

India GDP

Hearty Q3; pegging FY25 growth at 6.5%

National Accounts

Q3FY24 GDP update

March 1, 2024

Another stellar quarter of healthy growth prints (Q3 real GDP: 8.4%) has been underpinned by strong manufacturing and steady services. Expenditure-side estimates depict healthy GFCF and tepid private consumption growth, while government consumption slowed massively. The wide divergence between higher investment vs. lower consumption and moderate exports has been the key highlight of the past year.

The key surprising factor has been the 190bps sharp wedge between GDP and GVA growth, which is difficult to fathom. However, on the surface, it largely reflects higher growth in general government net indirect taxes, possibly with lower subsidies. The second estimate for FY24 puts real GDP 30bps higher at 7.6%, even as real GVA is unchanged at 6.9%. Interestingly, even as FY24 nominal GDP growth is a tad higher than the first estimate of 9.1%, it is 10% lower in value terms. The implied Q4 GDP/GVA growth print will slow to 5.9%/5.4%, indicating most of the growth moderation is borne by Q4.

That said, production-side GVA growth is relatively less volatile and the massive GDP-GVA wedge in FY24 will likely normalize by next fiscal. Stronger-than-envisaged growth in FY24 will be followed by a much slower yet healthy FY25E growth of ~6.5%, led by cyclical headwinds such as (i) relatively slow net GoI spending, (ii) fading terms-of-trade gains from lower commodity prices, (iii) patchy agri performance, (iv) tighter lending standards, and (v) relatively weak exports.

Q3FY24 growth beats estimates led by revised base; manufacturing and GFCF shine

Q3FY24 GDP growth rose sharply to 8.4% (Emkay: 6.7%; Consensus: 6.5%) from the upwardly revised 8.1%, while GVA slowed to 6.5% (Emkay: 6.5%) from 7.7%. The sharp wedge between GDP and GVA growth is difficult to fathom; however, on the surface, it largely reflects higher growth in general government indirect taxes netted for subsidies. Higher-than-expected quarterly numbers have also been muddled amid sharp quarterly revisions to prior data points, while the base effect also helped. Revision noises, however, have reduced this year vs. post-COVID years. Q3 GVA growth at 6.5% was led by healthy manufacturing (11.6%) and construction (9.5%), while services growth rose to 7%. Healthy manufacturing earnings led by reduced YoY input costs and higher volume growth aided the sector. Services growth has been supported by public administration and personal services category, despite contracting the central government's revex spending. Trade, hotels, and transport showed the sharpest gains from Q2. Q3 expenditure side was led by GFCF (10.6%), while private consumption (3.5%) continued to disappoint and government consumption expectedly contracted.

FY24 GDP growth revised up to 7.6%; Q4 implied growth to ease sharply to 5.9%

Mildly helped by past downward revisions but more by very high net indirect taxes, FY24 GDP growth is now seen at 7.6% (7.3% adv. estimate), while GVA growth estimates have remained unchanged at 6.9%. Nominal GDP at 9.1% implies an estimated deflator of ~1.5% in FY24E. Implied Q4FY23E GDP/GVA growth will be the lows of 5.9%/5.4%. FY24 growth levers are likely to see the industry leading the way (9%) owing to strong manufacturing performance, while the industry's growth would be slower (7.5%), led by Fin, RE, and other services. Expenditure-side estimates depict healthy GFCF and tepid private consumption growth, while government consumption will slow massively.

Growth momentum healthy albeit mixed; pegging FY25 growth at ~6.5%

Recovery momentum in FYTD24 has generally been better than envisaged at the beginning of the year, led by factors like much-higher positive fiscal impulse in H1 (amid front-loaded government spending) and relatively lagging negative monetary impulse (amid easier lending standards by the financial sector). Besides, robust corporate profits, leveraged consumption, and deflator-related statistical boosts also pushed up growth. The wide divergence of higher investments vs. lower consumption and moderate exports has been the key highlight of the past year. Production-side GVA growth is relatively less volatile and the massive GDP-GVA wedge in FY24 is expected to normalize by next fiscal. We see FY25 GDP moderating at ~6.5%, while GVA growth will only be a tad lower at 6.4%. The slower growth outcome will see cyclical headwinds in the form of: 1) slower GoI net spending growth, 2) fading terms-of-trade benefits of lower commodity prices on a YoY basis, 3) patchy agri performance, 4) banks' tighter lending standards, and 5) weaker exports. Besides, deflator-related growth boost is likely to increasingly unwind, as WPI retraces the >4% territory.

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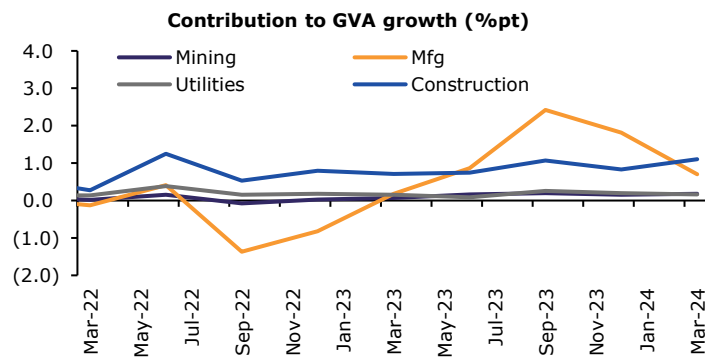
Key highlights:

- Q3FY24 GDP/GVA growth at 8.4%/6.5%; Manufacturing shines
- Massive gap between GDP and GVA growth reflects higher net indirect taxes
- FY24 GDP growth revised up 30bps to 7.6%; FY23 revised down 20bps to 7.0%
- Our FY25E growth forecast pegged at 6.5%

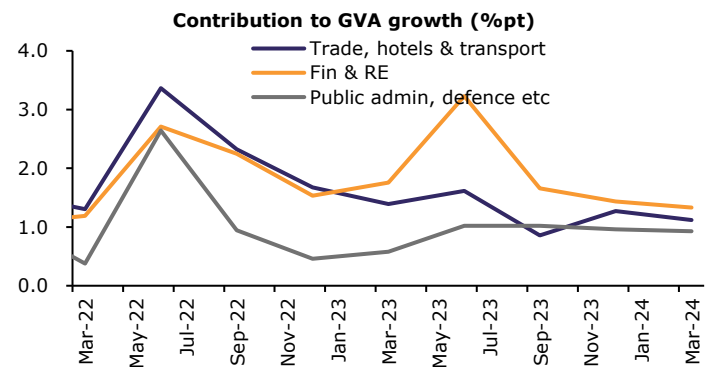
Exhibit 1: Q3FY24 saw negative growth for agri, while manufacturing and construction continued their strong momentum

YoY, %	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24 E
Real GVA	21.6	9.8	5.2	4.1	11.3	5.0	4.8	6.0	8.2	7.7	6.5	5.4
Agriculture and allied	4.5	5.9	3.0	5.8	2.7	2.3	5.2	7.6	3.5	1.6	(0.8)	(0.6)
Industry	53.0	8.5	3.0	0.9	6.8	(2.4)	0.6	3.4	6.0	13.6	10.4	6.7
Mining	11.3	10.4	5.3	0.7	6.6	(4.1)	1.4	2.9	7.1	11.1	7.5	7.4
Manufacturing	50.4	5.7	0.3	(0.7)	2.2	(7.2)	(4.8)	0.9	5.0	14.4	11.6	3.9
Electricity	17.0	11.5	6.6	6.7	15.6	6.4	8.7	7.3	3.2	10.5	9.0	7.6
Construction	99.6	14.7	7.3	2.8	14.7	6.9	9.5	7.4	8.5	13.5	9.5	11.3
Services	12.9	11.5	7.4	5.7	16.7	9.8	7.2	7.2	10.7	6.0	7.0	6.5
Trade, hotel, transport, communication	44.0	15.2	8.9	6.7	22.1	13.2	9.2	7.0	9.7	4.5	6.7	5.5
Financial, real estate, professional services	3.5	7.6	5.3	6.4	10.5	8.7	7.7	9.2	12.6	6.2	7.0	6.8
Public admin, defence, and others	4.1	14.6	8.6	3.0	23.6	7.3	3.5	4.7	8.2	7.7	7.5	7.6
Private sector GVA	29.5	9.7	5.2	3.9	11.3	5.1	5.0	5.9	9.1	8.7	8.4	6.4
Non-agriculture GVA	25.4	10.4	5.7	3.7	12.9	5.4	4.7	5.7	9.0	8.5	8.2	6.6
Real GDP	23.0	9.7	5.7	4.2	12.8	5.5	4.3	6.2	8.2	8.1	8.4	5.9

Source: MoSPI, Emkay Research. Q4FY24 numbers are implied from the second advance estimate for the full-year FY24

Exhibit 2: Mfg. contribution to growth is slowing down

Source: MoSPI, Emkay Research

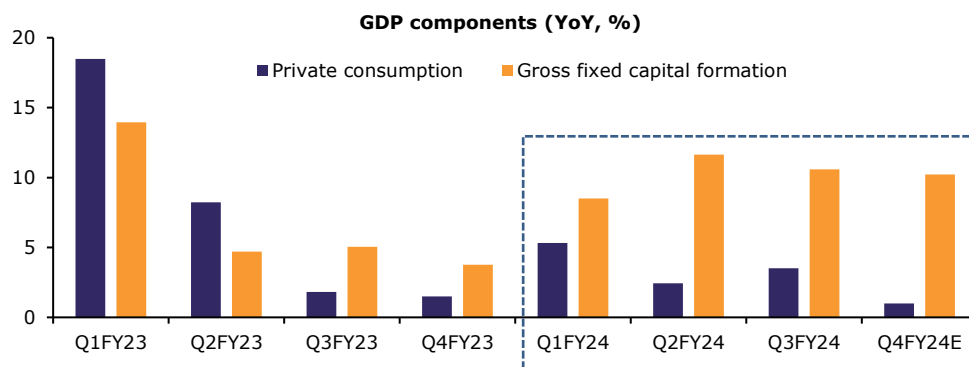
Exhibit 3: THTC has yet to pick up substantially

Source: MoSPI, Emkay Research

Exhibit 4: Private consumption growth stayed shabby in Q3FY24, while GFCF was robust

YoY, %	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24E
Real GDP	23.0	9.7	5.7	4.2	12.8	5.5	4.3	6.2	8.2	8.1	8.4	5.9
Private consumption	18.0	13.6	11.0	6.4	18.5	8.2	1.8	1.5	5.3	2.4	3.5	1.0
Government consumption	(8.0)	5.0	(0.6)	4.6	9.8	3.4	7.1	13.9	(0.1)	13.8	(3.2)	2.7
Gross fixed capital formation	71.0	14.1	4.8	4.8	13.9	4.7	5.0	3.8	8.5	11.6	10.6	10.2
Inventory	1,287.8	875.4	826.0	200.1	19.6	8.7	11.5	18.2	1.6	10.7	7.9	0.6
Valuables	490.3	160.6	46.8	(53.5)	58.4	(19.6)	(38.2)	(23.6)	(21.2)	(1.1)	61.8	31.1
Exports	50.0	28.5	31.1	15.7	19.1	11.7	10.9	12.4	(6.5)	5.3	3.4	3.5
Imports	46.9	28.5	21.4	4.1	26.1	16.1	4.1	(0.4)	15.3	11.9	8.3	8.2

Source: MOSPI, Emkay Research. Q4FY24 numbers are implied from the second advance estimate for the full year FY24

Exhibit 5: The wedge between private consumption and capital formation continues to widen

Source: MOSPI, Emkay Research

Exhibit 6: FY22 has seen sharp upward revisions, while FY23 was revised down

YoY, %	FY21		FY22		FY23		FY24	
	Second RE	Third RE	First RE	Second RE	Prelim Est	First RE	First AE	Second AE
Real GDP	-5.8	-5.8	9.1	9.7	7.2	7.0	7.3	7.6
Real GVA	-4.2	-4.1	8.8	9.4	7.0	6.7	6.9	6.9
Nominal GDP	-1.4	-1.2	18.4	18.9	16.1	14.2	8.9	9.1
Pvt GVA	-5.3	-5.2	9.9	10.8	7.6	6.7	7.8	8.1

Source: MoSPI, Emkay Research. AE=Advance Estimate, RE=Revised Estimate

Exhibit 7: FY25 GDP growth forecast pegged at 6.5%

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Real GVA	5.8	3.9	(4.1)	9.4	6.7	6.9	6.4
Agriculture and allied	2.1	6.2	4.0	4.6	4.7	0.7	2.9
Industry	5.3	(1.4)	(0.4)	12.2	2.1	9.0	7.0
Mining	(0.8)	(3.0)	(8.2)	6.3	1.9	8.1	7.3
Manufacturing	5.4	(3.0)	3.1	10.0	(2.2)	8.5	6.8
Electricity	7.9	2.3	(4.2)	10.3	9.4	7.5	8.9
Construction	6.5	1.6	(4.6)	19.9	9.4	10.7	6.8
Services	7.2	6.4	(8.4)	9.2	10.0	7.5	6.9
Trade, hotel, transport, communication	7.2	6.0	(19.9)	15.2	12.0	6.5	6.8
Financial, real estate, professional servi	7.0	6.8	1.9	5.7	9.1	8.2	7.0
Public admin, defence, and others	7.5	6.6	(7.6)	7.5	8.9	7.7	6.9
Private sector GVA	6.3	3.0	(5.2)	10.8	6.7	0.0	15.6
Non-agriculture GVA	6.5	3.6	(5.6)	10.3	7.1	0.0	15.5
Real GDP	6.5	3.9	(5.8)	9.7	7.0	7.6	6.5

Source: MOSPI, Emkay Research estimates

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