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RESEARCH

BOB ECONOMICS RESEARCH | Q2FY25 GDP

Q2 GDP growth moderates

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GDP expectations for FY25

SUMMARY

INDIA ECONOMICS: Q2FY25 GDP

India's GDP growth softened to 5.4% in Q2FY25, following 8.1% growth in Q2FY24. Even as, this was lower than previous quarter, India continues to remain one of the fastest growing economy across the globe. In line with expectations, agriculture growth rose on the back of favorable monsoon and higher kharif output. Softness in manufacturing growth was reflected with poor earnings data. A sharp rebound is on the card in H2 that is expected to push overall growth higher in FY25 to 6.6-6.8%. The recovery in H2 will be supported by pick up in capex both government and private, robust agriculture growth and a boost to consumption spending.

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INDIA ECONOMICS: GDP

According to the recently released estimates, the Q2FY25 GDP growth has been at a 7-quarter low on the back of softness in manufacturing sector. Excessive rains which were not spatially distributed adversely impacted growth across the industry sectors, with tepid growth in mining, electricity, manufacturing and construction growth. However, a strong bounce back is expected in H2 driven by government spending, pick up in capex, strong investment and revival in consumption demand-both urban and rural. Agriculture growth expected to clock robust growth in the same period. The evolving global growth dynamics and any impact on global trade due to tariff imposition by US remains a downside risk to the projections. Based on the above, we expect the Indian economy to clock a growth rate of 6.6-6.8% in FY25.

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Q2FY25 GDP

29 November 2024

Q2 GDP growth moderates

Jahnavi Prabhakar
Economist

India's GDP growth softened to 5.4% in Q2FY25, following 8.1% growth in Q2FY24. Even as, this was lower than previous quarter, India continues to remain one of the fastest growing economy across the globe. In line with expectations, agriculture growth rose on the back of favorable monsoon and higher kharif output. Softness in manufacturing growth was reflected with poor earnings data. A sharp rebound is on the card in H2 that is expected to push overall growth higher in FY25 to 6.6-6.8%. The recovery in H2 will be supported by pick up in capex both government and private, robust agriculture growth and a boost to consumption spending.

Q2FY25 GDP slows

GDP growth in Q2FY25 moderates to 5.4% from 8.1% in Q2FY24 on a YoY basis. This was lower than our expectation of 6.9% and the RBI estimate of 7%. Slower pace of growth across sectors including government spending, exports and imports, dragged down the growth lower. Growth in government spending was lower at 4.4% from 14% in Q2FY24, though sequentially it was higher for Q1FY25 (-0.2%). Slower growth was also noted for investment demand (5.4% from 11.6% in Q2FY24). Concerns around global growth and ongoing geopolitical tension had adversely impacted the exports which slipped to 2.8% (5% in Q2FY24) and even imports (-2.9% from 11.6%) in Q2FY25. Despite the moderation in GDP growth, private consumption recorded stupendous growth of 6.0% in Q2FY25 from 2.6% in Q2FY24. India's growth for H1FY25 stands at 6% compared with a growth of 8.2% in H1FY24.

GVA moderates

GVA growth rose by 5.6% in Q2FY25 compared with a growth of 7.7% in Q2FY24. The dip was led by slowdown in manufacturing activity (2.2% versus 14.3%) partially led by unfavourable base and in line with our expectation of weakness in corporate profits. Mining growth contracted down to (-) 0.1% in Q2 against a double digit growth of 11.1% in Q2FY24. Moreover, sluggish pace of growth was noted for power, gas and supplies as it decelerated to 3.3% in Q2 (10.5% in the Q2FY24). Growth in construction sector eased down to 7.7% in Q2 compared with 13.6% growth in the same quarter of last year. Agriculture sector rose at robust pace and was one of the bright spots registering a growth of 3.5% compared with 1.7% growth in Q2FY24 on the back of favourable monsoon and higher kharif output. Additionally, remarkable improvement was also noted in the following sectors, trade (6% from 4.5%), financial services sector (6.7% from 6.2%) and public admin (9.2% from 7.7%). GVA growth in H1FY25 has slowed down to 6.2% from 8% in H1FY24.

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Bank of Baroda

GDP

30 November 2024

GDP expectations for FY25

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According to the recently released estimates, the Q2FY25 GDP growth has been at a 7-quarter low on the back of softness in manufacturing sector. Excessive rains which were not spatially distributed adversely impacted growth across the industry sectors, with tepid growth in mining, electricity, manufacturing and construction growth. However, a strong bounce back is expected in H2 driven by government spending, pick up in capex, strong investment and revival in consumption demand-both urban and rural. Agriculture growth expected to clock robust growth in the same period. The evolving global growth dynamics and any impact on global trade due to tariff imposition by US remains a downside risk to the projections. Based on the above, we expect the Indian economy to clock a growth rate of 6.6-6.8% in FY25.

FY25 GDP estimation

GDP growth is pegged at 6.6-6.8% in FY25 compared with 8.2% growth in FY24. A major rebound is expected in H2 supported by pick up in government spending, revival in investment and strong consumption demand. The main driving factors and risk associated with these estimates include the following:

Table 1: Factors driving the growth in FY25

Sectors (%)	Y24	Y25	ing Factors	Factors
Agriculture, forestry and fishing	1.7	3.5	▪ Favourable Monsoon ▪ Higher reservoir level ▪ Healthy Rabi sowing, also good for rural demand ▪ Higher farm income ▪ 57% chance of La Nina in Oct-Dec and persist through Jan-Mar: Milder winter (NOAA)	▪ Adverse weather conditions ▪ Extreme Cold climate will have significant bearing on crops ▪
Mining and quarrying	1.1	(0.1)	▪ Recovery in corporate profit margin ▪ Revival in investment demand ▪ Crude oil prices are lower ▪ Pick up in private capex ▪ Higher capacity utilization	▪ Uncertainty due to ongoing conflict in Middle East ▪ Impact on global trade due to tariff imposition and growing US-Sino tensions ▪ Challenges in supply chain logistics and global commodity price movement
Manufacturing	14.3	2.2		
Electricity, gas, water supply and other utility services	10.5	3.3		
Construction	13.6	7.7	▪ Spurt in housing demand ▪ Construction of roads	▪ Extreme weather conditions, smog
Trade, hotels, transport, communication & services related to broadcasting	4.5	6.0	▪ Boost to urban consumption ▪ Higher spending during festival season ▪ Upcoming wedding season ▪ Rural spending up	▪ Elevated inflation
Financial, real estate & professional services	6.2	6.7	▪ Pick up likely in credit growth ▪ Government spending pushes up liquidity and deposits	▪ Slow credit and deposit growth. ▪ Tightening of liquidity conditions ▪ Weaker currency
Public administration and Defence	7.7	9.2	▪ Pick up in government spending in the coming 5-months	▪ Capex of around 60% of BE is a high target to be met between Nov-Mar. ▪ Slow movement in state capex ▪ Low Buoyancy in tax collections
GVA at basic prices	7.7	5.6		
GDP	8.1	5.4		

Source: CEIC, Bank of Baroda Research

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