

GDP growth in Q1: India-fastest growing major economy

India's GDP rose by 7.8% in Q1FY24, following 6.1% growth in Q4FY23. While this was slightly lower than our estimate of 8-8.2%, India still remains the fastest growing major economy. Support to growth was provided by private consumption and investment. Government consumption and export growth weakened in Q1. Sector-wise, financial & real estate sector, trade, transport etc, and public administration and defense spending provided major boost to GDP in Q1. Agriculture growth softened and remains a key risk to overall GDP growth in FY24, as monsoon activity was lackluster in Aug'23 (32% deficit so far). IMD expects a normal monsoon in Sep'23, which will be critical in determining overall growth trajectory in FY24. Going forward, we also believe that growth will get some support from government spending. We maintain our forecast of 6.3% growth for the full year (FY24).

Q1FY24 GDP accelerates

GDP growth in Q1 accelerated to 7.8%, from 6.1% in Q4FY23 on a YoY basis. This was marginally lower than our expectation of 8-8.2%. The push to growth was mainly provided by pick up in private consumption, which jumped by 6% in Q1FY24 from 2.8% in Q4FY23. Private investment slowed, but maintained a healthy growth of 8% in Q1 versus 8.9% in Q4. Major drag came from dip in government consumption (-0.7 versus 2.3%) and exports (-7.7% versus 11.9%).

GVA improves

GVA growth rose by 7.8% in Q1FY24, up from 6.5% in Q4FY23. Most significant increase was noted in financial, real estate & professional services (12.2% in Q1 versus 7.1% in Q4), and public administration & defence (7.9% versus 3.1%). This was followed by growth in sectors like mining & quarrying (5.8% versus 4.3%) and manufacturing (4.7% versus 4.5%). On the other hand, downward pull was exerted by slowdown in activity in sectors like agriculture, forestry & fishing (3.5% versus 5.5%), utility supplies (2.9% versus 6.9%) and construction (7.9% versus 10.4%). In trade/hotels segment growth was virtually stable (9.2% versus 9.1%). With monsoon activity noting 32% deficit in Aug'23 so far and registering driest month in over a century, risks to agriculture growth continue to persist. IMD has predicted a normal monsoon in Sep'23, which will have to be monitored closely to gauge its impact on Q2FY24 GDP print.

Outlook for FY24

India's GDP growth in Q1FY24 rose by 7%, coming off a high base, from 11.9% in Q1FY23. In terms of nominal growth, 8% growth in Q1 is similar to real GDP growth, owing to deflation in WPI. Base effect in real GDP is likely to continue to play throughout the year and with global growth slowing, GDP growth will witness moderation in the remaining quarters of the fiscal year (as also projected by RBI). Further, as WPI gradually comes out of deflation, nominal growth is likely to be higher than real GDP. Critical factor determining overall growth this year will be-monsoon activity and its impact on agriculture growth. High frequency data points (rail freight movement, diesel consumption, air passenger traffic) are showing some easing in Q2 (Jul-Aug'23) so far, compared with the previous quarter. Assuming an overall normal monsoon, and boost from festive demand, we expect full year growth to settle at 6.3% in FY24.

Separately, core sector growth in Jul'23 accelerated by 8%, slowing a tad from 8.3% increase in Jun'23. Moderation was mainly on account of slowing output in sectors like steel (13.5% in Jul'23 versus 20.8% in Jun'23), cement (7.1% versus 9.9%), and petroleum refinery products (3.6% versus 4.6%). On the other hand, output of coal rose in double-digits in Jul'23 (14.9% versus 9.8% in Jun'23) and that of crude oil (2.1% versus -0.6%), natural gas (8.9% versus 3.5%), and electricity (6.9% versus 4.2%) also improved.

Table 1: GDP fastens to 7.8% Q1FY24

Sectors (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Agriculture, forestry and fishing	2.4	2.5	4.7	5.5	3.5
Mining and quarrying	9.5	-0.1	4.1	4.3	5.8
Manufacturing	6.1	(3.8)	(1.4)	4.5	4.7
Electricity, gas, water supply and other utility services	14.9	6.0	8.2	6.9	2.9
Construction	16.0	5.7	8.3	10.4	7.9
Trade, hotels, transport, communication & services related to broadcasting	25.7	15.6	9.6	9.1	9.2
Financial, real estate & professional services	8.5	7.1	5.7	7.1	12.2
Public administration and Defence	21.3	5.6	2.0	3.1	7.9
GVA at basic prices	11.9	5.4	4.7	6.5	7.8
GDP	13.1	6.2	4.5	6.1	7.8

Source: CEIC, Bank of Baroda Research

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