Q1FY20 GDP: Growth nosedives to 5%, the lowest in six years

India's GDP growth declined for the sixth consecutive quarter, with Q1FY20 GDP rising by 5.0% (vs. 5.7% est.[1])—the lowest in over six years, pointing to a pervasive weakness in the economy. Private consumption—the mainstay of the economy—has been the biggest drag, rising by a muted 3.1%, with its contribution to the GDP growth being the weakest since 2014, even as public spending has remained the only saviour for yet another quarter. At a sector level, agriculture sector growth improved, manufacturing sector growth saw a sharp deceleration, dragging down the industrial sector growth, while Services sector growth held up relatively strong.

While a favourable base over the next few quarters is likely to support GDP growth, any tangible recovery would be driven by the pace of monetary transmission, impact of the Government's recent steps to revive the economy, and therefore may take 2-3 quarters to materialise. On the positive side, crude prices remaining weak bode well on the external front, and plentiful rains should help rural incomes. The current pace of growth, and the expected inflation trajectory also calls for a fresh look at the extent of monetary easing this year.

- **GDP growth disappoints even weak expectations:** First quarter GDP growth disappointed at 5.0% (5.8% in Q4FY19 and 8.0% in Q1FY19)—the lowest in 25 quarters—as sustained drop in domestic consumption, muted private investments and tight financial conditions continued to weigh on India's GDP growth. The Gross Value Added (GVA) growth also dropped to sub-5% level at 4.9% in Q1FY20 (vs. 5.7% in Q4FY19 and 7.7% in Q1FY19)—the lowest in 21 quarters—largely led by a sharp deceleration in the manufacturing sector growth, albeit off a high base, even as services sector growth remained relatively strong.
- **Government spending the only saviour:** The Q1 GDP growth was severely dragged down by lacklustre private consumption, which grew at an 18-quarter low of 3.1% (vs. 7.2% in Q4FY19 and 7.3% in Q1FY18)—reflecting a pervasive weakness in the economy, that is unlikely to disappear soon. This is also evident from the weak sub-5% growth in imports. In a consumption-led economy, the contribution of private consumption to the GDP growth has been the weakest since 2014. Investment growth has also remained weak, with GFCF (Gross Fixed Capital Formation) growing at a muted 4.0% (vs. 3.6% in Q4FY19 and 13.3% in Q1FY19). Government spending has remained the mainstay for yet another quarter, with GFCE (Govt. Final Consumption Expenditure) growing at a strong 8.8%, excluding which GDP growth was 4.5%.
- **Sector-wise, Manufacturing remains a drag:** Among the sectors, agriculture sector showed an improvement, after witnessing a contraction in the previous quarter, and grew at 2.0%, even as it was much lower than the average 3.4% growth in the June quarter over last seven years. However, with a meaningful revival in the South-west monsoon over July-August, the agricultural output could likely improve over the next few quarters. Further, industrial growth fell to two-year low of 2.7% in Q1 from 4.2% in Q4FY19, thanks to a sharp deceleration in the manufacturing sector growth (0.6% vs. 3.1% in Q4FY19), partly offset by a strong growth in the Utilities sector. The only saviour to the GVA growth was the Services sector, which grew at a relatively strong 6.9%, even as the growth has come off.
- **Growth to remain weak for now…:** GDP growth has declined for the sixth consecutive quarter, and while it is expected to improve over the next few quarters, a large part of it would be because of a favourable base. The efforts taken by the Government and the Central Bank would take a few quarters to bear fruit. On the positive side, a resurgent South-west monsoon, coupled with a renewed focus on the farm sector, bodes well for rural demand and agriculture sector. Further, domestic liquidity conditions have eased, and with improving monetary policy transmission in the economy, consumption demand should get a fillip.
- **…strengthening the case for further monetary easing:** The current growth trajectory warrants a revision of the RBI's views on cost of funding in the economy. While the stance of the RBI remains accommodative and the monetary transmission mechanism takes a few quarters to work its way through, we now expect policy rates to be lowered further, with the central bank's focus shifting decisively towards reviving growth.

[1] Bloomberg Consensus Forecasts.

Figure 1: Quarterly growth trend (2011-12=100) (%YoY)

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Gross Domestic Product (GDP)	**8.0**	**7.0**	**6.6**	**5.8**	**5.0**
Private Consumption	7.3	9.8	8.1	7.2	3.1
Government Consumption	6.6	10.9	6.5	13.1	8.8
Gross Fixed Capital Formation	13.3	11.8	11.7	3.6	4.0
Net trade of goods and services	14.9	84.8	3.9	33.4	(1.9)
Gross Value Added (GVA)	**7.7**	**6.8**	**6.3**	**5.7**	**4.9**
Agriculture	**5.1**	**4.2**	**2.8**	**(0.1)**	**2.0**
Industry	**9.8**	**6.7**	**7.0**	**4.2**	**2.7**
Mining and Quarrying	0.4	(2.1)	1.8	4.2	**2.7**
Manufacturing	12.1	6.9	6.4	3.1	0.6
Electricity	6.7	8.7	8.3	4.3	8.6
Construction	9.6	8.5	9.7	7.1	5.7
Services	**7.1**	**7.4**	**7.2**	**8.4**	**6.9**
Trade, Hotels, Transport, Storage, Comm.	7.8	6.9	6.9	6.0	7.1
Fin. Svcs, Real Estate & Business Svcs.	6.5	7.2	7.2	9.5	5.9
Community, Social & Personal Svcs.	7.5	8.7	7.5	10.7	8.5

Source: CSO, NSE

Figure 2: Annual growth trend (% YoY)

	FY16	FY17	FY18	FY19
Gross Domestic Product (GDP)	**8.0**	**8.2**	**7.2**	**6.8**
Private Consumption	7.9	8.2	7.4	8.1
Government Consumption	7.5	5.8	15.0	9.2
Gross Fixed Capital Formation	6.5	8.3	9.3	10.0
Net trade of goods and services	(9.1)	(7.2)	263.1	31.0
Gross Value Added (GVA)	**8.0**	**7.9**	**6.9**	**6.6**
Agriculture	0.6	6.3	5.0	2.9
Industry	9.6	7.7	5.9	6.9
Services	9.4	8.4	8.1	7.5

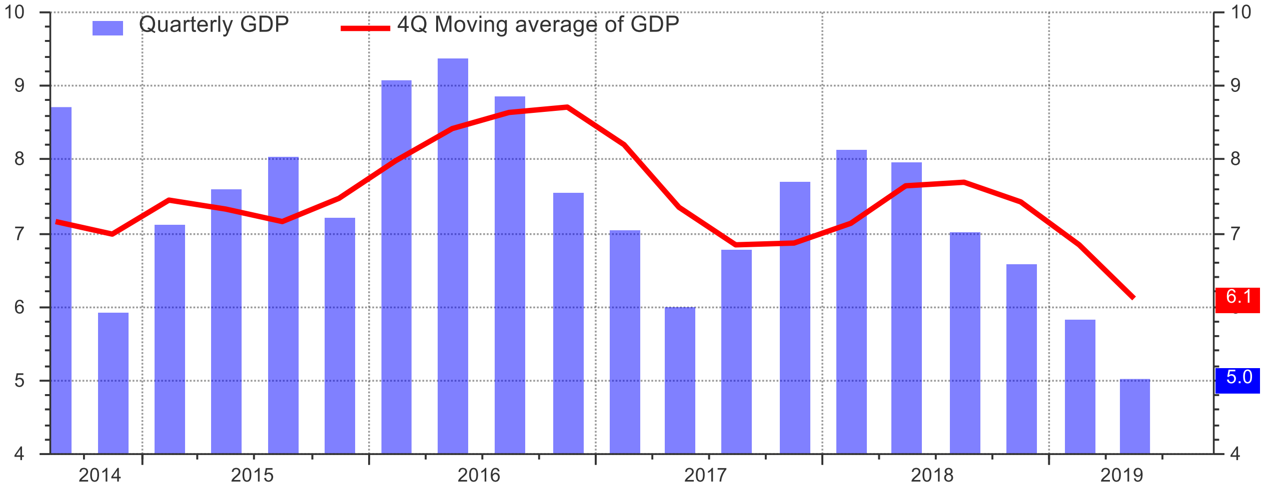
Source: CSO, NSE

Figure 3: Annual sector contribution to GDP (% GDP)

	FY16	FY17	FY18	FY19
GDP				
Private Consumption	59.0	59.3	59.0	59.4
Government Consumption	10.4	10.3	11.0	11.2
Gross Fixed Capital Formation	32.1	30.2	30.9	31.3
Net Trade	(2.3)	(1.8)	(3.2)	(3.9)

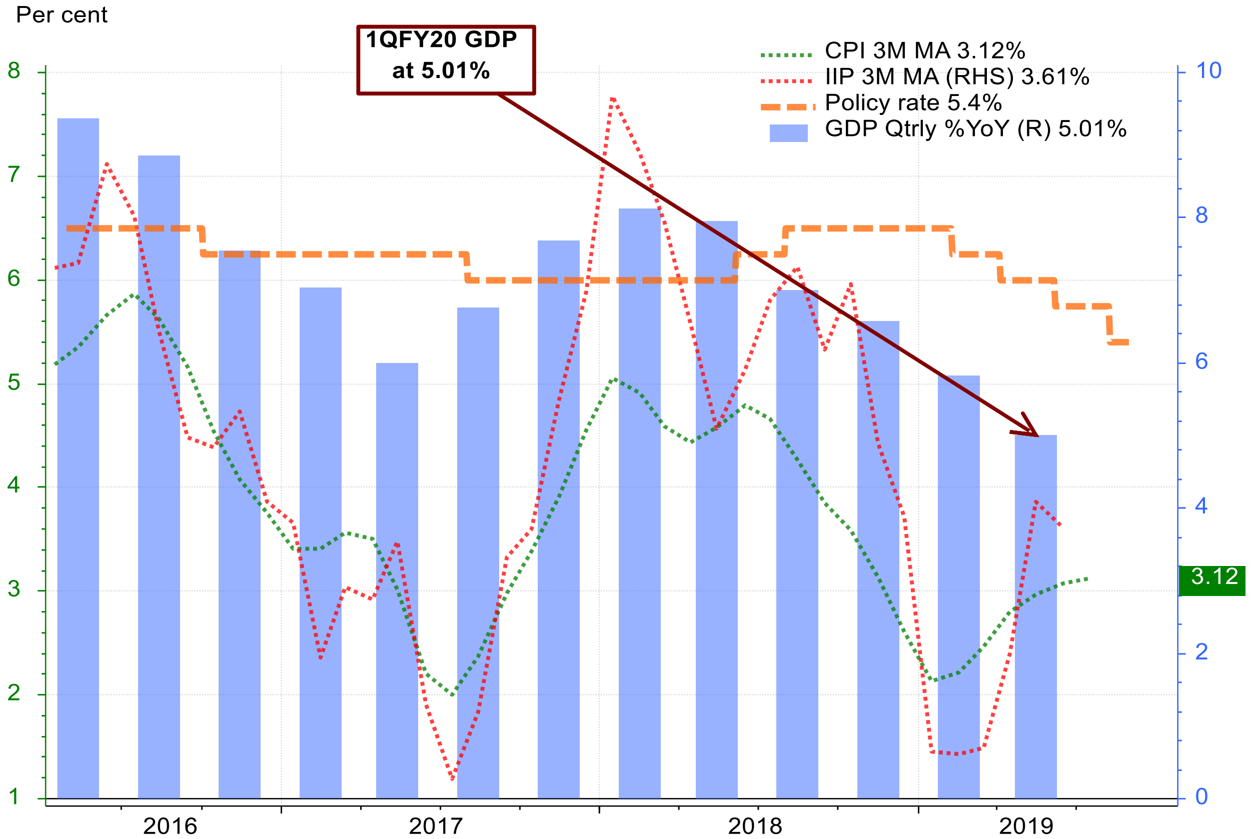
Source: CSO, NSE

Figure 4: India quarterly GDP growth on a downtrend (%) Growth at 5.0% in 1QFY20 is now sequentially weaker for the fifth quarter in a now, and the weakest since the 4QFY12. Adjusted for seasonal effects, the 4QMA growth is firmly trending lower to 6.1% now.



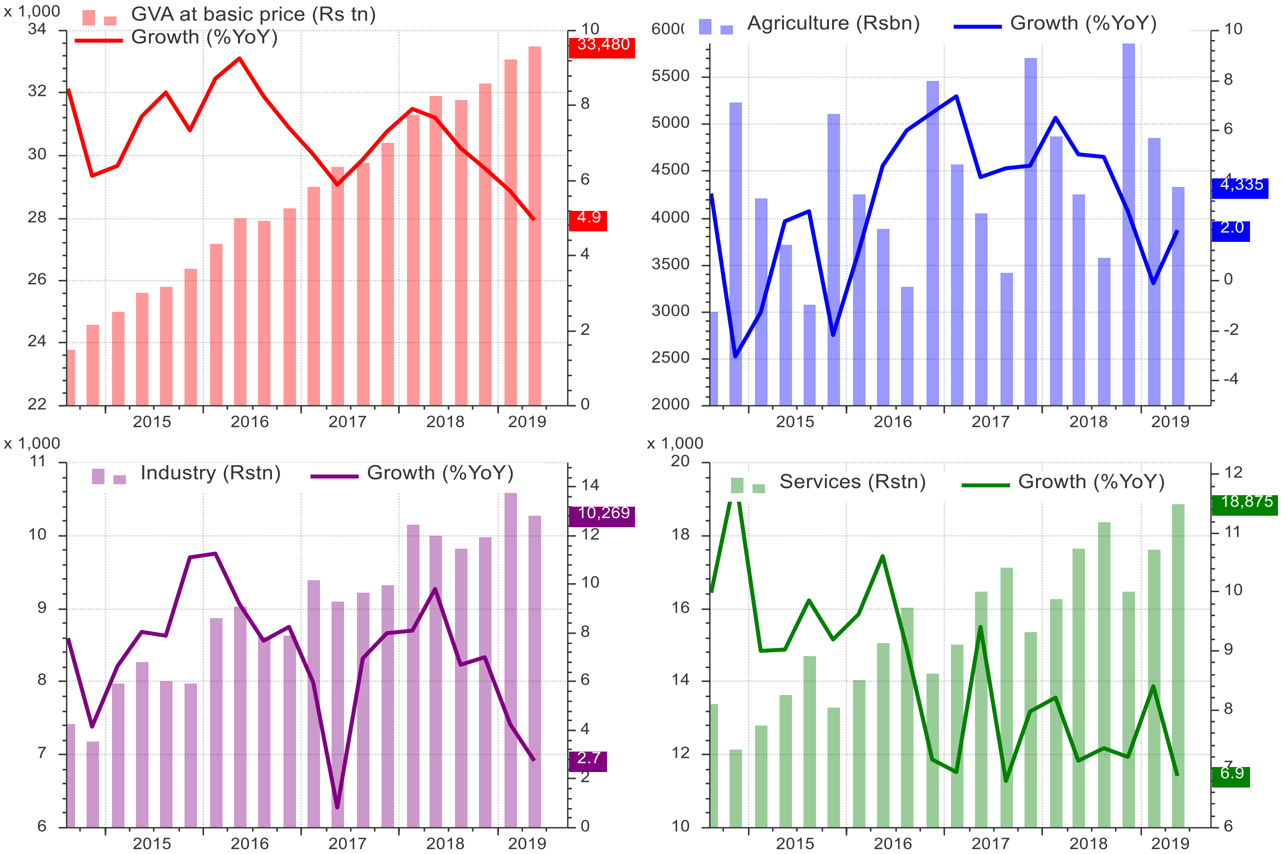
Source: Refinitiv Datastream, NSE

Figure 5: Macro indicators in a snapshot: The central bank's 4th cut in the policy repo this year has yet to translate into lower cost of funds for the economy, given the pace of monetary transmission. With inflation firmly in check for now, the RBI's accommodative stance could now extend to further easing.



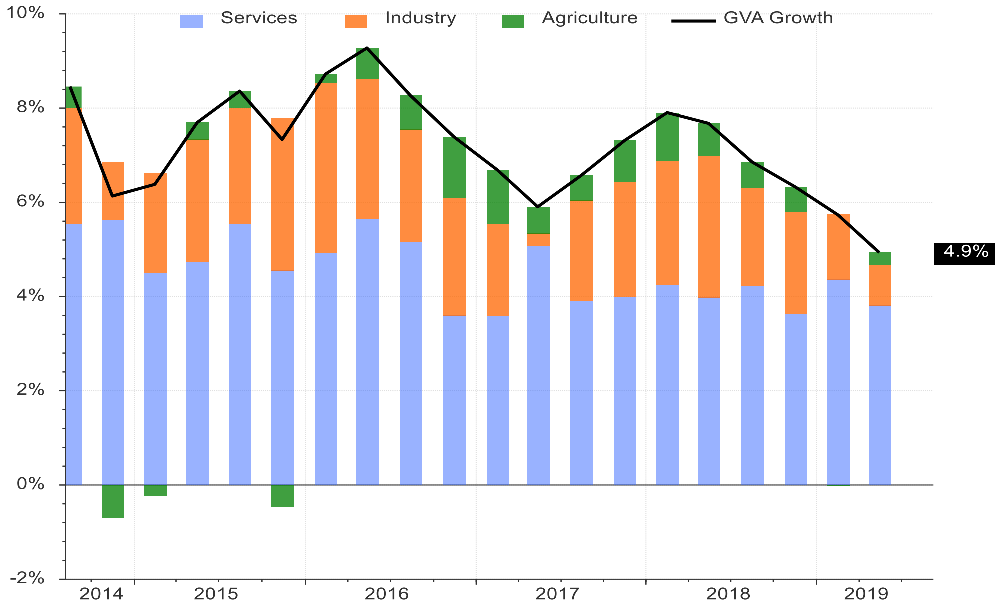
Source: Refinitiv Datastream, NSE

Figure 6: Gross value added (GVA) across sectors Barring Agriculture, all major sectors of the economy were sequentially weaker. While Services continues to be the driver of the economy, growth has been gradually trending lower, better than for Industry, where it has been a free-fall, with growth dropping for the 4th quarter in a row—from double digits to 2.7% in 1QFY20.



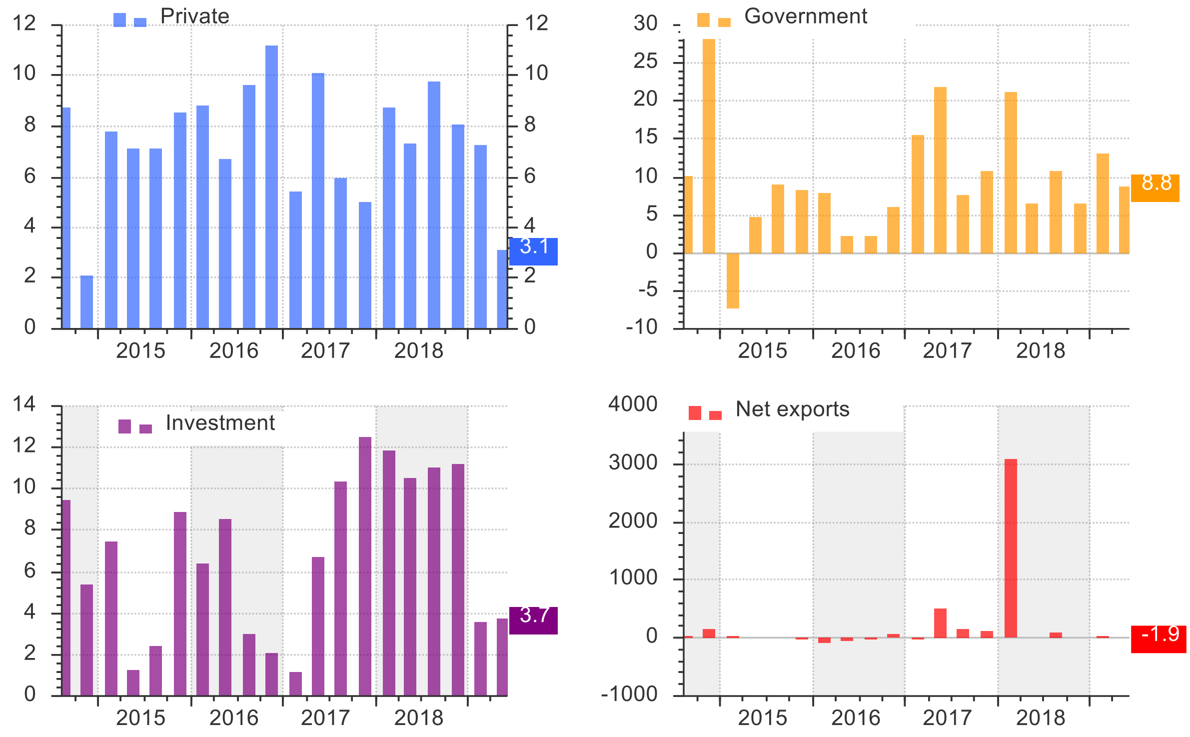
Source: Refinitiv Datastream, NSE

Figure 7: India GVA sector share of growth (%) That leaves Industry's contribution to growth barely noticeable this time, the lowest in nine quarters.



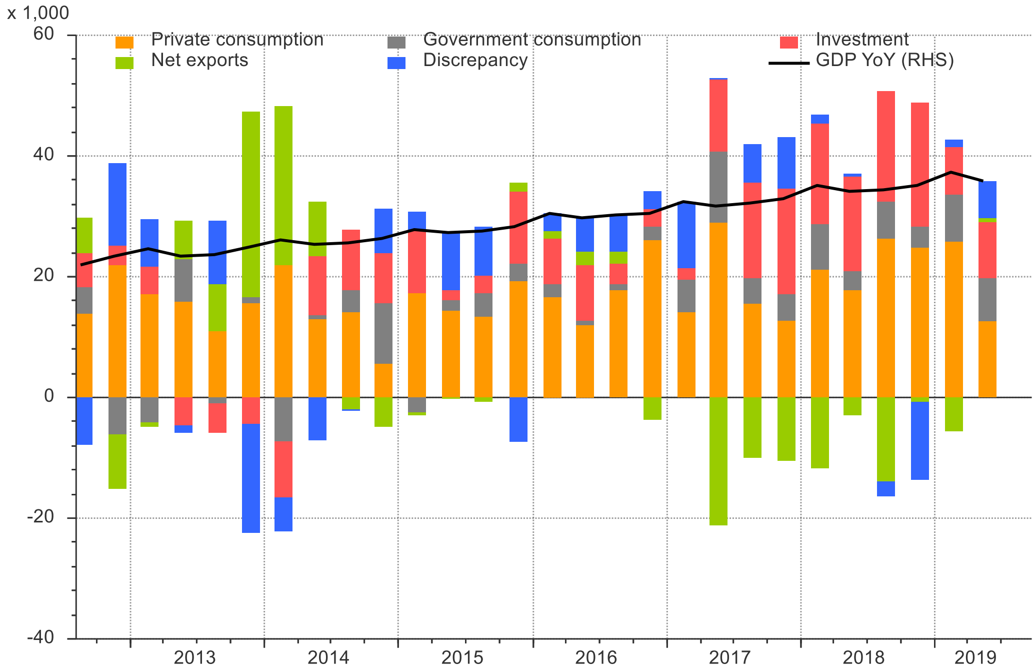
Source: Refinitiv Datastream, NSE

Figure 8: GDP sector quarterly growth (%YoY) The all-pervasive weakness in the economy is best illustrated through its mainstay, viz., Consumption. In a consumption-led economy, the growth in consumption has clocked 3.1%, the lowest since 2014. Tight financial conditions locally, and an inimical global environment have contributed to this sharp deterioration, that steady public expenditure (+8.8% in 1QFY20) has been unable to allay. The overhang on consumption has dampened capacity building efforts—private investment growth has remained sub-4%.



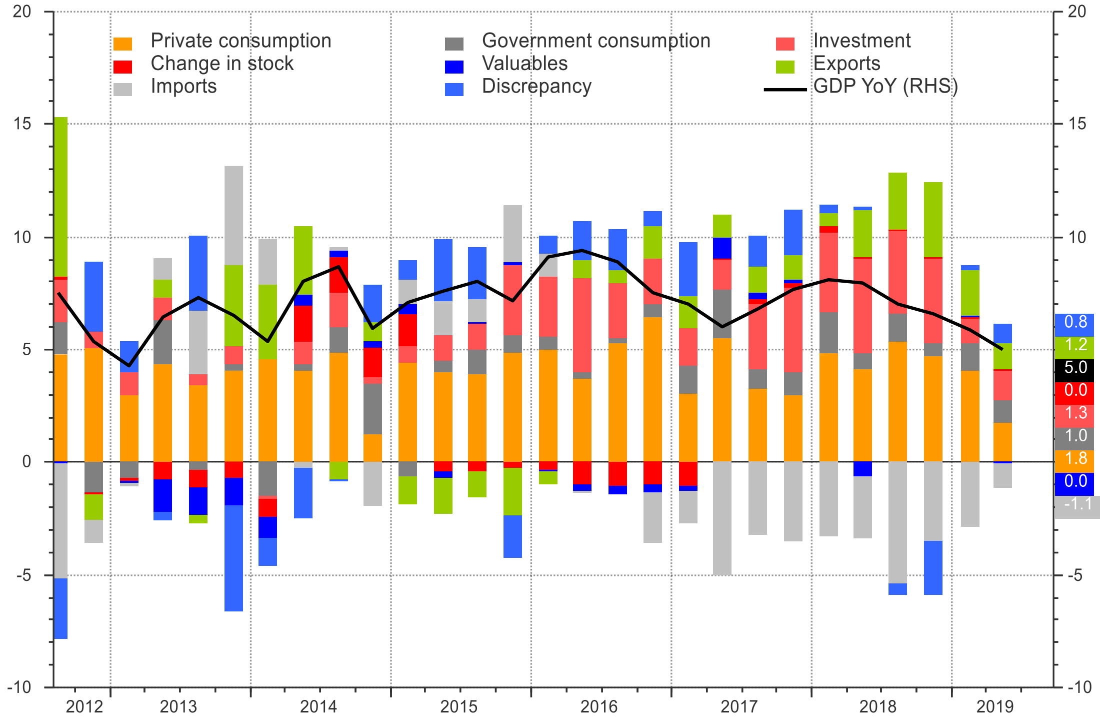
Source: Refinitiv Datastream, NSE

Figure 9: GDP sector quarterly contribution (%GDP)



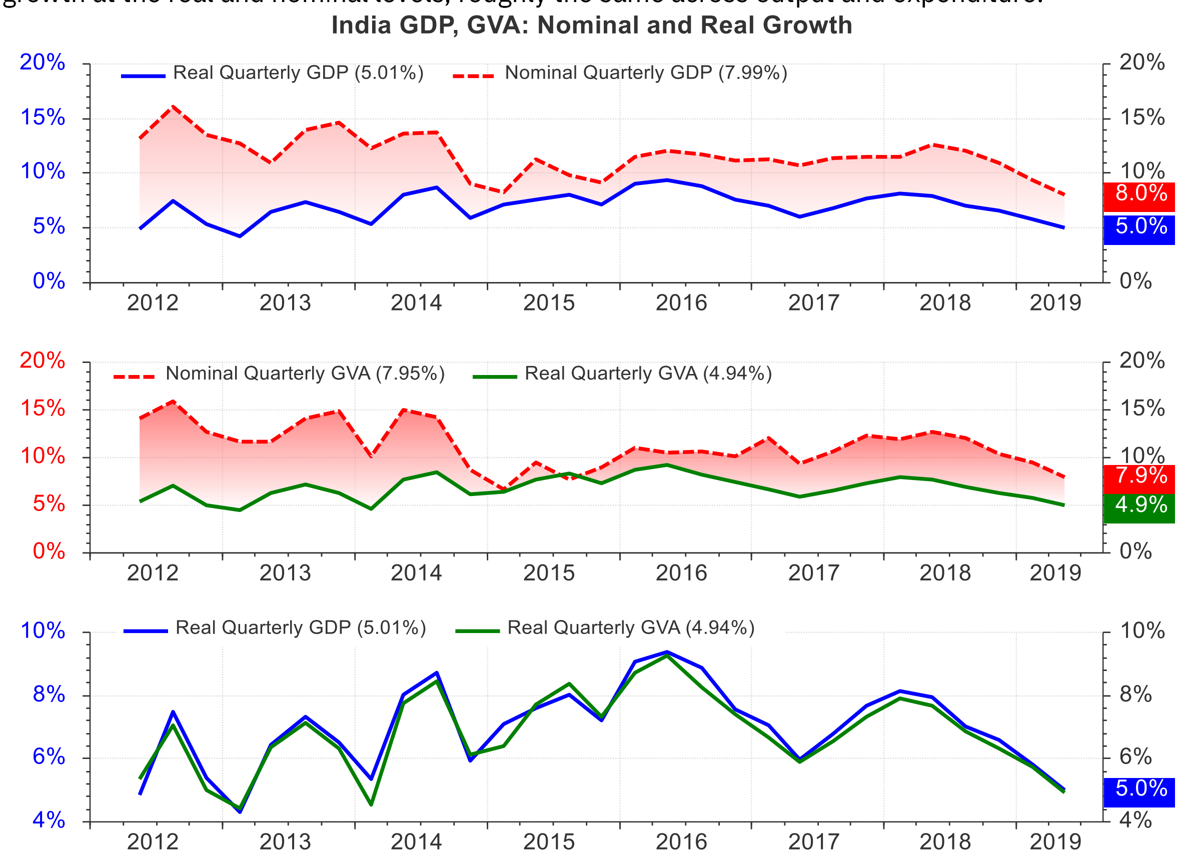
Source: Refinitiv Datastream, NSE

Figure 10: India GDP sector share of growth (%)



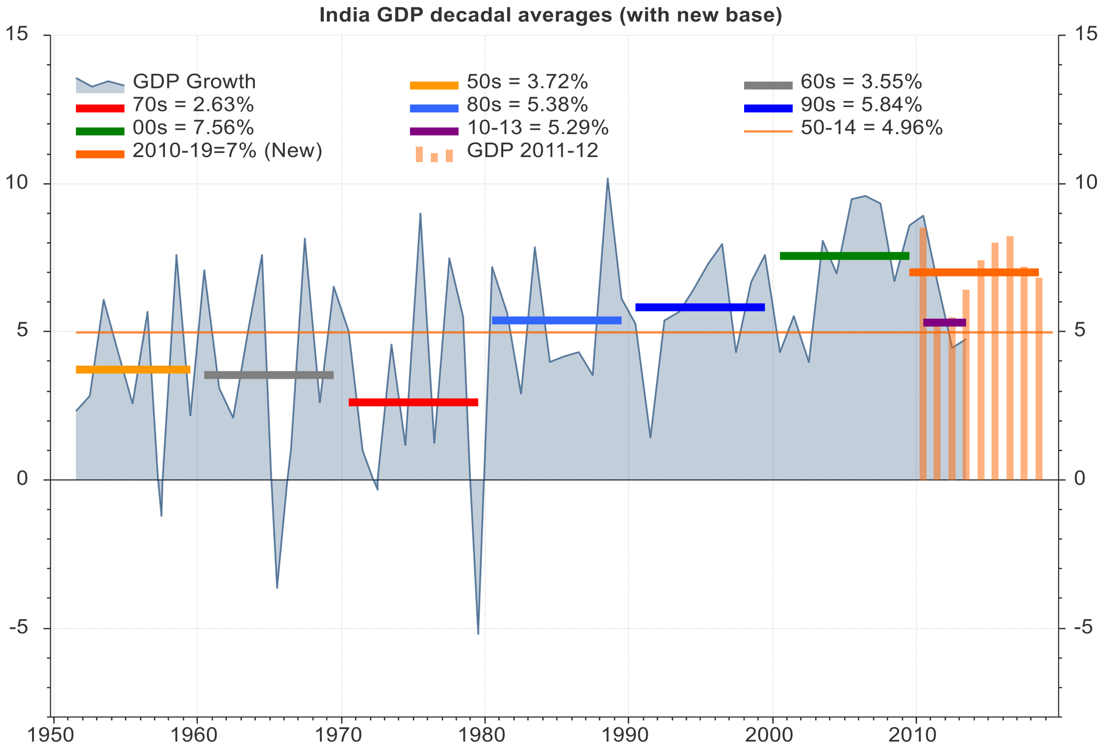
Source: Refinitiv Datastream, NSE

Figure 11: Nominal vs. real GDP and GVA growth Low inflation ha meant that there is minimal gap between growth at the real and nominal levels, roughly the same across output and expenditure.



Source: Refinitiv Datastream, NSE

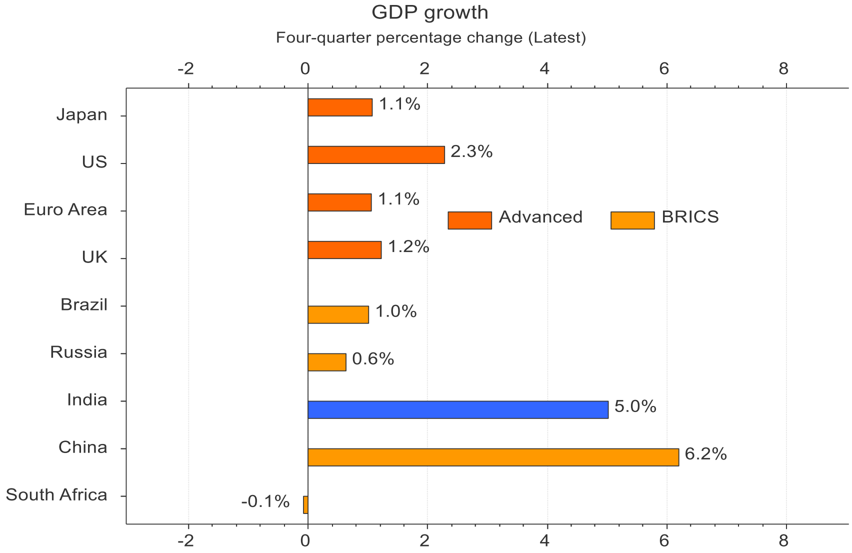
Figure 12: The long-term India growth story



Source: Refinitiv Datastream, NSE

From a long-term perspective, India's GDP growth has seen a steady change over the 70 years. The chart above depicts average decadal growth since the 1950s till present day. A number of observations can be made: National income growth remained around the 3% figure in the 50s and 60s, the so-called Hindu rate of growth, but annual growth remained volatile. The 70s saw growth dip to around 2.6%, thanks to the war, and two oil crises. Growth began to pick up again in the 80s, and accelerated in the 2000s, reaching 7.56% over 2000-09, thanks to liberalisation policies of the 90s, and a supportive global environment. The Global Financial Crisis (GFC) saw a sharp drop in growth (5.3% in the old base), but a resilient, largely domestic economy recovered soon enough, and growth has averaged 7% since 2010 (New base of 2011-12), despite the recent slowdown that has now stretched for four years.

Figure 13: India growth vs. major economies in the world



Source: Refinitiv Datastream, NSE

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