India's real GDP growth moderates to 6.7% in Q1 FY25; outlook remains positive

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- Real GDP grew by 6.7% YoY in the first quarter of the current financial year (Q1 FY25) down from the 7.8% growth observed in Q4 FY24, amidst heatwaves and the general elections.
- Positively, the real GVA surprised on the upside growing by 6.8% up from 6.3% in the previous quarter. The divergence between GDP and GVA narrowed as net indirect tax growth slowed to 4.1% from 22.2% in Q4 FY24.
- Real GDP growth in Q1 was led by a rebound in private consumption with support likely due to improving rural sector demand and a somewhat stable urban demand. Meanwhile, the growth in investment activity slowed in Q1 reflecting the impact of reduced government capital expenditure owing to the general elections.
- On the production side of the economy, real GVA growth was led by a steady services sector activity and a surprising performance of the construction sector.
- Meanwhile, the growth in the manufacturing sector slowed also reflected in softening of the corporate sector profit in Q1 due to rising input costs. Agriculture sector activity also remained subdued, affected by the lower Rabi crop production.
- The outlook for FY25 remains positive, with expectations of a revival in rural demand due to a healthy monsoon season and continued government focus on capital expenditure.
- Overall, real GDP growth for FY25 is projected in the range of 6.9%-7.0%, lower than the 8.2% growth in FY24 as the technical factors supporting the growth in FY24 including lower GDP deflator and higher net indirect taxes will be missing in the current financial year.

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Real GDP growth moderated to 6.7% due to temporary disruptions

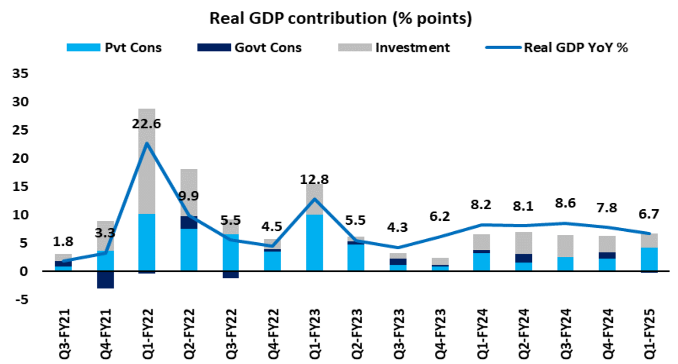
Real GDP grew by 6.7% YoY in the first quarter of the current financial year (Q1 FY25) down from the 7.8% growth observed in Q4 FY24 (lower than the RBI's projection of 7.1%), amidst heatwaves and the general elections.

Positively, from the production side of the economy the real GVA surprised on the upside growing by 6.8% up from 6.3% in the previous quarter. The divergence between the GDP and GVA faded with the deceleration in the net indirect taxes (indirect taxes less subsidies) owing to a pick-up in subsidy expenditure while the growth in indirect taxes slowed. Indeed, the growth in net indirect taxes slowed to 4.1% from 22.2% in Q4 FY24.

Outlook for remainder of FY25 is positive

Despite moderation in economic activity, we remain optimistic about the outlook for the remainder of FY25. Consumption is expected to be supported by further improvement in rural demand due to a healthy monsoon season. Indeed, both Kharif sowing and reservoir levels are up compared to the previous year. The recovery in consumption should also aid a broader revival in private investments, the signs of which were tentative hitherto. Meanwhile, government capital expenditure is also expected to gather pace in the rest of the year with capital expenditure budgeted at 3.4% of GDP in FY25 (highest in ~20 years). That being said, the lack of support from somewhat technical factors such as lower GDP deflator and higher net indirect taxes is expected to exert a downward pressure on real GDP. Overall, we expect the real GDP to grow in the range of 6.9%-7.0% in FY25 lower than the FY24 growth of 8.2%.

Real GDP growth was led by private consumption



Source: MOSPI, CMIE

In contribution terms, the growth in the real GDP was led by private consumption demand while the contribution of investment moderated, reflecting the impact of the general elections. Further, the contribution of the external sector was positive for the second consecutive quarter.

Private consumption rebounded in Q1, growing by a seven-quarter high of 7.4% vs 4.0% in Q4 FY24 and contributed 4.2 pp to the real GDP growth. Consumption likely got support from the improving rural demand reflected in the high frequency indicators including recovery in tractor sales, robust two-wheeler sales and a continued decline in employment (for the second consecutive quarter) demanded under MNREGA. This is underpinned by a healthy monsoon season. Meanwhile, the urban consumption demand also likely remained stable with growth in indicators like domestic air passenger traffic, consumer durables, and credit remaining stable in Q1. However, there are early signs of moderation in urban demand reflected in worsening consumer sentiment (in RBI surveys) and slowing real urban wage growth (proxied by the corporate results). This is also corroborated by the FMCG sales (sourced from Neilsen IQ and media reports) which suggest growth in rural sales volume outpacing the urban sales volume in Q1.

India's GDP estimates at a constant price

(Constant Prices)	% YoY					
	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	FY24	Q1-FY25
Private Consumption	**5.5**	**2.6**	**4.0**	**4.0**	**4.0**	**7.4**
Government Consumption	**-0.1**	**14.0**	**-3.2**	**0.9**	**2.5**	**-0.2**
Gross Capital Formation	**7.5**	**10.7**	**11.5**	**8.0**	**9.4**	**7.1**
Exports	-6.6	5.0	3.4	8.1	2.6	8.7
Less Imports	15.2	11.6	8.7	8.3	10.9	4.4
Real GDP	**8.2**	**8.1**	**8.6**	**7.8**	**8.2**	**6.7**
Real GDP Excluding Govt Exp	**9.3**	**7.5**	**9.7**	**8.7**	**8.8**	**7.4**

Source: MOSPI, CMIE

Investment spending – gross capital formation (GCF) slowed lower-than-expected to 7.1% YoY in Q1 vs 8.0% in Q4 FY24 and contributed 2.6 pp to the real GDP growth. This is led by the decline in government capital expenditure on account of the general elections. Indeed, the central government capital expenditure contracted by ~35% from the healthy growth of 28% in Q4 FY24. Meanwhile, state government capital expenditure[1] declined by ~19% YoY in Q1 FY25 vs ~7% growth seen in the previous quarter. Other investment-related indicators including capital goods output, infrastructure sector output and cement production also slowed in Q1. Private sector investment activity also was adversely affected by the elections with new project completions falling by ~60% while announcements of new projects also moderated.

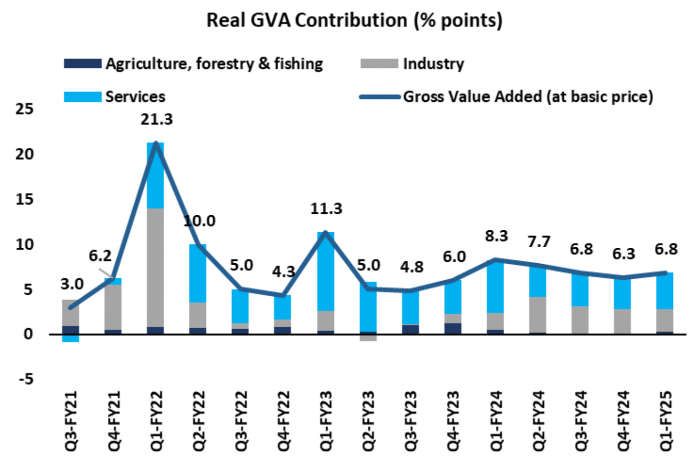
The positive contribution of the external sector intensified in Q1, adding 0.7 pp to the real GDP growth due to the growth in exports (8.7%) outpacing the growth in imports (4.4%) even if the growth in nominal terms was fairly similar. This is due to the difference in the export and import deflator. Export

[1] Data based on 24 states.

deflator was higher by ~0.7% in Q1 while import deflator was up by ~4.5% boosting the contribution of net exports to GDP.

Discrepancies which contributed positively to the real GDP growth in FY24 acted as a drag on the growth in Q1, shaving off 0.7 pp from the growth.

GVA growth supported by robust construction activity and steady growth in services sector



Source: MOSPI, CMIE

Defying the market expectations, India's GVA growth inched up to 6.8% YoY from 6.3% YoY in Q4 FY24 buoyed by surprising performance in the construction sector and steady growth in the services sector.

Activity in the services sector rose by 7.2% YoY, higher than the 6.7% growth observed in the previous quarter despite the severe heatwaves and contributed 4.0 pp to the real GVA growth. Within the services sector, the growth was supported by public administration, defence and other services (9.5% in Q1 FY25 vs 7.8% in Q4 FY24). Given the government revenue expenditure (ex. interest and subsidies) contracted by 1.5%YoY and 0.2%YoY in Q1FY25, for central and state governments respectively, growth in this sub-sector is attributed to improved activity in other services such as health and education etc. The growth in trade, hotels & transportation also improved despite the heatwaves. Meanwhile, the growth in financial, real estate, and professional services moderated only slightly to 7.1% in Q1 but was the largest contributor to services sector growth. This is likely due to strong real estate also reflected in robust stamp duty collections.

Contrary to our expectations, the growth in the industrial sector remained somewhat similar to the previous quarter (8.3% in Q1 FY25 vs 8.4% in Q4 FY24). This is due to the surprising performance of the construction sector that grew in double digits (10.5% in Q1 vs 8.7% in Q4 FY25) despite a contraction in the government capital expenditure. We will not be surprised if this growth is revised downwards in later quarters. Meanwhile, manufacturing sector growth slowed to 7.0 % in Q1 FY25 from 8.9% in the previous quarter. Indeed, the profits of the non-financial manufacturing companies declined further (in nominal terms) with the rising input costs.

India's GVA estimates at constant price

(Constant Prices)	% YoY					
	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	FY24	Q1-FY25
Agriculture, Forestry & Fishing	**3.7**	**1.7**	**0.4**	**0.6**	**1.4**	**2.0**
Industry	**6.0**	**13.6**	**10.5**	**8.4**	**9.5**	**8.3**
Mining & Quarrying	7.0	11.1	7.5	4.3	7.1	7.2
Manufacturing	5.0	14.3	11.5	8.9	9.9	7.0
Electricity and Other Utility Services	3.2	10.5	9.0	7.7	7.5	10.4
Construction	8.6	13.6	9.6	8.7	9.9	10.5
Services	**10.7**	**6.0**	**7.1**	**6.7**	**7.6**	**7.2**
Trade, Hotels, Transport, Communica	9.7	4.5	6.9	5.1	6.4	5.7
Financial, Real Estate & Professional	12.6	6.2	7.0	7.6	8.4	7.1
Public Administration, Defence and O	8.3	7.7	7.5	7.8	7.8	9.5
Gross Value Added (at Basic Price)	**8.3**	**7.7**	**6.8**	**6.3**	**7.2**	**6.8**
Core GVA	**9.1**	**8.6**	**8.4**	**7.3**	**8.0**	**7.3**

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

Lastly, the activity in the agriculture sector grew by 2.0%, higher than 0.6% in Q4 FY24. This is potentially a reflection of improvement in allied activities as the estimates for Rabi crop output (as per third advance estimates) stood lower than last year.

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