

Q2 GDP growth in 4th gear

India's GDP growth surprised positively, rising by 7.6% in Q2FY24, following a 7.8% growth in Q1FY24. Even as, this was slightly lower than previous quarter, India continues to remain the fastest growing economy across the globe. In line with expectations, agriculture growth softened amidst the threat of El Nino which resulted in erratic rainfall; impacting the kharif output. However, amidst poor rainfall, sector such as construction, manufacturing and mining registered an uptick and supported growth. Strong growth in firms in Q2 was reflected with earnings data. Globally, sluggish pace of growth in world economy and uneven recovery in rural economy is expected to drag India's growth lower in H2FY24. However, we do expect some support from government spending and boost from the delayed festive season to assist growth. Given this, India's economy is expected to clock a growth higher for FY24 with upward bias of 0.1-0.2%.

Q2FY24 GDP accelerates

GDP growth in Q2 moderates to 7.6% from 7.8% in Q1FY24 on a YoY basis. This was higher than our expectation of 6.7%. The moderation was led by slowdown in private consumption, which eased by 3.1% in Q2FY24 from 6% in Q1FY24. The estimate is far higher than the RBI estimate (6.5%) and is led by improvement in sectors including government consumption, registering a robust growth of 12.4% after contracting by (-) 0.7% followed by investment which clocked double digit growth at 11% (8% in Q1). Even export growth is back in green at 4.3% after declining by 7.7% in Q1. India's growth for H1 stands at 7.7% compared with a growth of 9.5% in H1FY23.

GVA improves

GVA growth rose by 7.4% in Q2FY24 down from 7.8% in Q1FY24. The dip was led by sharp slowdown in agriculture sector, down by 1.2% (3.5% in Q1) on the back of kharif production estimate and erratic rainfall. Furthermore, sectors such as trade (4.3% versus 9.2%), financial services (6% versus 12.2%) and public admin (7.6% versus 7.9%) dragged down the growth further. On the other hand, following sectors, surprised positively with most significant increase was noted in manufacturing registering a stupendous growth of 13.9% (4.7% in Q1) driven by improvement in corporate profitability and strong growth in industrial production. Subsequently, mining & quarrying (10% versus 5.8%), electricity (10.1% versus 2.9%) and construction (13.3% versus 7.9%) sector have all clocked double digit growth. Additionally, improvement in cement consumption has supported the construction sector, amidst uncertain rainfall activity.

Outlook for FY24

India's GDP growth rose by 7.6% in Q2FY24 and in terms of nominal growth it stands at 9.1% growth in Q2, much higher than the real GDP growth, as deflation in WPI slows further. Given the slowdown in global growth, ongoing geopolitical tensions and tightening financial conditions, exports are expected to weaken. GDP growth is expected to register some moderation in H2 in line with RBI's projections. However, given the upcoming general elections, government spending is expected to pick up and support growth estimates. High frequency data points (rail freight movement, credit growth,

air passenger traffic) are showing signs of uptick in Q3 (Oct-Nov'23) so far, compared with the previous quarter.

Separately, core sector growth in Oct'23 accelerated by 12.1%, from 9.2% increase in Sep'23. The double digit growth is driven by higher output in sectors like coal (18.4% versus 16.0% in Sep'23) at 16-month high, cement (17.1% versus 4.6%), electricity (20.3% versus 9.9%) which is at 18-month high, crude oil (1.3% versus -0.4%) and natural gas (9.9% versus 6.6%). On the other hand, sectors like refinery products (4.2% versus 5.5%) and steel (11% versus 13.8%) registered slower output for the same period. On a FYTD basis, core sector growth has improved by 8.6% compared with a growth of 8.4% in Apr-Oct'23.

Table 1: Q2FY24 GDP growth eases marginally

| Sectors (%) | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 |
|--|--------|--------|--------|--------|--------|
| Agriculture, forestry and fishing | 2.5 | 4.7 | 5.5 | 3.5 | 1.2 |
| Mining and quarrying | (0.1) | 4.1 | 4.3 | 5.8 | 10.0 |
| Manufacturing | (3.8) | (1.4) | 4.5 | 4.7 | 13.9 |
| Electricity, gas, water supply and other utility services | 6.0 | 8.2 | 6.9 | 2.9 | 10.1 |
| Construction | 5.7 | 8.5 | 9.5 | 9.5 | 13.3 |
| Trade, hotels, transport, communication & services related to broadcasting | 15.6 | 9.6 | 9.1 | 9.2 | 4.3 |
| Financial, real estate & professional services | 7.1 | 5.7 | 7.1 | 12.2 | 6.0 |
| Public administration and Defence | 5.6 | 2.0 | 3.1 | 7.9 | 7.6 |
| GVA at basic prices | 5.4 | 4.7 | 6.5 | 7.8 | 7.4 |
| GDP | 6.2 | 4.5 | 6.1 | 7.8 | 7.6 |

Source: CEIC, Bank of Baroda Research

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