PM's panel cuts GDP view; data signal gloom

Council slashes GDP growth forecast from 9% to 8.2%; Morgan Stanley from 7.7% to 7.2%

fe Bureau
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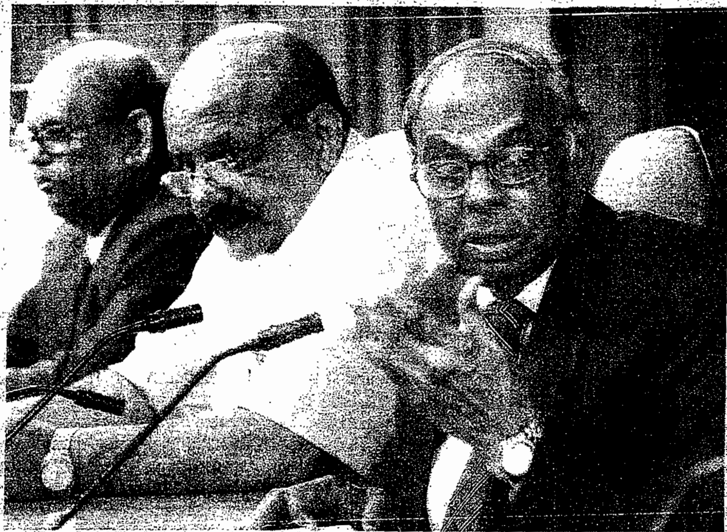
THE gap between the government's forecast of India's GDP growth this fiscal and that of independent analysts who have always remained more cautious appeared to narrow a bit on Monday. On a day when more statistical evidence appeared on a broad-basing of economic slowdown, the Prime Minister's Economic Advisory Council (PMEAC) announced a cut in the GDP growth forecast for 2011-12 to 8.2% from 9% projected in its February review.

The panel attributed the revision to the combined impact of an erosion in investor confidence and the central bank's continuance of a tight monetary stance on both investment and consumption demand. A large part of the lower growth will be reflected in manufacturing and construction sectors, the council said, while pegging a lower farm output growth of 3% this fiscal as against last year's 6.6%.



(Right to left) Prime Minister's Economic Advisory Council chairman C Rangarajan addresses a press conference on Economic Outlook – 2011-12 in New Delhi on Monday. Members of the council Saumitra Chaudhary & M Govinda Rao are also seen on the dais RAAJ DAYAL

(in %)

Sector	2010-2011	2011-2012
Agri & allied	6.6	3
Mining & quarrying	5.8	6
Manufacturing	8.3	7
Electricity, gas & water supply	5.7	7
Construction	8.1	7.5
GDP	8.5	8.2

GDP growth projections for 2011-12
(%)

	PMEAC	RBI	Finance ministry
July'10	9	—	—
Feb'11	9	—	9
May'11		8	—
July'11	8.2	8	8.6

Inflation: WPI
Projections for March 2012
(%)

	PMEAC	RBI	Finance ministry
May'11	—	6	—
July'11	6.5	7	6.5

Source: Pmeac, RBI

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The council's revised growth estimate was lower than the finance ministry's latest prediction that the GDP will grow at 8.6% this fiscal, compared with the original estimate of 9% with an outside band of ±0.25%.

Independent analysts, on their part, cut their more conservative estimates even further. Morgan Stanley said India's GDP would grow just 7.2% this fiscal, a sharp cut from the 7.7% forecast earlier. It may be recalled that the RBI, which revised its key lending rate by 50 basis points to 8% in its first quarter review of the monetary policy on July 26, had kept the growth forecast for this fiscal unchanged at 8%.

Auto sales data and the manufacturing PMI (purchase managers' index) for the month of July released on Monday provided corroborating evidence to the slowing of growth. Pressured by rising input costs and high interest rates, India's top three carmakers — Maruti Suzuki, Hyundai Motor and Tata Motors — saw their cumulative July sales decline by a quarter to 1.09 lakh units. While car sales grew an impressive 30%, the highest ever in 2010-11, the growth in the April-June quarter was just 7%.

India's manufacturing PMI fell to a 20-month low of 53.6 in July from 55.3 in June, falling for the third straight month. Both output and new orders indices fell to their lowest in 20 months, suggesting that higher interest rates are starting to hurt domestic demand.

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