Confirming the slowdown

Revised estimates of GDP

Crisil First Cut | June 2017

Revised estimates hold fiscal 2017 GDP growth steady at 7.1%, but with a changed mix

The Central Statistical Office (CSO) yesterday came out with the gross domestic product (GDP) estimates for Q4 (Jan-Mar 2017) and full fiscal 2017. This is the first GDP release incorporating the new 2011-12 based WPI and IIP series. Contrary to the consensus expectation of a rise in real GDP growth – both on account of higher IIP and lower WPI in the new series – the real GDP growth for fiscal 2017 clocked 7.1%, unchanged from its earlier estimate. That's due to the impact of demonetisation and the fact that the deflator in Q4 had risen sharply. For fiscals 2015 and 2016, GDP growth was notched up as the newly estimated IIP growth and deflator (2011-12 base) were favourable compared with earlier estimates. That said, different components of the GDP in fiscal 2017 did see their growth estimates changing on both the demand and the supply side (*see charts*).

Data readings

- The revised estimates confirmed the slowdown in GDP growth in fiscal 2017. While growth slowed down for the fourth consecutive quarter, the decline was particularly stark in Q4 reflecting the impact of demonetisation. That said, a part of the slowdown in real growth in Q4 was also because of a sharp jump in deflators. Compared with an average 2.7% growth in the first three quarters, GDP deflator grew by 6% in Q4, following a spurt in WPI inflation that quarter.

- Gross value-added (GVA) growth – supposed to be a firmer estimate of underlying economic activity as it doesn't take into account the impact of taxes and subsidies – reduced sharply to 6.6% in fiscal 2017 from 7.9% in the previous fiscal. While most sectors recorded slower growth, high agricultural growth (4.9%) on account of a normal monsoon and record food grain production and a sharp rise in public expenditure limited the downside to the overall GVA growth in fiscal 2017. Industrial growth slowed down to 5.6% in fiscal 2017 from 8.8% in fiscal 2016 due to a sharp fall in in mining growth and slowdown in the growth of construction activity (to 1.7% from 5.0%). The latter can be attributed to demonetisation as it is has a large informal and cash-based component. Services sector growth also came down by 2 percentage points to 7.9% in fiscal 2017, largely due to halving of financial services growth and 2.7 percentage points slowdown in growth of the *trade, hotels, transport & communication* sector. The impact of demonetisation on the industrial sector, especially manufacturing and construction activity, was most pronounced in Q4. While manufacturing growth reduced to lowest level (5.3%) since December 2014, construction activity recorded negative growth (-3.7%) – for the first time since March 2014.

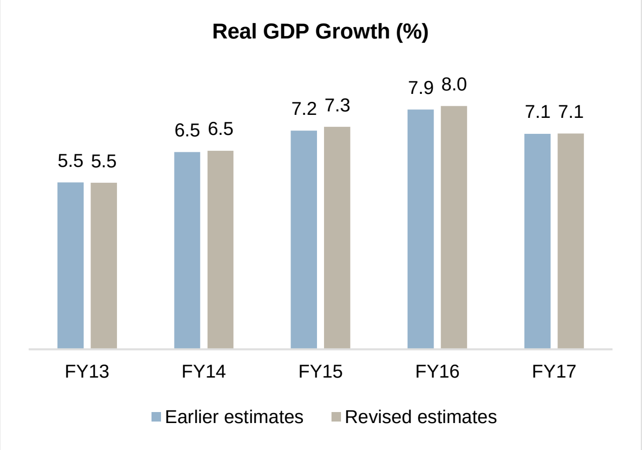
- On the expenditure side, real GDP growth for fiscal 2017 remained steady at 7.1% as per the revised estimates, though down from 8.0% recorded in fiscal 2016. While private consumption – the biggest contributor to the GDP – slowed down in Q4, relatively higher growth in the previous three quarters led to the inching up of private consumption growth for fiscal 2017 as a whole to 8.7% from 6.1% in fiscal 2016. Government consumption grew substantially in the second half on account of revised pay hikes, taking the overall growth for fiscal 2017 to 20.8% from 3.3% in fiscal 2017. Investments continued to remain week, underscoring the inability of the private sector to undertake fresh investments in light of low capacity utilisation, high leverage and lack of a robust consumption demand guidance. Share of gross fixed capital formation or fresh investments in GDP continued to decline and stood at 28.4% of GDP in Q4, fiscal 2017, down from 30.8% in the year ago period.

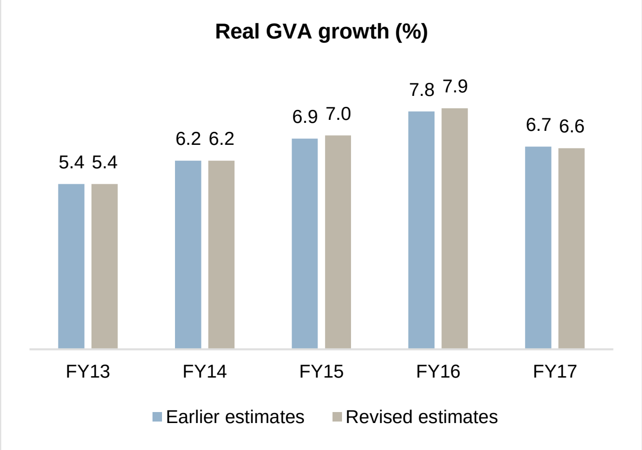
Outlook

In an environment of subdued global growth and week investments, India's GDP cannot grow fast in the short run. The likely disruption on account of GST implementation can only add to the challenge. We, therefore, expect GDP growth to rise to 7.4% in fiscal 2018 from 7.1% in fiscal 2017. The improvement in growth to be driven by a rebound in consumption demand, which got postponed after demonetisation.

Aiding consumption growth will be a normal monsoon, benign inflation and softer interest rates. We assume monsoon to be normal (in terms of temporal and spatial distribution) in 2017, too, which will support agricultural growth, and interest rates will soften due to improved transmission of policy rate cuts by the Reserve Bank of India (RBI).

Comparing the growth matrices (%)





Source: CSO

Changes in GDP components as per revised estimates

At basic prices	Earlier estimate	Revised estimate
Agriculture & allied	4.4	4.9
Industry	5.8	5.6
o/w Manufacturing	7.7	8.0
Mining	1.3	1.8
Services	7.9	7.7
GVA	6.7	6.6

At market prices	Earlier estimate	Revised estimate
Pvt. Consumption	7.2	8.7
Govt. Consumption	17.0	20.8
Fixed Investment	0.6	2.4
Exports	2.3	4.5
Imports	-1.2	2.3
GDP	7.1	7.1

Source: CSO

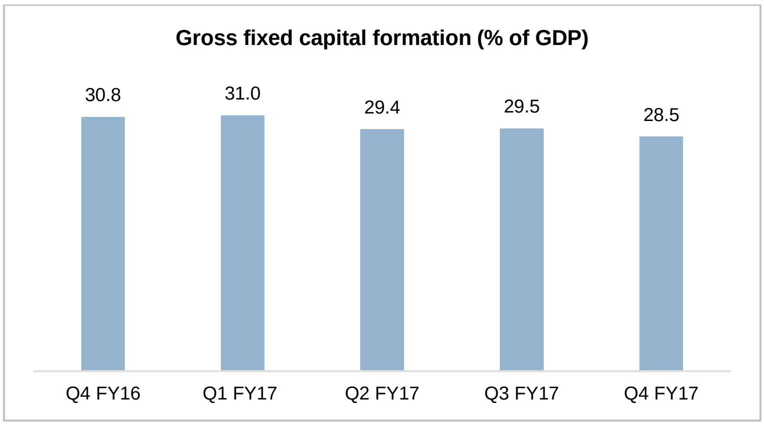
Nuances of GDP growth

At basic prices	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	FY16	FY17
Agriculture & allied	2.5	4.1	6.9	5.2	0.7	4.9
Industry	7.4	5.9	6.2	3.1	8.8	5.6
o/w Manufacturing	10.7	7.7	8.2	5.3	7.9	8.0
Mining	-0.9	-1.3	1.9	6.4	10.5	1.8
Services	9.0	7.8	6.9	7.2	9.7	7.7
GVA	7.6	6.8	6.7	5.6	7.9	6.6

At market prices	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	FY16	FY17
Pvt. Consumption	8.4	7.9	11.1	7.3	6.1	8.7
Govt. Consumption	16.6	16.5	21.0	31.9	3.3	20.8
Fixed Investment	7.4	3.0	1.7	-2.1	6.5	2.4
Exports	2.0	1.5	4.0	10.3	-5.3	4.5
Imports	-0.5	-3.8	2.1	11.9	-5.9	2.3
GDP	7.9	7.5	7.0	6.1	8.0	7.1

Source: CSO

Investments continued to lag



Source: CSO

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