

## Q2FY20 GDP

29 November 2019

### Slowdown intensifies as investments slip

India's GDP growth fell to a 26-quarter low at 4.5% in Q2FY20 on the back of deceleration in investment demand to 1%. Consumption improved a tad bit to 5%. GVA growth slipped to 4.3% as industrial activity moderated to 0.5% in Q2 (2.7% in Q1). Services activity was stable as government accelerated its spending to 11.6% in Q2. An investment and industry led slowdown calls for lower interest rates which along with economic measures announced by the government will drive GDP growth to 6.1% in FY21 from 5.1% in FY20.

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**GDP growth slips to a 26-quarter low:** GDP growth slipped to 4.5% in Q2FY20 compared with 5% in Q1 led by a sharp contraction in investment growth at 1% in Q2FY20 compared with 4% in Q1. Private consumption surprised at 5.1% in Q2FY20 from 3.1% in Q1FY20. Government consumption which inched up to 15.6% in Q2FY20 from 8.8% in Q1FY20 supported growth. Even net exports contributed positively as imports fell by (-) 6.9% in Q2 compared with (-) 0.4% fall in exports.

**GVA growth lowest since Q4FY13:** GVA growth too decelerated to 4.3% in Q2FY20 (4.9% in Q1). Industrial output increased by only 0.5% in Q2 compared with 2.7% in Q1. All three sub-segments of industry reported a dip led by electricity at 3.6% in Q2 (8.6% in Q1) followed by mining at 0.1% in Q2 (2.7% in Q1). Manufacturing output contracted by (-) 1%. On the other hand, services growth was stable at 6.8%. Within services, private services such as trade, hotels etc. slipped to 4.8% in Q2 compared with 7.1% in Q1. Financial services were stable at 5.8%. Public spending increased to 11.6% from 8.5% in Q1 thus ensuring services growth remained at same level as Q1.

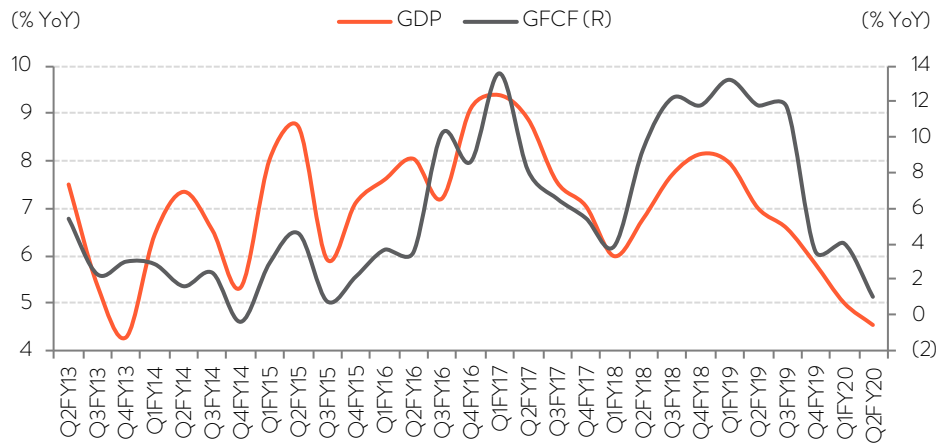
**Low growth calls for rate cut:** While CPI inflation has increased to 4.6% in Oct'19, the slowdown calls for even lower real rates. Core sector growth has further decelerated to (-) 5.8% in Oct'19 from (-) 5.1% in Sep'19. Given weak global demand and muted credit off-take, we expect a slow U-shaped recovery. The policy prescription calls for lower rates and structural reforms to revive investments. For now, transmission has been ineffective. Surplus liquidity along with effective transmission will over time ensure lower rates in the real economy. Another rate cut will send a signal that growth takes precedence. Lower rates along with measures announced by government will ensure that GDP growth bottoms out at 5.1% in FY20 before it picks up to 6.1% in FY21.

#### KEY HIGHLIGHTS

- GDP growth falls to a 26-quarter low at 4.5% in Q2FY20 from 5% in Q1FY20.
- GVA growth also dips to 4.3% compared with 4.9% in Q1FY20 led by manufacturing.
- FY20 growth estimated at an 8-year low of 5.1% compared with 6.8% in FY19.

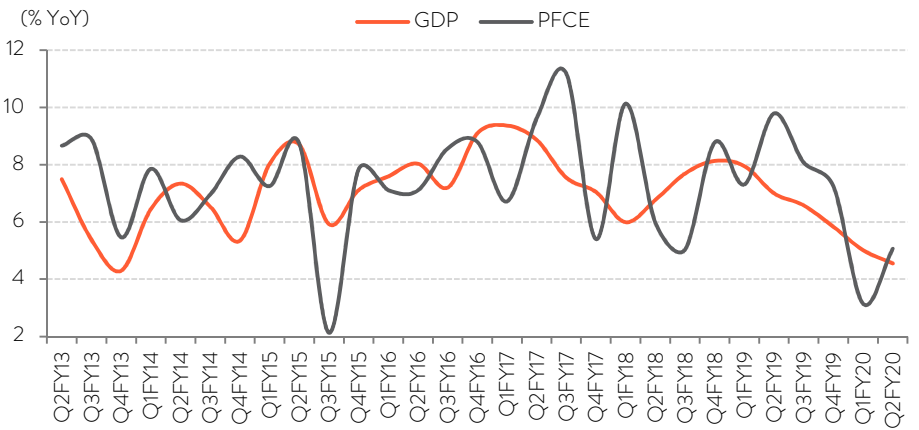


**FIG 1 – INVESTMENT GROWTH FILTERS**



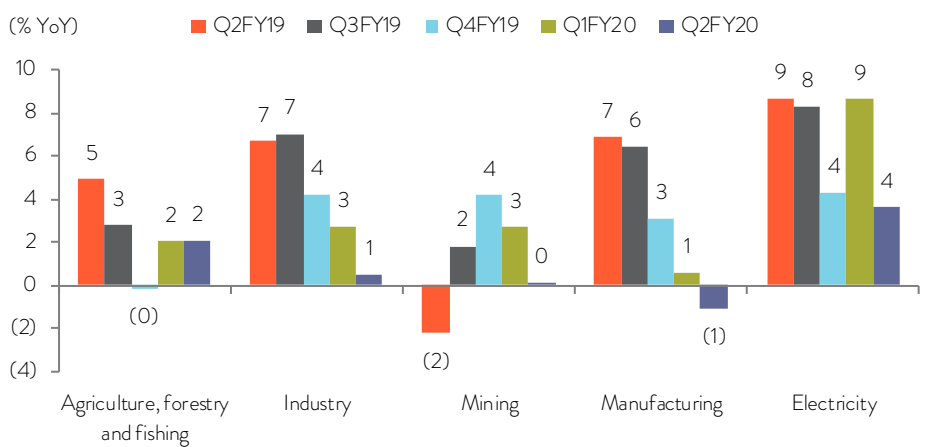
Source: CEIC, Bank of Baroda Research

**FIG 2 – PFCE GROWTH IMPROVES IN Q2**



Source: CEIC, Bank of Baroda Research

**FIG 3 – GVA GROWTH SLIPS TO 4.3% LED BY MANUFACTURING**



Source: CEIC, Bank of Baroda Research

**FIG 4 – GROSS VALUE ADDED (GVA) TO MODERATE TO 4.9% IN FY20E BEFORE INCHING UP TO 5.9% IN FY21E**

Sectoral growth rate at constant prices (%)	Share	FY16	FY17	FY18	FY19PE	FY20E	FY21E
<b>Agriculture</b>	<b>14.4</b>	<b>0.6</b>	<b>6.3</b>	<b>5.0</b>	<b>2.9</b>	<b>2.8</b>	<b>3.0</b>
<b>Industry</b>	<b>31.3</b>	<b>9.6</b>	<b>7.7</b>	<b>5.9</b>	<b>6.9</b>	<b>2.7</b>	<b>5.1</b>
Mining & Quarrying	2.9	10.1	9.5	5.1	1.3	1.3	2.5
Manufacturing	18.0	13.1	7.9	5.9	6.9	1.6	5.0
Electricity, gas, water supply and other utility services	2.2	4.7	10.0	8.6	7.0	6.0	5.8
Construction	8.2	3.6	6.1	5.6	8.7	4.5	6.0
<b>Services</b>	<b>54.3</b>	<b>9.4</b>	<b>8.4</b>	<b>8.1</b>	<b>7.5</b>	<b>6.8</b>	<b>7.1</b>
Trade, hotels, transport, communication & services related to broadcasting	19.1	10.2	7.7	7.8	6.9	5.8	6.8
Financial, real estate & professional services	22.1	10.7	8.7	6.2	7.4	6.1	7.0
Public administration and defence	13.1	6.1	9.2	11.9	8.6	9.3	7.8
<b>GVA at basic price</b>	<b>100</b>	<b>8.0</b>	<b>7.9</b>	<b>6.9</b>	<b>6.6</b>	<b>4.9</b>	<b>5.9</b>
<b>GDP</b>	<b>-</b>	<b>8.0</b>	<b>8.2</b>	<b>7.2</b>	<b>6.8</b>	<b>5.1</b>	<b>6.1</b>

Source: CEIC, Bank of Baroda Research | PE – Provisional Estimate | E – Bank of Baroda Estimates

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