NSE

Macro Review

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FY20 AE GDP: Investments drag GDP growth to a decadal low of 5%

Advance Estimates (AE) of India's real GDP growth have been pegged by the CSO at a 11-year low of 5% in FY20 vs. 6.8% in FY19; also implying a growth of 5.2% in H2FY20. Growth at the *nominal* level, however, is estimated at 7.5%—about the lowest in 44 years[1], and meaningfully lower than the 12% assumed in the Union Budget for FY20. Investment is expected to be the biggest drag, with growth there pegged at a modest 1% in FY20—the lowest in 17 years, and significantly lower than 10% in FY19. Weak domestic (private) as well as global consumption demand have also weighed on growth, with small consolation from Government spending (Up 10.5%). While in line with consensus, the data release nevertheless underscores the low-growth orbit of the economy and the stress in financial conditions.

At the sector level, agriculture growth is expected to remain steady, services sector growth is expected to decelerate to an 8-year low of 6.9% owing to weakness in trade, hotels, financial & real estate services and industrial sector growth is pegged at a 28-year low of 2.5% led by a Manufacturing.

The current economic slowdown, elements of which are both cyclical and structural in nature, is quite pervasive, and any tangible recovery may take time to materialise, contingent on faster and effective transmission of rate cuts delivered in 2019 and improvement in financial conditions. The fiscal and external measures taken by the Government, including the corporate tax cuts and the recently announced infrastructure investment roadmap, bode well for economic growth, even as the effect is expected to be gradual. Moreover, fiscal deficit already hovering much above the annual target implies limited headroom for an expansionary policy. On the positive side, improved prospects for the *Rabi* season, coupled with higher farm prices, bodes well for rural demand.

- **FY20AE GDP growth pegged at 5%:** India's real GDP growth is estimated to fall to a 11-year low of 5% in FY20 from 6.8% in FY19, led by a sharp deceleration in investment growth and moderation in private consumption, even as fiscal spending has remained strong. The nominal GDP growth, however, is pegged at 7.5%—the lowest in 44 years, signalling lower tax collections and consequent pressure on fiscal balances and debt servicing. The Gross Value Added (GVA) growth is pegged at 4.9% in FY20 vs. 6.3% in FY19, largely led by a sharp deceleration in the industrial sector growth and a moderation in services sector growth, even as agriculture sector growth is expected to remain broadly steady.
- **Investment is the biggest drag; Government spending the only saviour:** The FY20AE GDP growth is severely dragged down by lacklustre investment, with GFCF (Gross Fixed Capital Formation) growing at a 17-year low of 1.0% vs. 10% in FY19. This is largely a consequence of consequence of muted demand environment, weak business confidence, low capacity utilisation and tight financial conditions. Private consumption growth is also expected to decelerate to 5.8% in FY20 from 8.1% in FY19, thanks to muted urban as well as rural demand. Government spending is the mainstay, with GFCE (Govt. Final Consumption Expenditure) growth pegged at a robust 10.5% in FY20, excluding which GDP growth would come down to 4.3%.
- **Sector-wise, Manufacturing pulls down GVA to sub-5%:** Among the sectors, agriculture sector growth is expected to remain broadly steady at 2.8% in FY20 vs. 2.9% in the previous year, negatively impacted by an extended and heavy South-west rainfall hitting farm output. Industrial growth is expected to fall to a 28-year low of 2.5% in FY20, led by a sharp slowdown in the manufacturing sector. While mining sector GVA growth is expected to improve modestly to 1.5%, manufacturing sector growth is estimated at a 22-year low of 2.0%, reflecting weak consumption and investment demand in the economy. Services sector growth is also expected to decelerate to an 8-year low of 6.9% in FY20, largely led by weakness in trade & hotels (5.9%—11-year low) and financial & real estate services (6.4%), partly offset by strong Government spending (9.1%).
- **A shallow recovery ahead:** The CSO's Advance Estimates point to a pervasive slowdown in the economy. While GDP growth has likely bottomed out in Q2FY20 and is expected to improve, any tangible recovery is likely to take its own sweet time, with transmission of earlier rate cuts and easing of financial conditions being crucial requirements for the recovery. On the positive side, the fiscal measures taken by the Government, including the corporate tax cuts and the recently announced infrastructure investment roadmap, bode well for economic

[1] As per CMIE Economic Outlook for Nominal GDP.

growth, even as the effect is expected to be gradual. Additionally, high reservoir levels and soil moisture, thanks to a prolonged and an above normal South-west rainfall, have improved prospects for the *Rabi* season, which in turn augers well for farm incomes and rural demand. Notwithstanding current weak growth impulses, the RBI is expected to remain on pause in the near-term in the wake of rising inflationary concerns.

Figure 1: Annual real GDP growth trend (% YoY)

	FY16	FY17	FY18	FY19	FY20AE	Implied H2FY20
Gross Domestic Product (GDP)	**8.0**	**8.2**	**7.2**	**6.8**	**5.0**	**5.2**
Private Consumption (PFCE)	7.9	8.2	7.4	8.1	5.8	7.3
Government Consumption (GFCE)	7.5	5.8	15.0	9.2	10.5	8.5
Gross Capital Formation (GCF)	4.7	3.6	10.4	9.0	1.5	0.8
Gross Fixed Capital Formation (GFCF)	6.5	8.3	9.3	10.0	1.0	-0.5
Net trade of goods & services	-9.1	-7.2	263.1	31.0	-24.3	-33.3
Exports of goods & services	-5.6	5.1	4.7	12.5	-2.0	-6.4
Imports of goods & services	-5.9	4.4	17.6	15.4	-5.9	-10.4
Gross Value Added (GVA)	**8.0**	**7.9**	**6.9**	**6.6**	**4.9**	**5.2**
Agriculture	**0.6**	**6.3**	**5.0**	**2.9**	**2.8**	**3.3**
Industry	**9.6**	**7.7**	**5.9**	**6.9**	**2.5**	**3.3**
Mining and Quarrying	10.1	9.5	5.1	1.3	1.5	1.4
Manufacturing	13.1	7.9	5.9	6.9	2.0	4.1
Electricity	4.7	10.0	8.6	7.0	5.4	4.7
Construction	3.6	6.1	5.6	8.7	3.2	1.8
Services	**9.4**	**8.4**	**8.1**	**7.5**	**6.9**	**6.9**
Trade, Hotels, Transport, Storage, Comm.	10.2	7.7	7.8	6.9	5.9	5.8
Fin. Svcs, Real Estate & Business Svcs.	10.7	8.7	6.2	7.4	6.4	7.0
Community, Social & Personal Svcs.	6.1	9.2	11.9	8.6	9.1	8.3

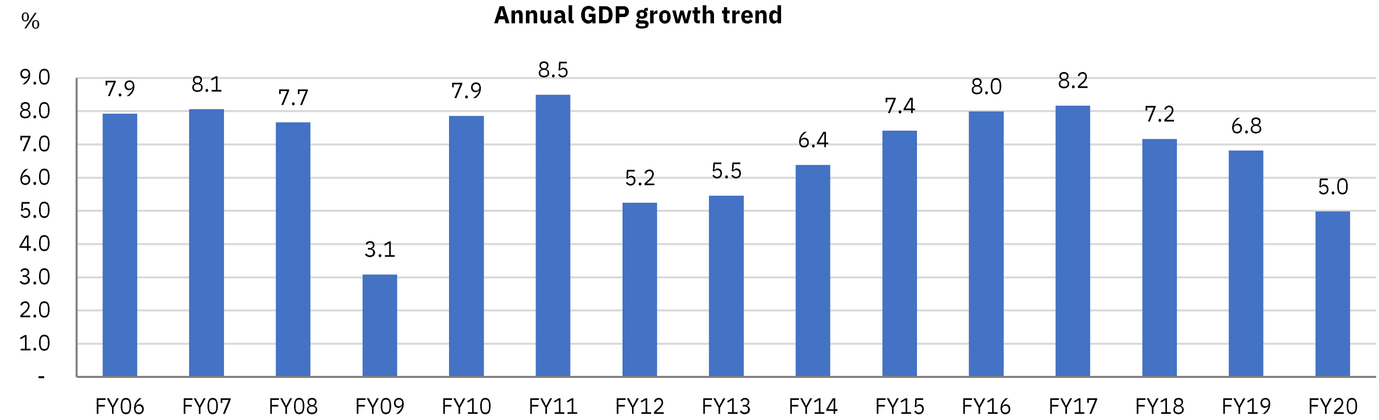
Source: CSO, NSE

Figure 2: Share in GDP (%)

	FY16	FY17	FY18	FY19	FY20AE
Gross Domestic Product (GDP)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Private Consumption (PFCE)	56.1	56.1	56.3	56.9	57.4
Government Consumption (GFCE)	10.0	9.7	10.5	10.7	11.3
Gross Capital Formation (GCF)	34.5	33.0	34.0	34.7	33.5
Gross Fixed Capital Formation (GFCF)	30.7	30.8	31.4	32.3	31.1
Net trade of goods & services	-1.2	-1.1	-3.6	-4.4	-3.2
Exports of goods & services	20.8	20.3	19.8	20.8	19.5
Imports of goods & services	22.1	21.3	23.4	25.3	22.6
Discrepancies	0.7	2.2	2.9	2.1	1.0
Gross Value Added (GVA)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Agriculture	**15.4**	**15.2**	**14.9**	**14.4**	**14.1**
Industry	**31.6**	**31.5**	**31.2**	**31.3**	**30.6**
Mining and Quarrying	3.0	3.1	3.0	2.9	2.8
Manufacturing	18.1	18.2	18.0	18.0	17.5
Electricity	2.1	2.2	2.2	2.2	2.2
Construction	8.2	8.1	8.0	8.2	8.0
Services	**53.0**	**53.3**	**53.9**	**54.3**	**55.3**
Trade, Hotels, Transport, Storage, Comm.	19.0	19.0	19.1	19.1	19.3
Fin. Svcs, Real Estate & Business Svcs.	21.9	22.0	21.9	22.1	22.4
Community, Social & Personal Svcs.	12.2	12.3	12.9	13.1	13.7

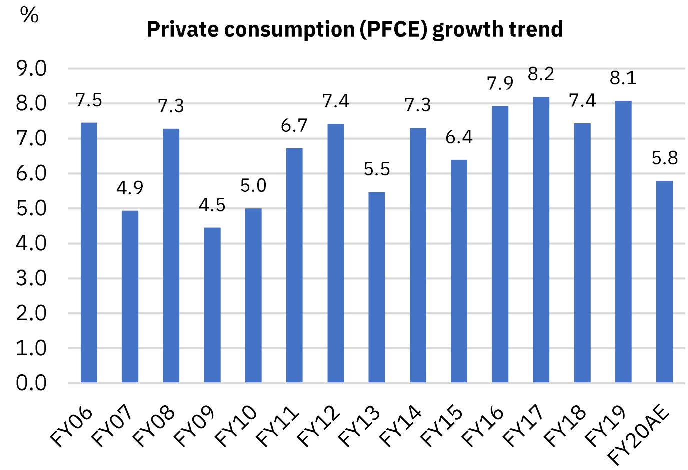
Source: CSO, NSE

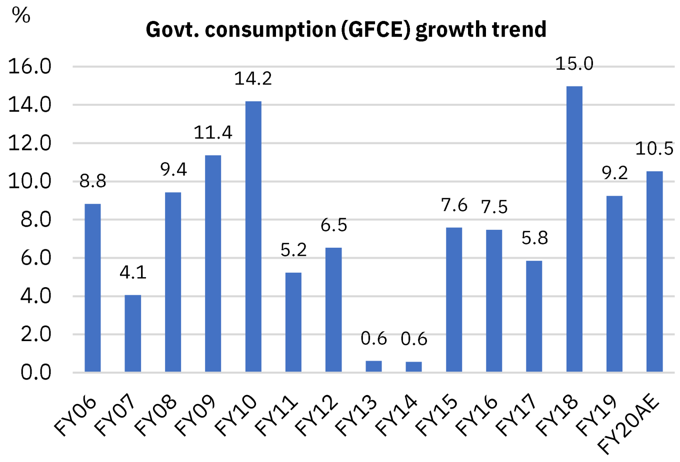
Figure 3: India's FY20 real GDP growth expected to fall to 5% (%): The CSO has pegged FY20 real GDP growth at a 11-year low of 5.0%, led by a sharp deceleration in investment growth and moderation in private consumption, even as Government spending has remained strong.

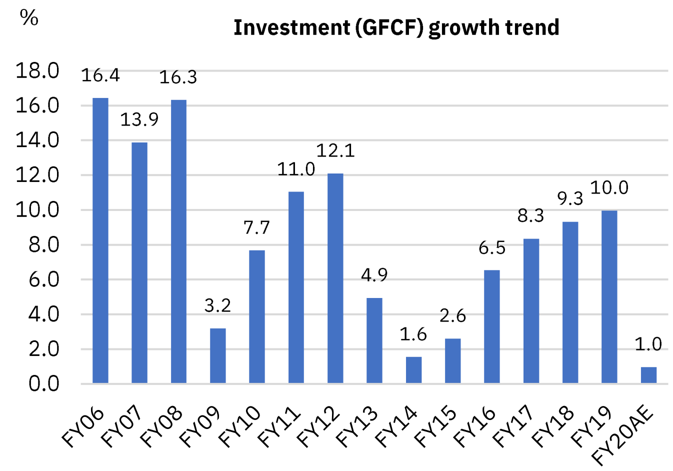


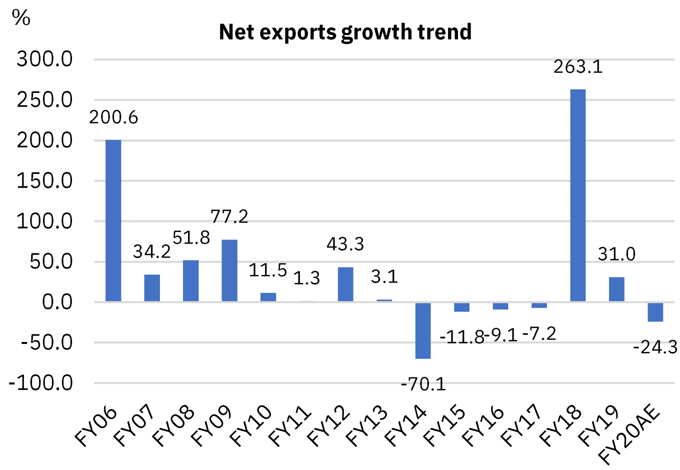
Source: CSO, NSE

Figure 4: Investment is the biggest drag to FY20 GDP growth (%YoY): Investment growth (Gross Fixed Capital Formation) is expected to fall sharply to a 17-year low of 1.0% vs. 10% in FY19—a consequence of muted demand environment, weak business confidence, low capacity utilisation and tight financial conditions. Private consumption growth is also expected to decelerate to 5.8% in FY20 from 8.1% in FY19, thanks to muted urban as well as rural demand. Government spending is the mainstay this year, with GFCE (Govt. Final Consumption Expenditure) growth pegged at a robust 10.5% in FY20.



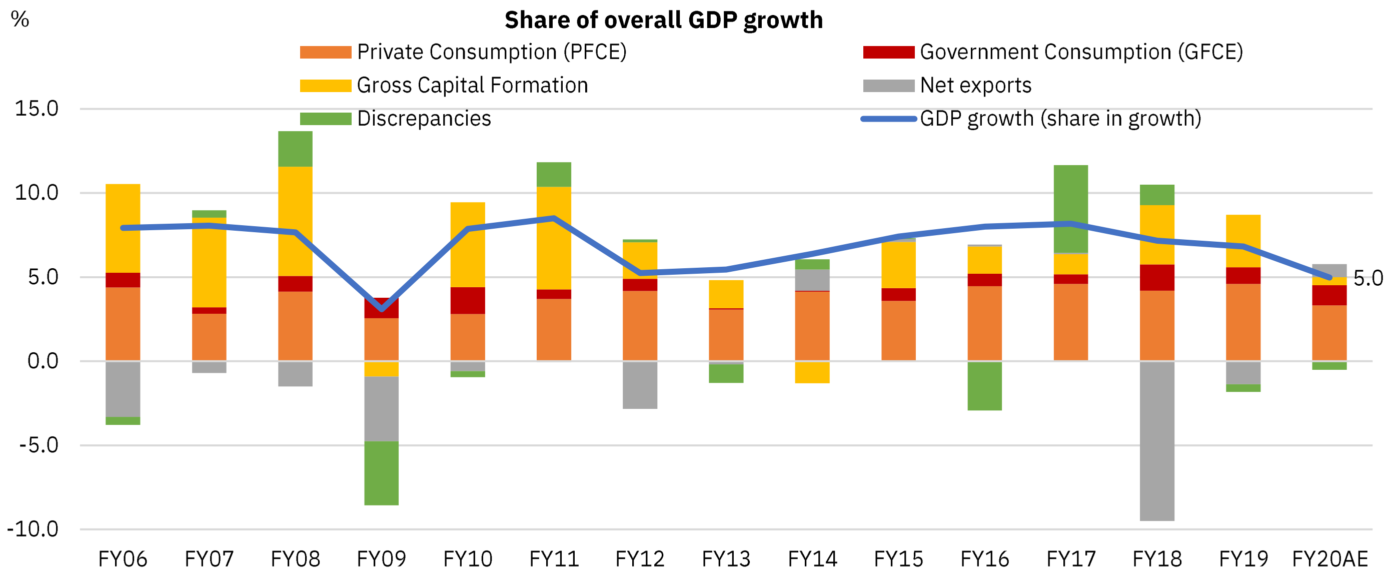






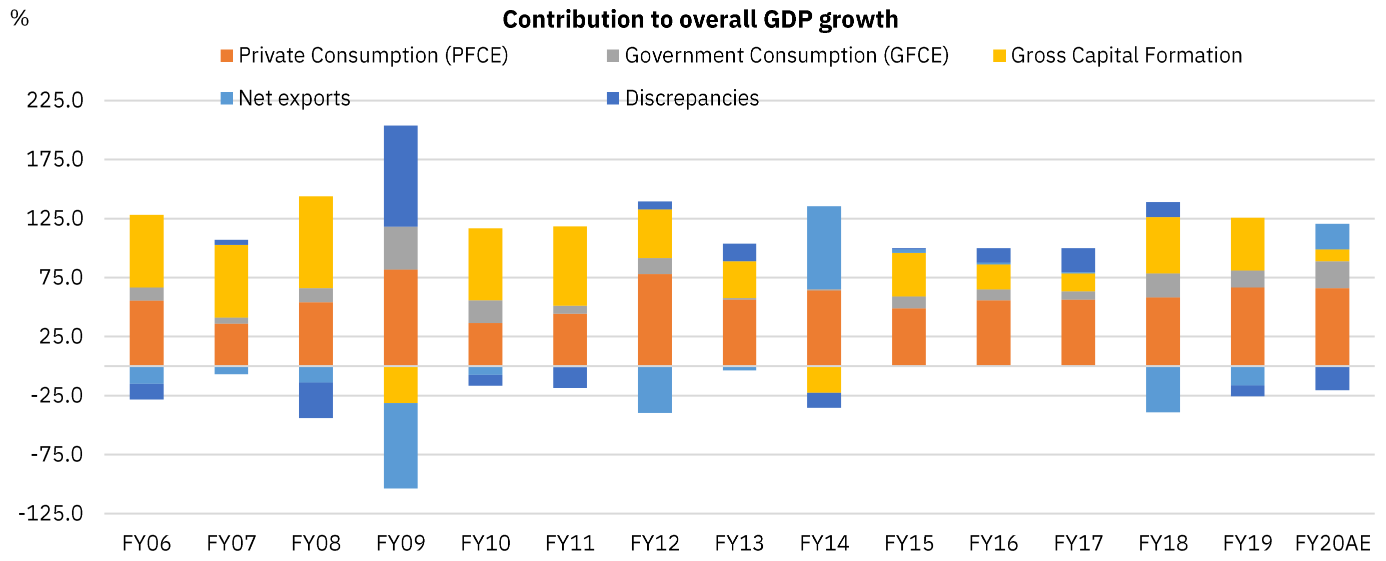
Source: CSO, NSE

Figure 5: Investment share of GDP growth expected to decline sharply in FY20...: The share of investment in overall real GDP growth is expected to fall from 3.1% in FY19 to a mere 0.5% in FY20, while that of Government consumption is expected to improve.



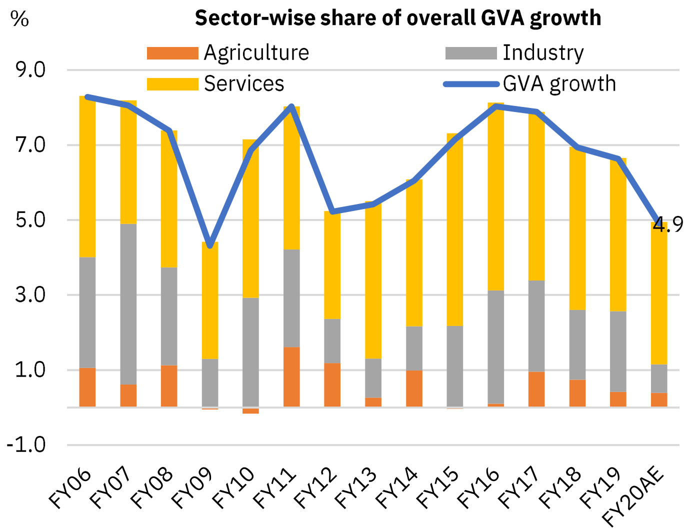
Source: CSO, NSE

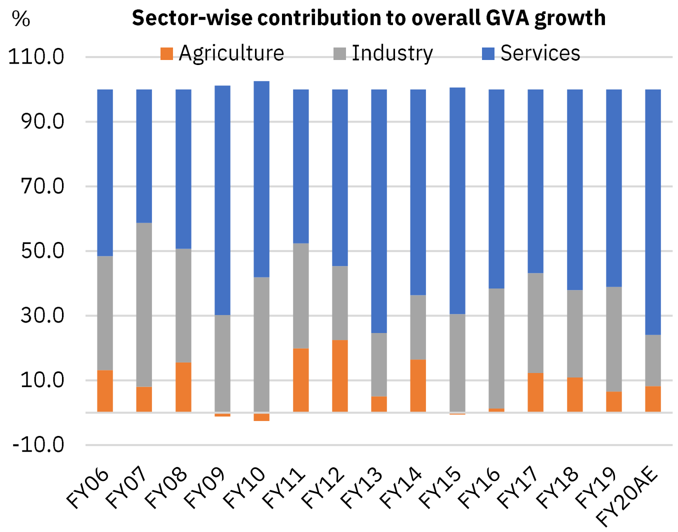
Figure 6: ...and so is Investment contribution to GDP growth: The contribution of investment to overall real GDP is pegged to decline from 45% to 10% in FY20. Government spending has remained strong, with its contribution to overall GDP growth improving from 14% in FY19 to 23% in FY20.



Source: CSO, NSE

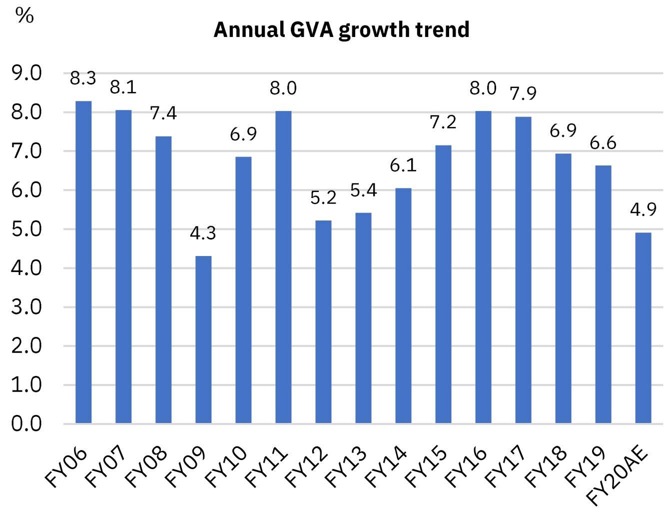
Figure 7: India real GVA growth is pegged at 4.9% in FY20 (%): The real GVA growth is expected at 4.9% in FY20, led by a sharp deceleration in industry sector growth. The Industry sector's share in overall GVA growth has come off sharply to 18-year low of 0.8% in FY20, with its contribution declining from 32% in FY19 to 16% in FY20.

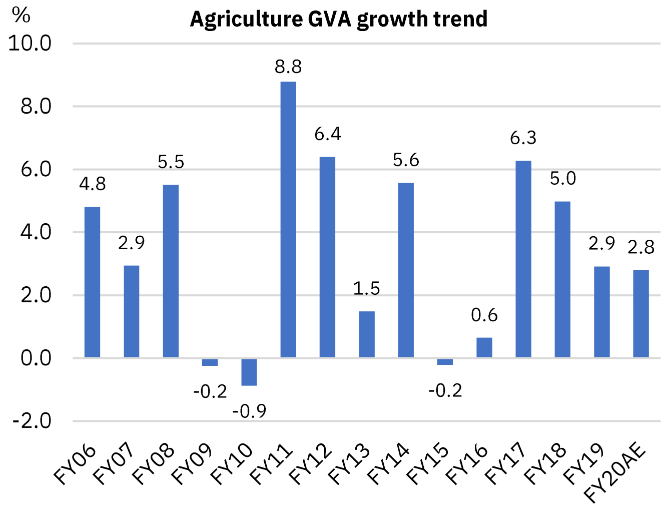


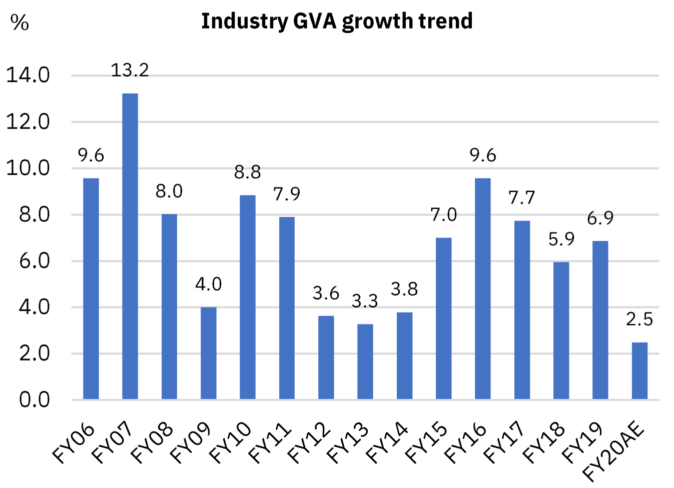


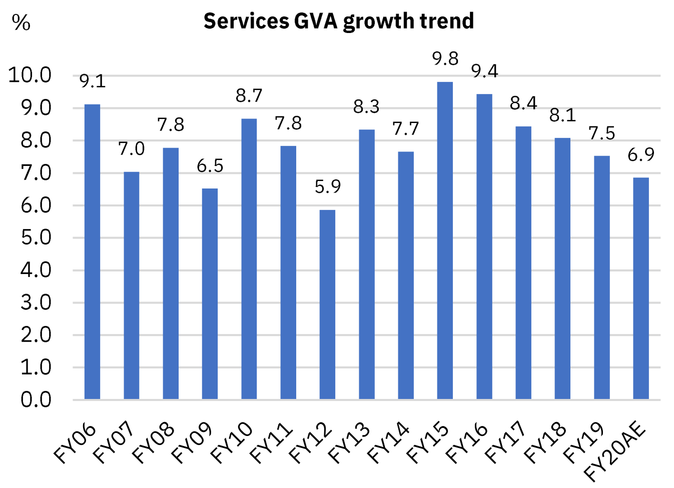
Source: CSO, NSE

Figure 8: Gross value added (GVA) across sectors: While GVA growth for Agriculture sector is expected to remain broadly steady, the Advance Estimates peg Industry sector growth at a 22-year low of 2.0% in FY20, led by a sharp deceleration in Manufacturing sector growth, as also reflected in several high frequency indicators this year such as industrial production, eight-core sector growth and manufacturing PMI, amongst others. Services sector GVA growth is also expected to decelerate to an 8-year low of 6.9% in FY20, led by weakness in trade, hotels, financial & real estate services, partly offset by strong Government spending.



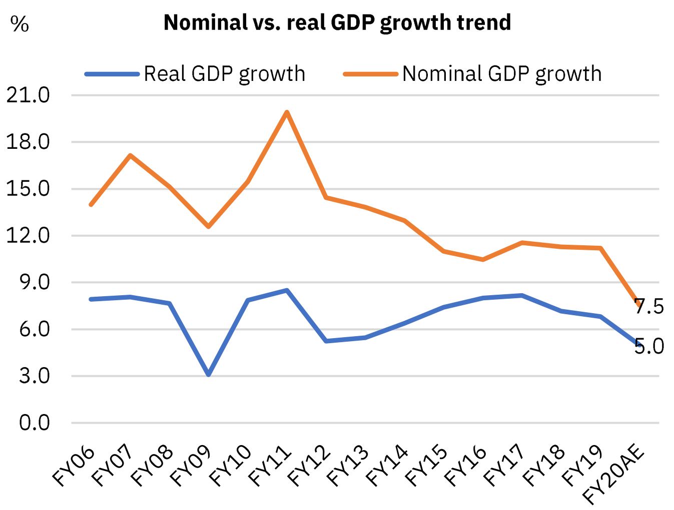


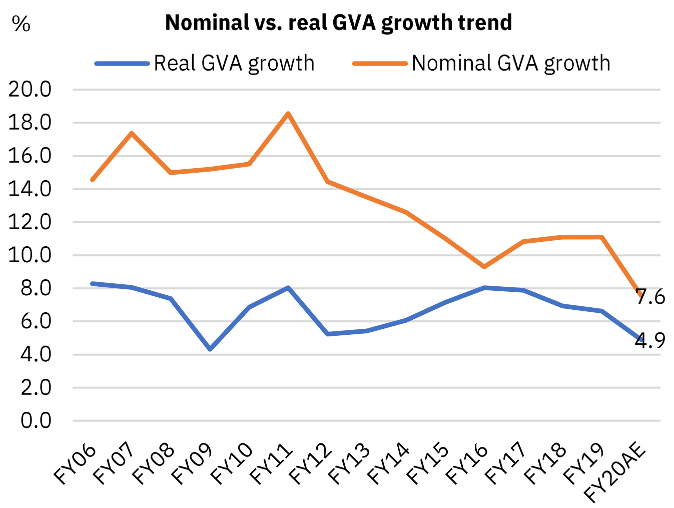




Source: CSO, NSE

Figure 9: Nominal vs. real GDP and GVA growth: The nominal GDP growth is pegged at 7.5% in FY20—the lowest in 44 years, signalling muted corporate performance and lower tax collections and consequent pressure on fiscal balances and debt servicing.





Source: CSO, NSE

Economic Policy & Research, NSE

Tirthankar Patnaik, PhD	tpatnaik@nse.co.in	+91-22-26598149
Prerna Singhvi, CFA	psinghvi@nse.co.in	+91-22-26598316
Ashiana Salian	asalian@nse.co.in	+91-22-26598163
Runu Bhakta, PhD	rbhakta@nse.co.in	+91-22-26598163