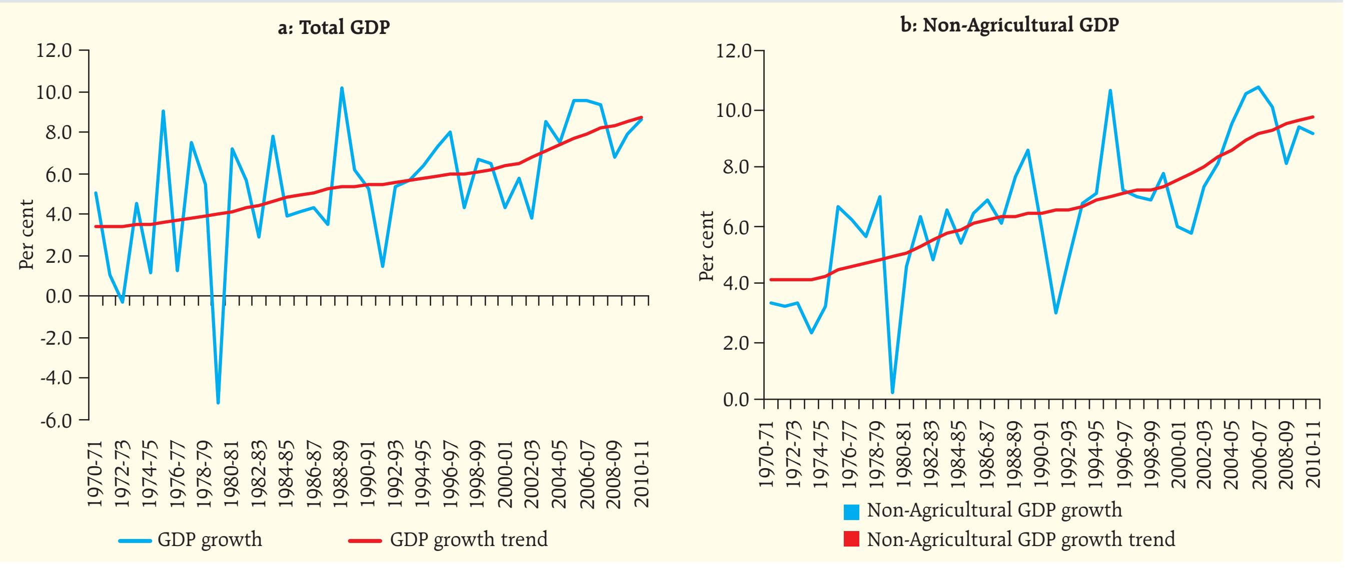


Table I.1 : Sectoral GDP Growth (Base: 2004-05)

(Per cent)

Item	2009-10*	2010-11#	2009-10 Q1	2009-10 Q2	2009-10 Q3	2010-11 Q1	2010-11 Q2	2010-11 Q3	2009-10 (Apr-Dec)	2010-11 (Apr-Dec)
1	2	3	4	5	6	7	8	9	10	11
1. Agriculture and allied activities	**0.4**	**5.4**	**1.8**	**1.2**	**-1.6**	**2.5**	**4.4**	**8.9**	**0.2**	**5.7**
2. Industry	**8.3**	**8.2**	**2.9**	**6.3**	**10.0**	**11.7**	**8.9**	**5.7**	**6.4**	**8.7**
2.1 Mining and quarrying	6.9	6.2	6.9	6.6	5.2	8.4	7.9	6.0	6.2	7.4
2.2 Manufacturing	8.8	8.8	2.0	6.1	11.4	13.0	9.8	5.6	6.5	9.4
2.3 Electricity, gas and water supply	6.4	5.1	6.2	7.5	4.5	6.2	3.4	6.4	6.1	5.3
3. Services	**9.7**	**9.4**	**8.5**	**10.8**	**9.2**	**9.4**	**9.6**	**8.7**	**9.5**	**9.3**
3.1 Construction	7.0	8.0	5.4	5.1	8.3	10.3	8.7	8.0	6.2	9.0
3.2 Trade, hotels, restaurants, transport and communication, *etc.*	9.7	11.0	5.5	8.2	10.8	11.0	12.1	9.4	8.2	10.8
3.3 Financing, insurance, real estate and business services	9.2	10.6	11.5	10.9	8.5	7.9	8.2	11.2	10.3	9.1
3.4 Community, social and personal services	11.8	5.7	13.0	19.4	7.6	7.8	7.4	4.8	13.2	6.6
4. GDP at factor cost (total 1 to 3)	**8.0**	**8.6**	**6.3**	**8.6**	**7.3**	**8.9**	**8.9**	**8.2**	**7.4**	**8.6**

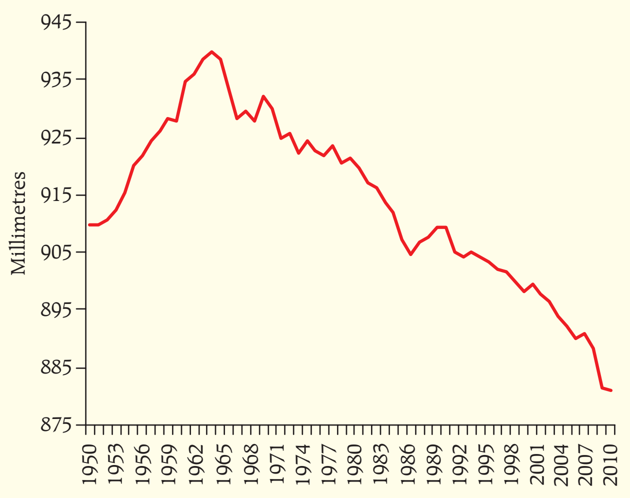
* : Quick Estimates. # : Advance Estimates.

Source: Central Statistics Office.

has, however, been a secular decline in the long-term average rainfall during June-September over the years (Chart I.2). This reflects deterioration in climatic conditions that may have long-run detrimental consequences for agricultural output in India.

I.3 Area sown under major *Rabi* crops, in particular, wheat and pulses, have surpassed their respective normal areas sown and levels achieved in 2009-10 by significant margins. *Rabi* sowing of all crops as on April 15, 2011 was 4 per cent higher than the level achieved

Chart I.2: Long Period Average of Rainfall during June to September



Note: 50-year moving average of rainfall.

during the previous year (Table I.2). The foodgrain production in 2010-11 is estimated to be the highest ever, surpassing the previous peak achieved in 2008-09. Significant increases in the outputs of key agricultural products would help in reducing the pressure on food prices. Agro-based industries could benefit from higher agricultural growth. Higher agricultural growth could also translate into better rural incomes which could help boost the demand for other sectors.

Record wheat production requires focus on food management

I.4 With record wheat production witnessed in 2010-11, there is need for focussed attention on food management. This is essential for building optimal food stocks while averting the problem of plenty caused by bumper harvests. The total stock of foodgrains with the Food Corporation of India (FCI) and other Government agencies declined to 44.4 million tonnes on March 31, 2011 (60.9 million tonnes on June 30, 2010) partly reflecting the Government's policy of faster release of foodgrains to the market to ease food inflation (Chart I.3). The Government has fast-tracked the process of creating new storage capacity of 150 lakh metric tonnes through private entrepreneurs and

Table I.2: Agriculture Production and *Rabi* Area Sown

(Area in Million hectares; Production in Million tonnes)

Crop	Sowing			Production		
	Normal	2009-10	2010-11	Per cent of Normal 2010-11	Final 2009-10	3rd Advance Estimates 2010-11
1	2	3	4	5	6	7
Rice	4.26	4.43	4.45 (0.5)	104.5	89.09	94.11 (5.6)
Wheat	27.33	28.36	29.41 (3.7)	107.6	80.80	84.27 (4.3)
Total Coarse Cereals	6.32	6.58	6.19 (-6.0)	97.9	33.55	40.21 (19.9)
Total Cereals	**37.91**	**39.37**	**40.05 (1.7)**	**105.6**	**203.45**	**218.59 (7.4)**
Total Pulses	**12.02**	**14.30**	**15.75 (10.1)**	**131.0**	**14.66**	**17.29 (17.9)**
Total Foodgrains	**49.93**	**53.68**	**55.80 (4.0)**	**111.8**	**218.11**	**235.88 (8.1)**
Total Nine Oilseeds	**9.98**	**9.82**	**10.21 (3.9)**	**102.3**	**24.88**	**30.25 (21.6)**
Cotton #	-	-	-	-	**24.23**	**33.93**
Jute # #	-	-	-	-	**11.23**	**9.89**
Mesta # #	-	-	-	-	**0.59**	**0.59**
Sugarcane (Cane)	-	-	-	-	**292.3**	**340.55**
All Crops	**59.91**	**63.50**	**66.00 (4.0)**	**110.2**	-	-

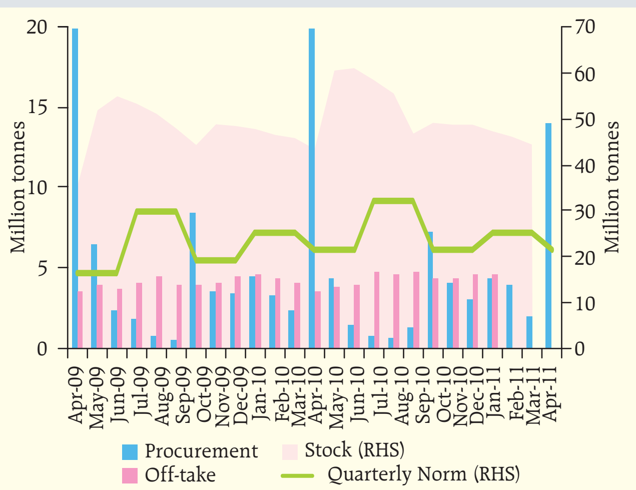
-: Nil/Not Available. #: Million bales of 170 kgs. each. # #: Million bales of 180 kgs. each.

Note: Figures in parentheses are percentage change over previous year.

Source: Ministry of Agriculture, Government of India.

warehousing corporations while making capital investment in modern storage capacity eligible for viability gap funding. Going forward, the challenge for food management and procurement will be to ensure that the volatility in food prices does not get amplified.

Chart I.3: Food Stock and its Determinants



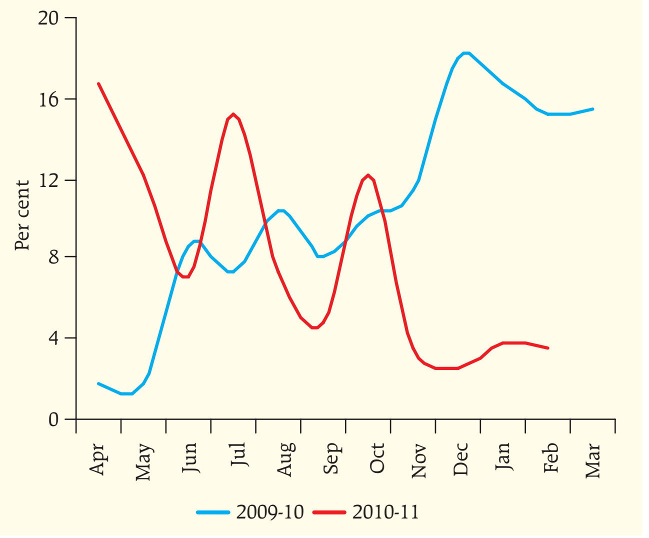
Note: 1. Data for off-take is up to January 2011 and stock up to March 2011.
2. Procurement and off-take data are monthly figures.
3. Procurement for April 2011 is as on April 25.

Industrial growth decelerates on account of high base effect and moderation in investment demand

I.5 During 2010-11 (data available up to February 2011), the industrial sector exhibited signs of slowdown as the IIP growth moderated with intermittent episodes of volatility mainly on account of the high base effect and sharp deceleration in capital and intermediate goods which could partly be attributed to the moderation in investment demand in Q3 of 2010-11 (Chart I.4).

I.6 The lower growth in IIP during April-February 2010-11 compared to the corresponding period of the previous year has been on account of the slowdown in growth of almost all the sectors except consumer goods (Table I.3). The contribution of intermediate and capital goods to the overall IIP growth declined, reflecting some moderation in investment demand. The continued high growth of consumer durables segment reflects higher private consumption demand.

Chart I.4: Growth in Index of Industrial Production (Y-o-Y)



Amidst slowdown, manufacturing activity spread more evenly now

I.7 One notable feature of the pattern of IIP growth is that the activity in manufacturing sector has become more evenly spread with fifteen out of seventeen industries recording positive growth during April-February 2010-11. Moreover, the contribution of the bottom twelve industries to the overall IIP growth has increased (Chart I.5).

Recent IIP slowdown exacerbated by volatile components

I.8 The recent IIP slowdown during the period November 2010 to February 2011 has been exacerbated by a few industries. If IIP growth is calculated after excluding the top 10 and the bottom 10 items that tend to disproportionately impact the overall IIP on account of wide volatility, the growth in February 2011 would be close to 8.8 per cent *vis-à-vis* 8.7 per cent in January 2011 and 11.2 per cent in February 2010. This suggests that the deceleration is not as pronounced as it may appear from the headline numbers. Nevertheless, the risk to industrial growth remains with deceleration in output of capital goods (Chart I.6).

Growth of core infrastructure sector remains moderate

I.9 The six core industries (26.6 per cent of total weight in IIP) registered marginally higher growth during April-February 2010-11 as compared with the same period in the previous year while the year-on-year growth indicates some moderation in recent months (Chart I.7). Acute shortage of coal from domestic sources seems to have had some adverse impact on electricity generation. Growth in crude oil

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

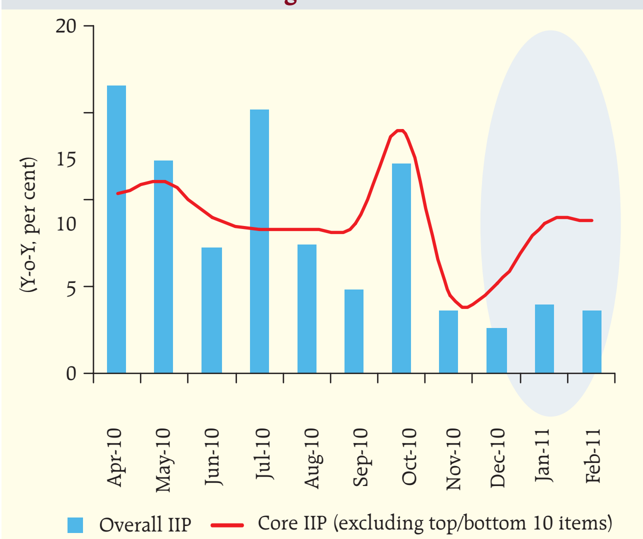
(Per cent)

Industry Group	Weight in the IIP		Growth Rate		Weighted Contribution#		
		Apr-Mar	Apr-Feb		Apr-Mar	Apr-Feb	
		2009-10	2009-10	2010-11 P	2009-10	2009-10	2010-11 P
1	2	3	4	5	6	7	8
Sectoral							
Mining	10.5	9.9	9.6	6.5	6.0	6.1	5.3
Manufacturing	79.4	11.0	10.4	8.1	89.4	89.2	89.4
Electricity	10.2	6.0	5.8	5.4	4.6	4.6	5.3
Use-based							
Basic Goods	35.6	7.2	6.8	6.5	19.5	19.5	23.0
Capital Goods	9.3	19.2	19.0	8.7	29.4	27.4	17.4
Intermediate Goods	26.5	13.6	13.6	9.1	32.4	34.2	30.2
Consumer Goods (a+b)	28.7	6.2	5.9	7.5	18.7	18.8	29.3
a) Consumer Durables	5.4	24.6	23.8	21.8	17.9	18.2	24.0
b) Consumer Non-durables	23.3	0.4	0.3	1.9	0.9	0.7	5.3
General	**100.0**	**10.5**	**10.0**	**7.8**	**100.0**	**100.0**	**100.0**

: Figures may not add up to 100 due to rounding off. P : Provisional.
Source: Central Statistics Office.

Chart I.5: Growth Concentration in Manufacturing Sector

Chart I.6: Growth in IIP - Overall and Excluding Volatile Items



has been robust during the year partly due to base effect. Closer attention to investment in core infrastructure industries is necessary in view of likely energy deficits over the medium term.

High oil prices likely to affect near-term growth

I.10 Uncertainty in the Middle East and North Africa (MENA) adds to upward risk in international oil prices. Analysis in the Indian context indicates likely adverse impact of rising input cost on GDP. Sectors such as surface and air transport, synthetic fibre and chemicals, cotton textiles, paper products, rubber and plastic, cement and foodgrains have high input linkages with oil.

Capacity utilisation inching up

I.11 The evidence on capacity utilisation, order books and inventories provides a mixed picture on cyclical conditions in the industry. There has been some improvement in the overall capacity utilisation in Q3 of 2010-11 and order books improved during the quarter (Chart I.8). It still remains below the levels during the same period of the previous year. For the core industries, while capacity utilisation in petroleum refining and fertiliser remains stretched, that of cement and thermal power generation has eased in line with the production trend for these two industries.

Employment gaining traction supported by IT and automobiles industries

I.12 The ninth round of the series of "Quarterly Quick Employment Surveys" conducted by the Labour Bureau to assess the impact of the economic slowdown on employment in India for the quarter ended December 2010 indicates that the employment situation showed substantial improvement in major industries/groups led by the IT/BPO and the automobile industries (Table I.4).

Chart I.7: Growth in Infrastructure Industries

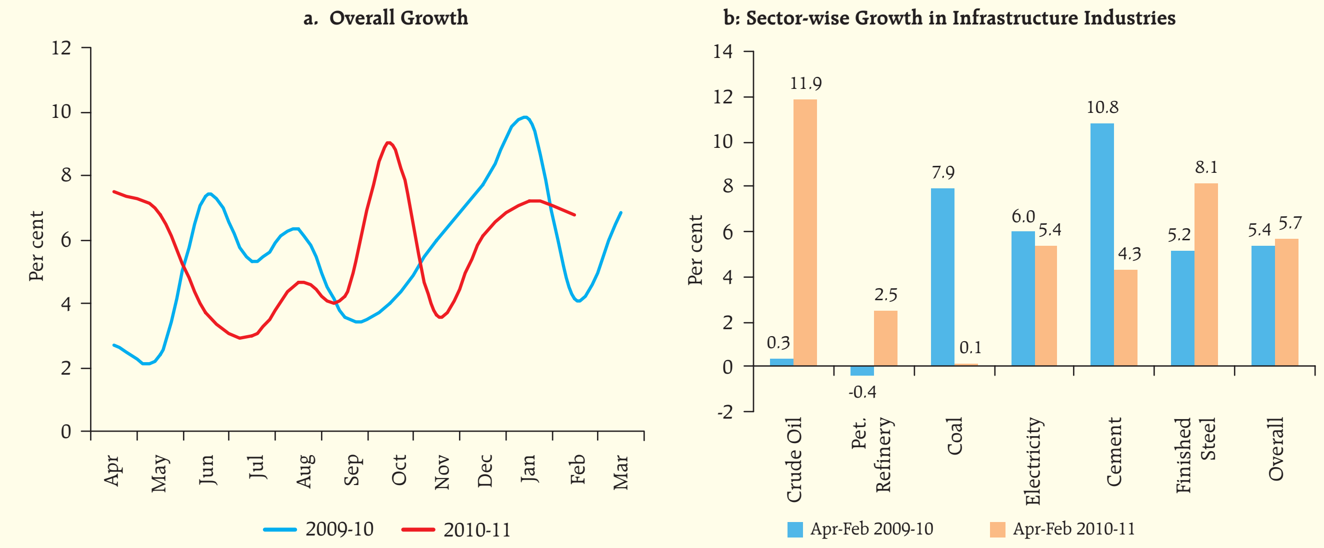
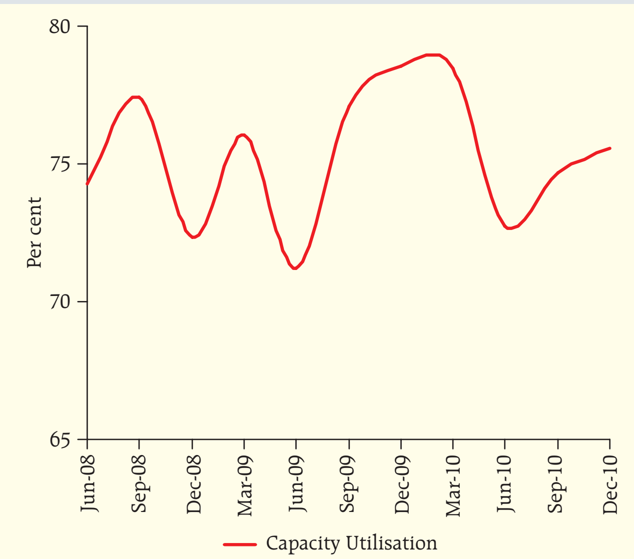


Chart I.8: Capacity Utilisation



Services sector exhibits sustained momentum

I.13 The services sector growth moderated during Q3 of 2010-11 led by deceleration across all sub-sectors except 'financing, insurance, real estate and business services'. The 'community, social and personal services' sub-sector decelerated sharply in 2010-11 so far, reflecting the resumption of the fiscal consolidation process. Nevertheless, the outlook for services sector remains positive with lead indicators of services sector such as tourist arrivals and cell phone connections recording robust growth as per the data available so far for 2010-11. Commercial vehicles production, air cargo and passengers handled at domestic and international terminals registered higher growth

Table I.4: Changes in Estimated Employment

(in Thousands)

Industry/Group	Mar 2010 over Dec 2009	Jun 2010 over Mar 2010	Sep 2010 over Jun 2010	Dec 2010 over Sep 2010	Dec 2010 over Dec 2009
1	2	3	4	5	6
1. Textiles including apparels	-119	-63	245	40	103
2. Leather	0	21	4	16	41
3. Metals	4	45	27	0	76
4. Automobiles	29	51	29	18	127
5. Gems and jewellery	24	4	4	-10	22
6. Transport	-2	-21	13	-1	-7
7. IT/BPO	129	129	108	141	507
8. Handloom/powerloom	-5	-3	6	3	1
Overall	**61**	**162**	**435**	**207**	**870**

Source: Ninth Quarterly Quick Employment Survey, October 2010-December 2010, Labour Bureau.

Table I.5: Indicators of Services Sector Activity

(Growth in Per cent)

Services Sector Indicators	2008-09	2009-10	Apr-Feb 2009-10	Apr-Feb 2010-11
1	2	3	4	5
Tourist arrivals#	-3.3	4.5	4.5	9.0
Commercial vehicles production#	-24	35.9	35.9	32.6
Cement	7.2	10.5	10.8	4.3
Steel	1.6	4.9	5.2	8.1
Railway revenue earning freight traffic	4.9	6.6	6.9	3.6
Cell phone connections	80.9	47.3	49.8	20.2
Cargo handled at major ports	2.2	5.7	5.5	1.1
Civil aviation				
Export cargo handled	3.4	10.4	10.4	14.7
Import cargo handled	-5.7	7.9	5.5	22.1
Passengers handled at international terminals	3.8	5.7	5.1	11.7
Passengers handled at domestic terminals	-12.1	14.5	14.1	15.7

#: Data pertain to April-March.

Source: Ministry of Tourism, Ministry of Statistics and Programme Implementation and SIAM.

indicating buoyant transport sector. Leading indicators of construction activity show a mixed trend with improvement in growth of steel production and deceleration in cement (Table I.5).

Growth momentum likely to sustain at close to trend

I.14 Current growth conditions suggest that the Indian economy is neither overheated, nor does it face a slack. Growth conditions have shown slight moderation of late, but GDP is still likely to grow close to trend in 2011-12. The India Meteorological Department (IMD) has predicted a normal monsoon in 2011. Following a record *Rabi* outturn, this can bolster agricultural growth further. Manufacturing is expected to sustain the momentum as reflected in the strong private consumption demand and improvement in external demand. PMI for March 2011 also suggests sustained expansion. Monsoon turning out to be less than normal is a potential downside risk. If recent increases in crude oil and industrial raw material prices persist, they could weaken the growth momentum amidst high inflation. Downside risks to growth also arise from higher cost of capital and any weakening of consumer confidence as the cost of leverage goes up.