

Concern over sluggish growth outlook for US, Euro Zone and Japan

Gloomy Global Economic Scenario Will Adversely

Affect India's Export Performance: FICCI Survey

NEW DELHI, August 6, 2011. The prospect of the US financial systems going into a tailspin, the economic meltdown in the western world, the slowdown in manufacturing and services in China and the likelihood of a sharp contraction in the Japanese economy have clouded the global economic scenario. The Indian stock markets have hit a 12-month low and leading economists and financial analysts predict that with the expected slide in consumption demand abroad, India's export prospects will take a hit and undermine economy's growth performance, a quick survey by FICCI reveals.

The FICCI Survey participants expect the US economy to grow by about 2.5 per cent in the year 2011. This is slightly lower than the IMF projection of 2.8 per cent growth for US in the current year. The survey participants have attributed this sluggish growth outlook for US to weak demand [both consumer and business spending] and weak investment sentiment. Moderation in government spending is also expected to weaken growth momentum in US in the months ahead.

The survey respondents feel that the Euro area should register a growth of about 1.9 per cent in the current year. This projected growth rate for the Euro area is slightly higher than the IMF projection that pegs growth in the Euro area in 2011 at 1.6 per cent. It may be noted that all the survey participants who responded to this question have projected a higher estimate for growth in Euro area than the projection made by IMF.

However, analysts feel that within the Euro area, economies are expected to witness significant growth disparities. Western Europe is estimated to grow at a modest 1.5 per cent in 2011, but with significant variability. Germany, the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) along with Benelux countries (Belgium, the Netherlands, and Luxembourg) are expected to perform at the higher end - above 2 per cent - while U.K. and France are likely to see growth in the range of 1.5 – 2 per cent due to budget cuts and less help from exports. Most of Southern Europe and Ireland are expected to see growth of less than 1 per cent or may even contract.

Japan's growth rate is projected to fall to a negative 0.5 per cent in 2011. It may be noted that the estimates for the growth of Japan in the current year vary the most from the projections provided by IMF and which have pegged Japan to grow by 1.4 per cent in 2011. The lingering impact of tsunami, earthquake and the nuclear crisis is expected to lead to a contraction in the Japanese economy. However, some of the respondents did mention that growth in Japan could exceed IMF's projection as the experience of past disasters in Japan shows that the negative short-term impact on economic output will be followed by a rebound as reconstruction spending picks up.

With regard to China, the survey respondents opine that growth in 2011 would moderate only slightly to about 9.5 as the Chinese economy settles onto a gradually slowing growth trend. The growth moderation will be to a smaller extent only if there are no major negative impacts from inflation or overvalued assets.

A majority of the respondents feel that the **current trend of high export growth will not be sustained in the months ahead**. There is significant apprehension about the global economic recovery which in turn is expected to impinge on consumption demand. The sovereign debt crisis in Euro zone, weakness in the US and moderation of economic activity in China may significantly affect the level of external demand. This could be detrimental to the recently gained momentum in India's exports performance as these economies are India's major trading partners.

The outlook for exports is also tempered on account of factors such as rising interest rates in India, rising raw material prices and rising cost of oil and oil products. The closure of the DEPB scheme by end September 2011 has also been cited as one of the factors that would undermine export growth going ahead.

It may however be noted that while export growth will not be as significant as seen in the recent past, we will still clock an average growth of about 20 per cent this year. Survey participants have noted that diversification of our export markets within Asia, Africa and Latin America will support our export activity.

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