

# **CRISIL First Cut**

## **Overestimation bias in GDP likely**

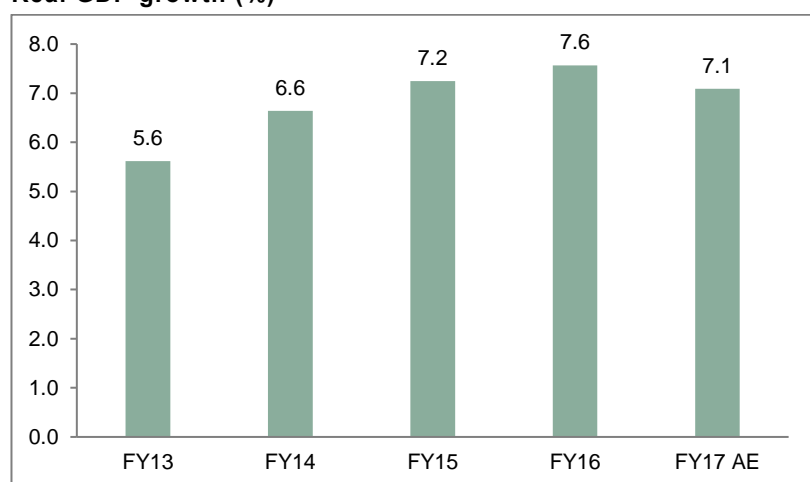
January 2017

### CSO pegs fiscal 2017 GDP growth at 7.1%

The Central Statistical Organisation (CSO) came out with the first advance estimates on gross domestic product (GDP) for the current fiscal on January 6, 2017 – almost a month before the standard release date of February 7 – to facilitate advancement of the general Union Budget presentation to the beginning of February.

CSO has estimated the real GDP growth for fiscal 2017 to fall to 7.1% from 7.6% in fiscal 2016. CRISIL Research believes that advance estimates by CSO are likely to have an upward bias, especially in terms of government consumption growth (23.8%) and government services growth (12.8%). Agriculture and industrial sector growth estimates are in line with our forecasts. CRISIL had estimated India's GDP to grow at 6.9% in fiscal 2017.

#### Real GDP growth (%)



Source: CSO; AE = Advance estimates

The primary reason for CSO's overestimate is the absence of sufficient information for the third quarter when the economy slowed due to demonetisation. There are only a handful of indicators for the fiscal's third quarter that the CSO could have looked at, to arrive at the full year forecast now, such as agriculture production and sowing data, government expenditure, sales tax etc. For most of the non-agricultural parameters, data is available only till November, which wouldn't have fully captured the impact of demonetisation. As such, since its shift to the new methodology of GDP calculation, the CSO relies heavily on corporate results data available at the MCA 21 database which gets updated for third quarter results not before early February.

Some other indicators also suggest that growth prospects in the second half of the fiscal may be bleaker than what CSO has estimated. The latest manufacturing Purchasing Managers' Index (PMI), for instance, suggests that manufacturing activity is likely to have contracted for the first time this year in December, while services activity registered a decline for the second consecutive month in December.

However, while non-agriculture growth is expected to be lower than what is estimated by CSO, agricultural growth may not undergo much revision later. The first advance estimates of production of major *kharif* crops for 2016-17 are already out and even *rabi* sowing is proceeding well as per the latest available data. According to the agriculture ministry, the total area sown under *rabi* crops as on December 30, 2016 stood at 582.87 lakh hectare, as compared with 545.46 lakh hectare during the same period last year.

**Area sown under rabi as on December 30, 2016 (lakh hectare)**

Crop	Area sown in 2016-17	Area sown in 2015-16
Wheat	292.39	271.46
Rice	10.68	14.77
Pulses	148.11	131.12
Coarse Cereals	52.21	56.29
Oilseeds	79.48	71.83
Total	582.87	545.46

Source: Ministry of Agriculture

In the wake of demonetisation, even if the situation limps back to business as usual by the end of fourth quarter, not all impacted sectors may rebound equally. Sectors hitherto dealing in high value cash transactions such as real estate (and thereby related sectors such as cement and other building products), and luxury automobiles, may take longer to revive compared with others.

The outlook for fiscal 2018 will be shaped by how long the cash crunch led disruption lasts. In our base case, we have taken it as a 2-quarter phenomenon- Q3 and Q4 and normalisation after that. In this scenario, growth will start approaching the 8% mark in the next fiscal if monsoons too remain normal.

**Nuances of GDP growth**

<i>At basic prices</i>	FY13	FY14	FY15	FY16	FY17 AE	<i>At market prices</i>	FY13	FY14	FY15	FY16	FY17 AE
<b>Agriculture &amp; allied</b>	1.5	4.2	-0.2	1.2	4.1	<b>Pvt. Consumption</b>	5.3	6.8	6.2	7.4	6.5
<b>Industry</b>	3.6	5.0	5.9	7.4	5.2	<b>Govt. Consumption</b>	0.5	0.4	12.8	2.2	23.8
<i>o/w Manufacturing</i>	6.0	5.6	5.5	9.3	7.4	<b>Fixed Investment</b>	4.9	3.4	4.9	3.9	-0.2
<i>Mining</i>	-0.5	3.0	10.8	7.4	-1.8	<b>Exports</b>	6.7	7.8	1.7	-5.2	2.2
<b>Services</b>	8.1	7.8	10.3	8.9	8.8	<b>Imports</b>	6.0	-8.2	0.8	-2.8	-3.8

Source: CSO

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