Macroeconomics | First cut

Exceeding expectations

January 5, 2024

First official data print on GDP growth for the fiscal beats the street; expect some softening from here

Big picture

- The National Statistical Office's (NSO) just-released first advance estimates project India's real gross domestic product (GDP) growth at 7.3%[1] on-year for this fiscal, marginally higher than 7.2% in the previous one
- It estimates that growth was stronger in the first half (7.7%) compared with the second (6.9%)
- Despite weak agricultural growth, overall GDP growth is seen as robust, indicating that the surge in non-agriculture sectors has more than offset the agricultural slowdown.
- Nominal GDP is estimated to slow to 8.9% this fiscal compared with 16.1% previous year. This is lower than 10.5% estimated during Budget 2023.
- Moderation in real GDP growth, coupled with a sharp slide in GDP deflator (1.4% on-year this fiscal versus 8.2% previous year) are behind slowdown in nominal GDP. WPI inflation has declined significantly this fiscal (-1.3% in April-November 2023), which drove the fall in GDP deflator.

Supply-side calculations

- The NSO estimates gross value added (GVA) to have grown 6.9% this fiscal compared with 7.0% previous fiscal. Both agriculture and services slowed, but the slowdown in the former was more marked than in the latter. In contrast, industry improved (7.9% v 4.4% previous fiscal).
- **Agriculture**: Weak growth (1.8% vs 4.0% previous fiscal) was seen as the result of poor kharif output and onging risks to rabi crop. Kharif output — impacted by the uneven monsoon — is estimated to be 4.6% lower on-year. Rabi sowing has also slowed as per latest data available, as water reservoir levels are lower on-year.
- **Industry**: Construction, the most labour-intensive sector, is estimated to have grown the fastest in fiscal 2024 (10.7% vs 10.0%). This is attributable to infrastructure spending of the government and revival of housing. Manufacturing too picked up (6.5% vs 1.3%), supported by lower input prices. Utilities posted a healthy growth at 8.3% (vs 9.0%) propelled by a surge in electricity production.
- **Services:** This category is estimated to have seen a mild moderation in growth (7.7% vs 9.4%). Within services, financial, real estate and profession services grew, driven by robust banking and real estate performance. Other services slowed with the gradual fading of pent-up demand.
- GVA growth is estimated to have slowed in the second half of the fiscal for agriculture and allied (1.2% in H2 vs 2.4% in H1), industry (6.6% vs 9.3%), manufacturing (3.8% vs 9.3%), services (7.5% vs

[1] Based on April-November data. An updated number is likely in May'24

8.0%), trade, hotels, transport and communication (6.1% vs 6.6%), financial, real estate and professional services (8.8% vs 9.0%) sectors; and picked up for mining (8.5% vs 7.6%), electricity (10.1% vs 6.4%) and construction (10.9% vs 10.5%)

Demand-side drivers

- On the demand-side, investment emerged as the primary driver of growth (10.3% on-year this fiscal vs 11.4% previous fiscal), spurred by the government's infrastructure push. Government consumption expenditure was also higher this year (4.1% vs 0.1%) but punched less than its weight in the GDP.
- However, private consumption growth, with almost 60% share in GDP, is estimated to have fallen short of overall GDP growth (4.4% vs 7.5% previous fiscal).
- Net exports (exports minus imports) is estimated to be a bigger drag this fiscal compared with the previous. Exports growth is estimated to be much weaker this fiscal (1.4% vs 13.6%) relative to imports (13.2% vs 17.1%).
- First half vs second: Growth is estimated to have slowed in the second half for private consumption (4.3% vs 4.5%), government consumption expenditure (3.0% vs 5.1%) and imports (12.8% vs 13.5%); and picked up for investments (11.1% vs 9.5%) and exports (4.5% vs -1.7%)

Our view

Growth estimates for this fiscal have surpassed our expectations. High frequency indicators such as the S&P Purchasing Managers' Index show activity remaining in expansion zone in the third quarter for both manufacturing and services.

Even as the agricultural economy slowed sharply this year following a weak monsoon, the surge in non-agricultural economy has more than offset it. The government-driven investment push, along with easing input cost pressures for industry, has also played a major role in shoring up growth. However, services have been slowing with waning pent-up demand (post pandemic). The exception has been financial, real estate and professional services, which has powered ahead on the back of robust growth in banking and real estate.

Nevertheless, the first advance estimates bake in a slowdown in the second half relative to the first half of this fiscal. The latter half slowdown has been driven by weaker private consumption, especially rural demand, and the bite of rising interest rates.

We expect the slowdown to continue next fiscal due to the following reasons:

Slowing global growth: S&P Global expects global growth to slow to 2.8% in calendar year 2024 from 3.3% previous year. The United States (US), which beat expectations last year, is expected to slow to 1.5% (vs 2.4%), as monetary policy transmission picks up. Being India's largest export market, slowing US growth will weigh on our growth prospects next year.

Impact of rising interest rates: Financial conditions are expected to be less supportive for domestic demand next year. The transmission of past rate hikes by the Reserve Bank of India is still in playing out, which suggests a further rise in lending rates. The central bank's recent regulatory measures of increasing risk weights on consumer credit exposures of banks and NBFCs will further affect credit growth into next year.

Waning pent-up demand for services: With recovery to pre-pandemic levels complete, services growth has begun slowing. Slowing consumption spending will further drag growth next fiscal.

Fiscal consolidation: As government moves a step further to reducing fiscal deficit in upcoming budget; it may need to reduce capital expenditure next year. This will take some steam off robust investment growth.

Geopolitical uncertainty: Persisting unrest in the Middle East is a risk to global trade flows and commodity prices. Rising crude oil prices can particularly disrupt India’s growth.

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