

GDP destocked

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Demonetisation pain, GST anxiety to the fore

The Central Statistical Office (CSO) today released quarterly estimates of GDP for first quarter of current fiscal. Crucially, the government has also revised down gross value added (GVA) growth for the fourth quarter of last fiscal by 50 basis points (bps) to 5.6%, suggesting that the impact of demonetisation on the economy was more than earlier estimated. In the first quarter, real GDP growth slid to 5.7% from 6.1% in the same quarter last fiscal. The slowdown corroborates with corporate results for the first quarter, which had shown net profits declining for chunk of listed firms. The computation of GDP relies heavily on corporate data from the Ministry of Corporate Affairs database. The slowdown reflects sharp deceleration in exports of goods, and some moderation in consumption growth.

Data readings

- GVA growth, or the supply-side GDP, which is supposed to be a truer estimate of underlying economic activity as it doesn't take into account the impact of taxes and subsidies, grew 5.6% in the first quarter, same as in the fourth quarter of last fiscal, but down from 7.9% on-year. The fact that GVA growth in the first quarter was the same as in the fourth quarter suggests waning demonetisation impact was offset by rising anxiety over the Goods & Services Tax (GST).
- Industrial growth in the first quarter was down to 1.6% compared with 3.1% in the previous quarter, on account of a sharp slowdown in manufacturing growth (1.2% vs 5.3%) and de-growth in mining (-0.7% vs 6.4%). The former was arguably on account of GST uncertainty, which led to destocking by retailers and slowdown in the production process. Agricultural growth in real terms, too, slowed to 2.3% from 5.2% in the fourth quarter. Here, it is important to note that despite real growth of 2.3%, nominal agricultural growth was only 0.3%, suggesting that while agricultural output grew, their prices fell. Real growth is derived by stripping the price impact from nominal growth. Services sector growth, however, anchored overall GVA growth, rising 8.7% from 7.2% on-year driven by improvement in two sectors -- trade, hotels, transport & communication, and financial, real estate and professional services. The latter reflected some pick-up in consumer credit in the banking system in the first quarter.
- The headline real GDP (which measures the expenditure or the demand side) growth came in at 5.7% - slowest in the past thirteen quarters - from 6.1% in the fourth quarter, and from 7.9% a year back. The difference in GDP and GVA growth is net product taxes. So given that GDP growth at 5.7% is only 10 bps more than the GVA growth of 5.6%, claims of real tax gains from enlarging tax base after demonetisation seems a too-early conclusion. However, this may see pick up going ahead as the government firms up its accounting exercise. Another noteworthy point is that despite moderation in growth in most demand-side components - private consumption, government consumption, exports - the unusually high growth (205% on-year) in valuables supported overall growth. The latter could be attributed to large gold purchases in anticipation of GST. There was also mild improvement in investment growth (to 1.6% vs 2.1%, on-year) which pulled up the share of fixed investments to 29.8% from 28.5%. This may be reflective of optimism in the growth recovery in the second half.

Outlook

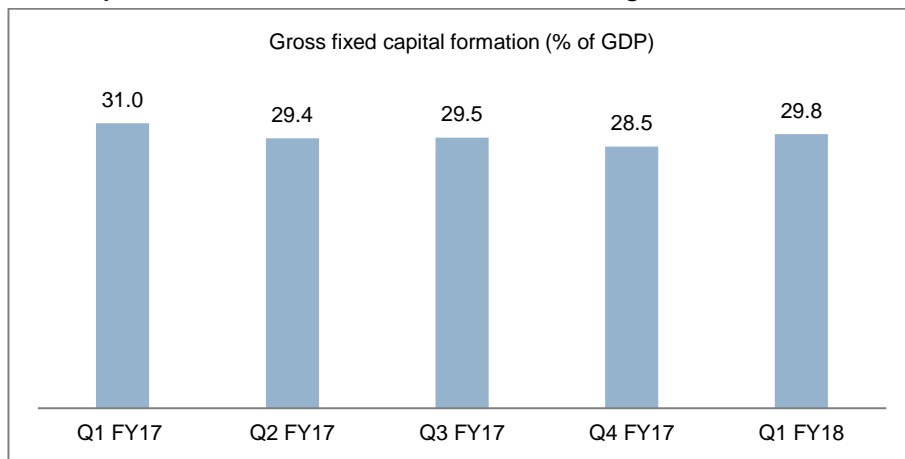
In an environment of subdued global growth and weak investments, India's GDP cannot grow fast in the short run. For fiscal 2018 as a whole, we are in the process of revising down of our GDP growth forecast down from 7.4% stated earlier. That said, normal monsoon, softer interest rates and inflation, and pent-up demand (demand postponed due to the demonetisation) will support consumption growth in the remaining quarters. There will also be a mild push to consumption from budgetary announcements.

Nuances of GDP growth

At basic prices	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	At market prices	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18
Agriculture & allied	2.5	4.1	6.9	5.2	2.3	Pvt. Consumption	8.4	7.9	11.1	7.3	6.7
Industry	7.4	5.9	6.2	3.1	1.6	Govt. Consumption	16.6	16.5	21.0	31.9	17.2
<i>o/w Manufacturing</i>	10.7	7.7	8.2	5.3	1.2	Fixed Investment	7.4	3.0	1.7	-2.1	1.6
<i>Mining</i>	-0.9	-1.3	1.9	6.4	-0.7	Exports	2.0	1.5	4.0	10.3	1.2
Services	9.0	7.8	6.9	7.2	8.7	Imports	-0.5	-3.8	2.1	11.9	13.4
GVA	7.6	6.8	6.7	5.6	5.6	GDP	7.9	7.5	7.0	6.1	5.7

Source: CSO

Some uptick in investments bode well for future growth



Source: CSO

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