

Tuesday 09 Feb 2010

Agriculture Plays Spoilsport

NCAER lowers its GDP growth forecast to 6.7 per cent for the third quarter

By

The National Council of Applied Economic Research (NCAER) in its quarterly review has forecast the full year's GDP growth at 7 per cent for 2009-10. The GDP growth in the third quarter is expected to be below 7 per cent (6.7 per cent) primarily due to agriculture (the poor monsoon and its impact on the kharif crop). The final quarter, however, could make up some of the loss of momentum (a slightly better rabi crop is expected) and may hit a growth of 7.4 per cent.

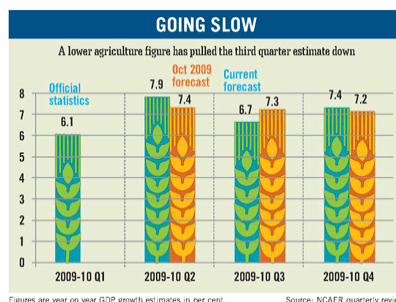
The official government estimates for the first quarter and second quarter growth were 6.1 per cent and 7.9 per cent, respectively. NCAER has revised its full-year estimate based on the official figures since it had predicted a lower growth of 7.4 per cent for the second quarter.

NCAER's senior research counsellor Shashank Bhide says, "We have factored in the much lower growth of exports this year. We were earlier expecting a 10 per cent growth but now we have revised our estimate down to 2.5 per cent for exports and 3 per cent for imports." He says that while the industrial recovery was driving growth this year and government spending had helped services, lower export and import growth and slower growth in trade-related services and agriculture were the main factors pulling growth down. "Investment remains a concern too. If one looks at the Index of Industrial Production data for capital goods, or even for investment growth, in national accounts, the growth is only 7-8 per cent," says Bhide. This is despite the fact that capital markets have picked up, interest rates have been low compared to the previous year and business confidence has improved.

LOOKING AHEAD					
Revised assessment of macroeconomic parameters for the four quarters of financial year 2009-10					
	2008-09	Apr-09	Jul-09	Oct-09	Jan-2010
Real GDP growth					
Agriculture	1.6	2.5	1.0	-1.5	-1.5
Industry	3.9	6.3	6.7	6.9	7.0
Services	9.7	8.5	9.4	9.5	9.5
Total	6.7	6.9	7.2	6.9	7.0
Exports (\$-value)	16.4	9.1	12.0	10.5	2.5
Imports (\$-value)	34.1	10	5.5	4.9	3.0
Inflation (WPI)	8.5	5.2	3.7	3.8	3.9
As percentage of GDP at market prices					
Fiscal deficit of the centre	6.2	4.5	6.2	6.3	6.3
Current account deficit	2.5	3.5	2.4	2.5	2.3

Figures are year on year % change Source: NCAER quarterly review

While consumer durables have done well (double-digit growth in every month from April 2009 to November 2009), the growth in non-durables has been quite low at 1.5 per cent in the same period.



NCAER's estimate of 7 per cent is close to the 6.9 per cent that Centre for Monitoring Indian Economy (CMIE) forecast. The Reserve Bank of India, however, has said it expects 7.5 per cent growth for the year, which, analysts feel, may be too optimistic as it implies a growth of well over 8 per cent for the next two quarters.

CMIE has estimated a much higher growth of 9.2 per cent for the coming financial year 2010-11 based on strong industrial performance and a recovery in agriculture. GDP of agriculture and allied activities is expected to witness a robust increase of 5.9 per cent in 2010-11 compared to the 1.4 per cent fall in 2009-10. The main driver of industrial growth in 2010-11, according to CMIE, will be the food products sector, which is expected to grow

by 14.3 per cent. The machinery sector will grow too, by a robust 12.9 per cent.

However NCAER's Bhide expects a growth rate closer to 8 per cent for 2010-11 based on many assumptions, including a normal rainfall.

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