

# Services

## Trends in the Services sector

The Services sector comprises services meant for both final and intermediate consumption. Of these two categories, intermediate services such as transport and communications, which are also intermediate inputs of production of other goods and services, account for a major share in the total services output. The share of services meant for final consumption is relatively small. Technological advancements in the field of information and communication technology (ICT) have steadily transformed the Services sector. The latest available information on Gross Domestic Product and contributions made by the Services sector to it are related to the last quarter of 2006-07.

Some data on important indicators of performance of the Services sector is related to the first quarter of 2007-08. In addition, figures on growth rates achieved in the earlier quarters are revised as new information is coming in. The analysis of services sector performance is based on these three sets of information. In what follows, a discussion on the notable features of the performance of the Services sector in 2006-07 is undertaken.

## Performance of Services sector in 2006-07

Real GDP from services, on the aggregate, registered 11 per cent growth in 2006-07. An average of 13 per cent growth in trade, hotel, transport and communications segments made this double digit

**Table S.1: Growth of Services Sector GDP (Constant Prices)**

Year	(Annual, per cent)				
	Trade, Hotel, Transport & Communication	Financing, Insurance, Real Estate	Community, Social & Personal Services	Total services	GDP at Factor Cost
2001-02	9.2	7.3	3.9	7.1	5.8
2002-03	9.1	8.0	3.8	7.3	3.8
2003-04	12.0	4.5	5.4	8.2	8.5
2004-05	10.6	9.2	9.2	9.9	7.5
2005-06	11.5	9.7	7.8	10.0	8.4
2006-07 (Q1)	12.4	10.8	11.3	11.7	9.6
2006-07 (Q2)	14.2	11.1	8.3	11.8	10.2
2006-07 (Q3)	13.1	11.2	6.7	11.0	8.7
2006-07 (Q4)	12.4	9.3	5.7	9.9	9.1
2006-07	13.0	10.6	7.8	11.0	9.4

Source: Central Statistical Organisation

**Table S.2: Composition of Services sector and its share in GDP (per cent)**

Year	Trade, Hotel, Transport & Communications in Services GDP	Financing, Insurance, Real Estate in Services GDP	Community, Social & Personal Services in Services GDP	Share of Service in GDP
2001-02	45	26	29	50
2002-03	46	26	28	52
2003-04	48	25	27	52
2004-05	48	25	27	53
2005-06	49	25	26	54
2006-07(Q1)	49	26	25	54
2006-07(Q2)	48	26	26	57
2006-07(Q3)	50	25	25	53
2006-07(Q4)	50	25	25	56
2006-07	49	25	26	55

Source: Central Statistical Organisation

growth possible. This segment accounts for 50 per cent share of the services sector.

The financing, insurance and real estate segment registered 10.6 per cent annual growth in 2006-07. The community, social and personal services segments have registered a relatively lower rate of growth (7.8 per cent) as compared to the other two. The relative performance of course has remained unchanged from the previous year. The rates of growth observed during 2006-07 in the first two segments have improved over the previous year. As for growth rates observed in the last quarter, they reflected the adverse conditions faced by the Services sector firms owing to a stronger Rupee and an increasingly tight monetary policy.

The present quarter has witnessed a fall in the rate of output growth. The review of the Services sector undertaken in the last quarter recalled the 11th Five-Year Plan Approach Paper, which had laid down that to achieve 8.5 per cent of overall growth in GDP, the Services sector should clock a rate

of 9.4 per cent. The major share of Services in the GDP plainly asserts the linkage between GDP expansion and the performance of this sector. The concern, however, is over the reduced rates of growth observed in the last quarter of 2006-07. Table S1 highlights growth rates of output achieved by various components of services sector.

Relative importance of various segments of Services is provided in Table S2. As mentioned above, the present contribution of Services to GDP is 55 per cent. Within the sector, the share of the trade, hotel, transport and communications segments is hovering at the 50 per cent level. The other two contribute nearly 25 per cent each. The pattern is well set as telecommunications, meanwhile, is growing at an unprecedented rate.

#### **Performance of Services sector in the first quarter (April - June) of 2007-08**

The performance of the Services sector, as seen from selected indicators, depicts a mixed picture. During April-June

**Table S.3: Growth of Performance Indicators for Services**

Indicator	Period	2007-08	2006-07	% change
Tourist Arrivals (numbers)	April--June	9,16,116	8,74,366	4.8
Railways Freight (million tonnes)	April-May	124.53	117.55	5.9
Cargo Handled at Major Ports ('000 tonnes)	April-May	83,602	70,246	19.0
Production of Commercial Vehicles (numbers)	April-May	83.18	71.69	16.0
Telephone Connections (millions)	April--June	19.35	13.1	47.7
Broadband Connections (millions)	April--June	0.18	0.21	-14.3
Aggregate Deposits Variation(Rs. crores)	April-June	59877	36450	64.3
Bank Credit to Commercial Sector Variation (Rs. crores)	April-June	-25063	21898	-214.5

Source: NCAER Database on the Economy

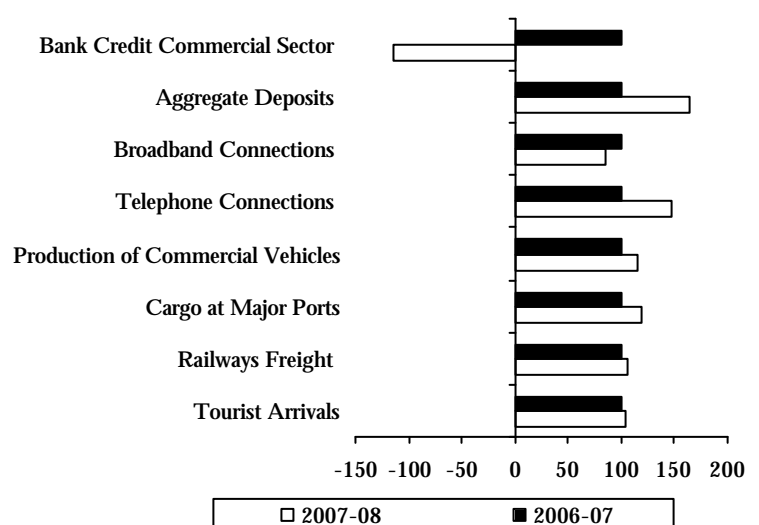
2007, the outstanding bank credit to the commercial sector given by the scheduled commercial banks fell by Rs 25,063 crore. But, the same period of the last year recorded an increase of Rs 21,898 crore. These figures reflect the lessening dependence of the corporate sector on commercial banks for their credit requirements. The higher profits earned by firms in the last financial year despite the higher interest rates indicates they either became self-sufficient or had postponed their investments or a combination of these two options. The other variable to record relatively poor performance in the first quarter is the number of new broadband connections. There were 210,000 new broadband connections in the April-June 2006 period, but during the same period in 2007 the number fell to 180,000 - a 14.3 per cent fall in the growth of new broadband connections.

Broadband is defined as an internet connection that transfers information at a speed greater than 256 Kilobytes per second. It may be recalled that ICT has been progressively transformed into a catalyst of economic growth. The effective provision of many of the applications of ICT depends on the availability of broadband connections. The government is focussing

on the proliferation of such facilities in rural areas. In view of this, the falling rate of growth in broadband connections does not augur well for the performance of the economy in general and the Services sector in particular.

The growth performance of various infrastructure sectors is depicted in Figure S1.

**FigS. 1: Growth of Performance Indicators for Services (% change, Y-o-Y)**



As regards other indicators, aggregate bank deposits during April-June 2007 were 64 per cent higher than the same

period last year. This seems to have been effected by the higher interest rates. The growth in the number of telephone subscribers was about 48 per cent higher in April-June 2007 than in April-June 2006. Cargo handled at major ports and production of commercial vehicles was higher by 19 per cent and 16 per cent respectively as compared to the previous year. The growth in railway freight is about 6 per cent higher in the present during April-May of the current year. Tourist arrivals during April-June 2007 were higher by about 5 per cent in the present financial year. Table S3 provides these trends. They indicate some moderation in the growth rates of these sectors. The signals that emanate warrant a cautious approach from policy makers.

### **Growth of India's Organised Retail Sector**

The National Sample Survey Organisation (NSSO), in its 53rd Round of survey of households, covered small trading units and their basic characteristics in India in 1997. NSSO defined trading as an act of purchase of goods and their disposal by way of sale without any intermediate physical transformation of the goods. This definition sees the retail trader as an intermediary between a wholesaler and his consumers. The retail trader may sometimes purchase goods directly from the producer or manufacturer. NSSO considered 'un-organised small trading units' as either 'Own Account Enterprises' or 'Non-Directory Trading Establishments'. An 'Own Account Trading Enterprise' (OATE) is an enterprise engaged in trading and run only by household workers. No hiring of workers on a regular basis from outside is stipulated. A 'Non-Directory Trading Establishment' (NDTE) is a trading establishment

that employs fewer than six workers (household and hired workers taken together). The survey had identified that approximately 119 lakh unorganised small trading enterprises existed in India in 1997, most of which are OATEs and a few are NDTEs. The NDTEs engaged 221.5 lakh people, including child labour, in 1997. The gross value added per month on average per enterprise was Rs 1,722 in rural areas and Rs 4,068 in urban areas.

At present, the Indian retail sector is predominantly unorganised. However, organised retail trading units are fast emerging and becoming the preferred choice of consumers, especially in urban areas. This phenomenon is attributed to a number of factors. First, the liberalisation of the economy has facilitated the entry of multinationals who aim at taking advantage of India's low cost labour and abundantly available raw material to make her a sourcing hub as well as market. Secondly, increasing income levels and a growing sense of brand consciousness among India's middle and higher income groups have led to the emergence of organised retail units. Thirdly, on the socio-cultural side, the emergence of greater numbers of nuclear families, their increasing education levels and women's labour market participation have put women under time pressure. This, in turn, has led to using convenience options such as super markets where they can purchase all their necessities under one roof.

Though there are no authentic figures available, there are estimates indicating that the Indian organised retail would grow at 25-30 per cent annually and is projected to touch \$23 billion by 2010. At these levels, organised retail would constitute about 10 per cent of overall retail sales. At present, the prominent organised retail sector players in

**Table S.4: Indian Retail Market Expectations Made in 2006**

<b>Retail Segments</b>	<b>India Retail Value (Rs. crore)</b>	<b>Organised Retail (Rs. crore)</b>	<b>Organised as a % of total market Value</b>
Clothing, Textiles & Fashion Accessories	113,500	21,400	18.9
Jewellery	60,200	1,680	2.8
Watches	3,950	1,800	45.6
Footwear	13,750	5,200	37.8
Health & Beauty Care Services	3,800	400	10.6
Pharmaceuticals	42,200	1,100	2.6
Consumer Durables, Home Appliances/equipments	48,100	5,000	10.4
Mobile handsets, Accessories & Services	21,650	1,740	8.0
Furnishings, Utensils, Furniture-Home & Office	40,650	3,700	9.1
Food & Grocery	743,900	5,800	0.8
Catering Services (F & B)	57,000	3,940	6.9
Books, Music & Gifts	13,300	1,680	12.6
Entertainment	38,000	1,560	4.1
<b>Total Estimated Market Value</b>	<b>1,200,000</b>	<b>55,000</b>	<b>4.6</b>

Source: Newspaper stories.

India are: Future Group, Trent Ltd, RPG Enterprise, Vishal Retail Ltd, Shoppers Stop Ltd, Bata India Ltd, Provogue India Ltd, Videocon Appliances Ltd., I.T.C. Ltd, Godrej Agrovert Ltd, and DCM - Hariyali Kisaan Bazaar. More corporate houses and multinational retail firms are entering the industry.

As for the present share of organised retail in the total retail business, market sources have estimated that the shares of watches, footwear, clothes, textiles and fashion accessories were higher with organised retailers in 2006. On the other hand, the organised retailers have lower shares in food and grocery, pharmaceuticals and jewelry. On the whole, about 4.6 per cent of the retailing was controlled by organised retailers in 2006 (Table S4).

Industry sources suggest that about 100 million sq. feet of quality shopping space would be available for organised retailing by

2007-08.

#### **Plans of some of the large retailers**

Pantallon, Reliance, RPG, Lifestyle, Rhejas, Piramyd, Trent, Trinethra, Vishal Group and Bharati Group are some of the corporates who have indicated significant investments in this sector.

The organised retail business has been restricted to urban areas. The southern and western parts of the country have more such stores. This phenomenon is expected to spread to tier- two towns before moving to rural areas. Infrastructure constraints, huge distribution costs owing to large geographical area, fragmented market, lack of national distribution networks and hubs are the main constraints faced by organised retailers presently in India. The other main issues faced by organised retail business sector are:

**Real estate costs:** Organised retailers facing higher costs of real estate which, in turn

would lead to a situation of high fixed cost. Unless real estate costs become conducive to retail growth, most retail business will take a longer time for break-even.

**Distribution costs:** A key bottleneck faced by organised retailers is the absence of distribution networks connecting tier-II towns with regional logistics hubs. There is scope for specialised organised logistics providers like regional transport companies to develop distribution networks, warehouses, cold chains and truck/multi-modal services connecting these locations.

**Regulatory aspects:** Dated regulations like the Weights and Measures Act expects all

goods to be available in factory-packed form at the stores. Similarly, the Agricultural Produce Marketing Committee (APMC) Act considers even small volume purchases to qualify as wholesale deals. There are also variations among states with respect to timings of store functioning.

**Skilled retail personnel:** There is a shortfall of trained manpower to meet the expansion plans of organised retailers. With increasing competition from other services sectors like information technology and BPOs, manpower shortage could become a critical bottleneck for organised retail.