

India's GDP Growth Update

Economic Update | 1st March 2023

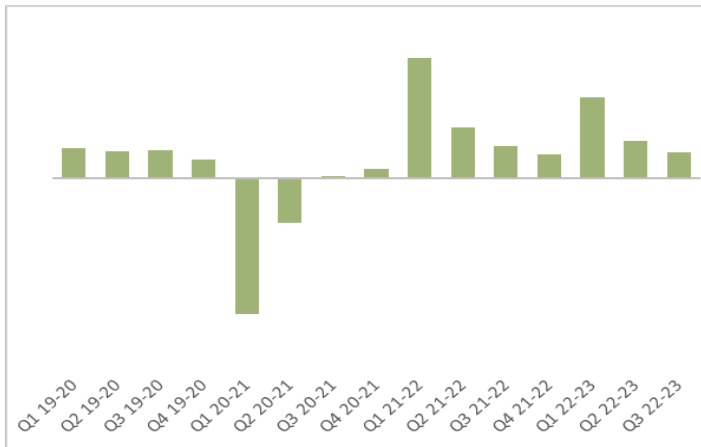
Economic growth slows further on account of base effect

Event	Actual	Consensus	Previous
GDP Growth	4.4%	4.6%	6.3%

Highlights:

- The Indian economy grew 4.4% in Q3 (October-December) of FY23 compares with a growth of 6.3% in the July-September quarter. Services continued to drive India's economic growth in Q3, while manufacturing remained tepid.
- Agriculture sector recorded a healthy growth of 3.7% in Q3 FY23 compared with a growth of 2.3% in the corresponding quarter a year ago. As per the second advance estimate, foodgrains production grew by 2.5% in FY23 and stood at an all-time high of 323 million tonnes. Rising bank credit to agriculture sector, increased exports from agriculture sector and higher sowing of rabi crop are the positive developments for agriculture sector going ahead.
- Industrial sector moved from contraction to the expansion but grew modestly by 2.4% due to negative growth in the manufacturing segment. Subdued performance in the manufacturing sector can be attributed to slowdown in exports, lower discretionary demand and some fizzling off in the pent-up demand. Manufacturing contracted 1.1% in Q3 compared to a contraction of 3.6% in the preceding quarter. However, Mining grew 3.7% in Q3 compared with a contraction of 0.4% in the last quarter and Electricity and other public utilities grew 8.2%, against a growth of 6% in Q2.
- Services sector continued to witness buoyant demand and recorded a growth of 6.2%, primarily led by trade, hotels, transport, communication, and services related to broadcasting and finance, real estate and professional service. Trade, hotel, transport, and communication expanded 9.7% compared with 15.6% in the previous quarter. The financial services sector grew 5.8% compared with 7.1% in the last quarter. Healthy growth in various service sector indicators like air passenger traffic, port cargo traffic, goods and services tax collections and retail credit will support service sector going forward.
- On the expenditure side, growth in Private Final consumption growth (PFCE), moderated to 2.1% in Q3 FY23. It was a notable deceleration from 9.7% in Q2 of FY23, largely on back of unfavourable base effect. Though the ratio of private consumption to GDP has improved to 61.6% from 59.5% in the previous quarter.
- Investments measured as Gross Fixed Capital Formation (GFCF) grew by 8.3% in Q3 FY23 supported by favourable base effect, but the ratio of investment to GDP ratio has fallen to around 32% from 34% in the previous quarter. Slowdown in global demand and rising interest rates are headwinds for investment revival going ahead.
- As per the Central Statistics Office's second advance estimate, for the full financial year economic output is expected to grow at 7%. Based on this estimates, GDP will growth 5.1% in Q4 FY2023.

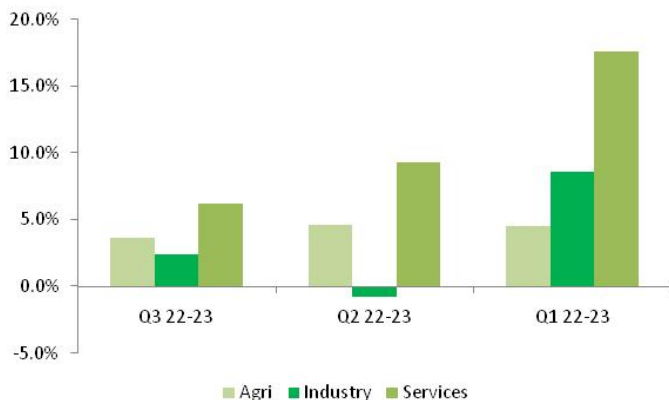
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Fig 1: GDP YoY% Trend


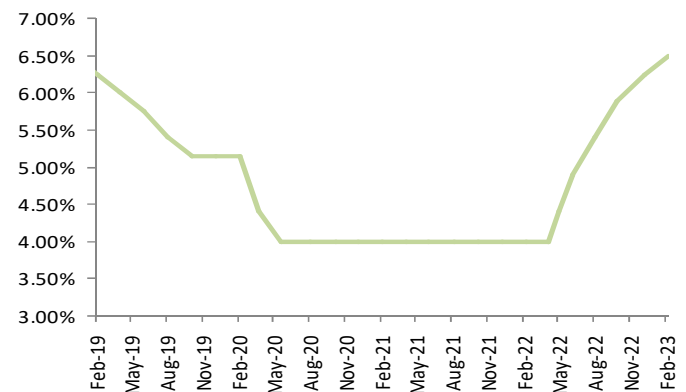
Source: Mospi, SMIFS Research

Fig 2: GVA YoY% Trend


Source: Mospi, SMIFS Research

Fig 3: GVA Contribution


Source: Mospi, SMIFS Research

Fig 3: Interest Rate Trend


Source: RBI SMIFS Research

Tab 1: GDP & GVA Growth Table

YoY %	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22	Q3 FY22
Real GDP	4.4	6.3	13.5	4.1	5.4
Private Consumption	2.1	9.7	25.9	1.8	7.4
Government Consumption	-0.8	-4.4	1.3	4.8	3
Gross Fixed Capital Formation	8.3	10.4	20.1	5.1	2.1
Exports	11.3	11.5	14.7	16.9	23.1
Imports	10.9	25.4	37.2	18.0	5.4
Real GVA	4.6	5.6	12.7	3.9	4.7
Agriculture	3.7	4.6	4.5	4.1	2.5
Industry	2.4	-0.8	8.6	1.3	0.3
Mining and Quarrying	3.7	-2.8	6.5	6.7	9.2
Manufacturing	-1.1	-4.3	4.8	-0.2	0.3
Electricity	8.2	5.6	14.7	4.5	3.7
Services	6.2	9.3	17.6	5.5	8.1
Trade, Hotels, T&C	9.7	14.7	25.7	5.3	6.3
Financing Service	5.8	7.2	9.2	4.3	4.2
Community, defense services	2.0	6.5	26.3	7.7	16.7

Source: Mospi, SMIFS Research

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