

CT Smith downgrades 2012 economic growth

Prospects dim for agriculture, services sectors; improvement likely for industry

CT Smith Stockbrokers has downgraded the country's economic growth for this year to 6.3% from 6.8% earlier, whilst remaining optimistic of a rebound in 2013.

The downgrade is on account of the challenges faced mainly in agriculture, forestry and fishing, import trade, export trade and transport sectors.

With regard to 2013, CT Smith has slightly revised growth forecast to 7.2%, down from 7.4%. However, it said: "We expect a recovery in the interest

rate and exchange rate environment, which will drive the domestic economic performance amidst improved global economic situation."

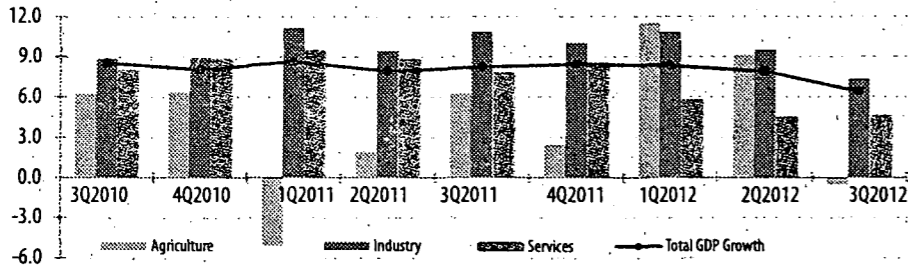
The relatively better outlook for 2013 is following the Central Bank reducing key policy rates by 25 basis points early this month and lifting the ceiling on rupee credit extended by banks, both moves aimed at boosting economic growth in 2013.

The Central Bank also stated that a mod-

	2010	2011	2012	2013	2014
Agriculture, Forestry & Fishing	11.2	3.2	7.0	1.5	5.5
1. Agriculture, Livestock & Forestry	9.8	2.8	6.4	-0.1	4.4
2. Fishing	1.4	6.9	12.2	15.5	13.6
Industry	29.8	4.2	8.4	10.3	9.1
3. Mining & Quarrying	2.6	8.2	15.5	18.5	16.1
4. Manufacturing	16.8	3.3	7.3	7.9	5.7
5. Electricity & Water	2.3	3.7	7.8	9.2	3.8
6. Construction	8.1	5.6	9.3	14.2	17.0
Services	59.0	3.3	8.0	8.6	5.0
7. Wholesale & Retail Trade	23.9	-0.2	7.5	10.3	4.3
8. Hotels & Restaurants	0.4	13.3	39.8	26.4	25.0
9. Transport & Communication	14.6	6.3	11.9	11.3	6.8
10. Banking, Insurance & Real Estate, etc	8.7	5.7	7.5	7.9	6.5
11. Ownership of Dwellings	2.5	1.3	0.9	1.2	1.5
12. Government Services	6.7	5.9	5.4	1.2	1.7
13. Private Services	2.2	5.8	5.8	7.2	5.0
GROSS DOMESTIC PRODUCT (%)	3.5	8.0	8.3	6.3	7.2
Nominal GDP (US\$ bn)	42.1	49.6	59.2	58.2	65.7
GDP Deflator (%)	5.9	7.3	7.9	7.1	7.0
Population (mn)	20.0	20.1	20.3	20.4	20.6
Per Capita GDP (US\$)	2,103.7	2,461.0	2,918.1	2,848.7	3,195.0
Average US\$ (Rs.)	114.9	113.1	110.6	128.0	130.0

Source: Department of Census & Statistics, CTS Estimates

Quarterly Real GDP Growth Rate (% YoY)



Source: Department of Census and Statistics (DCS)

est slowing down of economic activity was anticipated as a result of the demand management policies adopted which was reflected by the projections for 102 economic growth being revised downward to 6.5% from 7.2% though 2013 expectations main-

tained at 7.4%. For 2012, CT Smith has downgraded agriculture sector growth to 5.5% from 8.1% as heavy rains and floods in 4Q of this year caused crop damages. It only expects agriculture to grow by 2% year on year in the 4Q.

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In the first three quarters of 2012, agriculture grew by 6.6% as against 8.2% in the corresponding period of last year.

"With the agriculture sector growth remaining highly vulnerable to changing weather conditions, we have also conservatively downgraded 2013 growth factor to 6.8% (from 8%) albeit an improvement from 2012," CT Smith said.

With regard to the industry sector, CT Smith has upgraded its growth to 9.1% from 8.8% previously, indicating an 8.9% growth for 4Q of 2012. The upgrade is on account of continued high contribution from large scale construction projects and the high rain fall in 4Q of 2012 boosting hydro power generation.

The broking firm also expects industry growth to grow by 9.2% in 2013, up from 8.5% in anticipation of an economic recovery in Europe and US, key markets for Sri Lanka's exports.

In the third quarter, industry sector growth moderated to 7.3% as against 10.8% growth a year earlier and 9.5% improvement in the 2Q of 2012. Growth in the first three quarters was 9.2%.

Growth projections for services sector, has been downgraded to 5% this year, from 5.6% earlier and 6.4% in 2013 from 6.8% earlier. This is on account of continued challenges faced in key segments such as wholesale and retail trade, and passenger and goods transport, despite the removal of the rupee credit ceiling on commercial banks and likely softer interest rates in 2013. The latter features are expected to directly benefit the banking, insurance and real estate sector, CT Smith added.

In the 3Q of 2012, services growth slowed to 4.6% as against 7.8% improvement a year earlier and 4.5% growth in 2Q of 2012. This is due to slowdown in internal, export trade and transport and

communication sub segments. Services sector growth also slowed down to 4.9% in the first three quarters of this year from 8.7% in the corresponding period of last year.

CT Smith said that the economy in 3Q of 2012 grew by 4.8% year on year, the lowest since 3Q of 2009 versus 8.5% in 3Q 2011, and 6.4% in 2Q of 2012. Broking firm described the 3Q growth as "below" its expectations, largely due to the year on year decline in all key economic segments as a result of internal and external shocks.

