

# India's GDP: In 6.9th heaven!

## Bottom line: Domestic story more resilient

The Indian government has revised FY14 growth up to 6.9% from 4.7% after improving corporate coverage on rebasing GDP to 2011-12 from 2004-05. Pronab Sen, Chairman, National Statistical Commission, has long maintained that the 2004-05 GDP data was under-estimating industrial growth. Quarterly data will be released on February 9. Against this backdrop, we are now tracking FY15E GDP growth at 6.6% (earlier 5.5%). This supports our India bottoming out view. At the same time, we will firm up our growth forecasts after release of quarterly data on February 9. Second, stronger-than-expected GDP data supports our expectation of a relatively shallow RBI rate cut cycle of 100bp by April 2016. As data are not available before FY12, it is not possible to calculate potential growth based on the new GDP series. As of now, we go along with our view that potential growth is around 7.5%. Finally, nominal GDP in the new series is actually marginally lower than that of the old series. At the same time, we still expect India to cross Brazil and Russia in GDP this year to emerge as the second largest BRIC after China (Chart 1). Do read our India 2015 report [here](#).

## Why? GDP revised to meet international standards

The Central Statistical Organisation periodically revises the GDP series to upgrade to the latest methodology and capture a greater part of the economy. It has upgraded the GDP series to the 2011-12 base year from 2004-05 guided by the recommendations of the international guidelines on the 2008 System of National Accounts on Friday. Major changes include:

**Corporate sector coverage:** Extended by incorporation of annual accounts of companies as filed with the Ministry of Corporate Affairs (MCA) under their e-governance initiative, MCA21. Partnership firms covered under Limited Liability Partnership Act have also been covered. For the "manufacturing" enterprises, MCA21 database has been used to supplement the information available in the Annual Survey of Industries.

**Local government:** Improved coverage of activities of local bodies – both rural and urban – and autonomous institutions, resulting in better coverage of government activities.

**Informal sector:** Incorporation of the results of the recent NSS Surveys, viz., Unincorporated Enterprise Survey (2010-11) and Employment-Unemployment Survey (2011-12), along with the adoption of an "Effective Labour Input Method" for unincorporated manufacturing and services enterprises, giving due weights to different categories of workers, i.e., owners, hired workers and helpers, for compiling the estimates of these enterprises.

## What? Manufacturing share rises to 15.8%

The new GDP series has captured the changing structure of the Indian economy (Table 1 gives weights relative to GDP at market prices, Exhibit 1 shows weights

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relative to GVA at basic prices). The share of manufacturing has increased to 15.8% from 11.9% in the 2004-05 series. At the same time, share of trade services is down to 10.9% from 15.2% in the 2004-05 series. Except real estate and construction, the share of all other services has also fallen in the new series. The share of agriculture has increased marginally in the new series to 17.2% from 16.8%.

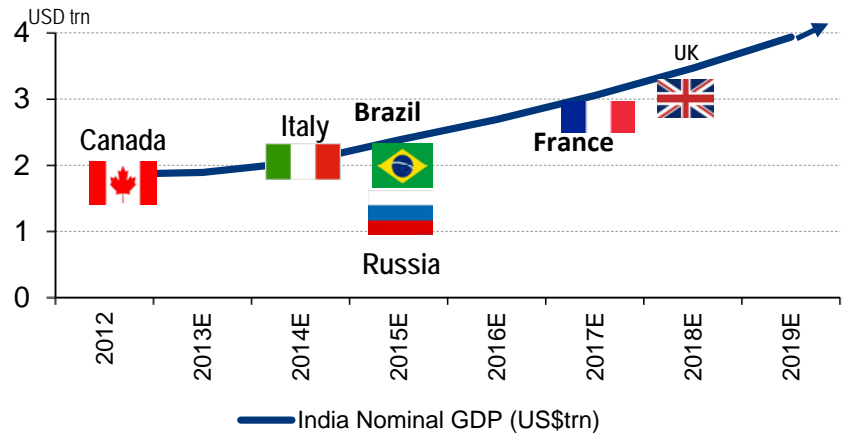
There is no significant change in the structure of GDP on the demand side (Exhibits 2 and 3). Savings and investment has slowed across the old and new series (Exhibits 4-5).

### **Why? Structural change driven by methodological advance**

FY14 growth has accelerated to 6.9% in the 2010-11 series from 4.7% in the 2004-05 series (Exhibit 6). This growth has been driven by higher growth in manufacturing, mining and non-financial services relative to 2004-05 base year series. Main reasons behind this upward revision:

- The adoption of MCA21 database has led to a higher share of mining and manufacturing in GDP and consequently higher growth rate relative to the 2004-05 base year series. It is important to note that the share and growth rate of both these sectors have been declining since FY12 as per the new series confirming the slowdown in these sectors in recent years.
- 'Enterprise Approach' is adopted in the new revision in place of establishment approach for mining and manufacturing. As a result, certain companies that were earlier being covered under the trade category are now correctly being reported under the mining and manufacturing category. This has resulted in a falling share of trade services.
- Growth rate of non-financial services has increased due to the use of sales/service tax as an indicator for nominal growth.

Chart 1: India will become 2nd largest BRIC after China in 2015



Source: BofA Merrill Lynch Global Research estimates.

Table 1: Changing structure of Indian economy reflects higher growth

	Old weights (2004-05)	New weights (2011-12)	FY13	FY14	FY15E
Agriculture, Forestry and Fishing	16.8	17.2	1.7	3.8	1.5
Industry	15.6	20.6	5.0	5.1	6.2
Mining and Quarrying	2.0	2.6	0.5	5.5	8.0
Manufacturing	11.9	15.8	6.1	5.3	6.0
Electricity, Gas, Water & Other Utilities	1.8	2.2	2.3	2.9	5.0
Services	59.8	54.7	5.9	8.1	7.7
Construction	7.2	7.6	-4.4	2.5	3.0
Trade, Repair, Hotel and Restaurant	15.2	10.9	9.9	13.0	13.0
Transport, Storage, Communication & Broadcasting	6.9	6.2	8.2	7.5	7.5
Financial Services	5.7	5.4	6.7	6.4	4.5
Real Estate, Dwelling & Professional Services	11.3	12.6	10.0	8.7	6.0
Public Administration and Defence	5.7	5.6	3.2	4.9	6.5
Others	7.7	6.4	6.2	10.9	11.5
GDP at factor cost	92.2	92.4	4.9	6.6	6.2
GDP at basic prices	na	92.3	4.9	6.6	6.2
Net taxes	7.8	7.7	7.1	10.2	11.0
GDP at market prices	100.0	100.0	5.1	6.9	6.6

Source: BofA-ML Global Research Estimates, MoSPI

Exhibit 1: 2011-12 series reflects a higher share for manufacturing that has been declining over the last few years

*Shares in GVA at current prices*

S. No.	Industry	2011-12		2012-13		2013-14	
		2004-05 Series	2011-12 Series	2004-05 Series	2011-12 Series	2004-05 Series	2011-12 Series
1.	Agriculture, forestry and fishing	17.9	18.4	17.5	18.0	18.2	18.0
2.	Mining and quarrying	2.7	3.2	2.4	3.1	2.1	2.8
3.	Manufacturing	14.7	18.1	14.1	17.9	12.9	17.3
4.	Electricity, gas, water supply & other utility services	1.6	2.4	1.7	2.3	1.9	2.3
5.	Construction	8.2	9.4	8.1	8.7	7.8	8.3
6.	Trade, repair, hotels and restaurants	17.4	10.8	17.2	11.3	16.5	12.0
7.	Transport, storage, communication & services related to broadcasting	7.3	6.5	7.5	6.6	7.5	6.6
8.	Financial, real estate & business services	16.5	18.8	17.2	19.5	18.5	19.8
9.	Community, social & personal services	13.8	12.5	14.3	12.5	14.5	12.9
	<b>TOTAL GVA</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: Estimates for the earlier series (2004-05 series) have been derived from GVA at factor cost, while estimates for the 2011-12 series have been derived from GVA at basic prices.

Source: MoSPI, Gol

Exhibit 2: No significant change in structure on the demand side

(Amount in Rs. lakh crore)

S.No.	Item	2011-12			2012-13			2013-14		
		2011-12 Series	2004-05 Series	% change	2011-12 Series	2004-05 Series	% change	2011-12 Series	2004-05 Series	% change
1	GVA at factor cost	82.1	83.9	-2.2	92.6	93.9	-1.3	104.9	104.7	0.2
2	GVA at basic prices	82.0	85.4	-4.0	92.5	95.6	-3.2	104.8	-	
3	GDP	88.3	90.1	-2.0	99.9	101.1	-1.2	113.5	113.6	-0.1
4	GNI	87.6	89.3	-2.0	98.7	100.0	-1.2	112.1	112.3	-0.2
5	NNI	78.5	80.5	-2.6	88.4	89.8	-1.5	100.6	100.5	0.0
6	GNDI	90.6	92.4	-1.9	102.2	103.5	-1.2	116.0	116.1	0.0
7	Gross Savings	29.9	28.2	6.0	31.8	30.4	4.5	34.8	-	
8	PFCE	50.9	51.4	-1.0	58.8	57.7	1.8	67.7	64.9	4.4
8	GFCE	9.9	10.3	-3.8	10.9	11.9	-8.1	12.8	13.4	-4.8
10	GCF	33.7	32.0	5.3	36.6	35.2	3.9	36.6	-	
10.1	Of which GFCF	29.7	28.6	3.9	31.4	30.7	2.1	33.7	32.1	4.9
11	Exports	21.4	21.5	-0.3	24.4	24.3	0.5	28.5	28.2	1.3
12	Imports	27.2	27.2	-0.2	31.1	31.1	0.0	31.9	32.3	-1.1

Source: MoSPI

Exhibit 3: FY14 growth driven by non-durable goods, while durable goods growth slowed down

**Private Final Consumption Expenditure at Constant (2011-12) Prices**

(₹ crore)

S.No.	Item	2011-12	2012-13	2013-14	percentage change over previous year	
					2012-13	2013-14
	<b>Private Final Consumption Expenditure</b>					
1.	<b>By purpose</b>					
1.1	Food and non-alcoholic beverages	1492455	1574878	1696626	5.5	7.7
1.2	Alcoholic beverages, tobacco and narcotics	158311	143849	143808	-9.1	0.0
1.3	Clothing and footwear	357504	372629	376674	4.2	1.1
1.4	Housing, water, electricity, gas and other fuels	770788	810985	849348	5.2	4.7
1.5	Furnishings, household equipment and routine household maintenance	182432	215665	239061	18.2	10.8
1.6	Health	181334	207641	230829	14.5	11.2
1.7	Transport	761608	783230	825751	2.8	5.4
1.8	Communication	98012	103745	111475	5.8	7.5
1.9	Recreation and culture	56273	56901	58714	1.1	3.2
1.1	Education	137067	145786	161515	6.4	10.8
1.11	Restaurants and hotels	116644	120330	137162	3.2	14.0
1.12	Miscellaneous goods and services	803942	869289	908614	8.1	4.5
2.	<b>By durability</b>					
2.1	Durable goods	165686	202603	220750	22.3	9.0
2.2	Semi-durable goods	442110	458481	463820	3.7	1.2
2.3	Non-durable goods	2118750	2195039	2331983	3.6	6.2
2.4	Services	2389826	2548805	2723024	6.7	6.8

Source: MoSPI

Exhibit 4: Savings and investments are on a decline

S.No.	Item	2011-12	2012-13	2013-14
	<b>Rates</b>			
22	Gross Saving to GNDI	33.0	31.1	30.0
23	GCF to GDP	38.2	36.6	32.3
24	GCF excluding Valuables to GDP	35.3	33.9	31.0
25	PFCE to NNI	64.9	66.4	67.3

Source: MoSPI

Exhibit 5: Negative investment growth across sectors except mining, trade and social services

**Statement 6.2**

**Gross Capital Formation by industry of use at constant (2011-12) prices**

(₹ crore)

S.No.	Item	2011-12	2012-13	2013-14	percentage change over previous year	
					2012-13	2013-14
1.	Agriculture, forestry and fishing	275319	239778	238976	-12.9	-0.3
1.1	crops	235370	201629	199959	-14.3	-0.8
1.2	livestock	25800	22917	21931	-11.2	-4.3
1.3	forestry and logging	2223	2073	2462	-6.7	18.8
1.4	fishing and aquaculture	11927	13159	14624	10.3	11.1
2.	Mining and quarrying	66568	76150	97909	14.4	28.6
3.	Manufacturing	627398	664132	628053	5.9	-5.4
4.	Electricity, gas, water supply & other utility services	286244	310892	326130	8.6	4.9
5.	Construction	208502	184441	176299	-11.5	-4.4
6.	Trade, repair, hotels and restaurants	204686	300760	364400	46.9	21.2
6.1	Trade & repair services	169512	271070	334811	59.9	23.5
6.2	Hotels & restaurants	35174	29690	29589	-15.6	-0.3
7.	Transport, storage, communication & services related to broadcasting	225796	216644	181083	-4.1	-16.4
7.1	Railways	31382	34825	36761	11.0	5.6
7.2	Road transport	96146	80150	51450	-16.6	-35.8
7.3	Water transport	7366	6990	622	-5.1	-91.1
7.4	Air transport	6284	5568	1539	-11.4	-72.4
7.5	Services incidental to transport	16327	26415	24973	61.8	-5.5
7.6	Storage	6709	3195	5013	-52.4	56.9
7.7	Communication & services related to broadcasting	61582	59500	60725	-3.4	2.1
8.	Financial services	46164	41621	37210	-9.8	-10.6
9.	Real estate, ownership of dwelling & professional services	835256	709007	636539	-15.1	-10.2
10.	Public administration and defence	261548	265961	335836	1.7	26.3
11.	Other services	148320	154601	186010	4.2	20.3
12.	<b>Total GCF by industry of use*</b>	<b>3185801</b>	<b>3163987</b>	<b>3208447</b>	<b>-0.7</b>	<b>1.4</b>

Source: MoSPI

Exhibit 6: Mining, manufacturing and non-financial services drive up growth in the revised series

*Changes in growth at current and constant prices*

S.No.	Industry	Growth at current prices				Growth at constant prices			
		2012-13		2013-14		2012-13		2013-14	
		2004-05 Series	2011-12 Series	2004-05 Series	2011-12 Series	2004-05 Series	2011-12 Series	2004-05 Series	2011-12 Series
1.	Agriculture, forestry and fishing	9.7	10.8	15.9	12.7	1.4	1.2	4.7	3.7
2.	Mining and quarrying	-0.1	8.4	0.1	4.8	-2.2	-0.2	-1.4	5.4
3.	Manufacturing	6.9	11.6	2.2	9.3	1.1	6.2	-0.7	5.3
4.	Electricity, gas, water supply & other utility services	15.8	10.0	29.2	14.2	2.3	4.0	5.9	4.8
5.	Construction	10.2	3.6	7.7	8.3	1.1	-4.3	1.6	2.5
6.	Trade, repair, hotels and restaurants	10.9	18.5	7.0	20.2	4.5	10.3	1.0	13.3
7.	Transport, storage, communication & services related to broadcasting	15.3	15.9	10.2	12.1	6.0	8.4	6.1	7.3
8.	Financial, real estate & business services	17.1	17.4	19.9	14.8	10.9	8.8	12.9	7.9
9.	Community, social & personal services	16.2	17.4	13.5	14.8	5.3	8.8	5.6	7.9
	<b>TOTAL GVA</b>	<b>11.9</b>	<b>12.9</b>	<b>11.5</b>	<b>13.2</b>	<b>4.5</b>	<b>4.9</b>	<b>4.7</b>	<b>6.6</b>

Note: Estimates for the earlier series (2004-05 series) have been derived from GVA at factor cost, while estimates for the 2011-12 series have been derived from GVA at basic prices.

Source: MoSPI

## APPENDIX: NEW GDP SERIES

The Central Statistical Organisation has revised the GDP series to the 2011-12 base year from 2004-05. The changes introduced in this comprehensive revision have been guided by the recommendations of the international guidelines on the subject, System of National Accounts, 2008. Major changes include:

- Comprehensive coverage of Corporate Sector both in manufacturing and services by incorporation of annual accounts of companies as filed with the Ministry of Corporate Affairs (MCA) under their e-governance initiative, MCA21. Partnership firms covered under Limited Liability Partnership Act have also been covered. For the "manufacturing" enterprises, MCA21 database has been used to supplement the information available in the Annual Survey of Industries.
- Improved coverage of activities of local bodies – both rural and urban – and autonomous institutions, resulting in better coverage of government activities.
- Incorporation of the results of the recent NSS Surveys, viz., Unincorporated Enterprise Survey (2010-11) and Employment-Unemployment Survey (2011-12), along with the adoption of an "Effective Labour Input Method" for unincorporated manufacturing and services enterprises, giving due weights to different categories of workers, i.e., owners, hired workers and helpers, for compiling the estimates of these enterprises.

Apart from the above-mentioned major changes, specific changes have also been made in the following industries/sectors:

### **Agriculture, forestry and fishing**

- i. Segregation of crop and livestock production;
- ii. Adoption of Agriculture Census (2010-11) and Livestock Census (2012);
- iii. Revision of yield rates of meat & by-products of different livestock species based on study conducted by National Research Centre on Meat, Hyderabad.

### **Mining & manufacturing**

- i. Estimation of value addition from extraction of sand through an indirect method, in accordance with its use in construction;
- ii. "Enterprise Approach" adopted for mining and manufacturing activity using MCA21 database to account for head offices, ancillary activities, etc. not covered under the "establishment approach".

### **Electricity, gas, water supply & other utility services**

- i. Utility services, including sewage, waste management, recycling and remediation activities, brought under the group "electricity, gas and water supply";

### **Construction**

- i. Study on the inputs in the Construction sector by Central Building Research Institute (CBRI), Roorkee;
- ii. Incorporation of results of NSS All India Debt & Investment Survey, 2013

### **Non-financial Services**

- i. Use of Consumer Price Indices-Rural, Urban and Combined, instead of the CPI-AL/RL/IW being used earlier;
- ii. Use of Service Tax as an indicator for growth in the respective service (s)

### **Financial Services**

- i. Comprehensive coverage of financial sector by inclusion of information from the accounts of stock brokers, stock exchanges, asset management companies, mutual funds and pension funds, as well as the regulatory bodies, SEBI, PFRDA and IRDA;

### **ACRONYMS**

GDP: Gross Domestic Product  
GVA: Gross Value Added  
GNI: Gross National Income  
NDP: Net Domestic Product  
NNI: Net National Income  
GNDI: Gross National Disposable Income  
PFCE: Private Final Consumption Expenditure  
GFCE: Government Final Consumption Expenditure  
CFC: Consumption of Fixed Capital  
GFCF: Gross Fixed Capital Formation  
CIS: Changes in Stock  
CE: Compensation of Employees  
OS: Operating Surplus  
MI: Mixed Income  
ROW: Rest of the World



#### FORMULAE

1.  $GVA \text{ at basic prices} = CE + OS/MI + CFC + \text{Production taxes less Production subsidies}$
2.  $GVA \text{ at factor cost (earlier referred to as GDP at factor cost)} = GVA \text{ at basic prices} - \text{Production taxes less Production subsidies}$
3.  $GDP = \sum GVA \text{ at basic prices} + \text{Product taxes} - \text{Product subsidies}$
4.  $NDP/NNI = GDP/GNI - CFC$
5.  $GNI = GDP + \text{Net primary income from ROW (Receipts less payments)}$
6.  $\text{Primary Incomes} = CE + \text{Property and Entrepreneurial Income}$
7.  $NNDI = NNI + \text{other current transfers from ROW, net (Receipts less payments)}$
8.  $GNDI = NNDI + CFC = GNI + \text{other current transfers from ROW, net (Receipts less payments)}$
9.  $\text{Gross Capital Formation} = \text{Gross Savings} + \text{Net Capital Inflow from ROW}$
10.  $GCF = GFCF + CIS + \text{Valuables} + \text{"Errors and Omissions"}$
11.  $\text{Gross Disposable Income of Govt.} = GFCE + \text{Gross Saving of GG}$
12.  $\text{Gross Disposable Income of Households} = GNDI - \text{GDI of Govt.} - \text{Gross Savings of All Corporations}$

#### REMARKS ON THE FORMULAE:

1. Production taxes or subsidies are paid or received with relation to production and are independent of the volume of actual production. Some examples are:

- Production Taxes - Land Revenues, Stamps and Registration fees and Tax on profession
- Production Subsidies - Subsidies to Railways, Input subsidies to farmers, Subsidies to village and small industries, Administrative subsidies to corporations or cooperatives, etc.

3. Product taxes or subsidies are paid or received on per unit of product. Some examples are:

- Product Taxes: Excise Tax, Sales tax, Service Tax and Import and Export duties.
- Product Subsidies: Food, Petroleum and fertilizer subsidies, Interest subsidies given to farmers, households etc through banks, Subsidies for providing Insurance to households at lower rates.

8. Other Current Transfers refers to current transfers other than the primary incomes.

9. Estimate of GCF derived from this formula is taken as the "firmer" estimate and the difference between this estimate and the sum of GFCF, CIS and valuables is taken as "errors and omissions", as referred in 10 above.

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