

# India GDP

## Investments led growth; Private consumption lag

India's GDP grew 7.6% in Q3, beating market expectations by a wide margin. Manufacturing contributed the most while agriculture and services dragged the economy. Erratic weather conditions hindered Agri sector's performance while the robust read through of Services PMI did not indicate moderation in services activity. Increased imports are not translating into private consumption however it may be catering to the domestic capex activity. Analysis of last four general elections indicates that, GDP growth tapers in the year prior to general elections while it's the other way round in the year following the general election. Strength in GDP print indicates that the impact of rate hikes is yet to fully reflect in the economy. We expect RBI to maintain its hawkish tone but rate action is unwarranted at this stage.

- **Manufacturing leads the show; Private consumption weakens:** Economic growth of 7.6% exceeded market expectations (7%) by a wide margin in Q2 of FY24, the role of adverse base was not significant in this growth. This robust economic performance was led by manufacturing and construction activity, while services and agriculture proved to be a drag (Ex 1). Moderation in agriculture activity was on expected lines due to erratic weather conditions while weakness in services was not anticipated as Services PMI continues to be in expansion zone (16). Growth in investments has been robust at 11% YoY vs 8% YoY in Q1, aiding GDP growth while consumption weakened to 4.3% YoY vs 4.9% in Q1. Within consumption, government consumption was strong (12.4% YoY vs -0.7% YoY in Q1) but the growth in private consumption halved to 3.1% YoY. Adverse trade activity due to sharp rise in imports dragged the GDP print in Q2. It is pertinent to note that elevated imports did not translate into increased private consumption, but the strength in GFCF and government consumption indicates that imports are catering to Capex related activities.
- **Economic performance during general election:** We analysed last four general elections and its impact on domestic economic growth, in the "year prior" and "year of election". Our analysis reveals that quarterly GDP growth tends to taper in the year before election, with weakest performance in Q4. On an average, economy grew 6.7% in Q1 of last four elections which tapered to 5% handle in Q4, in the year before general elections. Similar trend is evident in private consumption (PFCE) and Investments (GFCF) in the economy (Ex 6, 8, 10). While economic performance tends to be back-ended in the "year of election", this is true for GFCF as well but we observed that private consumption is the weakest in Q3 of the election year. (Ex 7, 9, 11).
- **Comfortable Fiscal situation:** India's fiscal situation continued to remain resilient on FYTD basis (Apr-Oct'23). Fiscal deficit of INR 8.04tn constitutes 45% of the Budgeted Estimates (BE) for FY24, which is sharply lower than the pre-Covid period average (~103%). Although gross tax revenue has been robust at INR 18.3tn, constituting 54.6% of FY24BE we see less room for an upside surprise. On the expenditure front, the quality of central government's expenditure improved during Apr-Oct'23 period, as share of Capex in total expenditure doubled to 20% vs pre-Covid average of 9%.
- **Robust GDP print indicates that transmission of rate hikes is incomplete:** With every passing quarter it is becoming clearer that the impact of restrictive monetary conditions through transmission of cumulative rate hikes (till now) is yet to fully reflect in the economy. This also justifies the hawkish tone of central banks and negates the calls for rate cuts by certain section of the market. Latest GDP print in US (Jul-Sep) exceeded expectations; however private consumption was the main driver unlike in India. With Q2 FY24 GDP print, we expect RBI to maintain a hawkish tone and RBI may tinker its growth projections higher by ~20bps, but we do not expect any rate action on 8<sup>th</sup> Dec. We raise our growth forecast for FY24 by 20bps to 6.5%.

Hitesh Suvarna

hitesh.suvarna@jmf.com | Tel: (91 22) 66303351

### Key Highlights:

- GDP grew 7.6% in Q2 FY24, exceeding market expectations by a wide margin; Nominal GDP grew 9.1%.
- Manufacturing led the show while Services and agriculture dragged
- Strength in Investments aided GDP growth while private consumption and adverse trade proved to be a drag.
- RBI unlikely to tinker with policy rates however may raise its growth projections by ~20bps.
- We raise our GDP estimates for FY24 by 20bps to 6.5%.

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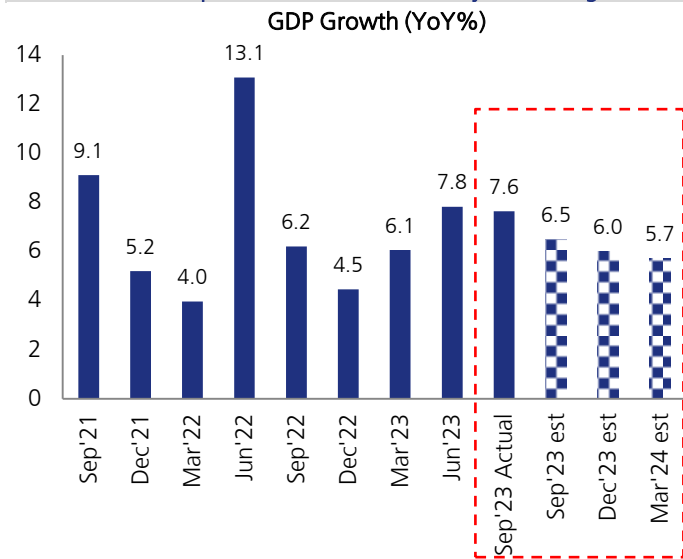
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. Manufacturing contributes the most while Services and Agriculture drag the GDP print**

Contribution to Real GVA (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
<b>Real GVA</b>	<b>9.3</b>	<b>4.7</b>	<b>3.9</b>	<b>11.9</b>	<b>5.4</b>	<b>4.7</b>	<b>6.5</b>	<b>7.8</b>	<b>7.4</b>
Agriculture, Forestry and Fishing	0.6	0.4	0.6	0.4	0.3	0.9	0.8	0.5	0.1
<b>Industry</b>	<b>2.6</b>	<b>0.5</b>	<b>0.8</b>	<b>3.0</b>	<b>(0.2)</b>	<b>0.7</b>	<b>2.1</b>	<b>1.7</b>	<b>3.9</b>
Mining and Quarrying	0.2	0.1	0.1	0.2	(0.0)	0.1	0.1	0.1	0.2
Manufacturing	1.3	0.2	0.1	1.2	(0.7)	(0.2)	0.9	0.9	2.5
Electricity, Gas, Water & Other Utilities	0.3	0.1	0.1	0.4	0.1	0.2	0.1	0.1	0.2
Construction	0.8	0.0	0.5	1.2	0.4	0.7	1.0	0.6	1.0
<b>Services</b>	<b>6.1</b>	<b>3.8</b>	<b>2.5</b>	<b>8.6</b>	<b>5.3</b>	<b>3.2</b>	<b>3.5</b>	<b>5.6</b>	<b>3.4</b>
Trade, Hotels, Transport, Comm. & Broadcasting	2.2	1.6	1.0	3.9	2.7	1.8	1.8	1.6	0.8
Financial, Real Estate & Professional Service	1.9	0.8	0.9	2.2	1.8	1.1	1.4	3.1	1.6
Public Administration, Defence & Other Services	2.1	1.3	0.6	2.5	0.7	0.3	0.4	1.0	1.0
<b>Private sector GVA</b>	<b>6.6</b>	<b>3.0</b>	<b>2.6</b>	<b>9.1</b>	<b>4.4</b>	<b>3.6</b>	<b>5.2</b>	<b>6.3</b>	<b>6.3</b>
<b>Non-Agri GVA</b>	<b>8.7</b>	<b>4.3</b>	<b>3.3</b>	<b>11.6</b>	<b>5.1</b>	<b>3.8</b>	<b>5.6</b>	<b>7.3</b>	<b>7.3</b>

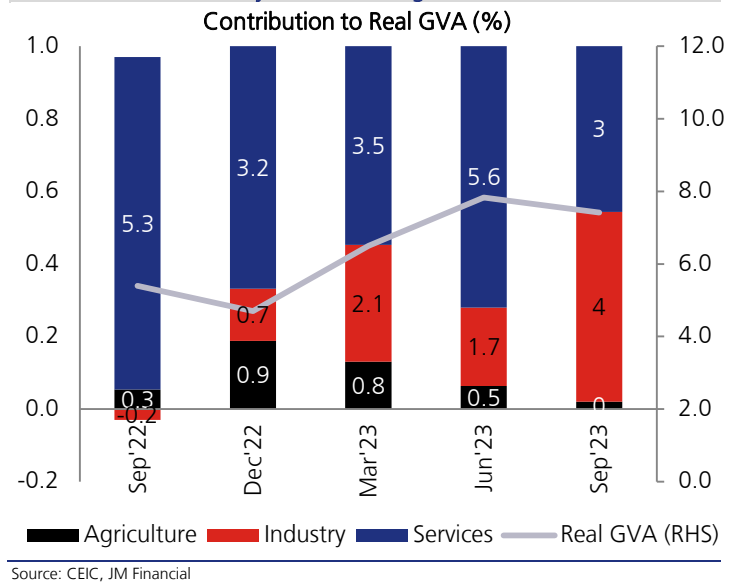
Source: CEIC, JM Financial

**Exhibit 2. Q2 GDP print beats RBI estimates by wide margin**



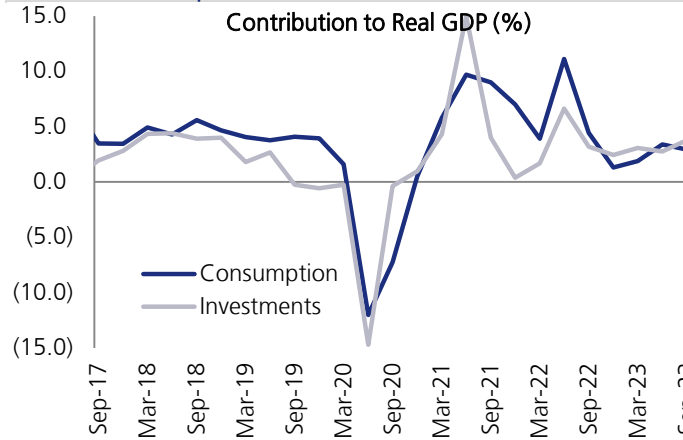
Source: CMIE, RBI, JM Financial

**Exhibit 3. ....beat led by Manufacturing**



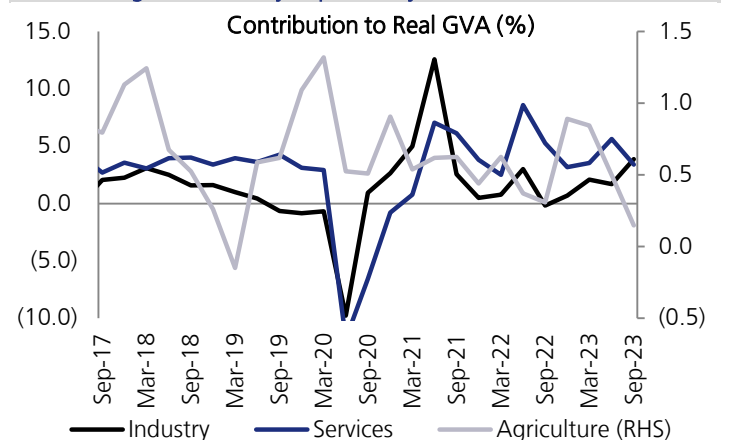
Source: CEIC, JM Financial

**Exhibit 4. Consumption weakens in Q2FY24**



Source: CEIC, JM Financial

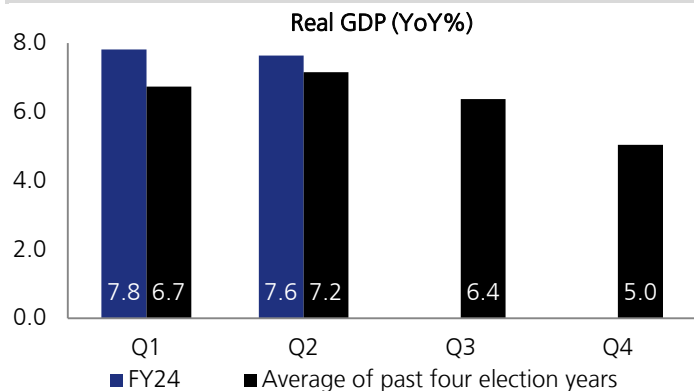
**Exhibit 5. Agriculture likely impacted by erratic weather**



Source: CEIC, JM Financial

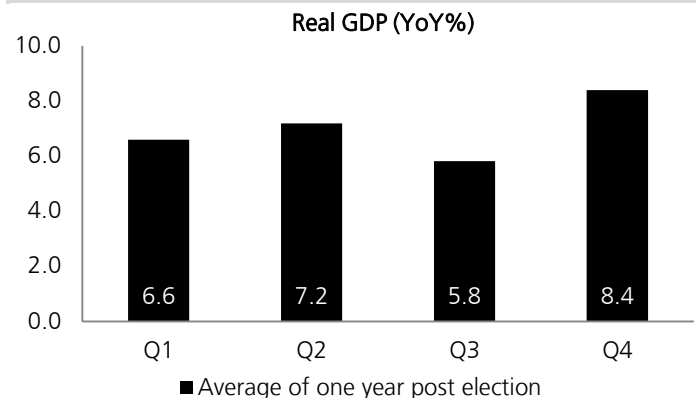
## GDP growth “one year prior” and in the “year of Election”

**Exhibit 6. Past trends indicate, economic growth tapers in Q4, a year before election**



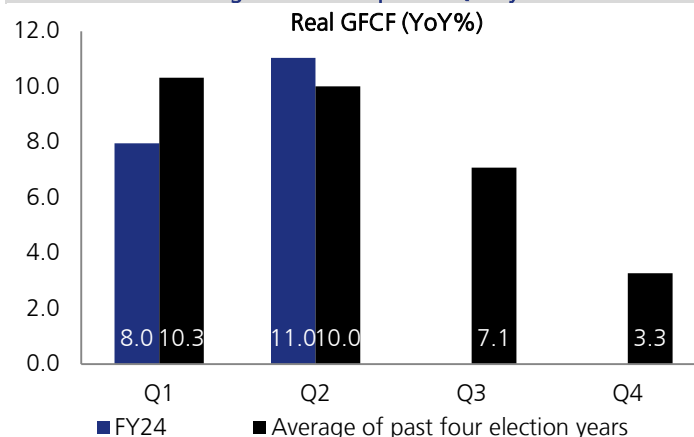
Source: CMIE, JM Financial | Note: Average Growth during FY04, 09, 14, 19

**Exhibit 7. ...while Q4 is the strongest in the year following the election**



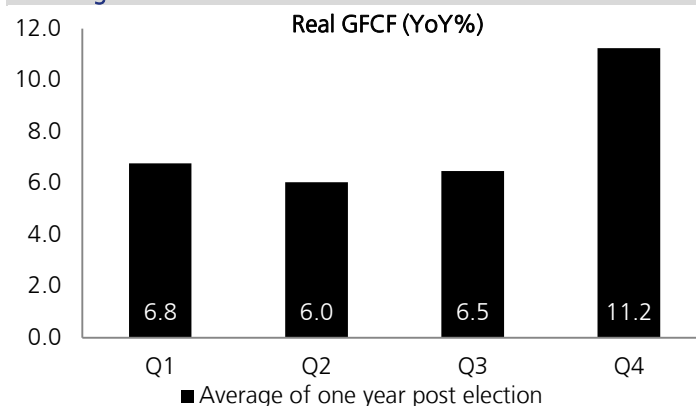
Source: CMIE, JM Financial | Note: Average growth during FY05, 10, 15, 20

**Exhibit 8. Investment growth also tapers in Q4 a year before election**



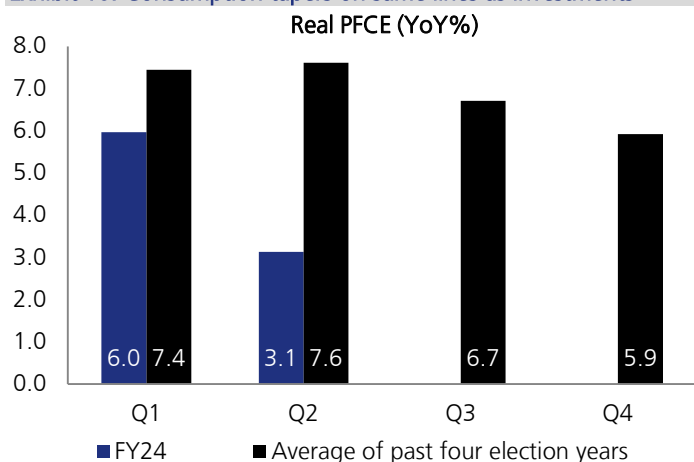
Source: CMIE, JM Financial | Note: Average Growth during FY04, 09, 14, 19

**Exhibit 9. ...investments pickup significantly in Q4 of the year following the election**



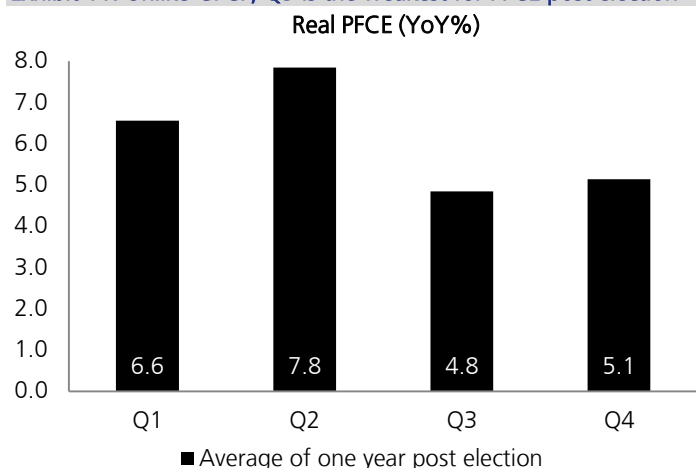
Source: CMIE, JM Financial | Note: Average growth during FY05, 10, 15, 20

**Exhibit 10. Consumption tapers on same lines as investments**



Source: CMIE, JM Financial | Note: Average Growth during FY04, 09, 14, 19

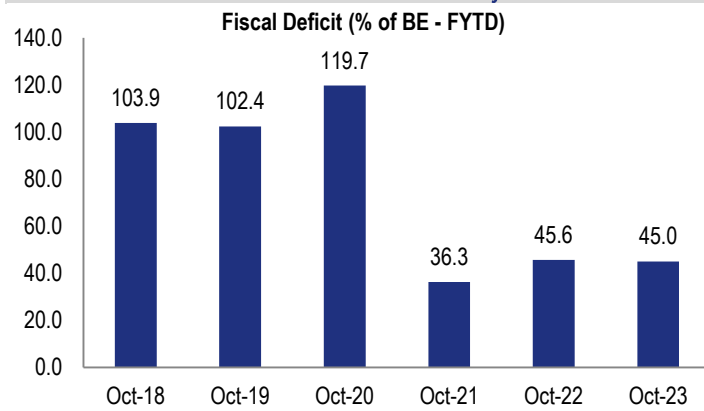
**Exhibit 11. Unlike GFCF, Q3 is the weakest for PFCE post election**



Source: CMIE, JM Financial | Note: Average growth during FY05, 10, 15, 20

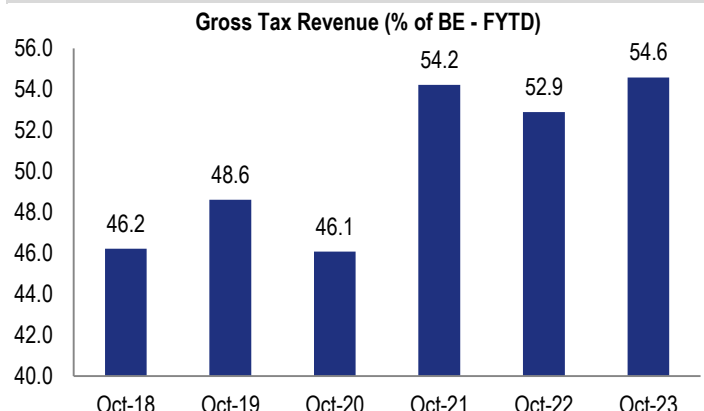
# India's Comfortable Fiscal situation

**Exhibit 12. Fiscal Deficit in comfortable territory**



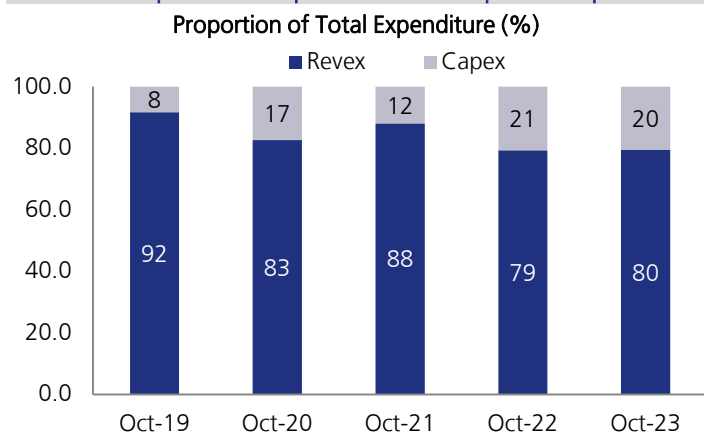
Source: CEIC, JM Financial

**Exhibit 13. Tax Revenue continues to remain robust**



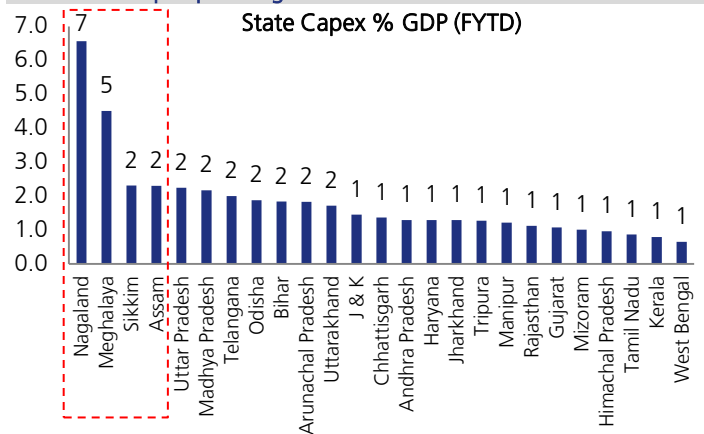
Source: CEIC, JM Financial

**Exhibit 14. Proportion of Capex doubled since pre-Covid period**



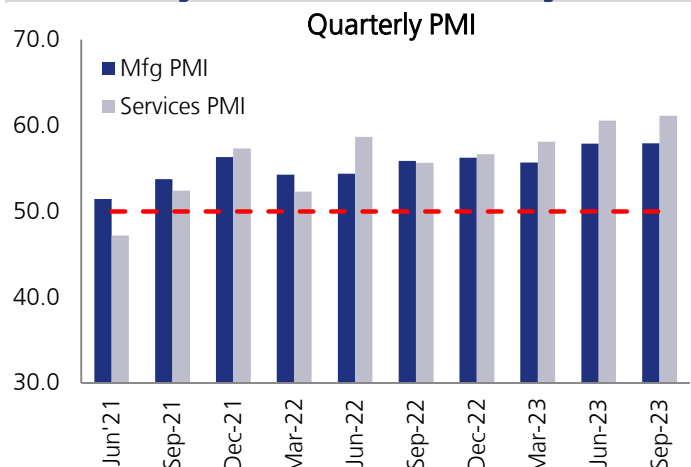
Source: JM Financial

**Exhibit 15. Capex push higher in North-eastern states**



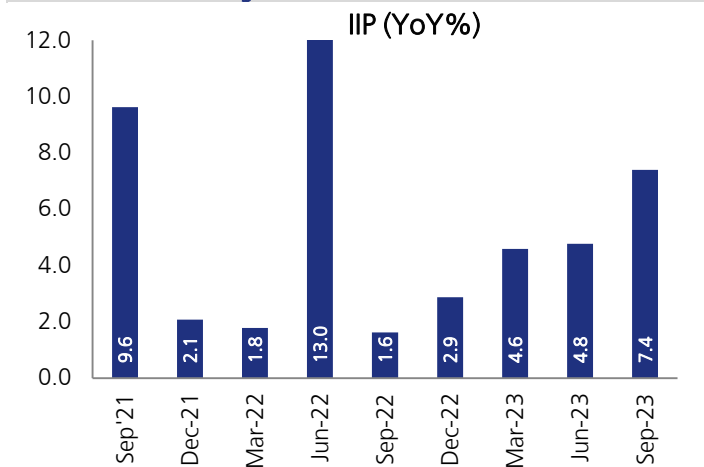
Source: JM Financial | Note FYTD = Apr-Oct

**Exhibit 16. Strength in Services PMI vs Manufacturing**



Source: CMIE, JM Financial

**Exhibit 17. Consistent growth in IIP**



Source: CMIE, JM Financial

**Exhibit 18. Pickup in Investments while consumption weakens, Net-imports drag**

YoY%	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
<b>Real GDP</b>	9.1	5.2	4.0	13.1	6.2	4.5	6.1	7.8	7.6
Final Consumption Expenditure	13.9	10.2	5.8	16.5	6.6	1.8	2.7	4.9	4.3
Private	14.2	10.8	4.7	19.8	8.3	2.2	2.8	6.0	3.1
Government	11.7	5.8	11.8	1.8	(4.1)	(0.6)	2.3	(0.7)	12.4
Gross Fixed Capital Formation	12.4	1.2	4.9	20.4	9.6	8.0	8.9	8.0	11.0
Change in Stocks	655.9	618.9	613.8	7.5	(2.6)	(0.1)	5.9	3.9	11.6
Valuables	156.6	44.5	(51.7)	58.7	(19.5)	(38.0)	(23.4)	(21.0)	(4.0)
Exports of Goods and Services	25.1	27.8	22.4	19.6	12.2	11.1	11.9	(7.7)	4.3
Import of Goods and Services	26.6	19.7	6.7	33.6	23.1	10.7	4.9	10.1	16.7

Source: CEIC, JM Financial

**Exhibit 19. Manufacturing leads the show; Services and Agri Dissappoint**

YoY%	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
<b>Real GVA</b>	9.3	4.7	3.9	11.9	5.4	4.7	6.5	7.8	7.4
Agriculture, Forestry and Fishing	4.8	2.3	4.1	2.4	2.5	4.7	5.5	3.5	1.2
Industry	8.1	1.6	2.3	9.4	(0.5)	2.3	6.3	5.5	13.2
Mining and Quarrying	10.6	5.4	2.3	9.5	(0.1)	4.1	4.3	5.8	10.0
Manufacturing	6.6	1.3	0.6	6.1	(3.8)	(1.4)	4.5	4.7	13.9
Electricity, Gas, Water & Other Utilities	10.8	6.0	6.7	14.9	6.0	8.2	6.9	2.9	10.1
Construction	10.8	0.2	4.9	16.0	5.7	8.3	10.4	7.9	13.3
Services	11.1	7.6	4.9	16.3	9.4	6.1	6.9	10.3	5.8
Trade, Hotels, Transport, Comm. & Broadcasting	13.1	9.2	5.0	25.7	15.6	9.6	9.1	9.2	4.3
Financial, Real Estate & Professional Service	7.0	4.3	4.6	8.5	7.1	5.7	7.1	12.2	6.0
Public Administration, Defence & Other Services	16.8	10.6	5.2	21.3	5.6	2.0	3.1	7.9	7.6
Private sector GVA	8.9	4.4	3.7	12.5	5.9	5.3	7.3	8.7	8.4
Non-Agri GVA	10.0	5.3	3.9	13.7	5.8	4.7	6.7	8.5	8.3

Source: CEIC, JM Financial

**Exhibit 20. Revise our GDP growth estimates higher by 20bps to 6.5% for FY24**

YoY%	FY18	FY19	FY20	FY21	FY22	FY23	FY24E
<b>Real GVA</b>	<b>6.2</b>	<b>5.8</b>	<b>3.9</b>	<b>(4.2)</b>	<b>8.8</b>	<b>7.0</b>	<b>6.0</b>
<b>Agriculture, Forestry and Fishing</b>	<b>6.6</b>	<b>2.1</b>	<b>6.2</b>	<b>4.1</b>	<b>3.5</b>	<b>4.0</b>	<b>3.0</b>
<b>Industry</b>	<b>5.9</b>	<b>5.3</b>	<b>(1.4)</b>	<b>(0.9)</b>	<b>11.6</b>	<b>4.4</b>	<b>5.5</b>
Mining and Quarrying	(5.6)	(0.8)	(3.0)	(8.6)	7.1	4.6	4.7
Manufacturing	7.5	5.4	(3.0)	2.9	11.1	1.3	3.5
Electricity, Gas, Water & Other Utilities	10.6	7.9	2.3	(4.3)	9.9	9.0	7.0
Construction	5.2	6.5	1.6	(5.7)	14.8	10.0	9.5
<b>Services</b>	<b>6.3</b>	<b>7.2</b>	<b>6.4</b>	<b>(8.2)</b>	<b>8.8</b>	<b>9.5</b>	<b>7.2</b>
Trade, Hotels, Transport, Comm. & Broadcasting	10.3	7.2	6.0	(19.7)	13.8	14.0	7.8
Financial, Real Estate & Professional Service	1.8	7.0	6.8	2.1	4.7	7.1	6.7
Public Administration, Defence & Other Services	8.3	7.5	6.6	(7.6)	9.7	7.2	7.1
Private sector GVA	5.8	6.3	3.0	(5.3)	9.9	7.6	6.5
Non-Agri GVA	6.2	6.5	3.6	(5.7)	9.8	7.6	6.6
<b>Real GDP</b>	<b>6.8</b>	<b>6.5</b>	<b>3.9</b>	<b>(5.8)</b>	<b>9.1</b>	<b>7.2</b>	<b>6.5</b>

Source: CEIC, JM Financial

## APPENDIX I

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SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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