3 June 2024

Indian Economy Surges: Q4 GDP at 7.8%, FY24 Growth Hits 8.2%

- Real GDP grew by 7.8% YoY in Q4 FY24, moderating from an upwardly revised growth of 8.6% in Q3. The latest GDP growth was higher than market expectations which were ~7%. Meanwhile, the GVA growth came in at 6.3%. The continued divergence between the GDP and GVA is attributed to higher net taxes due to the sharp decline in subsidies.

- The continued rapid pace of growth underscores India's generally favourable macro fundamentals and dampens any possibility of a dovish change in the upcoming monetary policy meeting.

- For the full year FY24, GDP growth was clocked at 8.2%, higher than the 7% growth recorded in FY23, while GVA growth improved to 7.2% from 6.7% previously.

- GDP growth in Q4 was supported by strong investment activity while consumption growth remained subdued. On the other hand, the contribution of external trade turned positive in Q4.

- On the production side of the economy, GVA growth was led by the services and industrial sectors while activity in the agricultural sector remained weak.

- The momentum in the services sector was boosted by improvements in financial, real estate and professional services as well as other services like health and education, while the support from trade, hotels, transportation and communication services waned. In Industry, while there was a broad-based moderation, growth continued to be lifted by heavyweight industries such as manufacturing and construction.

- Looking ahead, economic activity in FY25 is likely to be supported by the revival in rural demand owing to an expectation of above normal monsoon. Meanwhile, investment growth is expected to be supported by the government's continued focus on capital expenditure.

- However, factors like missing support from low GDP deflator, extreme weather events (including recent heatwaves), uneven recovery in the domestic labour market and uncertainties on the geopolitical front are likely to weigh on growth in FY25.

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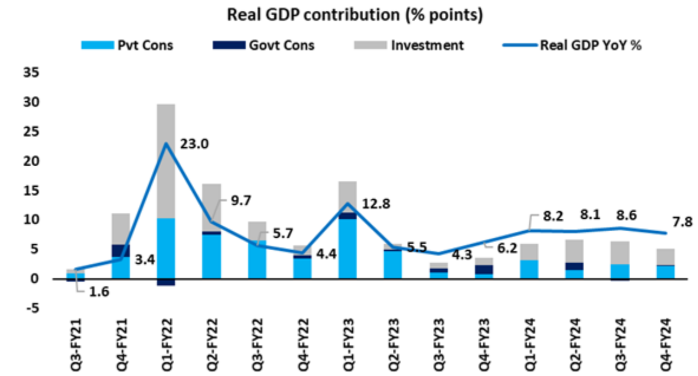
Higher net tax collection kept the GDP growth elevated at 7.8%; investment continues to remain the primary contributor to the growth

Real GDP growth, although moderated from 8.6% in Q3 (revised upwards from 8.4% previously) to 7.8% in Q4, has remained robust. Meanwhile, the GVA growth, a more accurate assessment of the economic activity, came in at 6.3% vs 6.8% (revised up from 6.5%) in Q3. Like the previous quarter, the divergence between the GDP and GVA is attributed to the higher net taxes. Indeed, net taxes (taxes less subsidies) jumped by ~22% YoY in Q4 compared with ~31% in Q3 due to a sharp decline in subsidy expenditure. The continued rapid pace of growth underscores India's generally favourable macro fundamentals and dampens any possibility of a dovish change in the upcoming monetary policy meeting.

Real GDP growth was primarily led by investment, while the growth in private consumption was muted. On the other hand, the contribution of external trade turned positive in Q4.



Source: MOSPI, CMIE

Government CAPEX sustained investment growth

Investment spending - gross capital formation (GCF) - grew by 8.0% YoY (v/s 11.5% in Q3) and contributed ~2.9 percentage points (pp) to the real GDP growth print. Even on a sequential basis, the investment activity noted a solid growth of 10.6% QoQ (vs the five-year pre-pandemic average of 6.6%) potentially buoyed by the government's continued focus on capex spending. Indeed, the central government's capital expenditure for FY24 stood 28.3% higher than last year despite slowing down in the final quarter (~10%). Regarding private investments, while we have not observed a meaningful pick-up yet, there are tentative signs of an uptick. This is reflected in a broadening out of private sector project announcements in Q4, which were narrowly focused on select sectors until now. Further, the rising capacity utilization and healthy balance sheets of corporates augur well for a revival in private sector investments in FY25.

Private consumption growth remained largely unchanged as it grew by 4.0% in Q4 and contributed ~2.2 pp to the real GDP growth. Consumption was likely supported by the sustained urban demand, as exhibited in robust retail credit growth, double-digit passenger vehicle sales, increased petroleum consumption, etc. Meanwhile, rural demand continued to lag due to unfavourable weather conditions which is also reflected in the muted agriculture sector growth in Q4. That being said, certain indicators suggest a tentative improvement in rural demand including declining employment demand under MNREGA and higher growth in sales of FMCG in the rural sector etc. Furthermore, the forecast of the above-normal monsoon is likely to augur well for the rural demand in the upcoming months.

India's GDP estimates at a constant price

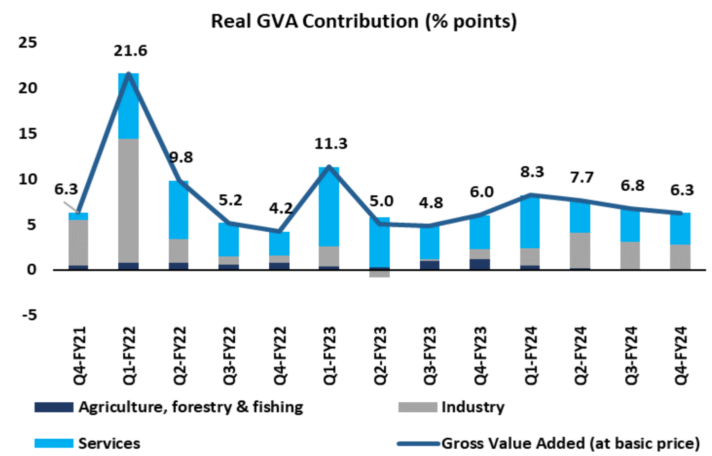
(Constant Prices)	% YoY					
	FY 2023	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	FY 2024
Private Consumption	**6.8**	**5.5**	**2.6**	**4.0**	**4.0**	**4.0**
Government Consumption	**9.0**	**-0.1**	**14.0**	**-3.2**	**0.9**	**2.5**
Gross Capital Formation	**5.5**	**7.5**	**10.7**	**11.5**	**8.0**	**9.4**
Exports	13.4	-6.6	5.0	3.4	8.1	2.6
Less Imports	10.6	15.2	11.6	8.7	8.3	10.9
Real GDP	**7.0**	**8.2**	**8.1**	**8.6**	**7.8**	**8.2**
Real GDP Excluding Govt Exp	**6.8**	**9.3**	**7.5**	**9.7**	**8.7**	**8.8**

Source: MOSPI, CMIE

On the other hand, the contribution of net exports to GDP growth turned positive after remaining negative for three successive quarters. This is being led by a lower trade deficit and a robust service surplus. Current account details until Q3 suggest that the pick-up in the services surplus is primarily led by software services and professional services.

Discrepancies contributed ~2.5pp to GDP growth, marking the fourth consecutive quarter of an outsized contribution. Therefore, we believe that GVA provides a more accurate representation of the pace of economic activity on the ground.

GVA growth continued to be led by services and industry; agriculture remained a laggard



Source: MOSPI, CMIE

India's GVA growth in Q4 FY24 came in at 6.3% YoY, more or less in line with market expectations. As expected, and highlighted in our monthly report for May 2024, growth was led by the services and industrial sectors while activity in the agricultural sector remained weak.

India's GVA estimates at constant price

(Constant Prices)	% YoY					
	FY 2023	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	FY 2024
Agriculture, Forestry & Fishing	**4.7**	**3.7**	**1.7**	**0.4**	**0.6**	**1.4**
Industry	**2.1**	**6.0**	**13.6**	**10.5**	**8.4**	**9.5**
Mining & Quarrying	1.9	7.0	11.1	7.5	4.3	7.1
Manufacturing	-2.2	5.0	14.3	11.5	8.9	9.9
Electricity and Other Utility Services	9.4	3.2	10.5	9.0	7.7	7.5
Construction	9.4	8.6	13.6	9.6	8.7	9.9
Services	**10.0**	**10.7**	**6.0**	**7.1**	**6.7**	**7.6**
Trade, Hotels, Transport, Communication etc	12.0	9.7	4.5	7.0	5.1	6.4
Financial, Real Estate & Professional Services	9.1	12.6	6.2	7.0	7.6	8.4
Public Administration, Defence and Other Services	8.9	8.3	7.7	7.5	7.8	7.8
Gross Value Added (at Basic Price)	**6.7**	**8.3**	**7.7**	**6.8**	**6.3**	**7.2**
Core GVA	**6.7**	**9.1**	**8.6**	**8.4**	**7.3**	**8.3**

Source: MOSPI, CMIE; Note – Core GVA is GVA excluding agriculture, forestry & fishing and public administration, defence, and other services

The services sector value added grew at a healthy pace of 6.7% YoY, only slightly slower than the 7.1% growth seen in Q3. Within the sector, growth in trade, hotels, transportation, communication etc. slowed in Q4. A moderation was expected given the mixed performance of high-frequency indicators (air passenger traffic and toll collection growth had moderated in Q4). Meanwhile, the growth in financial, real estate and professional services accelerated, exhibiting the robust strength of activity in the banking, insurance, and real estate sectors. Indeed, we have observed strong credit, insurance premium growth, and healthy profitability based on Q4 financial results. Public administration, defence and other services also contributed a sizeable sum in overall growth. Given that revenue expenditure continued to contract in Q4, growth in this sub-sector is attributed to improved activity in other services like health and education.

Growth in the industrial sector moderated from the double-digit growth seen in the past two quarters but remained quite impressive at 8.4% YoY, compared with 10.4% in Q3. The moderation in growth is attributed mainly to the manufacturing sector where growth moderated from 11.5% in Q3 to 8.9% in Q4. Growth in the construction sector also moderated slightly, which could be reflective of slower growth in government CAPEX. Indeed, growth in government CAPEX in Q4 was much milder at 10.1% YoY compared with ~25% growth in the past two quarters.

Activity in the agriculture, forestry, and fishing sectors continued to be affected by unfavourable weather conditions, which led to low reservoir levels and tepid sowing activity. The sectors barely showed any growth at 0.6% YoY although it was slightly better than the upwardly revised growth of 0.4% in Q3.

FY24 growth surpassed the second advance estimates; outlook for FY25 remains positive; risks persist

For the full year FY24, GDP growth stood at 8.2% YoY – surpassing the second advance estimate of 7.6%. The data suggest the growth was supported by investment activity while growth in consumption remained muted. Meanwhile, GVA growth for FY24 was clocked at 7.2% compared with 6.7% growth in FY23. The improvement was led by the industrial sector (mainly manufacturing due to a favourable base effect), while growth in the agricultural and services sectors slowed.

Looking ahead, the outlook for FY25 leans towards positive with higher summer crop acreage, development of La Nina conditions and the expectation of normal monsoon rainfall which should bode well for a rebound in the agriculture sector activity and in turn revive rural consumption. Meanwhile, investment growth is expected to be supported by the government's continued focus on capital expenditure. With a lower fiscal deficit for FY24 (5.6% actual vs 5.8% of revised estimate) and an exorbitant dividend transfer by the RBI, the government is likely to have fiscal space to keep focus on capital spending. Furthermore, we expect a slow but broad-based pickup in private sector investment which is expected to support growth in FY25. However, factors like missing support from low GDP deflator, extreme weather events (including recent heatwaves), uneven recovery in the domestic labour market and uncertainties on the geopolitical front are likely to weigh on growth in FY25.

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