2 Real Sector

2.1 Overview

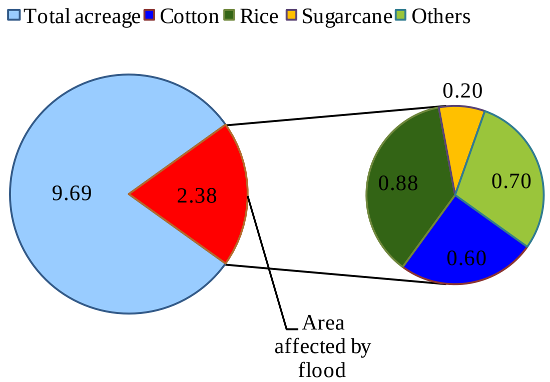
The economic recovery seen in FY10 suffered a setback in early FY11 as floods damaged about one-fourth of the country's agriculture heartland. Not only were crops and livestock destroyed, a number of agro-based industries, power plants, and other manufacturing activities were also disrupted. The combined impact of wealth and income losses is feared to have trickle down effects on domestic private consumption. Moreover, with limited fiscal space, given stringent needs for fiscal consolidation, any stimulus from public sector is hard to come.

However, an expected good performance by the services sector will provide support to GDP growth in FY11. Further, a disproportionate rise in the prices of almost all agriculture produce led to a significant increase in nominal income of the farmers. While this outcome helped sustain private aggregate demand, it also strengthened inflationary pressures in the economy. In this backdrop, SBP estimates remained unchanged from earlier assessment that FY11 real GDP growth is likely to be in the range of 2.0 – 3.0 percent.

2.2 Agriculture Sector Performance

Kharif[1] crops were planted on 9.7 million hectares, but heavy rains and floods damaged standing crops on approximately 2.4 million hectares. Initial assessment indicates huge losses to rice; cotton, maize, pulses, vegetables and fruits (see **Figure 2.1**). However, losses to sugarcane crop in flood areas were partially offset by an increase in yield in non-flood regions. The extended rains also caused higher viral/disease attacks on cotton and rice crops.

Figure 2.1: Initial Estimates of Flood Losses to Standing Kharif Crops (million hectares)



[1] Kharif season is from April-September.

Besides damages to crops, livestock and agriculture related assets and infrastructure[2] also suffered substantial losses. The State Bank of Pakistan, federal and provincial governments has initiated financial support programs for a quicker recovery of agriculture sector (see **Box 2.1**).

Box 2.1: Measures for Flood Affected Regions

The State Bank of Pakistan has announced several financial relief measures for a quick recovery of agriculture and SMEs in flood affected areas. These are:[3]

1. *Refinance scheme for revival of SMEs & agricultural activities in flood affected areas*. Rs.10 billion has been allocated to this scheme and it is launched through banks/DFIs at concessional mark up rates. Under this scheme:

a. Agricultural production/working capital loans shall be given under Prudential Regulations for agriculture finance for a maximum period of one year (based on cropping cycle).

b. Short term loans for working capital requirements of SMEs for a period of one year.

2. *Concessional financing and guarantee scheme for canola cultivation in flood affected areas*. An amount of Rs500 million was allocated under this scheme. It is also expected that MINFA and Provincial agri-departments would ensure timely availability of seeds, fertilizers, pesticides and proper technical guidance. Loan will cover under credit guarantee scheme, where SBP would share bona-fide losses of banks to the extent of 30 percent. These production loans will be given at affordable rates for a maximum period of six months (based on cropping cycle).

3. *Other relief packages*

a. Restructuring/rescheduling of overdue loans for 2 years.

b. Provision of fresh credit through SBP refinance window for 2 years at 8.0 percent per annum with bank spread of 3.0 percent.

c. Exemption from additional provisioning requirement for one year.

Crops

Cotton and rice harvests declined significantly during *kharif FY11*, whereas sugarcane output increased slightly due to substantial yield gains in non-flood areas (see **Table 2.1**). Despite low water availability at sowing time, area under cotton increased due to attractive prices. However, floods damaged FY11 cotton crop on about 0.6 million hectares (see **Table 2.2** and **Figure 2.2**), thus, effective area under cotton fell to 2.5 million hectares. Cotton crop was also damaged by heavy rains in major cotton districts. Consequently, cotton production dropped to 11.7 million bales, down by 9.4 percent during FY11. However, data of cotton arrival at ginning factories shows a larger decline. Specifically, 9.4 million bales of cotton arrived at ginning factories up to December 15, 2010, down by 16.8 percent from 11.3 million bales arrived in the same period last year. Anecdotal evidence suggests that farmers might have held back cotton due to rising prices.

[2] Dams, power stations, bridges, canal banks, water courses, tube-wells, agriculture wells, farm to market roads and storage/silos damaged in 78 districts across the country.

[3] For details visit: *www.sbp.org.pk/smefd/circulars/2010/C16.htm*

The difference between cotton harvest and arrival data may narrow January 2011 onwards.

Sugarcane production was estimated at above 55 million tons during FY11. The floods damaged standing sugarcane crop on 0.2 million hectares. But as with the basmati rice, this crop also benefited from heavy rains and wet weather in non-flood areas and higher yields partially compensated for the flood losses. Provisional estimates by MINFA suggest sugarcane harvest at 49.4 million tons during FY11, slightly higher than in the preceding year.

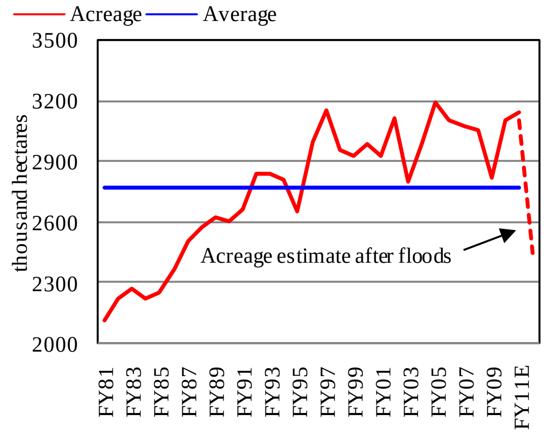
Table 2.1:Performance of Major Crops

Crops	FY09	FY10^P	FY11^T	FY11^E	YoY growth in FY11
Area under cultivation (000 hectares)					
Cotton	2,850	3,106	3,200	3,142	1.2
Sugarcane	1,029	943	1,070	1,047	11.0
Rice	2,963	2,883	2,708	2,642	-8.4
Wheat	9,046	9,105	9,045	-	-
Gram	1,092	1,050	1,122	-	-
Maize	1,062	950	1,010	-	-
Production ('000 tons; cotton in '000 bales of 170.09 kg each)					
Cotton	12,060	12,914	14,010	11,700	-9.4
Sugarcane	50,045	49,373	53,665	49,400	0.1
Rice	6,954	6,883	6,048	5,949	-13.6
Wheat	24,032	23,917	25,000	-	-
Gram	740	571	619	-	-
Maize	3,548	3,477	3,452	-	-
Yield (Kg/hectare)					
Cotton	720	707	745	633	-10.4
Sugarcane	48,635	52,357	51,000	47,182	-9.9
Rice	2,347	2,387	2,228	2,252	-5.7
Wheat	2,657	2,627	2,764	-	-
Gram	696	544	552	-	-
Maize	3,341	3,660	3,419	-	-

P: Provisional, T: Target, E: Highly provisional estimates
Source: Ministry of Food & Agriculture estimates released on November 1, 2010.

Market prices for sugarcane were substantially higher than the indicative price set by the provincial governments. Although prices were higher than the corresponding season of FY10, farmers reportedly held back their crops for even higher prices. As a result, crushing in mills remained lower and some reports suggest that sugarcane divergence to *gur* has increased.

Figure 2.2: Cotton Acreage Trends



On positive side, floods and extended heavy monsoon rains improving the underground water table, soil moisture level and increasing water availability in reservoirs brightened the prospects for FY11 *rabi* cropping season. In particular, a significant increase in wheat output is expected from un-irrigated (*barani*) areas in FY11. Government set a target of 25 million tons, and the possibility of a record wheat harvest in FY11 cannot be ruled out. Government maintained wheat support price at Rs.950/40 kg, but small farmers are likely to fetch better prices than the preceding years as both domestic prices, as well as, international wheat prices are expected to remain firm in the first half of 2011.

Table 2.2: Provisional Estimates of Cotton

Area in 000 hectare; production in 000 bales

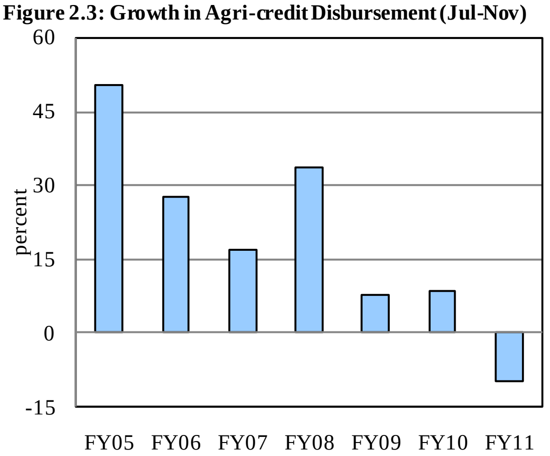
Province	Area sown	Area flooded	Prod. losses	Remaining prod.
Punjab	2,499	405	1,574	8,126
Sindh	650	191	1,020	3,180
Khyber Pukhtoonkhwa	10	0	0	10
Balochistan	40	2	5	95
Total	3,199	598	2,599	11,411

Source: Ministry of Food & Agriculture. This data is based on estimates released on October 13, 2010. The aggregate estimates were later revised by the Ministry on November 1, 2010 for which complete province-wise break up was not available.

Livestock

Livestock sub-sector, which accounts for 53.2 percent of agriculture sector value addition and 11.4 percent of GDP, also suffered losses due to floods. Not only thousands of animals died, various types of diseases (e.g., Hemorrhagic Septicemia (HSD), Liver Fluke, Foot rot, posterior paralysis, etc.) in flood hit regions also affected growth in this important sub-sector.

Figure 2.3: Growth in Agri-credit Disbursement (Jul-Nov)



It is important to note that a relatively stable growth in livestock sub-sector during the last few years had contributed strongly to agriculture growth and compensated for a higher volatility observed in crops sub-sector.[4] Given strong domestic and external demand for livestock products, flood related losses would further add pressure on prices in months ahead.

[4] Standard deviation of growth in livestock is 4.0 for FY01-FY10 as against standard deviation of 6.1 for growth in crops sub-sector during this period.

Agri-credit

Agri-credit disbursement showed a negative growth of 9.6 percent YoY, lowest in last six years, in Jul-Nov FY11, compared to reasonable growth of 8.7 percent in the same period of FY10 (see **Figure 2.3**). This fall is mainly attributed to (1) dismal lending activity by one of the specialized banks (see **Table 2.3**) due to its larger exposure in flood affected areas, and (2) cautious lending by five major commercial banks.

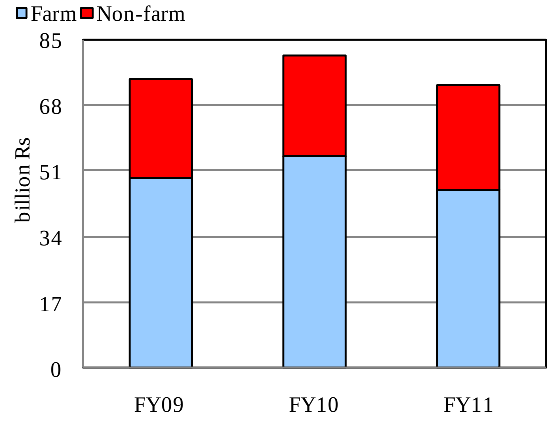
Table 2.3: Agriculture Credit Trends (Jul-Nov)

billion Rupees; Growth in percent

	Disbursement		Growth	
	FY10	**FY11**	**FY10**	**FY11**
Commercial banks (CBs)	*58.3*	*59.1*	*5.6*	*1.4*
5 big commercial banks	44.9	43.1	16.7	-4.2
Domestic private banks	13.3	16.0	-20.0	20.3
Specialized banks	*22.7*	*14.1*	*17.3*	*-38.0*
ZTBL	21.8	12.6	19.4	-42.3
PPCBL	0.9	1.5	-18.2	69.9
Total	**81.0**	**73.2**	**8.7**	**-9.6**

It is important to mention that rising NPLs in agri-sector are already a source of concern for the banks, and heavy losses due to floods further complicated the situation. Commercial banks may opt risk averse behavior and limit their exposure in agri-sector, which would hurt growth in this important sector.

Figure 2.4: Sector-wise Agri-credit Disbursement (Jul-Nov)



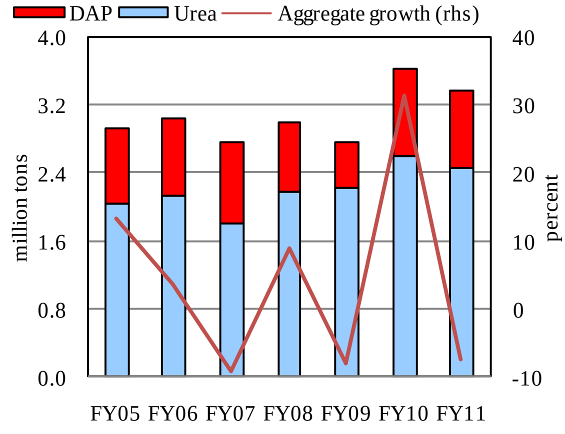
Moreover, the specialized banks were constrained by limited funds to lend as their lending is based on recoveries, which are low because of their higher exposure in long-term developmental loans. On the other hand, CBs and domestic private banks (DPBs) mainly lend for short-term production purposes.

A disaggregated analysis shows that the share of farm sector in total agri-credit declined in Jul-Nov FY11. Credit disbursement to farm-sector declined by 15.8 percent during Jul-Nov FY11 compared with sharp increase of 12.1 percent in the same period last year. While, non farm sector showed a growth of 3.5 percent in Jul-Nov FY11, in contrast with 2.1 percent during Jul-Nov FY10 (see **Figure 2.4**). This analysis reinforces the view that the present contraction in credit disbursement to agri-sector is a consequence of floods as farm sector was hit hard by this calamity.

Fertilizer

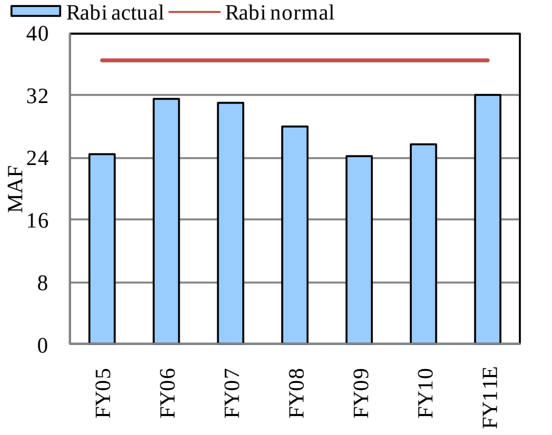
Heavy damages to the infrastructure, displacement of farmers and sluggish activities of farming sector restricted off-take of fertilizers during Jul-Nov FY11. However, the impact of flood on fertilizer off-take may be temporary as: (a) bright outlook for *rabi* crops would lead to higher off-take; (b) availability of concessional credit facilities in flood affected areas would also support off-take, as well as, (c) increased farm income (due to higher prices of most of the agri- produce) would encourage farmers to enhance yield of *rabi* crops by taking advantage of the soil moisture through increased use of fertilizers.

Figure 2.5: Fertilizer Off-take (Jul-Nov)



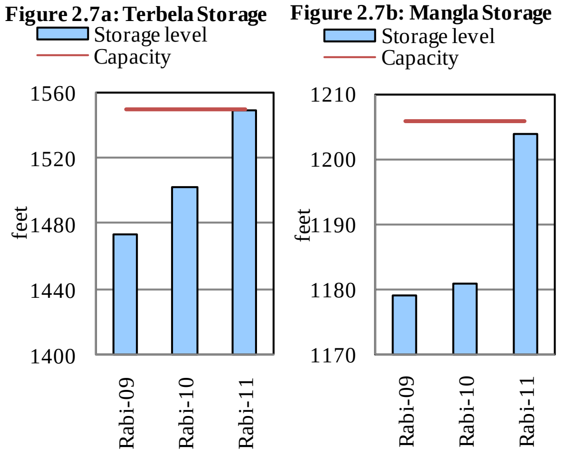
Apparently, a sharp decline of 7.4 percent in aggregate fertilizer off-take during Jul-Nov FY11 compared with a strong growth of 31.4 percent last year seems quite disappointing (see **Figure 2.5**). However, surge in fertilizer off-take during Jul-Nov FY10 was an exception as farmers aggressively piled up inventories due to lower prices.

Figure 2.6: Water Availability in Rabi (Oct-Mar)



A disaggregated analysis indicates that DAP decline was more pronounced as its off-take dropped by 12.7 percent YoY, whereas urea off-take fell by 5.2 percent during Jul-Nov FY11. A fall in DAP off-take is a function of high base as DAP off-take rose sharply in FY10 amid substantially lower prices.

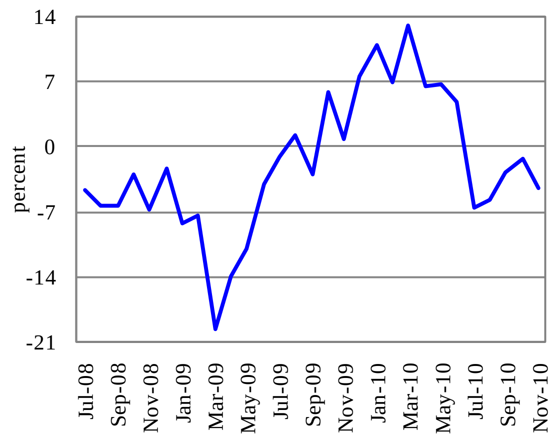
Figure 2.7a: Terbela Storage **Figure 2.7b: Mangla Storage**



Water Availability

After heavy and extended monsoon rains, irrigation water availability for *rabi* FY11 improved to the highest level in over a decade (see **Figure 2.6**). This rise is also indicated in the water storage levels at Tarbela and Mangla dams, which are almost full to their capacities compared to the corresponding period in FY10 and FY09 (see **Figure 2.7a &b**).

Figure 2.8: YoY Growth in LSM Index



The water availability in the reservoirs is likely to support wheat sowing in irrigated areas. Area under wheat in non-irrigated areas is also likely to increase due to higher moisture and likely rains during *rabi* FY11.

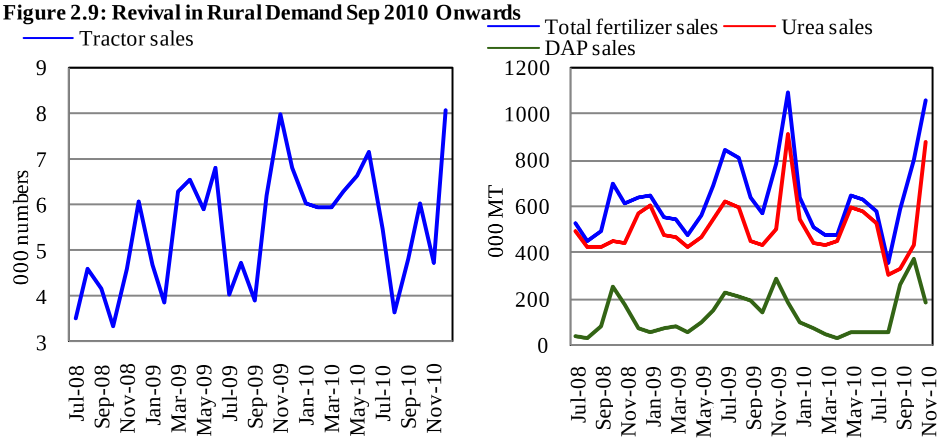
2.3 Large-Scale Manufacturing

The momentum in large-scale manufacturing (LSM) growth seen in FY10 was upset in the initial months of FY11 as YoY LSM growth turned negative in August 2010, for the first time in 11 months and remained in the negative in the following four months (see **Figure 2.8**). A decline was expected in the initial months of FY11 after heavy rains and floods, which particularly affected construction, petroleum refining, cotton textiles, and agro-based industries.

Nevertheless, strong domestic demand, helped partly by exceptionally high prices of most of the agri commodities, led to robust growth in automobiles, fertilizers, rubber, and engineering industries. Moreover, strong external demand supported the growth in chemicals and leather. Cumulative LSM production declined by 2.3 percent YoY during Jul-Nov-FY11 compared with growth of 0.5 percent in Jul-Nov-FY10.

Private demand sustained during the initial months of FY11 mainly supported by

Figure 2.9: Revival in Rural Demand Sep 2010 Onwards



Source: PAMA, NFDC

higher nominal incomes: a 50 percent increase in government employees' salaries, sharp increase in the prices of most of the agri produce that partly offset the decline in rural incomes caused by poor harvests in FY10, significant rise in workers' remittances, commercial banks' renewed interest in consumer financing, as well as, private and public transfer payments to the flood-affected population. Moreover, rural demand recovered swiftly, after a temporary setback in August 2010, as evident from the rebound in fertilizer and tractor sales (see **Figure 2.9**). The growth in tractors sales is particularly encouraging given that these purchases were made by farmers in the absence of subsidies offered last year under the Benazir Tractor Scheme. Besides, the drop in August sales is also partly attributable to temporary supply bottlenecks rather than slowdown in demand alone.

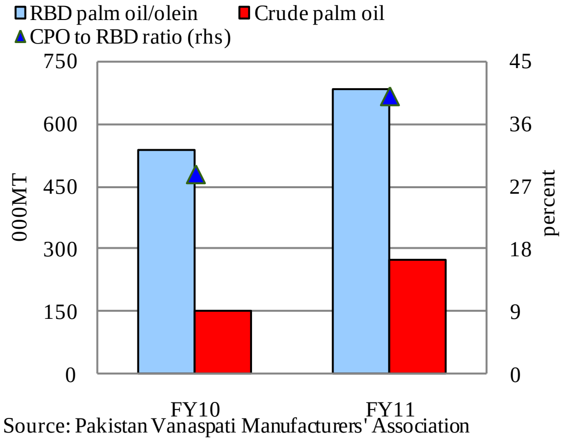
Table 2.4: Car Financing and Sales (Jul-Nov)

	FY10	FY11
Disbursements (mln Rs.)	6,252	22,969
Avg. car price (Rs.)*	854,122	912,822
Car sales	42,166	46,822

* Average of 11 car models; Source: PAMA, Automark.

Automobile demand was strengthened by higher bank financing which shored up car sales despite the increase in prices (see **Table 2.4**). Similarly, production of some of consumer electronics rose sharply despite imposition of federal excise duty in Budget FY11. In fact, continued indigenization of automobiles partly contained the pass-through of currency depreciation on local prices, while duty reductions on imports of some electronic parts have helped firms reduce their costs.[5]

Figure 2.10: Break-up of Palm Oil Imports (Jul-Nov)



Source: Pakistan Vanaspati Manufacturers' Association

Vegetable oil and ghee processing was another industry that benefitted from fiscal measures, namely; Rs1, 000/MT duty reduction on crude palm oil imports. This has encouraged local processing units to import more crude palm oil as opposed to the value-added RBD (refined, bleached and deodorized) version (see **Figure 2.10**). However, the impact of this duty reduction was limited due to (1) the fact that out of over 100 oil and ghee processing units in the country, only 11 have refining capacity, and (2) cap on crude palm oil exports by the government of Malaysia. Pakistani importers purchase palm oil mainly from Malaysia because of a free trade agreement between the two countries.

Table 2.5: YoY Growth in Construction Activity Indicators (Jul-Nov)
percent

	FY10	FY11
Local cement sales	12.8	-8.8
Credit for construction	-3.2	4.5
FDI in construction	135.8	-44.3
Production in construction-related industries (Jul-Oct)	11.5	-15.3
Building material prices (WPI)	-14.3	12.1

Despite the resilience in private demand, construction activity sharply declined in Q1-FY11 due to adverse weather. A slowdown in construction material demand

[5] SRO 292(I) 2010 dated June 5, 2010, 5 percent import duty exemption is given on certain parts of evaporators and condensers for air conditioners, deep freezers, and condensers, as well as on LED (light emitting diode) panel sets, and on parts of energy saving lamps. Apart from the electronics industry, the SRO also mentions duty reduction on raw material for laundry soap/detergent, glass manufacturing (sodium sulphate), and leather tanning industries.

was also expected on the back of continued increase in building material prices. Furthermore, anecdotal evidence suggests that while housing construction is gradually growing, commercial ventures have slowed down considerably due to lackluster outlook for real estate in major urban centers (**Table 2.5**).

Encouragingly, a pickup in domestic cement sales October 2010 onwards hints that construction may recover sooner than expected.[6] Anecdotal evidence suggests that the sales are mainly driven by private housing demand as no major public construction work has started. However, expected construction of Bhasha dam along with repair of the infrastructure damaged in the floods is also hoped to spur public construction work in the months ahead.[7] Lastly, expansion of cement manufacturing capacity in Q2-FY11, and commissioning of a new private steel mill in Q3-FY11 is hoped to further support construction.

Export demand for cement, however, declined during the period under review, mainly due to expansion of cement capacities in importing countries and increasing global competition. It was fairly anticipated that the export-led growth in the cement sector seen in the recent past will lose some steam as competition tightened.

Some other export-based industries, including pharmaceutical and electric fans, which benefitted from geographical diversification in the past two years, lost ground in non-traditional markets. For the pharmaceutical sector, this decline came about in response to increasingly stringent quality requirements for drug exports, and growing competition from India, on the other hand, fan exports are losing to both Chinese and Indian manufacturers in destination markets.

On the other hand, gradual recovery in the US and EU provided a boost to export-based leather and textile industries. However, while higher exports are reflected in quantum growth of the leather industry, the textile sector is predominantly gaining from higher prices, since raw material shortages faced by the textile industry, particularly due to cotton crop damaged in the floods, have constrained production. Thus, overall, the external sector had a very mixed impact on local industries during Jul-Nov FY11 (see **Table 2.6**).

[6] Data provided by the All Pakistan Cement Manufactures Association shows that domestic cement dispatches grew by 2.1 percent YoY during Oct-Nov 2010, compared to a 16.0 percent YoY decline in Q1-FY11.

[7] According to the National Disaster Management Authority, 33 bridges have been damaged, including five that were washed out completely, railway tracks have suffered a loss of Rs. 5.3 billion, and 12,516 school buildings have received damage of some kind. Damages to health facilities along with fuel oil storage and refining facilities are in addition.

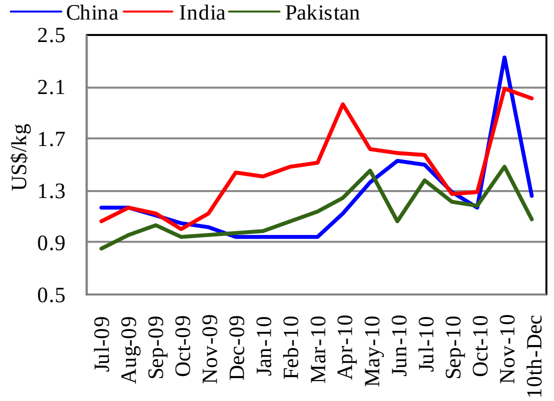
Table 2.6: Production & Trade of Selected Manufacturing Goods (Jul-Nov)
percent YoY growth

Growth in Industries Producing Exportable Surplus						Growth in Industries Competing with Imports					
		Production		**Export**				**Production**		**Import**	
	AdWt	**FY10**	**FY11**	**FY10**	**FY11**		**AdWt**	**FY10**	**FY11**	**FY10**	**FY11**
Cotton ginned	4.49	9.2	-10.5	109.9	-47.7	POL prod.	6.97	-7.1	-10.6	25.1	-7.6
Cotton yarn	17.40	-2.3	-12.3	41.8	-26.3	Steel products	0.15	-13.5	4.1	-8.2	-21.0
Cotton cloth	10.06	-0.7	-2.3	-27.6	6.4	M.M. yarn	2.55	-1.6	6.6	4.9	53.0
Leather f.wear	0.69	-1.7	18.6	-26.4	-3.3	Fertilizer	4.51	1.0	3.0	144.3	-53.7
Pharma	6.70	2.4	-3.2	68.0	-38.2	Tyre & tube	0.40	32.7	-7.7	-38.6	88.1
Cement	5.52	14.2	-11.2	6.8	-15.7	Auto CBUs	5.27	11.1	12.9	1.0	-1.3
Electric fans	0.24	15.6	-15.2	43.2	-8.6	Glass sheet [1]	0.07	-9.7	-17.5	-36.2	100.4
Chemicals	6.40	1.8	2.3	-11.2	14.0	Wood	0.04	-35.4	-20.4	3.8	32.9

[1] H.S. Codes 7003-7005.
Sources: FBS. Glass sheet import is based on SBP statistics. Automobile, chemical, wood, and SBP statistics refer to values while the rest are quantum growth numbers.

Aggravated by domestic shortage of cotton and tightening of export restrictions by India, cotton prices inflated sharply during Jul-Nov FY11.[8] Nevertheless, the strong recovery in value-added textile exports kept demand firm in the domestic cotton yarn market in the initial months of FY11, leading to an improvement in operating margins compared to last year. Although Pakistani spinning mills have the lowest yarn-cotton price differential compared to China and India, margins have slightly improved this

Figure 2.11: Cotton Yarn Price less Cotton Price - Regional Comparison

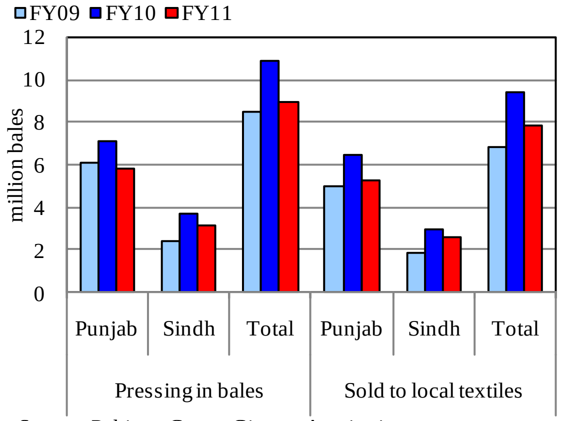


Source: Emerging Textiles

[8] Pakistani textile mills have placed orders with Indian cotton exporters. However, dispatch of orders was delayed due to India's export licensing requirements. Domestic raw cotton prices grew by an average 97.1 percent YoY during Jul-Nov-FY11 compared to an average decline of 1.1 percent in the comparable period last year.

year (see **Figure 2.11**) which has led to relatively active buying by the spinning mills, especially in Sindh, where heavy exports of raw cotton in FY10 dried up the local market.[9] Although cotton arrivals for ginning up to mid Dec-FY11 were lower by 16.9 percent over the same period last year, sales to local textile mills declined by a smaller proportion (see **Figure 2.12**). Moreover, spinning mills are also making up for the shortage of natural fiber by increasing blending with synthetic yarn. This is reflected in higher production and imports of man-made fiber.

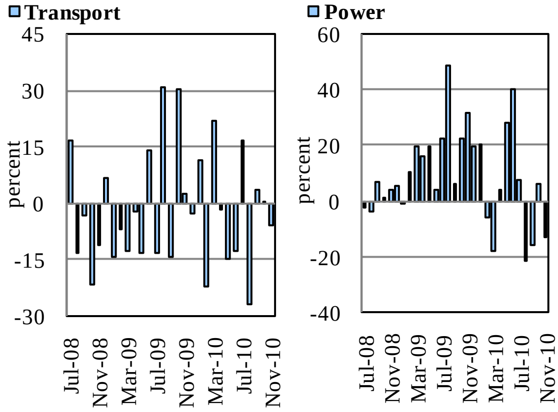
Figure 2.12: Cotton Ginning & Local Sales (Jul- Dec 15)



Source: Pakistan Cotton Ginners Assoication

Raw material shortages were also pronounced in the steel industry during Jul-Nov FY11. This was partly due to flood-related disruptions caused by damaged road networks. Supply was further aggravated due to long standing unresolved financial issues which prevented adequate import of raw material.

Figure 2.13: Sector-wise Growth in POL Sales (YoY)



In contrast, despite higher crude oil imports, production remained low in the POL sector as the country's largest refinery had to close down for over one month due to inundation in flood water.[10] Moreover, it appears that domestic demand also dropped due to both: (a)

[9] According to Pakistan Cotton Ginners' Association, Sindh exported 0.69 million MT of cotton in FY10 compared to 0.11 million MT exported by Punjab.
[10] Reference is to PARCO, 35 percent share in total refining capacity.

rising fuel prices (particularly diesel); and (b) in the aftermath of floods because of damages to road networks and power infrastructure (see **Figure 2.13**).

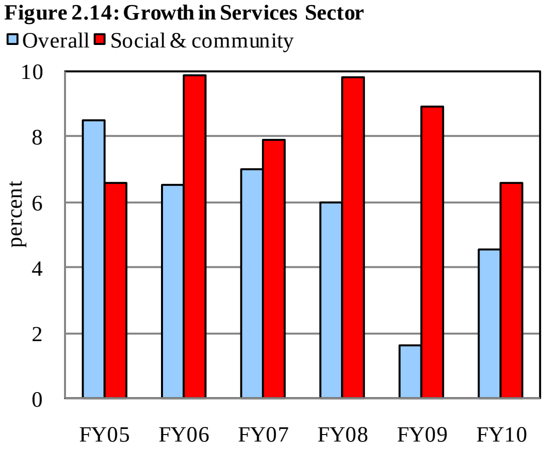
The floods have also caused significant damage to the country's power infrastructure, including power plants, gas fields, and grid stations. This has no doubt increased manifold the massive investment gap in the country's energy sector which could be a significant constraint for industrial growth in the coming months. In this regard, growing private investment, particularly foreign investment, in thermal power generation and oil & gas exploration is encouraging.

2.3 Services

Unlike the sluggish performance by the commodity producing sectors, services sector is likely to surpass the 4.7 percent growth target set in FY11. This expectation is based on the exceptional contributions by the *social & community services* sub-sector during the current fiscal year as extensive relief and rehabilitation work has been done in flood affected areas by public, private, and foreign organizations. It is important to note that this sub-sector grew by a *record* 9.9 percent in FY06 (see **Figure 2.14**) mainly due to relief and rehabilitation work after the October 2005 earthquake in Northern areas of the country.

However, key indicators of different sub-sectors paint a mixed picture of the performance of *wholesale & retail trade, transport & communication* and *finance & insurance*. For instance, contribution in value addition by the trade activities is likely to be lower from agriculture as FY11 *kharif* crops, mainly cotton, rice, and sugarcane, as well as, livestock was hit by the floods. At the same time a robust growth in imports (see **Table 2.11**) would support value addition growth by the trade sub-sector. Overall, trade sub-sector is likely to show a weaker growth during FY11 than the target for the year and growth seen in FY10. As with the trade sub-sector, growth in *transport, storage &communication* sub-sector also suffered some setback due to slowdown in economic activity during Q1-FY11 as reflected in decline in the POL sales to

Figure 2.14: Growth in Services Sector



the transport sector during the quarter (mainly due-to the lower sales of HSD) and fall in cargo handling at one major port. This sluggishness was mainly attributed to the damages to infrastructure and road network in recent floods, as well as rise in HSD prices amid gradual elimination of subsidy and passing on the impact of rising international prices. However, a slight increase in the transport sector's fuel demand in October and significant growth in commercial vehicle sales are indicating a recovery. Moreover, a significant growth in the telecom sub-sector in Q1-FY11 and likely increase in transportation following the bailout package of 11.5 billion rupees approved by the federal cabinet for Pakistan Railways are likely to provide further impetus to growth in *transport & communication* sub-sector.

Table 2.7: Indicators of Services Sector Performance during Jul-Nov
percent growth unless mentioned otherwise

	FY10	FY11
Wholesale & retail trade		
Credit to wholesale & commission trade	-1.3	-1.2
Credit to retail trade	4.4	14.0
FDI in trade	- 52.8	- 56.9
Manufacturing growth	0.5	-2.3
Import growth	-23.0	17.5
Transport, storage & communication		
Cargo handling at ports	15.2	5.7
Teledensity	62.4	64.1[1]
Telecomm imports	-52.2	55.7
Commercial vehicles sales	16.2	2.7
Transport group imports	7.1	7.1
Transport & communication prices	-3.7	16.2
Finance & insurance		
Profits of commercial banks (QoQ)	81.2	99.7
Credit to private sector	1.0	0.9
Deposits	-0.4	0.7
Interest rate spread- stock	7.4	7.6
Interest rate spread- incremental	6.5	6.2

[1] Data pertains to June 2010.

Apparently, a massive improvement in the profitability of the banking sector during Q1-FY11 suggests that *finance & insurance* sub-sector will show an exceptional performance during FY11. However, the impact of rise in nominal profits is likely to be diluted due to higher headline inflation. In addition, imposition of withholding tax on cash withdrawals from banks in the budget FY11[11] may also result in some disintermediation.

[11] Various banking transactions including withdrawals through a range of instruments related to Demand Draft, Pay Order, Online Transfer and Telegraphic Transfer are subjected to 0.3 percent deduction of the advance tax, if such transactions exceed threshold of Rs.25,000 in a single day.