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GDP growth in Q1: India-fastest growing major economy

India's GDP rose by 6.7% in Q1FY25, following 7.8% growth in Q4FY24. Sector-wise, growth in manufacturing, financial & real estate sector slowed down in Q1 versus Q4. Agriculture growth was tad lower than expected but is likely to rebound strongly in the coming quarters. Going forward, normal monsoon in Sep'24, pick up in government spending and robust invest trajectory is expected to boost the economy. Based on the above, we expect the economy to grow above the 7% mark in FY25.

Q1FY25 GDP moderates

GDP growth in Q1 moderated to 6.7% from 7.8% in Q4Y24 on a YoY basis. This was lower than our expectation of 7.3%. The slower than expected growth was attributed to lower government spending, which declined down to (-) 0.2% after increasing by 0.9% in Q4FY24 given the curtailment of spending due to elections. On the other hand, investment picked up and registered a solid growth of 7.5% from 6.55 in Q4FY24. Both exports and consumption spending also recorded solid growth of 8.7% (8.1% in Q4) and 7.4% (4% in Q4) respectively. Imports recorded a sluggish growth of 4.4% (8.3% in Q4) on account of growing geo political tensions.

GVA improves

GVA growth rose by 6.8% in Q1FY25, up from 6.3% in Q4FY23. Most significant increase was noted in power and gas (10.4% form 7.7%), construction (10.5% from 8.7%) and mining and quarrying (7.2% form 4.3%). Manufacturing sector slowed but maintained a healthy growth of 7% (from 8.95 in Q4). The lower growth was on account of weaker corporate profits. Overall the industry sector registered a stable growth of 8.3% (from 8.4% in Q4). Growth in agriculture sector advanced by 2% in Q1 but was lower than expected given the adverse weather conditions such as heatwave. Services sector clocked a robust growth of 7.2% form 6.7% in Q4 with sectors such as trade, transport (5.7% from 5.1%) and public admin (9.8% from 7.8%) contributing the most. The financial, real estate & professional services registered a growth of 7.1% against a 7.6% growth in Q4. With monsoon activity noting a surplus of 7% above LPA (cumulative till 30 Aug), it is likely to be favourable for inflation specially food prices and agriculture growth is expected to improve for the coming quarters. Furthermore, steady improvement in government spending in the next 3-quarter will also provide the requisite push to the investment sector.

Outlook for FY25

India's GDP growth in Q1FY25 rose by 6.3%, from 7.8% in Q4FY24. For Q1FY25, a nominal growth of 9.7% has been registered. Supported by good monsoon, consumption sector is expected pick up. Furthermore, boost from festive demand also bodes well for the sector, especially in Q2. Agriculture sector is likely to report stronger growth. These factors coupled with adequate support from government spending will propel the economy in H2FY25. India remains a bright spot even as the outlook for global growth continues to remain uncertain given the policy divergence amongst Global central Banks, escalating geopolitical tensions and growing risks of disinflation. These continue to hamper the medium term outlook for global economy.

Table 1: GDP expands by 6.7% Q1FY25

Sectors (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Agriculture, forestry and fishing	3.7	1.7	0.4	0.6	2.0
Mining and quarrying	7.0	11.1	7.5	4.3	7.2
Manufacturing	5.0	14.3	11.5	8.9	7.0
Electricity, gas, water supply and other utility services	3.2	10.5	9.0	7.7	10.4
Construction	8.6	13.6	9.6	8.7	10.5
Trade, hotels, transport, communication & services related to broadcasting	9.7	4.5	6.9	5.1	5.7
Financial, real estate & professional services	12.6	6.2	7.0	7.6	7.1
Public administration and Defence	8.3	7.7	7.5	7.8	9.5
GVA at basic prices	8.3	7.7	6.8	6.3	6.8
GDP	8.2	8.1	8.6	7.8	6.7

Source: CEIC, Bank of Baroda Research

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