Macroeconomics | First cut

Roaring ahead

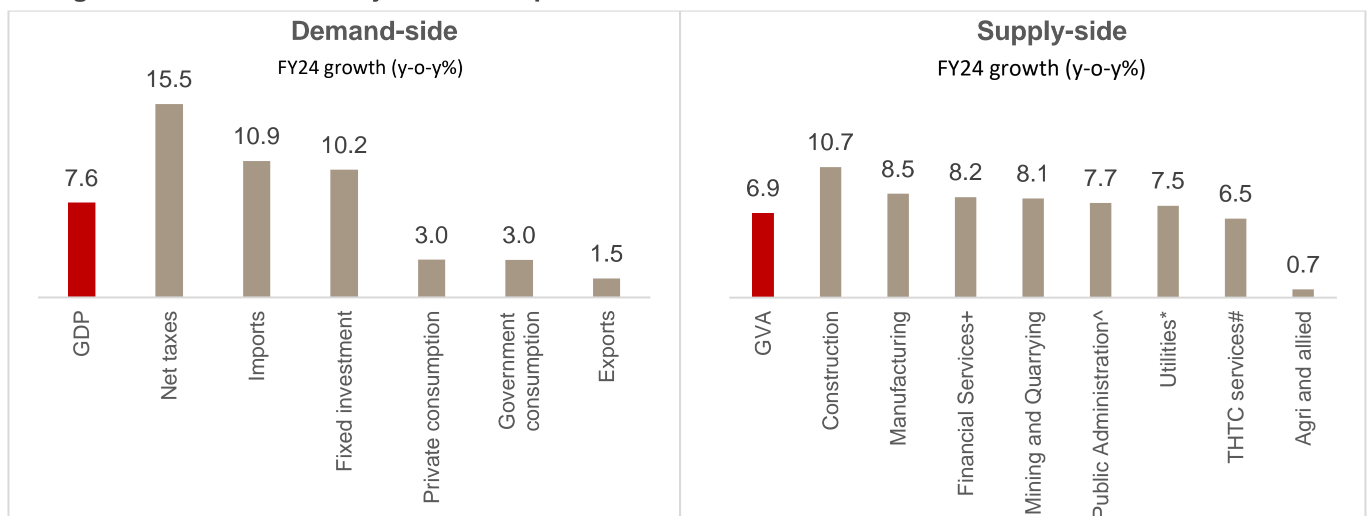
March 1, 2024

GDP accelerates in the third quarter, fiscal 2024 estimate revised up

The takeaways

- **No signs of a slowdown**: India's gross domestic product (GDP) exceeded expectations yet again. Real GDP accelerated to 8.4% on-year in the third quarter (Q3) of this fiscal from 8.1% in the second quarter. Growth of the past two quarters were revised up (Q2 revised to 8.1% from 7.6%, and Q1 to 8.2% from 7.8%)
- **Annual growth revised up**: The National Statistics Office (NSO) now pegs fiscal 2024 GDP growth at 7.6% with its second advance estimates (SAE) compared with 7.3% previously. However, the gross value added (GVA) estimate — which measures GDP from a production approach — was unchanged at 6.9% as estimated previously. A sharp rise in net tax growth contributed to the divergence between GDP and GVA and was a key factor behind the upward revision of GDP growth. Based on SAE, growth in Q4 is estimated to slow to 5.9%
- **Be mindful of past revisions**: Growth has been revised for the past two fiscals. While the print for fiscal 2023 was revised down 25 basis points (bps) to 7.0%, for fiscal 2022 it was up a significant 60 bps to 9.7%
- **Dichotomies prevail**: Growth in the current fiscal year has been driven by fixed investments (10.2% growth), while private consumption at 3.0% trailed overall GDP growth. On the supply side, industry grew the most (9%) while agriculture (0.7%) and services (7.5%) lagged

How growth fared across major GDP components in current fiscal



*Note: Financial services+ refers to financial, real estate, and professional services; Public administration^ refers to public administration, defence and other services, * Electricity, gas, water supply and other utilities; THTC is trade, hotels, transport and communication services*
Source: NSO SAE, CEIC, CRISIL

What explains the surge in GDP growth in the third quarter?

Manufacturing leads growth

While overall GDP accelerated to 8.4% in Q3 from 8.1% previous quarter, GVA growth moderated to 6.5% from 7.7%.

- Manufacturing saw the highest growth at 11.6% on-year in the third quarter, albeit some moderation from the 14.4% previous quarter. While falling input costs benefited, the pace of decline slowed to -1% from -3%.
- Construction GVA grew at a healthy pace despite some moderation (9.5% vs 13.5%) and was supported by continued government capital expenditure (capex) in infrastructure
- Services growth picked up (7.0% vs 6.0%)
    - Growth in THTC picked up (6.7% in Q3 versus 4.5% in Q2), spurred by the festive season
    - Financial, real estate and professional services also picked up to 7.0% from 6.2%, supported by a pick-up in services export growth (5.5% versus 4.6%) and a favourable base effect. Financial services also benefited from healthy credit momentum
    - Public administration, defence and other services grew 7.5% vs 7.7%
- Agriculture and allied GVA contracted 0.8% in the third quarter (compared with 1.6% growth in second quarter). While partly the result of a highly unfavourable base, it is also due to a fall in kharif output as per the government's second advance estimates.

Government investment keeps domestic demand resilient

Investments posted the highest growth among the sub-categories from the demand side, while private consumption, despite a modest uptick, remains sluggish. The drag from net exports eased this quarter.

- **Fixed investments,** measured by gross fixed capital formation (GFCF), remained in double digits (10.6% vs 11.6%) despite some moderation. The quarterly decline in capex growth was attributable to a slowdown in central capex growth (24.4% versus 26.4%) as well as state capex growth (19.5% versus 39.4%)

- **Moderation in both exports and imports**: Export growth moderated to 3.4% in the third quarter from 5.3% in the previous one. However, import growth fell to 8.3% following 11.9% growth in the previous quarter. Net exports (exports minus imports) continued to drag GDP growth, but to a lesser extent in the third quarter versus the second

- **Private consumption remains tepid**: Private final consumption expenditure (PFCE) rose marginally to 3.5% on-year compared with 2.4% the previous quarter but remains sluggish. Rural demand indicators were a mixed bag, with demand for work under National Rural Employment Guarantee Act (NREGA) slowing this quarter, and growth in two-wheeler sales surging. However, growth in consumer non-durables production[1] slowed considerably in the third quarter. Urban demand seemed to have sustained some momentum in the third quarter, with a pick-up in the growth of passenger vehicle sales and consumer durables production[2], as well as continued double-digit growth in retail credit (18.1% versus 18.3% in the previous quarter[3]). The latter indicates that the impact of past rate hikes and regulations on unsecured lending are still pending

- GFCE growth fell to -3.2% in third quarter vs 13.8% in previous quarter

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[1] Based on Industrial Index of Production (IIP) data
[2] Based on Industrial Index of Production (IIP) data
[3] Excludes the impact of merger of a non-bank with a bank

What the new annual growth numbers tell us

- **The NSO revised up fiscal 2024 real GDP growth** by 30 bps to 7.6% on better performance in the first 3 quarters compared with the previous estimates. It is notable that another growth revision for this year will be done in May with the availability of Q4 numbers. This estimate will have a longer shelf life of a year
- **Nominal GDP** growth was revised up 20 bps to 9.1% this fiscal. While real GDP growth accelerated to 7.6% this fiscal from 7.0% in the last, nominal GDP growth slipped to 9.1% from 14.2%. A sharp fall in GDP deflator growth to 1.4% from 6.7% due to lower inflation narrowed the gap between nominal and real GDP growth
- **Domestic savings fell, while foreign funding rose**: The government also released details on saving, investment and consumption trends in the economy until fiscal 2023. Fiscal 2023 — the first normal year post the pandemic — saw gross domestic savings fall to 30.2% of GDP compared with 31.2% previous year. This was also below the pre-pandemic decadal average of 32.6%

  Household saving reduced to 18.4% of GDP in fiscal 2023 from 20.1% previous year, as their consumption normalised. While their financial savings fell, saving in physical assets rose. Private corporate savings remains stable at ~11.2% of GDP.

  Encouragingly, foreign funding increased last fiscal, accounting for 6.1% of gross capital formation compared with 3.7% previous year, and higher than pre-pandemic decadal average of 5.7%.
- **Investment share rising to a decadal high** of 31.3[4]% of GDP (in nominal terms) in fiscal 2024 compared with 30.7% previous year. Disaggregated data available until fiscal 2023 shows government driving the rise investments. However, private investment and household investment saw only a small uptick.

Outlook

After a strong GDP print in the past three fiscals, we expect some moderation in growth next fiscal. The transmission of past rate hikes by the Reserve Bank of India to the broader lending rates continues. Rising borrowing costs and regulatory measures to clamp down risky lending could moderate domestic demand next fiscal. On the other hand, another spell of normal monsoon and easing inflation can revive rural demand.

The lowering of fiscal deficit will mean curtailed fiscal impulse to growth. But good quality of spending would provide some support to the investment cycle and rural incomes.

We also expect a normalisation of the net indirect tax impact on GDP witnessed in the current fiscal.

Uneven economic growth in key trade partners such as the United States (US) and the European Union, and an escalation of the ongoing Red Sea tensions can act as drag on exports.

[4] Gross fixed capital formation

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