

GROSS DOMESTIC PRODUCT

GDP and GVA growth displayed
divergent trends in Q3 FY2024;
implicitly estimated to slide to 5.9%
and 5.4%, respectively, in Q4 FY2024

FEBRUARY 2024





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GVA growth eased to 6.5% in Q3 FY2024 from 7.7% in Q2 FY2024, while GDP growth rose to 8.4% from 8.1%, respectively, amid a jump in net indirect taxes

PFCE growth remained tepid at 3.5% in Q3, while GFCF emerged as fastest growing component of GDP

Based on NSO's SAE of 6.9% for FY2024, implicit GVA growth is pegged at 5.4% for Q4 FY2024, similar to ICRA's forecast

India's Q3 FY2024 economic data displayed a divergent trend, with the year-on-year (YoY) GVA growth moderating broadly on expected lines to 6.5% (ICRA: +6.0%), and the GDP expanding by an unexpectedly high 8.4%. The latter was boosted by a surge in net indirect tax growth to a staggering 32% in the quarter amid a sharp YoY contraction in the subsidy outgo. In ICRA's view, the trend in the GVA growth would be more appropriate to understand the underlying momentum of economic activity. Based on the National Statistical Office's (NSO's) second advance estimate (SAE) of 6.9% for FY2024, GVA growth is implicitly pegged to decline to 5.4% for Q4 FY2024, similar to ICRA's forecast of 5.3%; GDP growth is estimated to slide even more sharply to 5.9% from 8.4%, respectively. This is in line with the sobering early data for Jan 2024, which reveals a YoY decline in the Government of India's (Gol's) revenue and capital expenditure, and a slowdown in core sector growth.

- **GDP growth rose to 8.4% in Q3 FY2024 from 8.1% in Q2 FY2024, in contrast with downtick in the GVA growth:** As anticipated, India's GVA growth moderated to 6.5% in Q3 FY2024 from 7.7% in Q2 FY2024, while printing slightly higher than ICRA's forecast of 6.0%. The agricultural GVA contracted in Q3 FY2024 after an unfavourable monsoon, and industrial growth slowed, whereas the expansion in services improved, in line with our expectations. However, the surge in net indirect tax (NIT) growth to a six-quarter high of 32.0% in Q3 FY2024 (amid a sharp dip in subsidy outgo; +12.8% in Q2 FY2024) provided a boost to the GDP growth, which rose to 8.4% from 8.1% in Q2 FY2024.
- **GDP and GVA growth pegged to moderate to sub-6% levels in Q4 FY2024:** Based on the NSO's SAE and the data for 9M FY2024, the NSO has implicitly projected the GVA and GDP growth at 5.4% and 5.9%, respectively, in Q4 FY2024, a moderation in YoY growth of 107 and 246 bps from Q3 FY2024. The NSO's implicit Q4 GVA growth is similar to ICRA's forecast of 5.3% for that quarter, amid weak early trends including a dip in Gol's growth in revex (YoY: -6.2%) and capex (-40.5%), and core sector output (+3.6%) for Jan 2024, and the bleak prospects for rabi output.
- **NSO's GVA expansion forecast of 6.9% appears appropriate:** The NSO's forecast of GVA growth of 6.9% in FY2024 SAE seems appropriate at present, although it is modestly higher than our previous forecast of 6.6%. Notably, the nominal GDP has been revised downwards in FY2024 SAE (Rs. 294 trillion) compared to the FAE (Rs. 297 trillion), implying that Gol's revised target for fiscal deficit is estimated to be 5.9% of GDP as against the FY2024 RE of 5.8%.

1 Quarterly Analysis: Production Approach



2 Quarterly Analysis: Expenditure Approach



3 FY2024 SAE and Implicit Trends for Q4



4 Outlook

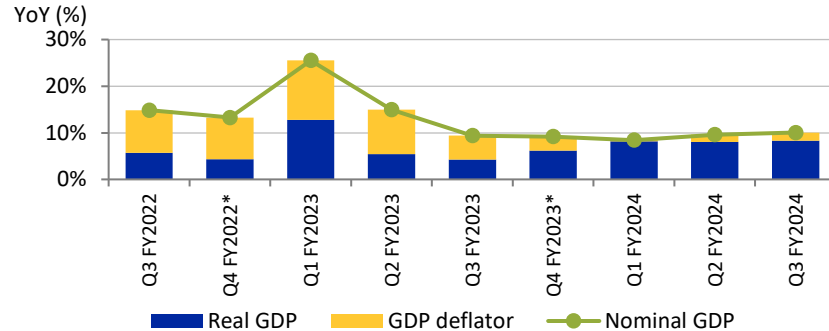


5 Annexure



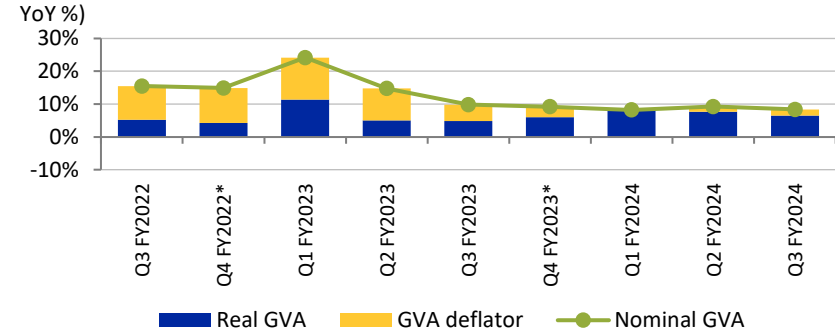
While GVA growth expectedly eased to 6.5% in Q3 FY2024, GDP rose to higher-than-anticipated 8.4%

EXHIBIT: Quarterly trends in real & nominal GDP & deflator



*Implicit based on FY2022 SRE, FY2023 FRE and the 9M data for FY2022-23; Source: NSO; CEIC; ICRA Research

EXHIBIT: Quarterly trends in real & nominal GVA & deflator



*Implicit based on FY2022 SRE, FY2023 FRE and the 9M data for FY2022-23; Source: NSO; CEIC; ICRA Research

- As per the data provided by the NSO, the YoY growth in real GDP rose to a higher-than-expected six-quarter high 8.4% in Q3 FY2024 from the revised 8.1% in Q2 FY2024. In contrast, the YoY expansion in GVA eased to 6.5% in Q3 FY2024 from 7.7% in Q2 FY2024, modestly higher than ICRA's expectations (+6.0%). This divergent trend followed from a surge in the growth of net indirect taxes (NIT) to a six-quarter high 32.0% in this quarter, which is unlikely to be sustainable. In ICRA's view, it may be more appropriate to look at the trend in the GVA growth to understand the underlying momentum of economic activity.
- The moderation in the YoY performance of GVA in Q3 FY2024 vis-à-vis Q2 was largely driven by a lower, albeit healthy growth in the industrial sector (to +10.4% in Q3 from +13.6% in Q2), as well as a contraction in agri GVA (to -0.8% from +1.6%); moreover, Government spending eased (GFCE: to -3.2% from +13.8%).
- In nominal terms, the YoY growth in GDP rose to 10.1% in Q3 FY2024 from 9.6% in Q2 FY2024, while that for GVA dipped to 8.3% from 9.3%, respectively. The GDP and GVA deflator widened to 1.7% and 1.8%, respectively, in Q3 FY2024 from 1.5% and 1.6%, respectively, in Q2 FY2024. This reflects the turnaround in WPI to an inflation of 0.3% in Q3 FY2024 (-0.6% in Q2 FY2024), even as the CPI inflation (to +5.4% from +6.4%) softened between these two quarters.

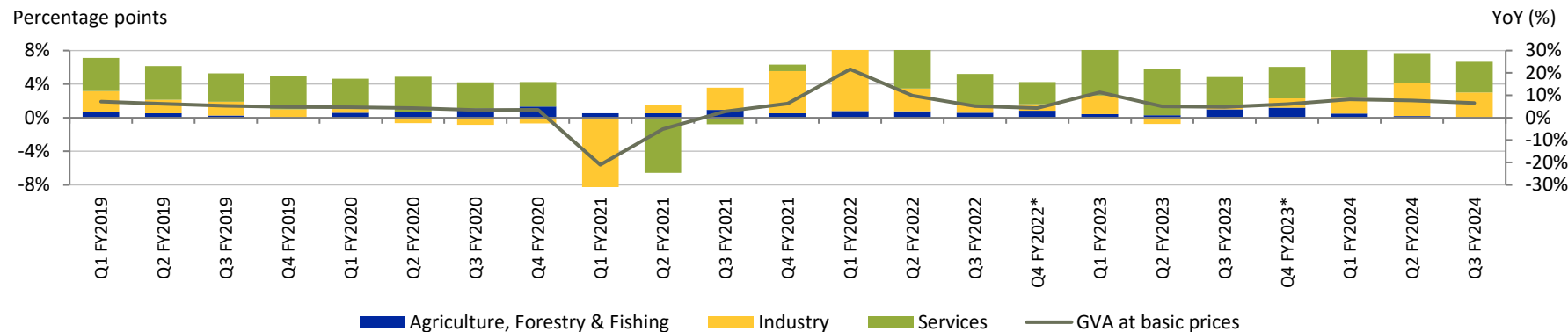


Quarterly Analysis - Production Approach

YoY GVA expansion eased to 6.5% in Q3 FY2024, driven by a deterioration in the industrial and agricultural output, offsetting the uptick in services GVA

Uptick in services growth in Q3 FY2024 offset by deterioration in industrial output and YoY decline in agri GVA

EXHIBIT: Contribution of GVA components

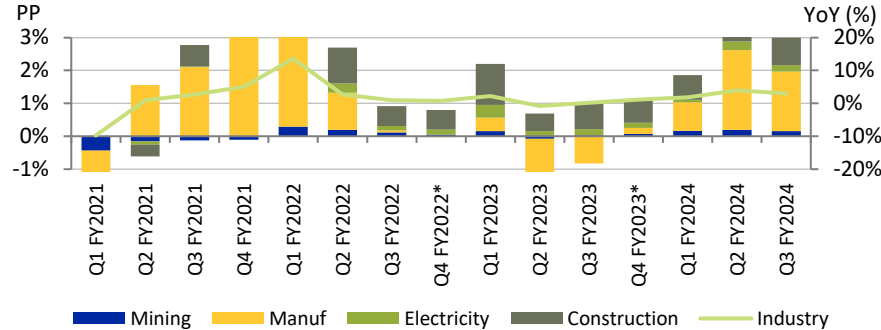


*Implicit based on FY2022 SRE, FY2023 FRE and the 9M data for FY2022-23; Source: NSO; CEIC; ICRA Research

- While mildly exceeding ICRA's expectations (+6.0%), the YoY growth in GVA at basic prices moderated to a three-quarter low of 6.5% in Q3 FY2024 from 7.7% in Q2 FY2024. The deterioration in growth of industry (to +10.4% in Q3 FY2024 from +13.6% in Q2 FY2024) and agriculture, forestry and fishing (to a 19-quarter low -0.8% from +1.6%) offset the improvement in services (to +7.0% from +6.0%) in Q3 FY2024, vis-à-vis Q2 FY2024.
- In terms of contribution, services accounted for 3.4 percentage points (pp) of the 6.5% GVA growth in Q3 FY2024, followed by 2.1 pp stemming from industry, while agriculture, forestry and fishing exerted a drag of 0.1 pp on the GVA growth.
- Excluding agriculture, the GVA growth stood at a higher 8.2% in Q3 FY2024, although it trailed the 8.5% growth seen in Q2 FY2024.

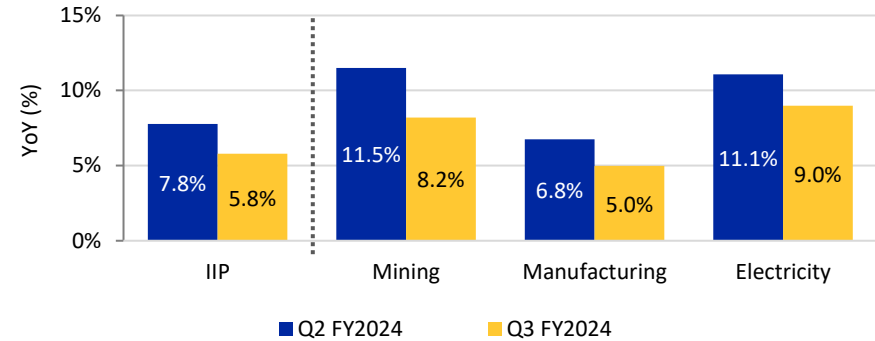
Industrial GVA growth eased to 10.4% in Q3 FY2024 from 13.6% in Q2 FY2024, albeit remaining healthy

EXHIBIT: Contribution of components of Industry



Mining: Mining & Quarrying; Manuf: Manufacturing; Electricity: Electricity, gas, water supply & other utility services; *Implicit based on FY2022 SRE, FY2023 FRE and the 9M data for FY2022-23; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of the IIP and its components



Source: NSO; CEIC; ICRA Research

- The industrial GVA growth moderated to 10.4% in Q3 FY2024 (+0.6% in Q3 FY2023) from 13.6% in Q2 FY2024 (-2.4% in Q2 FY2023), owing to the dissipation of a favourable base as well as moderation in industrial volume growth (IIP YoY: +5.8% in Q3 vs. +7.8% in Q2). All the sub-sectors of industry saw a broad-based deterioration in Q3 FY2024, vis-à-vis Q2 FY2024, including electricity, gas, water supply and other utility services (to +9.0% in Q3 FY2024 from +10.5% in Q2 FY2024), mining and quarrying (to +7.5% from +11.1%), construction (to +9.5% from +13.5%), and manufacturing (to +11.6% from +14.4%).
- However, the industrial GVA remained healthy in Q3 FY2024, printing in double-digits for the second consecutive quarter. This benefitted from the continued deflation in global commodity prices, as reflected by the Bloomberg Commodity Index (YoY in Q3: -10.6% vs. Q2: -10.7%) as well as a narrower deflation in input prices as reflected by the WPI-industrial raw materials (Q3: -3.1% vs. Q2: -5.9%), thereby aiding the profitability of some sub-sectors.
- Industry accounted for 2.1 pp of the GVA growth in Q3 FY2024, mainly driven by construction (+1.1 pp) and manufacturing (+0.7 pp), amidst a mild contribution of 0.2 pp each from mining and electricity.

GVA of all sub-sectors saw broad-based deterioration in Q3 FY2024 vs. Q2, even as continued deflation in commodity prices aided profitability of some sectors

Mining

In line with the moderation in the growth for mining output (+8.2% in Q3 FY2024 vs. +11.5% in Q2 FY2024) and an unfavourable base (+4.1% in Q3 FY2023), the GVA expansion of mining and quarrying eased to 7.5% in Q3 FY2024 from 11.1% in the prior quarter (-4.1% in Q2 FY2023).



Manufacturing

Manufacturing GVA growth remained healthy, while weakening to 11.6% in Q3 FY2024 from 14.4% in Q2 FY2024, led by the lower volume growth (as per IIP; +5.0% in Q3 FY2024 from +6.8% in Q2 FY2024), even as continued deflation in input prices supported profit margins of this sector.



Electricity

The GVA growth of electricity, gas, water supply and other utility sectors dipped to 9.0% in Q3 FY2024 from 10.5% in Q2 FY2024.



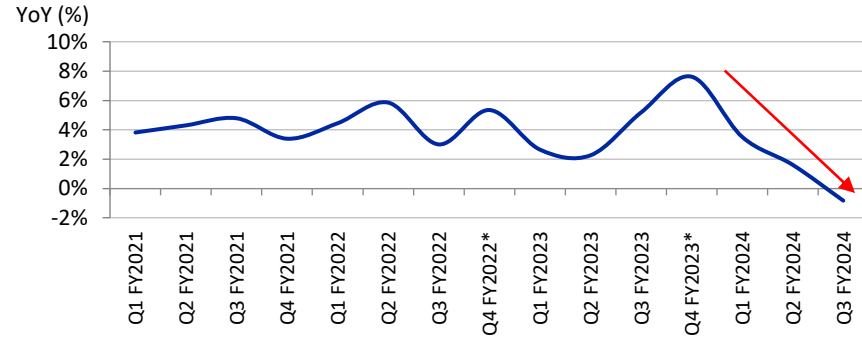
Construction

Construction GVA growth eased to 9.5% in Q3 FY2024, led by a deterioration in the YoY performance of Govt's capex (+24.4% from +26.4%), as well as moderation in growth of construction inputs including output of steel (to +8.6% from +15.4%) and cement (to +4.5% from +10.4%), and infra/construction goods (to +5.6% from +12.8%).



Agri GVA slipped into YoY contraction in Q3 FY2024 after a gap of 18 quarters, amidst decline in kharif output; concerns persist regarding rabi yields

EXHIBIT: Growth in Agriculture, Forestry & Fishing (Constant 2011-12 Prices)



*Implicit based on FY2022 SRE, FY2023 FRE and the 9M data for FY2022-23; Source: NSO; CEIC; ICRA Research

EXHIBIT: Kharif production as per the Second Advance Estimates for 2023-24

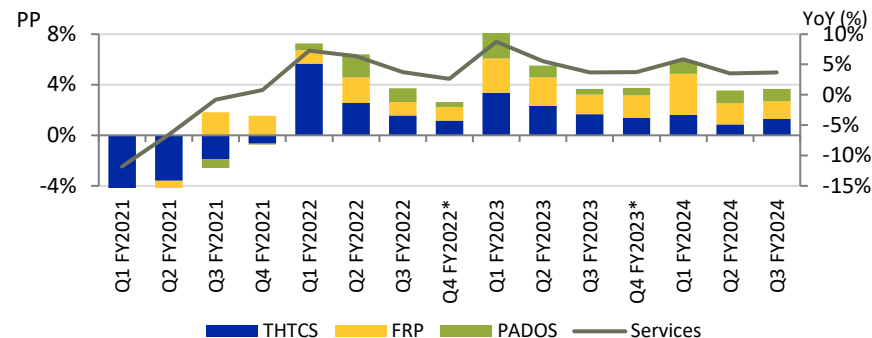
Kharif Production			
In million tonne	Final Estimate 2022-23 (A)	2 nd AE 2023-24 (B)	Growth (%; B/A)
Rice	110.5	111.5	0.9%
Coarse Cereals	37.6	35.6	-5.2%
Pulses	7.6	7.1	-6.6%
Oilseeds	26.2	22.8	-12.7%
Cotton*	33.7	32.3	-4.0%
Sugarcane	490.5	446.4	-9.0%

*Million bales of 170 kgs. each; Source: Ministry of Agriculture and Farmers' Welfare, GoI; CEIC; ICRA Research

- The GVA of agriculture, forestry and fishing slipped into a YoY contraction of 0.8% in Q3 FY2024 (+5.2% in Q3 FY2023), from the mild growth of 1.6% in Q2 FY2024 (+2.3% in Q2 FY2023), after a gap of 18 quarters. This was primarily driven by the weak estimates for the annual kharif production as well as concerns related to rabi crop output and yields amid persisting El Nino conditions.
- As per the Second Advance Estimates of crop production for 2023-24 released by the Ministry of Agriculture and Farmers' Welfare on Feb 29, 2024, the output of most kharif crops (barring rice; +0.9%) is estimated to have declined on a YoY basis, including oilseeds (-12.7%), sugarcane (-9.0%), pulses (-6.6%), coarse cereals (-5.2%) and cotton (-4.0%).

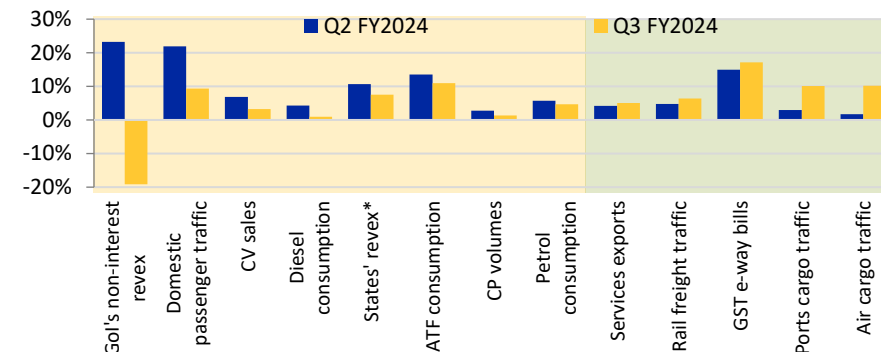
In contrast, services GVA improved to 7.0% in Q3 FY2024, supported by a favourable base

EXHIBIT: Contribution of components of Services



THTCS: Trade, hotels, transport, communication & services related to broadcasting; FRP: Financial, real estate & professional services; PADOS: Public administration, defence & other service; *Implicit based on FY2022 SRE, FY2023 FRE and the 9M data for FY2022-23; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of service sector indicators in Q2-Q3 FY2024



*Revex data is for 25 states except Arunachal Pradesh, Goa, and Manipur; Source: CMIE; RBI; GSTN; Indian Railways; IPA; PPAC; DGCA; CEIC; ICRA Research

- The YoY expansion in services GVA rose to 7.0% in Q3 FY2024 from 6.0% in Q2 FY2024, mildly exceeding ICRA's expectation (+6.5%). The YoY growth in THTCS rose to 6.7% in Q3 FY2024 from 4.5% in Q2 FY2024, followed by an improvement in FRP (to +7.0% from +6.2%), even as that for PADOS (to +7.5% from +7.7%) moderated marginally in Q3 FY2024, vis-à-vis Q2 FY2024.
 - **FRP:** The YoY growth in non-food bank credit (to +15.8% at end-Dec 2023 from +15.3% at end-Sep 2023) and home sales in top seven cities (to +27.5% in Q3 FY2024 from +22.8% in Q2 FY2024; steady end-user demand) improved in Q3 FY2024 vs. Q2, while that for CP volumes (to +1.3% from +2.8%) eased.
 - **THTCS:** Barring mobility, the performance of most indicators pertaining to transport, hotels and communication was healthy in Q3 FY2024, even as travel-related indicators posted some deceleration in growth, compared to Q2 FY2024 partly attributable to unfavourable base.
 - **PADOS:** The combined revex of 25 state governments[^], for which data is available, witnessed a lower growth of 7.5% YoY in Q3 FY2024, relative to 10.7% in Q2 FY2024. Moreover, the Gol's non-interest revenue expenditure contracted by a significant 19.1% in Q3 FY2024, after having expanded by 23.2% in the prior quarter.

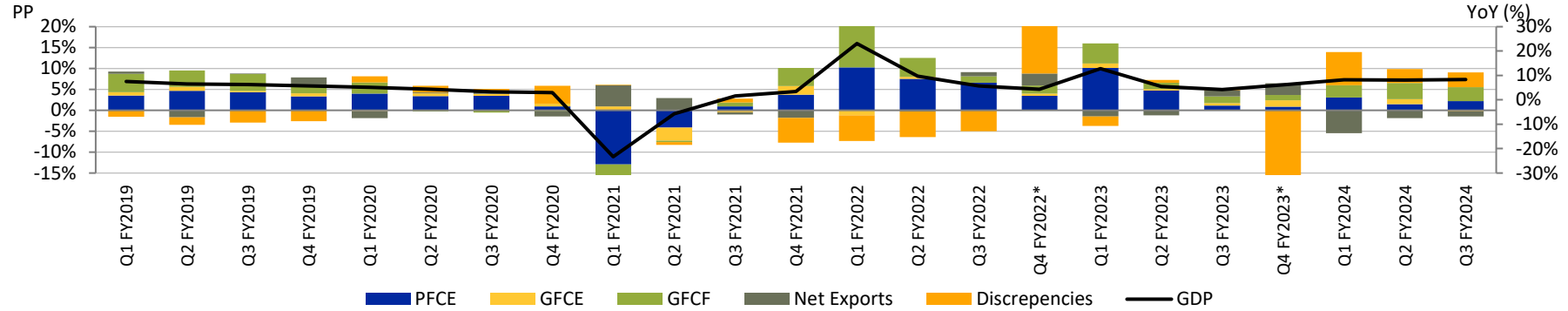


Quarterly Analysis: Expenditure Approach

GDP growth rose to 8.4% in Q3 FY2024, led by an uptick in PFCE, healthy expansion in GFCF growth and lower drag on account of net exports

Uptick in GDP growth in Q3 FY2024 was largely driven by higher PFCE growth and lower drag on account of net exports; only GFCF grew faster than GDP

EXHIBIT: Contribution of GDP components

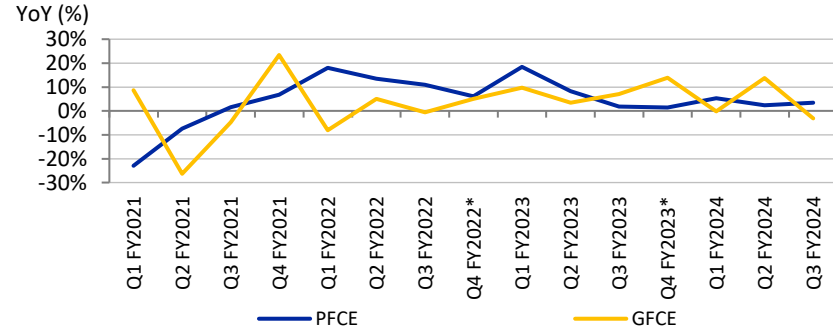


PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; GFCF: Gross Fixed Capital Formation; *Implicit based on FY2022 SRE, FY2023 FRE and the 9M data for FY2022-23; Source: NSO; CEIC; ICRA Research

- Sharply surpassing ICRA's forecast (+6.0%), the NSO placed the YoY expansion in the GDP at 8.4% for Q3 FY2024, attributable to a healthy expansion in GFCF (+10.6%) and PFCE (+3.5%), even as GFCE contracted by 3.2% in that quarter. However, only GFCF grew faster than GDP in Q4 FY2024, pointing to the role of discrepancies.
- This entailed an unexpected uptick from the revised GDP growth of 8.1% recorded in Q2 FY2024, mainly led by PFCE (to +3.5% in Q3 FY2024 from +2.4% in Q2 FY2024), which largely offset the deterioration in GFCF (to +10.6% from +11.6%) and GFCE (to -3.2% from +13.8%). Moreover, the drag from net exports on GDP growth narrowed sharply to Rs. 0.8 trillion in Q3 FY2024 from Rs. 1.5 trillion in Q2 FY2024, while sharply exceeding the Rs. 0.3 trillion seen in Q3 FY2023.
- GFCF and PFCE accounted for 3.4 pp and 2.2 pp of the 8.4% GDP growth in Q3 FY2024, even as GFCE (-0.3 pp) and net exports (-1.2 pp) exerted a drag.
- Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components, such as PFCE, GFCE, GFCF and net exports. The discrepancies in the GDP data for Q3 FY2024 narrowed sharply to +Rs. 69.4 billion (at 2011-12 prices) from Rs. 288.5 billion in Q2 FY2024, while remaining significantly larger than the (-) Rs. 1.3 trillion seen in Q3 FY2023.

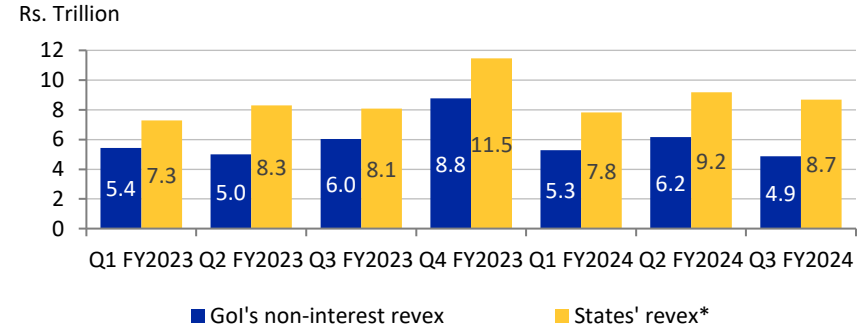
YoY growth in PFCE improved in Q3 FY2024 compared to Q2 while remaining subdued; GFCE contracted in line with trends in Gol's non-interest revex

EXHIBIT: Growth in PFCE & GFCE (Constant 2011-12 Prices)



PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; *Implicit based on FY2022 SRE, FY2023 FRE and the 9M data for FY2022-23; Source: NSO; CEIC; ICRA Research

EXHIBIT: Revenue expenditure of Gol (net of interest outgo) and 25 states

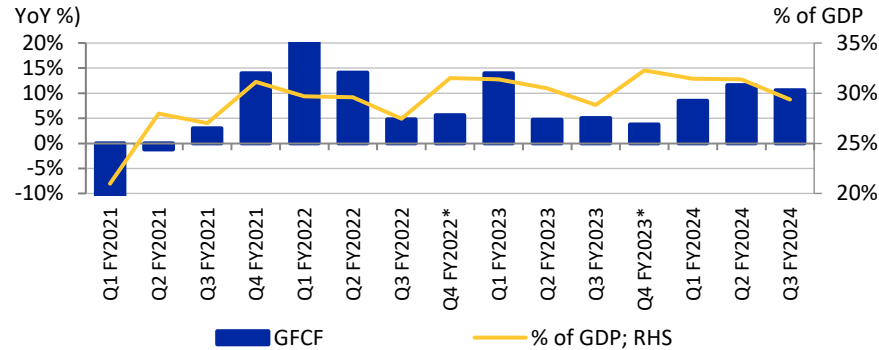


*Revex data has been used for 25 states except Arunachal Pradesh, Goa and Manipur; Source: CGA; Gol: ICRA Research

- While remained subdued, the YoY growth in PFCE rose mildly to 3.5% in Q3 FY2024 (+1.8% in Q3 FY2023) from 2.4% in Q2 FY2024 (+8.2% in Q2 FY2023), partly on account of a favourable base. This was in line with the improvement in the YoY performance of consumer durables output (to a six-quarter high +4.9% in Q3 FY2024 from +1.1% in Q2 FY2024; as per IIP data) as well as the continuation of recovery in consumer sentiments across 19 major cities in Jan 2024 vis-à-vis Nov 2023, based on the RBI's consumer confidence survey, amid healthy consumption for goods and services such as air travel and hotels, during the festive season.
- In contrast, GFCE contracted by 3.2% YoY in Q3 FY2024 (+7.1% in Q3 FY2023) after having risen by 13.8% in Q2 FY2024 (+3.4% in Q3 FY2023). This was in line with the sharp YoY contraction in the Gol's non-interest revenue expenditure (to -19.1% in Q3 FY2024 from +23.2% in Q2 FY2024) as well as the moderation in the YoY growth in combined revenue expenditure of 25 state governments* (to +7.5% from +10.7%), for which data is available, in Q3 FY2024, compared to Q2 FY2024. However, the divergence between the contraction in GFCE and the healthy growth in PADOS is puzzling.

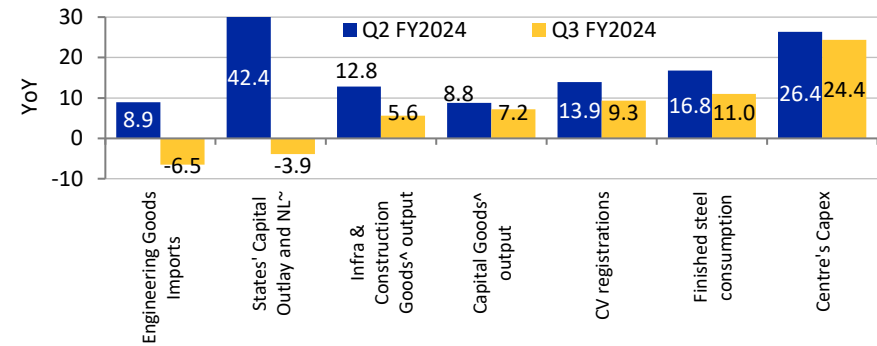
YoY GFCF growth eased mildly to 10.6% in Q3 FY2024, while remaining healthy; investment rate witnessed an uptick compared to year-ago levels in the quarter

EXHIBIT: GFCF- YoY in real terms and % of GDP in nominal terms



GFCF: Gross Fixed Capital Formation; *Implicit based on FY2022 SRE, FY2023 FRE and the 9M data for FY2022-23; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of investment related indicators

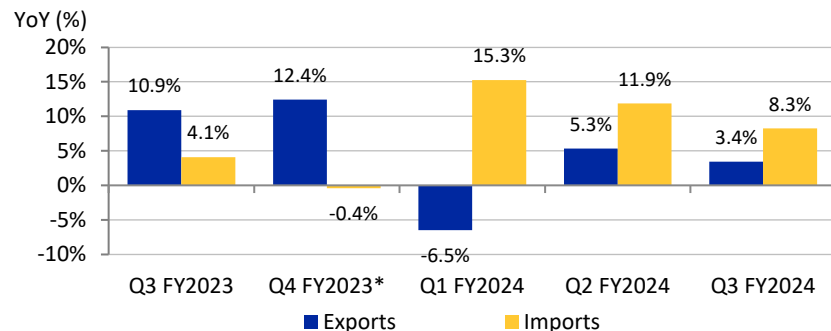


~25 states except Arunachal Pradesh, Goa and Manipur; ^As per IIP data; Source: CGA; GOI; ICRA Research

- The YoY growth in GFCF eased slightly to 10.6% in Q3 FY2024 (+5.0% in Q3 FY2023) from 11.6% in Q2 FY2024 (+4.7% in Q2 FY2023), amidst a moderation in construction GVA as well as other high frequency indicators such as imports of engineering goods (to -6.5% in Q3 FY2024 from +8.9% in Q2 FY2024), capital goods output (to +7.2% from +8.8%), infra/construction goods (to +5.6% from +12.8%), finished steel consumption (to +11.0% from +16.8%), cement production (to +4.5% from +10.4%), and CV registrations (to +9.3% from +13.9%; high base).
- Moreover, the aggregate capital outlay and net lending of 25 state governments contracted by 3.9% YoY to Rs. 1.37 trillion in Q3 FY2024 from Rs. 1.42 trillion in Q3 FY2023, while also trailing the level seen in Q2 FY2024 (Rs. 1.83 trillion; YoY : +42.4%). Additionally, the pace of expansion in Govt's gross capital expenditure eased slightly to 24.4% in Q3 FY2024 from 26.4% in Q2 FY2024.
- However, the share of nominal GFCF in GDP increased to 29.4% in Q3 FY2024 from 28.8% in Q3 FY2023. During 9M FY2024, this ratio witnessed a mild uptick to 30.7% from 30.2% in 9M FY2023.

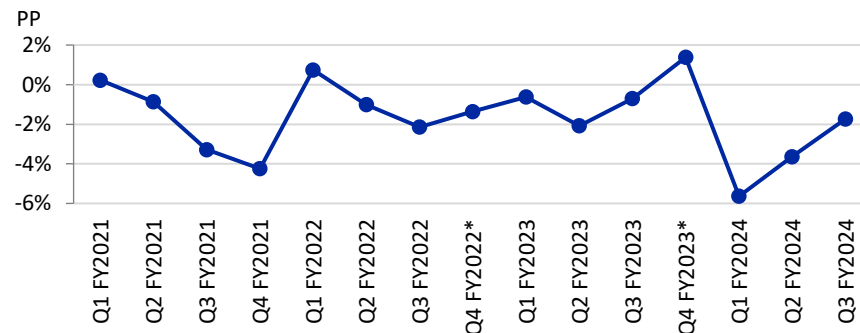
Drag from net exports on GDP growth narrowed sharply in Q3 FY2024

EXHIBIT: YoY Growth of Exports and Imports (Constant 2011-12 Prices)



*Implicit based on FY2022 SRE, FY2023 FRE and the 9M data for FY2022-23; Source: NSO; CEIC; ICRA Research

EXHIBIT: Net exports as % of GDP (Constant 2011-12 prices)



*Implicit based on FY2022 SRE, FY2023 FRE and the 9M data for FY2022-23; Source: NSO; CEIC; ICRA Research

- The YoY growth in exports eased to 3.4% in Q3 FY2024 from 5.3% in Q2 FY2024, while the expansion in imports was pegged at a relatively higher 8.3% in the quarter (+11.9% in Q2 FY2024). As a result, the drag displayed by net exports on the real GDP nearly halved to Rs. 0.8 trillion (-1.7% of GDP) from Rs. 1.5 trillion (-3.6% of GDP), respectively.
- In nominal terms, export growth witnessed an uptick in Q3 FY2024 vis-à-vis Q2, in line with the trend seen in merchandise exports as per the data released by the Ministry of Commerce (+1.1% in Q3 FY2024 from -0.1% in Q2 FY2024) and services exports (to +5.1% from +4.2%). Likewise, imports rose by 0.8% in Q3 FY2024 after the 6.4% contraction seen in Q2 FY2024, tracking the improvement in services imports (to -4.3% from -4.6%; as per RBI data) and merchandise imports (to +0.1% from -3.3%; as per the Commerce Ministry).

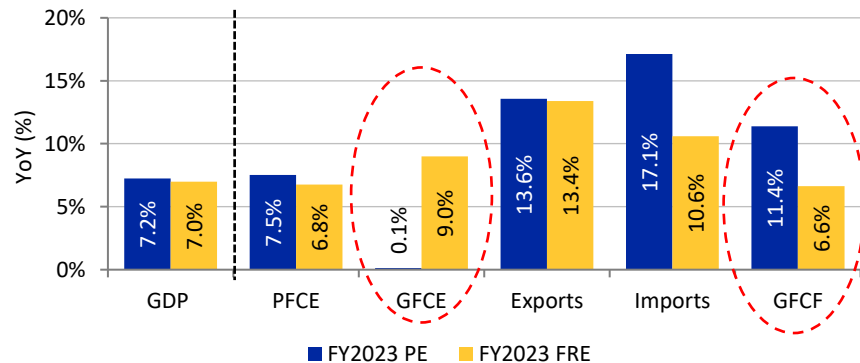


FY2024 SAE and Implicit Trends for Q4

NSO pegged GDP growth at 7.6% in the FY2024 SAE; YoY growth implicitly pegged to moderate sharply to 5.9% in Q4

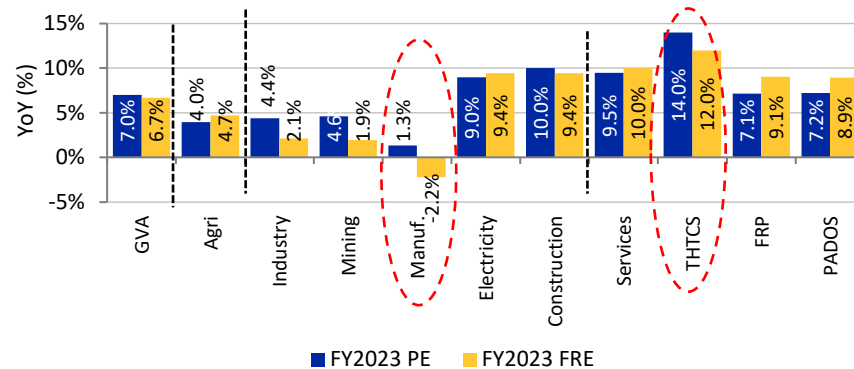
YoY growth in GDP and GVA pared in FY2023 FRE vs. PE; GVA expansion for manufacturing and THTCS cut sharply

EXHIBIT: Annual revisions in GDP and its components



PE: Provisional Estimates; FRE: First Revised Estimates; Source: NSO; ICRA Research

EXHIBIT: Annual revisions in GVA and its components

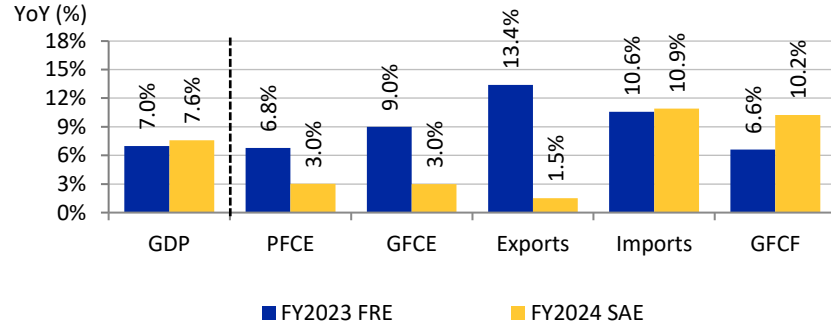


PE: Provisional Estimates; FRE: First Revised Estimates; Source: NSO; ICRA Research

- The NSO has pared the YoY expansion in GDP and GVA by 30 bps each to 7.0% and 6.7%, respectively, in the first revised estimates (FRE) for FY2023, relative to 7.2% and 7.0%, respectively, in the provisional estimates (PE). The downward revision in the YoY GDP expansion was driven by a sharp revision in GFCF (+6.6% in FY2023 FRE vs. +11.4% in FY2023 PE), followed by relatively milder revisions in PFCE (+6.8% vs. +7.5%), and exports (+13.4% vs. +13.6%). In contrast, the YoY expansion in GFCE was raised sharply to 9.0% from a muted 0.1%, respectively, which is acting as a drag on the GFCE growth in FY2024.
- In addition, the downward revision in the YoY GVA growth in FY2023 FRE vs. PE was led by the industrial (+2.1% vs. +4.4%) and agricultural (+6.7% from +7.0%) sectors. Within the industrial sector, the GVA growth for mining and quarrying (+1.9% vs. +4.6%) and manufacturing (-2.2% vs. +1.3%) were pared sharply, which is boosting growth in FY2024. This was followed by a relatively moderate downward revision in construction GVA (+9.4% vs. +10.0%).
- In contrast, the expansion in the services GVA was raised 10.0% in the FRE, relative to 9.5% in the PE. This was primarily driven by the upward revision in the GVA growth of FRP (+9.1% vs. +7.1%) and PADOS (+8.9% vs. +7.2%), even as that for THTCS was moderated (+12.0% vs. +14.0%) in FY2023 FRE vs. PE.

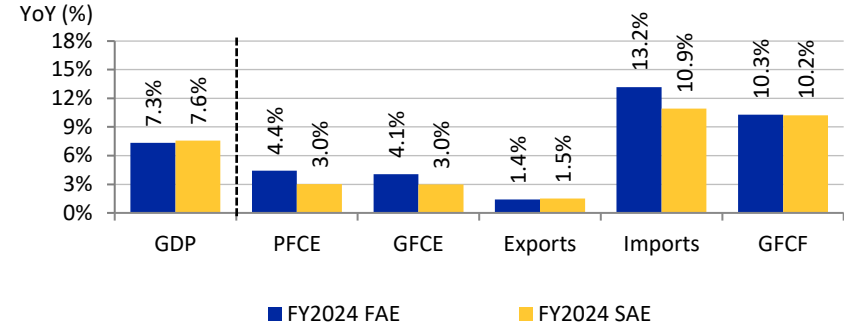
GDP growth estimated to rise to 7.6% in FY2024 SAE from the downward revised 7.0% in FY2023 FRE, led only by GFCF

EXHIBIT: YoY (%) trends in GDP in FY2023 FRE and FY2024 SAE



Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY (%) trends in GDP in FY2024 FAE vs. SAE

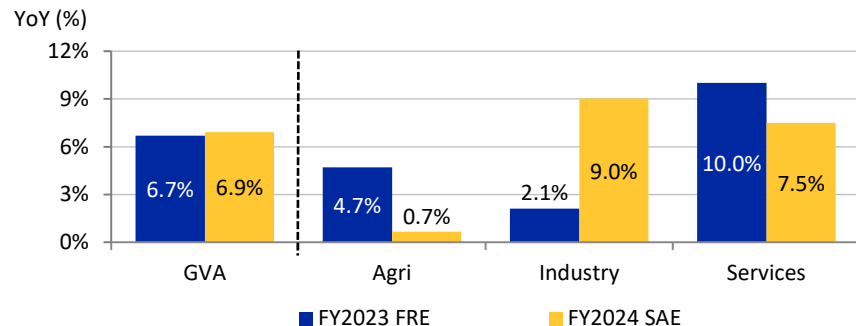


Source: NSO; CEIC; ICRA Research

- The NSO has pegged the YoY growth in GDP to improve to 7.6% in the FY2024 SAE from the downward revised 7.0% in FY2023 FRE. **This improvement in GDP growth in FY2024 SAE relative to FY2023 FRE is predominantly led by the sharp rise in GFCF growth (to +10.2% from +6.6%), even as the growth in each of the other drivers, including GFCE (to a two-year low +3.0% from +9.0%), PFCE (to a three-year low +3.0% from +6.8%), and exports (to +1.5% from +13.4%) has been estimated to moderate to low single digits in FY2024 SAE from the levels recorded in FY2023 FRE.**
- Moreover, the NSO has raised the YoY GDP growth to 7.6% in its SAE for FY2024, relative to 7.3% indicated earlier in the FAE. This was led by a lesser-than-estimated drag from net exports owing to a downward revision in the growth of imports (+10.9% in SAE vs. +13.2% in FAE) and a marginal upward revision in exports (+1.5% vs. +1.4%). **In contrast, the estimated growth in PFCE, GFCE and GFCF has undergone a downward revision in the FY2024 SAE compared to the FAE.**

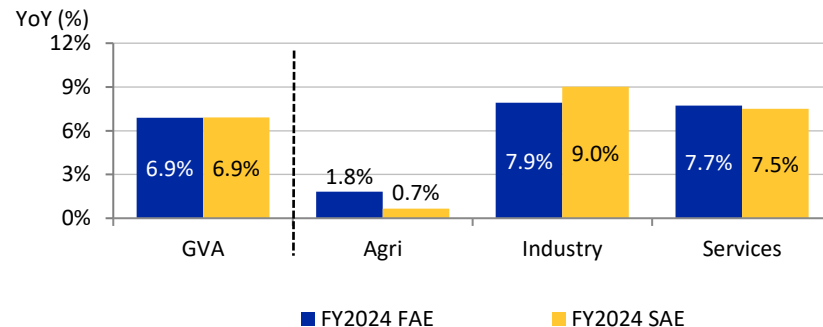
Rebound in industrial growth estimated to boost overall GVA expansion to 6.9% in FY2024 SAE from 6.7% in FY2023 FRE

EXHIBIT: YoY (%) trends in GVA in FY2023 FRE and FY2024 SAE



Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY (%) trends in GVA in FY2024 FAE vs. SAE

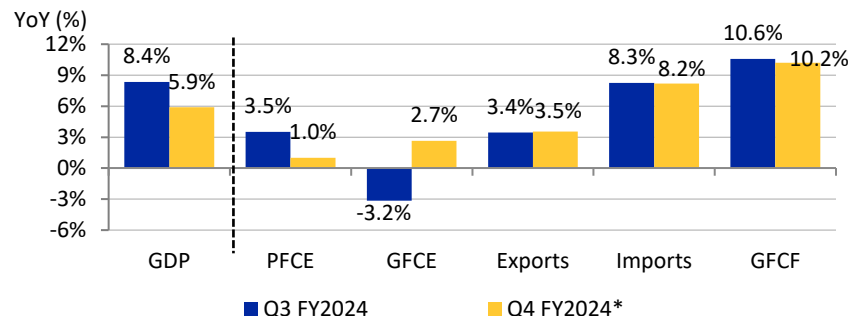


Source: NSO; CEIC; ICRA Research

- On the production side, the NSO indicated a marginal uptick in GVA growth (at basic prices) to 6.9% in FY2024 SAE from 6.7% in FY2023 FRE. This is estimated to be led by a surge in industrial GVA growth (to a two-year high +9.0% in FY2024 from +2.1% in FY2023), even as a moderation is indicated in the growth rates of services (to +7.5% from +10.0%, led by all three sub-sectors owing to base normalisation) and agriculture, forestry and fishing (to an eight-year low +0.7% from +4.7%, led by weak kharif and rabi output prospects) in FY2024, relative to FY2023.
- Within industry, the growth in manufacturing, and mining and quarrying has been estimated to rebound to a healthy 8.5% and 8.1%, respectively, in FY2024 from a low base in FY2023 (-2.2% and +1.9%, respectively, in FY2023). While GVA growth of construction is pegged to improve to 10.7% in FY2024, despite a healthy base (+9.4% in FY2023), that for electricity, gas, water supply and other utility services is estimated to ease mildly to 7.5% from 9.4%, respectively.
- Additionally, the NSO has kept the GVA growth unchanged at 6.9% in FY2024 SAE, in line with what was indicated in the FAE, with upward revision in industrial GVA growth being counterbalanced by the downtick in growth rates for agriculture, forestry and fishing, and services sectors.

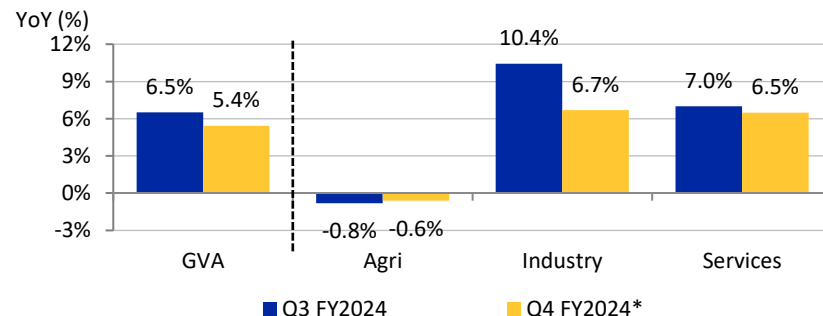
GDP growth implicitly pegged to moderate sharply to 5.9% in Q4 FY2024 from 8.4% in Q3 FY2024, led by a dip in PFCE and net indirect tax growth

EXHIBIT: YoY trends in GDP in Q3 FY2024 and implicit trends for Q4 FY2024*



*Implicit based on FY2023 FRE, FY2024 SAE, and the 9M data for FY2023-24; Source: NSO; ICRA Research

EXHIBIT: YoY trends in GVA in Q3 FY2024 and implicit trends for Q4 FY2024*

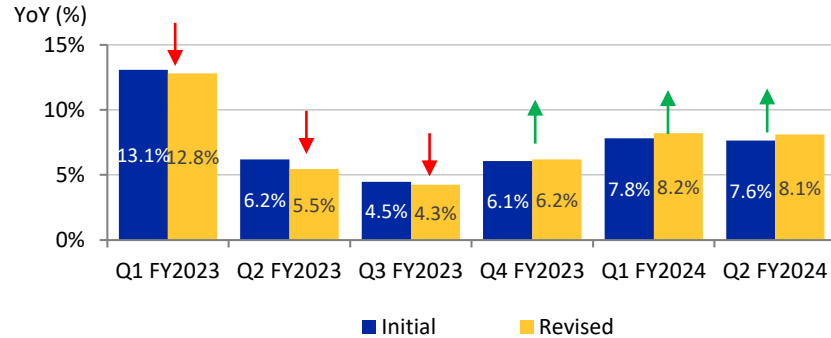


*Implicit based on FY2023 FRE, FY2024 SAE, and the 9M data for FY2023-24; Source: NSO; ICRA Research

- Based on the NSO's RE for FY2023 and the SAE for FY2024, as well as the 9M data for FY2023 and FY2024, the GDP growth has been implicitly pegged to moderate sharply to a five-quarter low of 5.9% in Q4 FY2024 from 8.4% Q3 FY2024. This entails a moderation in the growth of PFCE (to +1.0% in Q4 FY2024 from +3.5% in Q3 FY2024), and a marginal easing in GFCF (to +10.2% from +10.6%), even as GFCE (to +2.7% from -3.2%) is estimated to display a turnaround to growth in Q4 FY2024.
- The YoY growth in GVA at basic prices is implicitly estimated to ease to 5.4% in Q4 FY2024 from 6.5% in Q3 FY2024, amid a likely moderation in industry (to +6.7% from +10.4%) and services (to +6.5% from +7.0%). While agriculture, forestry and fishing (to -0.6% from -0.8%) is estimated to continue to contract on a YoY basis, the pace is likely to narrow marginally in Q4 FY2024. Within the industrial sector, the manufacturing GVA growth has been projected to dip to a four-quarter low of 3.9% in Q4 FY2024 (+11.6% in Q3 FY2024), that for construction GVA (to +11.3% from +9.5%) is estimated to improve despite a slowdown in Government capex in Jan 2024 (-40.5% YoY; +24.4% in Q3 FY2024), and a perceived slowdown in the construction activity prior to Parliamentary elections.
- Interestingly, the gap between GDP and GVA is estimate to narrow to 46 bps in Q4 FY2024 from 185 bps in Q3 FY2024, with a likely increase in the subsidy outgo during the last quarter, which would pull down the growth in net indirect taxes (to +10.4% in Q4 from +32.0% in Q3).

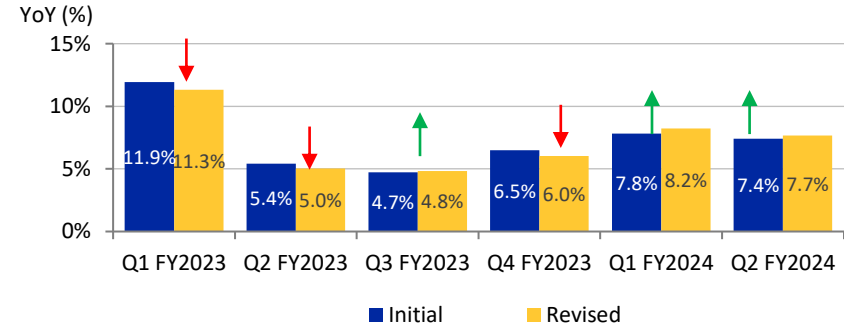
Upward revision in GDP/GVA growth for Q1-Q2 FY2024 partly on the back of downward revisions in the respective quarterly estimates for FY2023

EXHIBIT: Quarterly revisions in GDP (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Quarterly revisions in GVA at Basic Prices (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

- The quarterly estimates of GDP and GVA have undergone substantial revisions in FY2023 and H1 FY2024. In particular, GDP growth has been revised downwards for Q1 (+12.8% vs. initial +13.1%), Q2 (+5.5% vs. +6.2%) and Q3 (+4.3% vs. +4.5%) of FY2023 in the range of 21-74 bps, partly on account of PFCE and GFCF. This has partly led to an upward revision in the estimates for Q1 FY2024 (by +40 bps to +8.2% from initial +7.8%) and Q2 FY2024 (by +44 bps to +8.1% from initial +7.6%). Notably, the growth estimate for PFCE has been revised downwards in each of the quarters of FY2023 as well as H1 FY2024, in contrast with an upward revision in GFCE growth for the same period.
- On a similar note, the YoY growth in GVA has been revised downwards for Q1 (by -61 bps, +11.3% vs. initial +11.9%) and Q2 (by -38 bps, +5.0% vs. +5.4%) of FY2023. Consequently, the estimates for the GVA growth have been raised in Q1 FY2024 (+8.2% vs. +7.8%) and Q2 FY2024 (+7.7% vs. +7.4%), albeit by a lower 40 bps and 26 bps, respectively. Notably, each of the sub-sectors of industry and services have witnessed an upward revision in Q1-Q2 FY2024.

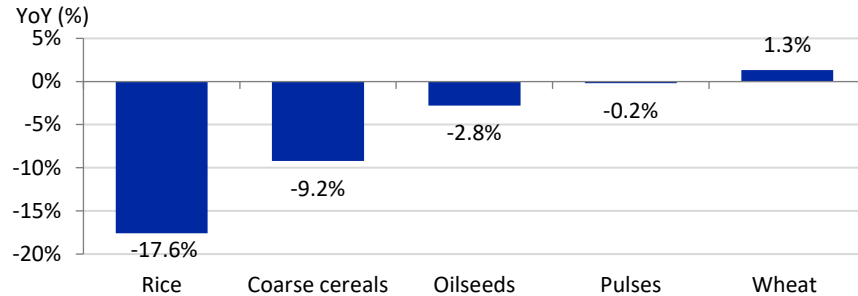


OUTLOOK

Implicit GVA growth of 5.4% in Q4 FY2024 similar to ICRA's estimate

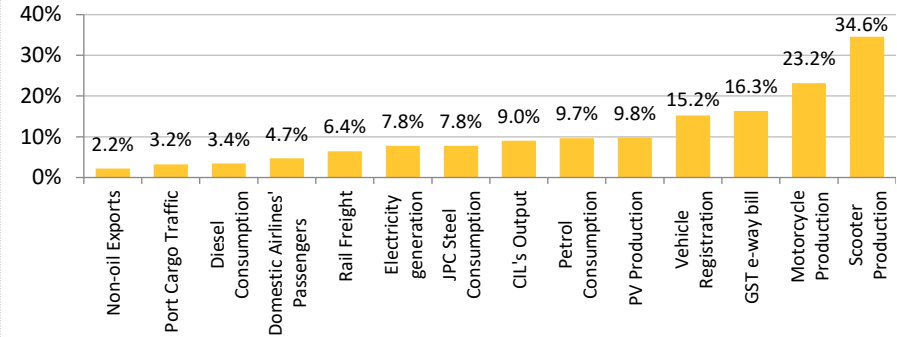
Rabi output prospects are weak; rural demand likely to remain tepid

EXHIBIT: YoY trends in advance estimates for rabi crop production in FY2024



Source: Department of Agriculture and Farmers' Welfare: CEIC; ICRA Research

EXHIBIT: YoY trends in non-financial indicators in Jan 2024

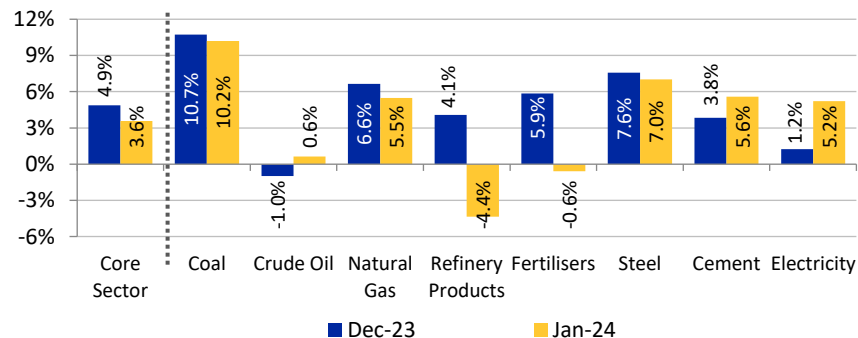


Source: CMIE; CIL; CEA; MoRTH; Ministry of Commerce, GoI; IPA; Indian Railways; GSTN; DGCA; PPAC; JPC; RBI; CEIC; ICRA Research

- The rabi crop production as per the SAE for FY2024 revealed a decline in output of rice (-17.6%), coarse cereals (-9.2%), oilseeds (-2.8%) and pulses (-0.2%), and an uptick in the output of wheat (+1.3%), compared to the final estimates for FY2023.
- **ICRA anticipates that rabi output will be subdued for several crops (especially for pulses and rice), as hinted by the NSO's implicit forecast of a 0.6% contraction in agriculture and allied activities in Q4 FY2024. As a result, rural demand is likely to remain cautious until there is greater visibility around farm cash flows from rabi procurement and outcomes for the next kharif crop.**
- Coming to the performance of non-agri indicators, the YoY growth in the ICRA Business Activity Monitor - an index of high frequency indicators, [rose to 9.8% in Jan 2024 from 8.0% in Dec 2023, amid a broad-based improvement across 10 of the 16 constituent indicators](#). However, the early trends for Feb 2024 point to a deceleration vis-à-vis Jan 2024, amid a dip in YoY growth in electricity generation and average daily vehicle registrations (up to Feb 26, 2024).

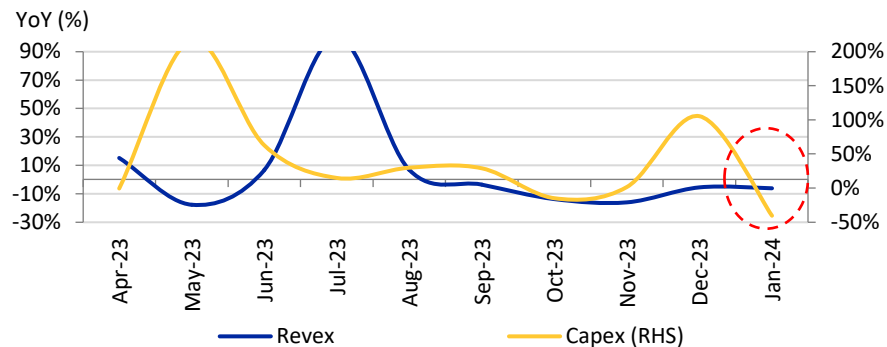
ICRA expects GDP growth in Q4 FY2024 at 5.3%, similar to NSO's implicit growth

EXHIBIT: YoY (%) trends in core sector output and its components



Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry; CEIC; ICRA Research

EXHIBIT: Monthly YoY (%) trends in Govt's revex and capex



Source: CGA; ICRA Research

- Additionally, the recently published data for core sector output reveals a slowdown in the YoY growth to a 15-month low of 3.6% in Jan 2024 (+9.7% in Jan 2023) from 4.9% in Dec 2023 (+8.3% in Dec 2022), albeit partly dulled by an unfavourable base effect. The trends relative to Dec 2023 were mixed, with just three indicators recording an improved YoY performance in Jan 2024, namely, crude oil, cement and electricity.
- Moreover, the Government of India's capital expenditure contracted by a sharp 40.5% YoY to Rs. 476 billion in Jan 2024. Besides, the revenue expenditure contracted by 6.2% YoY in the month, which does not augur well for the growth prospects of the PADOS segment.
- **At present, ICRA expects the GDP growth to ease to 5.3% in Q4 FY2024 from 6.5% in Q3 FY2024, similar to NSO's implicit growth estimate of 5.4% for the quarter. Consequently, the NSO's estimate of 6.9% GVA expansion in FY2024 seems to be appropriate at this juncture.**



Annexure

EXHIBIT: GVA at Basic Prices and its Components (YoY Growth, Constant 2011-12 Prices)

	Q3 FY2023	Q4 FY2023*	Q1 FY2024	Q2 FY2024	Q3 FY2024	Q4 FY2024*	FY2022 SRE	FY2023 FRE	FY2024 SAE
GVA at Basic Prices	4.8%	6.0%	8.2%	7.7%	6.5%	5.4%	9.4%	6.7%	6.9%
Agriculture, Forestry & Fishing	5.2%	7.6%	3.5%	1.6%	-0.8%	-0.6%	4.5%	4.7%	0.7%
Industry	0.6%	3.4%	6.0%	13.6%	10.4%	6.7%	12.7%	2.1%	9.0%
Mining & Quarrying	1.4%	2.9%	7.1%	11.1%	7.5%	7.4%	6.7%	1.9%	8.1%
Manufacturing	-4.8%	0.9%	5.0%	14.4%	11.6%	3.9%	10.1%	-2.2%	8.5%
Electricity, gas, water supply & other utilities	8.7%	7.3%	3.2%	10.5%	9.0%	7.6%	10.5%	9.4%	7.5%
Construction	9.5%	7.4%	8.5%	13.5%	9.5%	11.3%	21.3%	9.4%	10.7%
Services	7.2%	7.2%	10.7%	6.0%	7.0%	6.5%	9.0%	10.0%	7.5%
Trade, Hotels, Transport, Communication & Services related to Broadcasting	9.2%	7.0%	9.7%	4.5%	6.7%	5.5%	14.9%	12.0%	6.5%
Financial, Real Estate & Professional Services	7.7%	9.2%	12.6%	6.2%	7.0%	6.8%	5.5%	9.1%	8.2%
Public Administration, Defence and Other Services	3.5%	4.7%	8.2%	7.7%	7.5%	7.6%	7.6%	8.9%	7.7%

*Implicit based on FY2022 SRE, FY2023 FRE, FY2024 SAE, and the 9M data for FY2022-FY2024; SRE: Second Revised Estimates; FRE: First Revised Estimates; SAE: Second Advance Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)

	Q3 FY2023	Q4 FY2023*	Q1 FY2024	Q2 FY2024	Q3 FY2024	Q4 FY2024*	FY2022 SRE	FY2023 FRE	FY2024 SAE
GDP	4.3%	6.2%	8.2%	8.1%	8.4%	5.9%	9.8%	7.0%	7.6%
PFCE	1.8%	1.5%	5.3%	2.4%	3.5%	1.0%	11.6%	6.8%	3.0%
GFCE	7.1%	13.9%	-0.1%	13.8%	-3.2%	2.7%	0.1%	9.0%	3.0%
Exports	10.9%	12.4%	-6.5%	5.3%	3.4%	3.5%	32.7%	13.4%	1.5%
Imports	4.1%	-0.4%	15.3%	11.9%	8.3%	8.2%	23.6%	10.6%	10.9%
Gross Capital Formation	2.8%	3.3%	7.5%	10.6%	12.2%	10.4%	21.8%	5.5%	10.2%
GFCF	5.0%	3.8%	8.5%	11.6%	10.6%	10.2%	17.8%	6.6%	10.2%
Change in Stocks	11.5%	18.2%	1.6%	10.7%	7.9%	0.6%	916.5%	14.5%	5.0%
Valuables	-38.2%	-23.6%	-21.2%	-1.1%	61.8%	31.1%	36.1%	-19.1%	13.8%

*Implicit based on FY2022 SRE, FY2023 FRE, FY2024 SAE, and the 9M data for FY2022-FY2024; SRE: Second Revised Estimates; FRE: First Revised Estimates; SAE: Second Advance Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: Composition of GVA at Basic Prices (at Current Prices)

	Q3 FY2023	Q4 FY2023*	Q1 FY2024	Q2 FY2024	Q3 FY2024	Q4 FY2024*	FY2022 SRE	FY2023 FRE	FY2024 SAE
GVA at Basic Prices	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Agriculture, Forestry & Fishing</i>	<i>22.4%</i>	<i>18.7%</i>	<i>16.2%</i>	<i>14.3%</i>	<i>21.5%</i>	<i>18.1%</i>	<i>18.9%</i>	<i>18.2%</i>	<i>17.6%</i>
<i>Industry</i>	<i>26.0%</i>	<i>29.5%</i>	<i>27.3%</i>	<i>27.3%</i>	<i>26.4%</i>	<i>29.2%</i>	<i>28.9%</i>	<i>27.6%</i>	<i>27.6%</i>
Mining & Quarrying	1.9%	2.2%	2.1%	1.7%	1.9%	2.2%	2.0%	2.0%	2.0%
Manufacturing	13.1%	15.1%	13.9%	14.8%	13.3%	14.5%	15.7%	14.3%	14.1%
Electricity, gas, water supply & other utilities	2.5%	2.4%	2.5%	2.5%	2.4%	2.4%	2.7%	2.5%	2.4%
Construction	8.6%	9.7%	8.8%	8.2%	8.8%	10.1%	8.5%	8.8%	9.0%
<i>Services</i>	<i>51.6%</i>	<i>51.9%</i>	<i>56.5%</i>	<i>58.4%</i>	<i>52.2%</i>	<i>52.8%</i>	<i>52.2%</i>	<i>54.2%</i>	<i>54.9%</i>
Trade, Hotels, Transport, Communication & Services related to Broadcasting	17.9%	19.2%	15.8%	17.5%	17.8%	19.1%	17.0%	17.9%	17.6%
Financial, Real Estate & Professional Services	19.9%	19.4%	25.7%	25.7%	20.1%	19.7%	21.5%	22.4%	22.7%
Public Administration, Defence and Other Services	13.8%	13.2%	14.9%	15.2%	14.4%	13.9%	13.7%	13.9%	14.6%

*Implicit based on FY2022 SRE, FY2023 FRE, FY2024 SAE, and the 9M data for FY2022-FY2024; SRE: Second Revised Estimates; FRE: First Revised Estimates; SAE: Second Advance Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: Composition of GDP and Final Expenditures (at Current Prices)

	Q3 FY2023	Q4 FY2023*	Q1 FY2024	Q2 FY2024	Q3 FY2024	Q4 FY2024*	FY2022 SRE	FY2023 FRE	FY2024 SAE
GDP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
PFCE	63.8%	58.2%	58.7%	60.8%	63.6%	58.2%	61.0%	60.9%	60.3%
GFCE	9.3%	12.8%	10.7%	10.1%	8.5%	12.6%	10.5%	10.7%	10.5%
Exports	22.6%	23.2%	21.5%	22.3%	21.4%	22.4%	21.4%	23.2%	21.9%
Imports	26.4%	24.7%	24.0%	24.7%	24.2%	23.0%	24.0%	26.8%	24.0%
Gross Capital Formation	30.7%	34.2%	33.1%	34.8%	31.9%	35.2%	32.1%	33.0%	33.7%
GFCF	28.8%	32.3%	31.4%	31.4%	29.4%	33.1%	29.6%	30.7%	31.3%
Change in Stocks	0.9%	1.1%	1.0%	1.0%	0.9%	1.0%	0.9%	1.0%	1.0%
Valuables	1.0%	0.8%	0.6%	2.4%	1.6%	1.1%	1.6%	1.2%	1.4%

*Implicit based on FY2022 SRE, FY2023 FRE, FY2024 SAE, and the 9M data for FY2022-FY2024; SRE: Second Revised Estimates; FRE: First Revised Estimates; SAE: Second Advance Estimates; Source: NSO; CEIC; ICRA Research



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