

Real GDP growth much better than expected in 2QFY24

Robust fiscal spending and investments drive growth

- India's real GDP grew 7.6% YoY in 2QFY24 (vs. 6.2% in 2QFY23), much better than the BMBG consensus of 6.8% and our forecast of 6.6%. Real GVA growth was 7.4% YoY in 2QFY24.
- Details suggest that better growth was almost entirely driven by investments (9.9% in 2QFY24, highest in five quarters vs. 6.5% in 2QFY23) and fiscal spending (+12.4% in 2QFY24 vs. -4.1% in 2QFY23). On the other hand, private consumption growth remained weaker at 3.1% YoY in 2QFY24 vs. 8.3% in 2QFY23 (much weaker than our forecast). Additionally, external trade subtracted 3.6pp from real GDP growth in 2QFY24, the highest quarterly drag since 4QFY16 as imports grew at a much sharper pace than exports.
- GDP, excluding government consumption, grew 7.2% in 2QFY24 vs. 7.3% in 2QFY23.
- India's investment rate rose to 32.9% of GDP in 2QFY24, better than 32.1% of GDP in 2QFY23. Our calculations suggest that corporate investments grew 3.3% YoY last quarter, after declining for two quarters (vs. our expectation of a 3rd successive fall). Notwithstanding higher investments, India's net imports were steady (at 2.4% of GDP vs. 2.3% in 1Q) because private consumption grew only 3.1% YoY. Consequently, it is likely that household financial savings picked up in 2QFY24.
- Further, with better real growth, nominal GDP growth was also 9.1% in 2QFY24, better than 8% in 1QFY24 (and our forecast of 8.5%).
- On GVA basis, real/nominal growth was 7.4%/9% in 2QFY24 vs. 5.4%/16.1% in 1QFY23. Services sector and farm growth were slower than expected, while industrial sector drove better-than-expected real GVA growth.
- Growth in the farm sector stood at an 18-quarter low of 1.2% YoY in 2QFY24 (vs. 2.5% in 2QFY23 and 3.5% in 1QFY24). Growth in the services sector decelerated to 5.8% YoY (vs. 9.4% growth in 1QFY23). Industrial sector growth soared to a nine-quarter high of 13.2% YoY (vs. -0.5% in 2QFY23 and +5.5% in 1QFY24). Acceleration in industrial sector growth was broad-based, probably led by lower input costs and better corporate performance.
- Overall, GDP growth remained robust, led by higher domestic demand. On the expenditure side, govt. consumption and investments provided cushion to real GDP growth. However, weaker private consumption growth is surprising and worrisome. On the production side, the industrial sector remained robust, while the farm sector deteriorated.
- Overall, India's GDP growth remains extremely strong. At 7.7% real growth in 1H, it is almost certain that the full-year growth will be revised upward once again, probably to 6.5-6.6%.

I. Real GDP came in much higher than expectations in 2QFY24

- **Real GDP growth surprises on the upside in 2QFY24:** Real GDP growth came in much higher than expected at 7.4% in 2QFY24 vs. 7.8%/6.2 in 1QFY24/2QFY23. The number was much higher than the market consensus (6.8%) and our expectations (6.6%). (*refer to Exhibit 1*).
- **Higher investments and fiscal spending drive growth:** Details suggest that better growth was almost entirely driven by fixed investments (9.9% in 2QFY24, highest in five quarters vs. 6.5% in 2QFY23) and fiscal spending (+12.4% in 2QFY24 vs. -4.1% in 2QFY23). GDP, excluding government consumption, grew 7.2% in 2QFY24 vs. 7.3% in 2QFY23. On the other hand, private consumption growth remained weaker at 3.1% YoY in 2QFY24 vs. 8.3% in 2QFY23 (much weaker than our forecast). Additionally, external trade subtracted 3.6pp from real GDP growth in 2QFY24, the highest quarterly drag since 4QFY16 as imports grew at a much sharper pace than exports. (*refer to Exhibit 2,3,4*).

II. GVA growth remained robust too

- **Real GVA grew 7.4% YoY in 2QFY24:** Real GVA growth accelerated sharply to 7.4% YoY in 2QFY24, higher than the Bloomberg consensus of 6.8%. (refer to Exhibit 5).
- **Robust industrial sector growth led to better GVA growth in 2QFY24:** Services sector growth and farm sector growth were slower than expected, while the industrial sector drove better-than-expected real GVA growth. Growth in the farm sector stood at an 18-quarter low of 1.2% YoY in 2QFY24 (vs. 2.5% in 2QFY23 and 3.5% in 1QFY24) and the growth in the services sector decelerated to 5.8% YoY (vs. 9.4% growth in 1QFY23). Deceleration in services sector growth is on the back of a 10-quarter low of 4.3% YoY in trade, hotels, transport and communication segments. Even the financial and real estate sectors slowed to 6% (worst in three quarters) in 2QFY24.
- On the other hand, industrial sector growth soared to a 9-quarter high of 13.2% YoY (vs. -0.5% in 2QFY23 and +5.5% in 1QFY24). Acceleration in industrial sector growth was broad-based, probably led by lower input costs and better corporate performance. (refer to Exhibit 6-7)

III. Domestic savings increased to 30.4% of GDP in 2QFY24

- India's investment rate rose to 32.9% of GDP in 2QFY24, better than 32.1% of GDP in 2QFY23. Our calculations suggest that corporate investments grew 3.3% YoY last quarter, after declining for two quarters (in contrast to our expectation of a 3rd successive fall). Notwithstanding higher investments, India's net imports were steady (at 2.4% of GDP vs. 2.3% in 1Q) because private consumption grew only 3.1% YoY. Consequently, it is likely that household financial savings picked up in 2QFY24. (Exhibit 8)

IV. FY24 growth to be revised up to 6.5-6.6%

- Overall, GDP growth remained robust, led by higher domestic demand. On the expenditure side, govt. consumption and investments provided cushion to real GDP growth. However, weaker private consumption growth is surprising and worrisome. On the production side, the industrial sector remained robust, while the farm sector deteriorated.
- Overall, India's GDP growth remains extremely strong. At 7.7% real growth in 1H, it is almost certain that the full-year growth will be revised upward once again, probably to 6.5-6.6%.

Exhibit 1: Real GDP growth accelerated to 7.6% YoY...

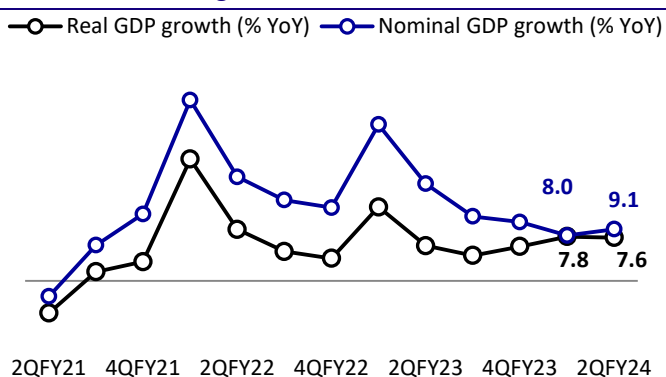


Exhibit 2: ...led by higher investment and fiscal spending

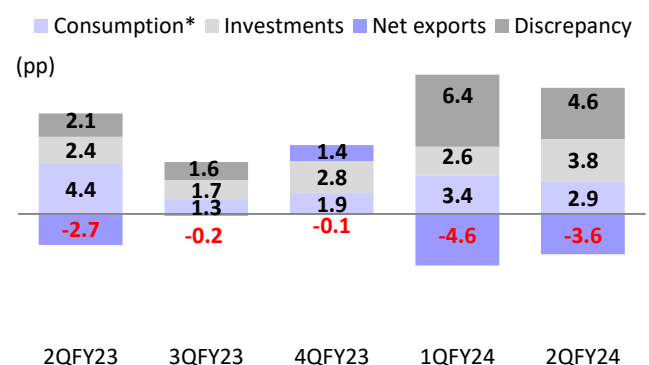


Exhibit 3: Private consumption deteriorated to 3.1% in 2QFY24, while investment remained robust

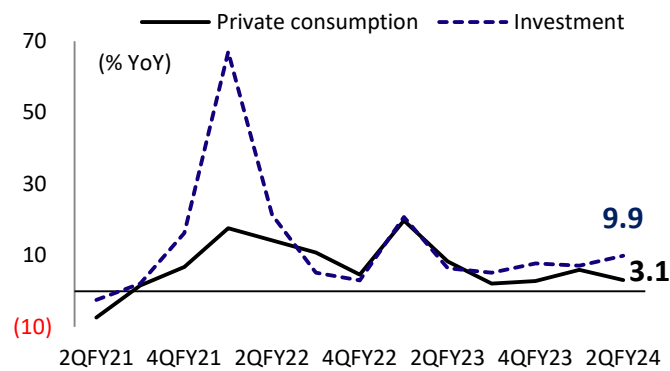


Exhibit 4: Imports increased at a much sharper pace than exports in 2QFY24

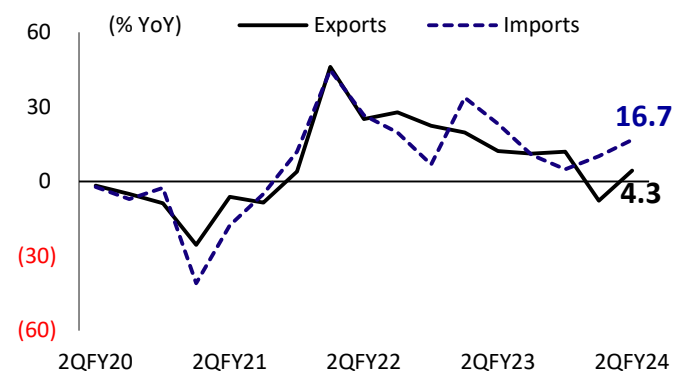


Exhibit 5: Real GVA growth accelerated to 7.4% YoY in 2QFY24...

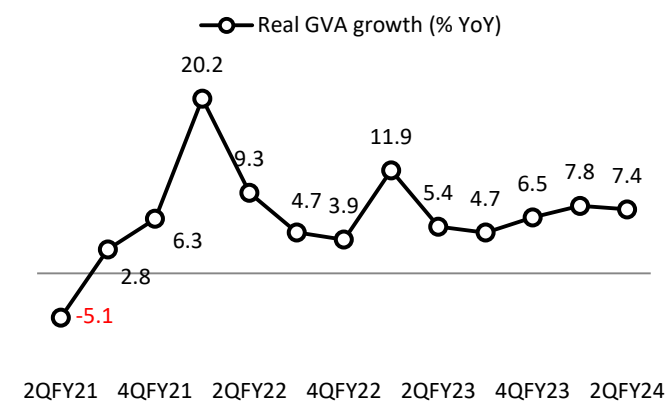


Exhibit 6: ...led by the industrial sector

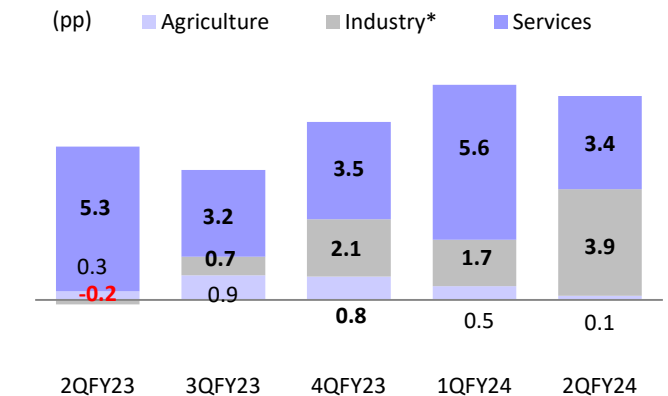


Exhibit 7: Industry growth increased sharply, while agriculture growth decelerated

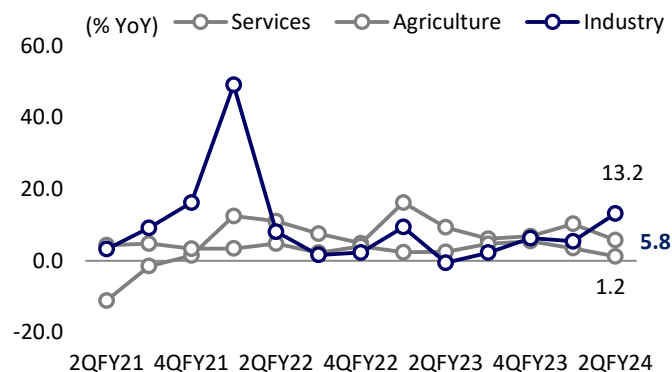


Exhibit 8: Domestic savings at 30.4% of GDP in 2QFY24 vs. 26.8% in 2QFY23

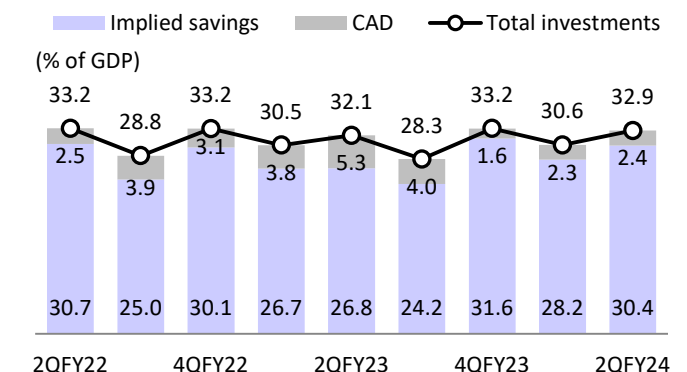


Exhibit 11: Details of components of real GDP/GVA growth

	% YoY								
	FY20	FY21	FY22	FY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Gross domestic product (GDP) and its components									
Private cons exp (PCE)	5.2	(5.2)	11.2	7.5	8.3	2.2	2.8	6.0	3.1
Govt cons exp (GCE)	3.9	(0.9)	6.6	0.1	(4.1)	(0.6)	2.3	(0.7)	12.4
Gross Cap For (GCF)	(2.6)	(7.9)	17.9	9.6	6.5	5.2	7.8	7.1	9.9
Gross Fixed Cap For	1.1	(7.3)	14.6	11.4	9.6	8.0	8.9	8.0	11.0
Inventories	(58.7)	(85.5)	687.8	2.7	(2.6)	(0.1)	5.9	3.9	11.6
Valuables	(14.2)	26.4	34.0	(18.9)	(19.5)	(38.0)	(23.4)	(21.0)	(4.0)
Net exports					...	...	...	...	...
Exports	(3.4)	(9.1)	29.3	13.6	12.2	11.1	11.9	(7.7)	4.3
Imports	(0.8)	(13.7)	21.8	17.1	23.1	10.7	4.9	10.1	16.7
Discrepancies	186.2	(49.7)	(307.4)	(14.8)	...	...	...	...	...
GDP at market price	3.9	(5.8)	9.1	7.2	6.2	4.5	6.1	7.8	7.6
Gross value-added (GVA) and its components									
Agriculture etc.	6.2	4.1	3.5	4.0	2.5	4.7	5.5	3.5	1.2
Industry	(1.4)	(0.9)	11.6	4.4	(0.5)	2.3	6.3	5.5	13.2
Mining & quarrying	(3.0)	(8.6)	7.1	4.6	(0.1)	4.1	4.3	5.8	10.0
Manufacturing	(3.0)	2.9	11.1	1.3	(3.8)	(1.4)	4.5	4.7	13.9
Electricity	2.3	(4.3)	9.9	9.0	6.0	8.2	6.9	2.9	10.1
Construction	1.6	(5.7)	14.8	10.0	5.7	8.3	10.4	7.9	13.3
Services	6.4	(8.2)	8.8	9.5	9.4	6.1	6.9	10.3	5.8
Trade, hotels etc.	6.0	(19.7)	13.8	14.0	15.6	9.6	9.1	9.2	4.3
Finance, insurance etc	6.8	2.1	4.7	7.1	7.1	5.7	7.1	12.2	6.0
Social & personal services	6.6	(7.6)	9.7	7.2	5.6	2.0	3.1	7.9	7.6
GVA at basic prices	3.9	(4.2)	8.8	7.0	5.4	4.7	6.5	7.8	7.4

Source: Central Statistics Office (CSO), CEIC, MOFSL

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