Macroeconomics | First cut

Growth marathon continues

June 3, 2024

GDP surpasses expectations despite some moderation

Key takeaways from Q4 GDP

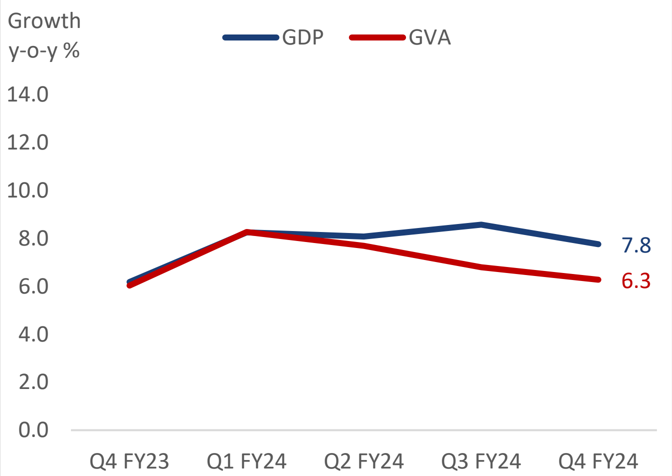
- **Growth slows but stays strong in fourth quarter**: GDP growth slowed to 7.8% on-year in the fourth quarter (Q4) of last fiscal from 8.6% previous quarter but was higher than 6.1% in the year-ago quarter. Growth for the third quarter was also revised up to 8.6% from 8.4%.
- **Investment slows, consumption revives**: The growth moderation was driven by the fixed investment segment on the demand side. Private consumption trailed overall GDP growth but improved its performance in the second half of the fiscal. Net exports also impacted GDP growth positively in Q4, driven by pick up in export growth and moderation in import growth
- **GVA growth markedly lower:** On the supply side, gross value added (GVA) growth at 6.3% was much lower than the GDP growth in Q4. A strong growth in net taxes pushed the GDP growth higher than GVA.

  The industrial and services sectors saw a moderation, while the agriculture and allied sector inched up slightly.
- **Annual growth revised up sharply**: Q4 growth was much stronger than 5.9% factored in in the second advance estimates (SAE) of the National Statistics Office (NSO) in February. This prompted the NSO to revise up the fiscal 2024 GDP growth estimate to 8.2% (which is the provisional estimate), from 7.6% in the SAE. GVA growth was also revised up to 7.2% from 6.9%.

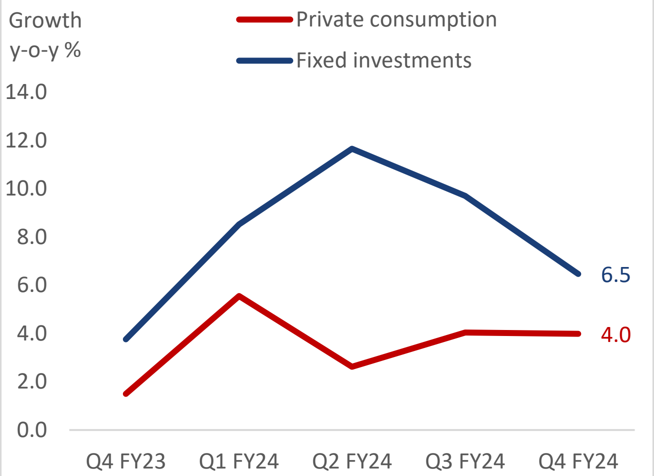
  The provisional estimates provide a better estimate with updated data and have longer shelf life as the next estimate for fiscal 2024 from NSO will come only in 2025.

  Growth in fiscal 2024 was primarily driven by fixed investments on the demand side and industry on the supply side.
- **Nominal GDP slowed to 9.9% from 10.3%** previous quarter. For fiscal 2024, it grew 9.6%, slower than 14.2% previous year.

GDP moderates in Q4, GVA trends lower



Investment moderates, consumption revives



Source: NSO, CEIC, CRISIL

What explains the moderation in GDP growth in the fourth quarter?

I. Moderating industry and services, weak agriculture

On the supply side, GVA growth moderated to 6.3% in Q4 from 6.8% in the previous quarter. It remained much lower than the GDP growth as net taxes grew 22.2% on-year during the quarter after a 31.2% growth previous quarter.

While GVA growth for agriculture picked up (0.6% in Q4 vs 0.4% previous quarter), it slowed for industry (8.4% vs 10.5%) and services (6.7% vs 7.1%).

- The subdued growth in agriculture and allied activities reflects lower crop output this year. According to the SAE, total food production[1] will be 1.3% lower on-year — kharif 1.0% lower and rabi 1.7%.

- Within industry, manufacturing growth moderated to 8.9% in the quarter from 11.5% in the previous quarter. Infrastructure and investment-related sectors, which had contributed to the strong growth in the first half of the fiscal, slowed in the second half, according to the granular data from the Index of Industrial Production (IIP). The benefit from falling input costs is also fading, as the decline in commodity prices halted.

  Construction GVA growth, though a moderation, was a healthy 8.7% (vs 9.6%). Moderating government capital expenditure (capex) towards the end of the fiscal may have weighed on the construction growth.

  However, a slowdown was seen in electricity (7.7% vs 9.0%) and mining (4.3% vs 7.5%).

- Services growth moderated (6.7% vs 7.1% in the previous quarter), primarily driven by contact-based services, namely trade, hotels, transport and communication services (THTC services).
  - THTC growth moderated to 5.1% from 6.9%, reflecting fading pent-up demand post the pandemic.
  - Financial, real estate and professional services rose to 7.6% from 7.0%, driven by a healthy banking sector and robust real estate.
  - Public administration, defence and other services grew 7.8% vs 7.5%.

II. Softening investments

Investments — the key driver of domestic demand this fiscal — moderated in Q4 for the second consecutive quarter. Private consumption remained steady, after rising in the previous quarter.

- **Fixed investment slowed** as measured by gross fixed capital formation (GFCF; 6.5% vs 9.7%). Slower government infrastructure spending may have dragged investment growth, with both central and state[2] capex data showing an on-year slowdown in the fourth quarter.

- **Private consumption steady:** Private final consumption expenditure (PFCE) stayed steady in the fourth quarter at 4.0% on-year (previous quarter print revised up to 4% from 3.5%). However, the growth remained much lower than the 7.8% GDP growth in the fourth quarter.

  There seem to have been some signs of a rural recovery during the quarter. Demand for work under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) contracted significantly on-year, indicating easing job distress. Rural wages also showed signs of a pickup. However demand for rural-

[1] Based on kharif and rabi production
[2] Based on data from 18 states

dependent sectors showed mixed trend. For instance, two-wheeler sales rose in the fourth quarter but tractor sales continued to decline.

Urban demand seemed to have sustained some momentum. Employment prospects were broadly healthy with higher labour force participation and lower unemployment on-year.

Consumer durables production further grew in the fourth quarter and retail credit growth showed steady momentum. However, growth in consumer non-durables production slowed further, indicating persisting uneven trend in consumption.

- **Exports support growth**: Exports of goods and services picked up sharply to 8.1% on-year growth in Q4 from 3.4% in the preceding one. Merchandise exports growth saw a significant rise (5.2% vs 1.1%) offsetting the slowdown in services exports (4.3% vs 5.5%). On the other hand, import growth of goods and services declined slightly to 8.3% vs 8.7% growth in the previous quarter. Thus, net exports (exports minus imports) impacted GDP positively in the fourth quarter

- **Government** consumption spending, as measured by government final consumption expenditure (GFCE) growth, swung into the positive zone, registering a 0.9% growth in Q4 vs -3.2% in the previous quarter.

Outlook

After strong GDP print in the past three years, we expect some moderation to 6.8% this fiscal. The growth will still be higher than the pre-pandemic decadal average of 6.7%, continuing to position India as the fastest growing major economy.

Investments, a key factor that boosts growth, are expected to moderate as the government focuses on fiscal consolidation. The extent of revival in private investment cycle will determine the investment momentum this fiscal.

The other strong segment, urban demand, could moderate as credit conditions tighten this year. Transmission of past rate hikes to broader lending rates remains incomplete. As the wait for rate cuts from the Reserve Bank of India (RBI) prolongs, the transmission is expected to continue, raising the borrowing costs. In addition, the RBI's regulatory measures to clamp down on risky lending will weigh on credit support to consumption.

That said, the forecast of an above-normal monsoon brings hope for the rural economy, which was a laggard in the country's growth story last year. The consequent possible easing in food inflation could also boost purchasing power and support consumption. However, the distribution of monsoon will be the determining factor. Freak weather events, such as heatwave and unseasonal rains, remain a risk.

We expect a normalisation of the net indirect tax impact on GDP, after strong growth in the last fiscal.

Slower global growth can restrict upside to goods exports owing to normalisation of supply chains and an expected pick-up in volume of trade in calendar 2024. S&P Global expects global GDP growth to slow to 3.2% in 2024 from 3.4% previous year, weighed by interest rates staying elevated for longer. Any spike in the prices of commodities — particularly crude oil — remains a risk for the country's growth.

Analytical contacts

Dharmakirti Joshi
Chief Economist, CRISIL Limited
dharmakirti.joshi@crisil.com

Pankhuri Tandon
Senior Economist
pankhuri.tandon@crisil.com

Bhavi Shah
Economic Analyst
bhavi.shah@crisil.com

Media contacts

Aveek Datta
Media Relations
CRISIL Limited
M: +91 99204 93912
aveek.datta@crisil.com

Roma Gurnani
Media Relations
CRISIL Limited
M: +91 70662 92142
roma.gurnani@ext-crisil.com

Sanjay Lawrence
Media Relations
CRISIL Limited
M: +91 89833 21061
sanjay.lawrence@crisil.com

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