

## Q3FY20 GDP: Investments drag GDP growth to a 27-quarter low

India's third quarter GDP growth fell to a 27-quarter low of 4.7%, in-line with market expectations. Investment has remained the biggest drag for yet another quarter, with Gross Fixed Capital Formation falling by a decadal low of 5.2% YoY, marking the second consecutive quarter of an YoY contraction. Muted domestic and global demand, weak business confidence, low capacity utilisation and tight financial conditions continue to weigh on domestic economic activity. Private consumption growth has improved sequentially to 5.9%, even as a sharp 11.2% drop in imports points to a weak demand environment. Government spending has been the only saviour for yet another quarter, rising by a strong 11.8% YoY. At a sector level, industrial sector growth fell sharply to the lowest level in the series, while growth in agriculture and services sectors saw a modest improvement.

In addition to Q3FY20 GDP data release, GDP growth for Q1 (4.5% to 5.1%) and Q2FY20 (5.0% to 5.6%) have been significantly revised upwards. Nevertheless, the 2<sup>nd</sup> Advance Est. for FY20 has been retained at 5.0%, signalling a worsened macroeconomic environment. This may in fact get further downgraded amid a bleak global growth outlook in the wake of Corona virus scare, notwithstanding a sustained weak domestic activity. GDP growth in FY21 is likely to find some support from a favourable base, even as a tangible recovery still looks a few quarters away. On the positive side, liquidity easing steps taken by the RBI and fiscal push by the Government bode well for economic growth. With inflation expected to normalise over the next few months, we expect the RBI to resume monetary easing sooner rather than later. We expect another 25-50bps cut, *ceteris paribus*.

- **Investments drag GDP growth to a 27-quarter low of 4.7% in Q3FY20:** Third quarter GDP growth fell to 27-quarter low of 4.7%, in-line with Consensus estimate of 4.6%, but much lower than the upwardly revised growth of 5.1% (vs. 4.5% earlier) in Q2FY20 and 5.6% (vs. 5.0% earlier) in Q1FY20. A sharp deceleration in investment growth has more than offset a modest recovery in private consumption. The Gross Value Added (GVA) growth also dropped to 4.5% in Q3FY20 (vs. 4.8% in Q2FY20—revised upwards from 4.3%), largely led by a sharp fall in the industrial sector growth, even as services and agriculture growth remained broadly steady.
- **Government spending the only saviour:** The Q3FY20 GDP growth was severely dragged down by lacklustre investment, with GFCF (Gross Fixed Capital Formation) growing at a decadal low of 5.2% in Q3FY20, marking the second consecutive quarter of an YoY contraction (-4.1% in Q2FY20). This is largely a consequence of muted demand environment, weak business confidence, low capacity utilisation and tight financial conditions. Private consumption, however, has seen a modest improvement, rising by 5.9% in Q3FY20, supported by festival-led demand, even as a sharp 11.2% drop in imports points to a sustained weak demand environment. Exports also fell by 5.5% YoY—the steepest decline in four years, signalling weak global demand. Government spending has remained the mainstay for yet another quarter, with GFCE (Govt. Final Consumption Expenditure) growing at a robust 11.8% in Q3FY20, excluding which GDP growth would work out to be much lower 3.9%.
- **Sector-wise, Industry remains a drag for yet another quarter:** Among the sectors, agriculture sector growth remained broadly steady at 3.5% in Q3FY20, and is expected to pick-up further in Q4, supported by a low base, good monsoon and elevated reservoir levels. Further, industrial growth fell to 0.1% in Q3FY20—the lowest in the new series, led by manufacturing and construction. Growth in the mining sector picked up to 3.2% following a lull period, manufacturing sector growth at -0.2% remained in the negative for second quarter in a row, reflecting weak consumption and investment demand in the economy, electricity sector growth fell to series-low of -0.7% and construction registered a modest 0.3% growth. Services sector remained the only silver lining for yet another quarter, growing at 7.4% in Q3FY20, largely supported by strong Government spending (Community, Social & Personal Services), excluding which GVA growth was 3.7%.
- **Road to recovery remains long and hazy:** The sharp upward revisions to Q1FY20/Q2FY20 growth rates have largely come on the back of downward revisions in the year-ago periods. Despite this, the Second Advance estimate for FY20 has been retained at 5%, clearly signalling a worsened macro-economic environment. The implied GDP growth of 4.7% for the last quarter faces downside risks amid weakening global growth outlook in the wake of Corona virus scare, notwithstanding a sustained weak domestic activity. GDP growth in FY21 is likely to find some support from a favourable base, even as a tangible recovery still looks some quarters away. On the positive side, liquidity easing measures taken by the RBI and fiscal push by the Government (corporate

tax cuts and higher infrastructure spending) bode well for economic growth. With output gap expected to remain negative in the foreseeable future and inflation expected to normalise over the next few months (declining crude prices to benefit), RBI is expected to resume monetary easing sooner rather than later. We expect another 25-50bps cut in policy rates in the current cycle, *ceteris paribus*.

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

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Implied Q4FY20
<b>Gross Domestic Product (GDP)</b>	<b>7.1</b>	<b>6.2</b>	<b>5.6</b>	<b>5.7</b>	<b>5.6</b>	<b>5.1</b>	<b>4.7</b>	<b>4.7</b>
Private Consumption (PFCE)	6.7	8.8	7.0	6.2	5.0	5.6	5.9	4.9
Government Consumption (GFCE)	8.5	10.8	7.0	14.4	8.8	13.2	11.8	4.9
Gross Capital Formation (GCF)	10.8	11.4	11.5	4.2	4.8	-3.3	-4.5	2.9
Gross Fixed Capital Formation (GFCF)	12.9	11.5	11.4	4.4	4.3	-4.1	-5.2	2.5
Net trade	-10.8	65.6	-18.7	-58.5	-4.1	-46.0	-51.7	-5.4
Exports	9.5	12.5	15.8	11.6	3.2	-2.1	-5.5	-2.8
Imports	5.9	18.7	10.0	0.8	2.1	-9.3	-11.2	-3.0
<b>Gross Value Added (GVA)</b>	<b>6.9</b>	<b>6.1</b>	<b>5.6</b>	<b>5.6</b>	<b>5.4</b>	<b>4.8</b>	<b>4.5</b>	<b>5.0</b>
<b>Agriculture</b>	<b>3.8</b>	<b>2.5</b>	<b>2.0</b>	<b>1.6</b>	<b>2.8</b>	<b>3.1</b>	<b>3.5</b>	<b>5.0</b>
<b>Industry</b>	<b>7.5</b>	<b>4.8</b>	<b>5.0</b>	<b>2.6</b>	<b>3.8</b>	<b>0.8</b>	<b>0.1</b>	<b>2.6</b>
Mining and Quarrying	-7.3	-7.0	-4.4	-4.8	4.7	0.2	3.2	2.6
Manufacturing	10.7	5.6	5.2	2.1	2.2	-0.4	-0.2	1.8
Electricity	7.9	9.9	9.5	5.5	8.8	3.9	-0.7	6.5
Construction	6.4	5.2	6.6	6.0	5.5	2.9	0.3	3.2
<b>Services</b>	<b>7.4</b>	<b>7.4</b>	<b>7.4</b>	<b>8.7</b>	<b>6.9</b>	<b>7.3</b>	<b>7.4</b>	<b>6.5</b>
Trade, Hotels, Transport, Storage, Comm.	8.5	7.8	7.8	6.9	5.7	5.8	5.9	5.1
Fin. Svcs, Real Estate & Business Svcs.	6.0	6.5	6.5	8.7	6.9	7.1	7.3	8.0
Community, Social & Personal Svcs.	8.8	8.9	8.1	11.6	8.7	10.1	9.7	6.7

Source: CSO, NSE

**Figure 2: Revisions to Q1FY20 and Q2FY20 growth figures**

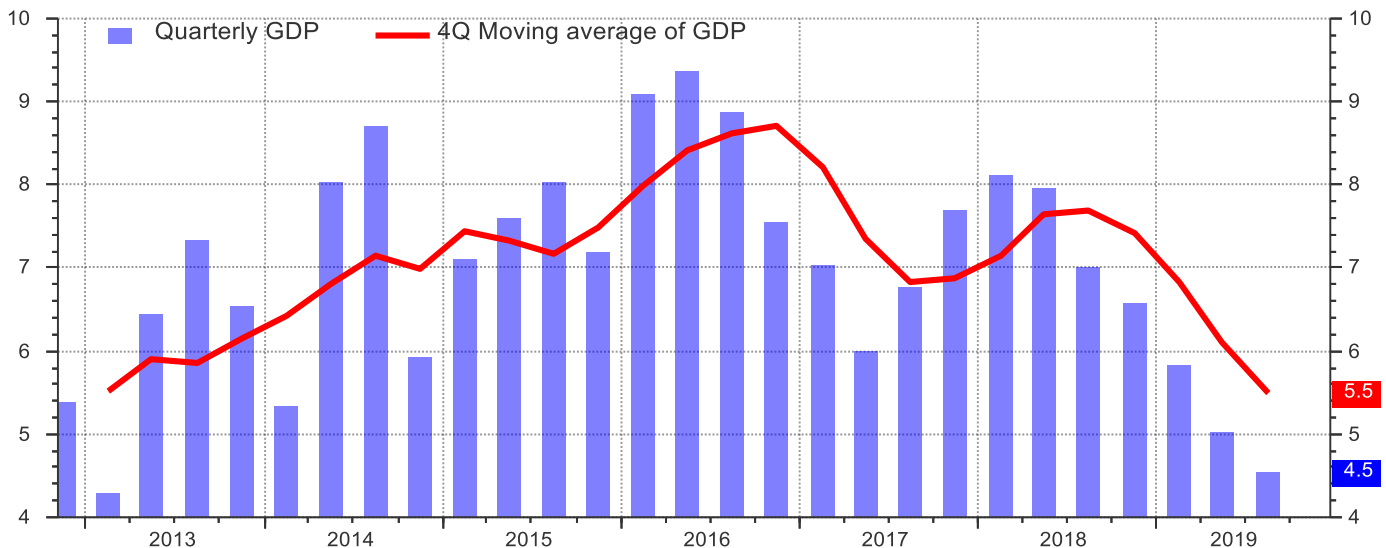
% YoY	Q1FY20		Q2FY20	
	Old	New	Old	New
<b>Gross Domestic Product (GDP)</b>	<b>5.0</b>	<b>5.6</b>	<b>4.5</b>	<b>5.1</b>
Private Consumption (PFCE)	3.1	5.0	5.1	5.6
Government Consumption (GFCE)	8.8	8.8	15.6	13.2
Gross Capital Formation (GCF)	3.7	4.8	0.5	-3.3
Gross Fixed Capital Formation (GFCF)	4.0	4.3	1.0	-4.1
Net trade	-1.9	-4.1	-31.2	-46.0
Exports	5.7	3.2	-0.4	-2.1
Imports	4.2	2.1	-6.9	-9.3
<b>Gross Value Added (GVA)</b>	<b>4.9</b>	<b>5.4</b>	<b>4.3</b>	<b>4.8</b>
<b>Agriculture</b>	<b>2.0</b>	<b>2.8</b>	<b>2.1</b>	<b>3.1</b>
<b>Industry</b>	<b>2.7</b>	<b>3.8</b>	<b>0.5</b>	<b>0.8</b>
Mining and Quarrying	2.7	4.7	0.1	0.2
Manufacturing	0.6	2.2	-1.0	-0.4
Electricity	8.6	8.8	3.6	3.9
Construction	5.7	5.5	3.3	2.9
<b>Services</b>	<b>6.9</b>	<b>6.9</b>	<b>6.8</b>	<b>7.3</b>
Trade, Hotels, Transport, Storage, Comm.	7.1	5.7	4.8	5.8
Fin. Svcs, Real Estate & Business Svcs.	5.9	6.9	5.8	7.1
Community, Social & Personal Svcs.	8.5	8.7	11.6	10.1

Source: CSO, NSE

**Figure 3: Annual growth trend (% YoY)**

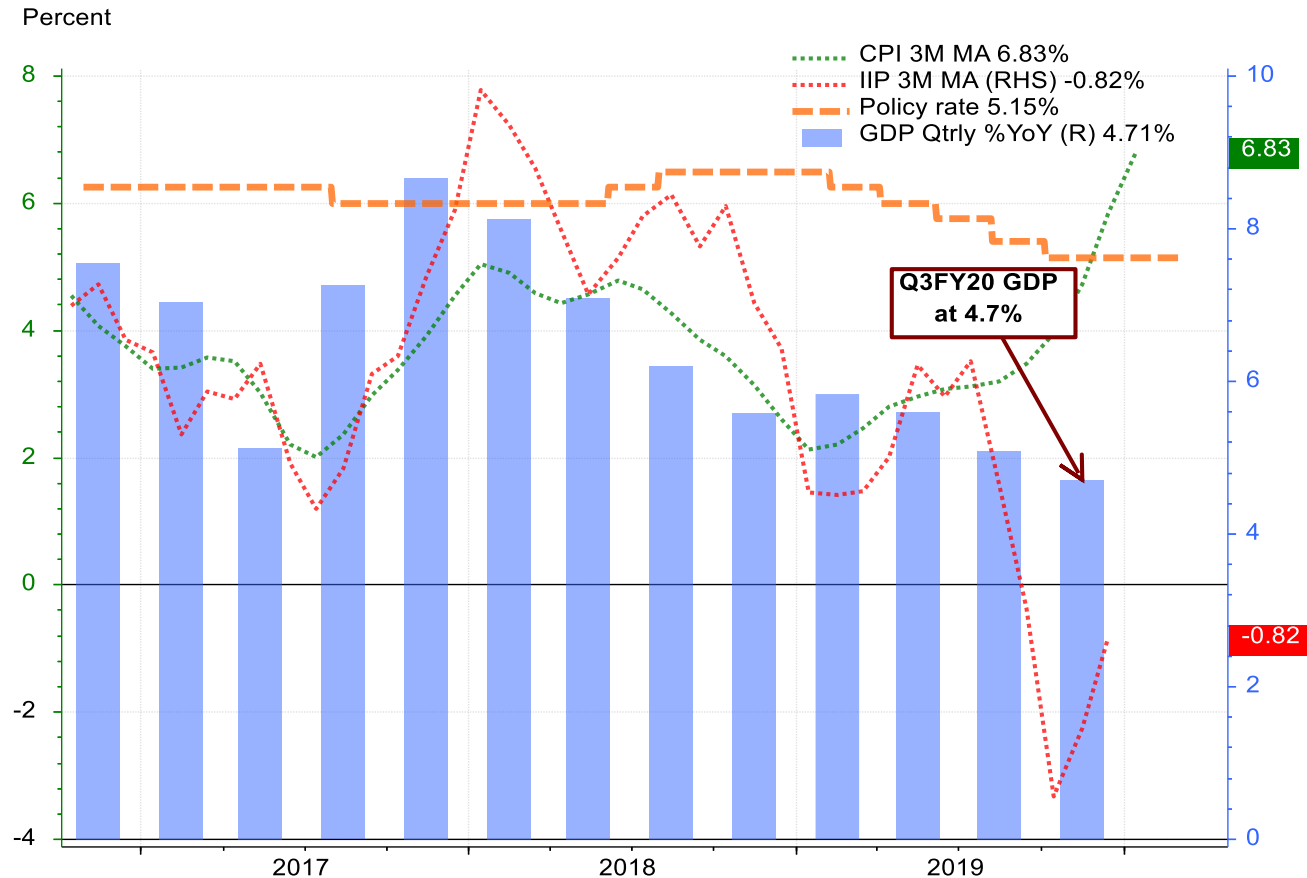
	FY16	FY17	FY18	FY19	FY20AE*
<b>Gross Domestic Product (GDP)</b>	<b>8.0</b>	<b>8.3</b>	<b>7.0</b>	<b>6.1</b>	<b>5.0</b>
Private Consumption (PFCE)	7.9	8.1	7.0	7.2	5.3
Government Consumption (GFCE)	7.5	6.1	11.8	10.1	9.8
Gross Capital Formation (GCF)	4.7	3.6	10.4	9.3	0.0
Gross Fixed Capital Formation (GFCF)	6.5	8.5	7.2	9.8	-0.6
Net trade	-9.1	-5.7	257.7	-11.8	-30.2
Exports	-5.6	5.0	4.6	12.3	-1.9
Imports	-5.9	4.4	17.4	8.6	-5.5
<b>Gross Value Added (GVA)</b>	<b>8.0</b>	<b>8.0</b>	<b>6.6</b>	<b>6.0</b>	<b>4.9</b>
<b>Agriculture</b>	<b>0.6</b>	<b>6.8</b>	<b>5.9</b>	<b>2.4</b>	<b>3.7</b>
<b>Industry</b>	<b>9.6</b>	<b>7.7</b>	<b>6.3</b>	<b>4.9</b>	<b>1.8</b>
Mining and Quarrying	10.1	9.8	4.9	-5.8	2.8
Manufacturing	13.1	7.9	6.6	5.7	0.9
Electricity	4.7	10.0	11.2	8.2	4.6
Construction	3.6	5.9	5.0	6.1	3.0
<b>Services</b>	<b>9.4</b>	<b>8.5</b>	<b>6.9</b>	<b>7.7</b>	<b>7.0</b>
Trade, Hotels, Transport, Storage, Comm.	10.2	7.7	7.6	7.7	5.6
Fin. Svcs, Real Estate & Business Svcs.	10.7	8.6	4.7	6.8	7.3
Community, Social & Personal Svcs.	6.1	9.3	9.9	9.4	8.8

Source: CSO, NSE. \* Second Advance Estimate

**Figure 4: India quarterly GDP growth falls to a 27-quarter low (%):** GDP growth at 4.7% in Q3FY20 is the weakest in last 27 quarters. Adjusted for seasonal effects, the 4QMA growth is firmly trending lower to 5.5% now.


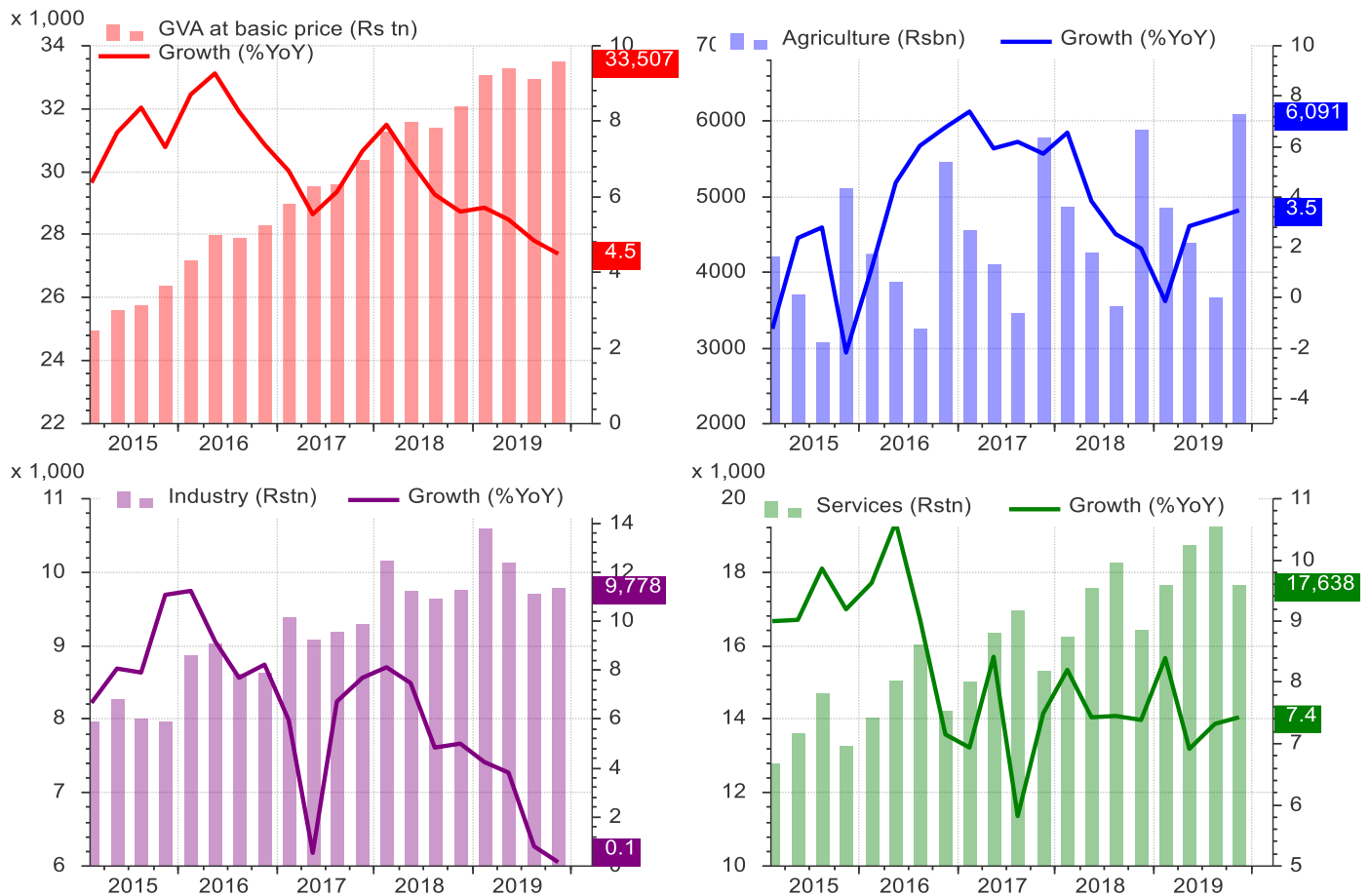
Source: Refinitiv Datastream, NSE

**Figure 5: Macro indicators in a snapshot:** The Central Bank's 135bps cut in policy rates last year has translated into 69bps cut in weighted average lending rates (WALR) for fresh loans and a mere 13bps for outstanding loans. While inflation has picked over the last few months, it has been largely on account of food inflation (vegetables) even as core inflation has remained fairly benign, barring a few items (telecom tariff hikes), reflecting weak demand conditions. In fact, headline inflation is expected to normalise over the next few months, thereby creating room for additional 25-50bps cut in policy rates, further supported by a worsened domestic and global macroeconomic environment.



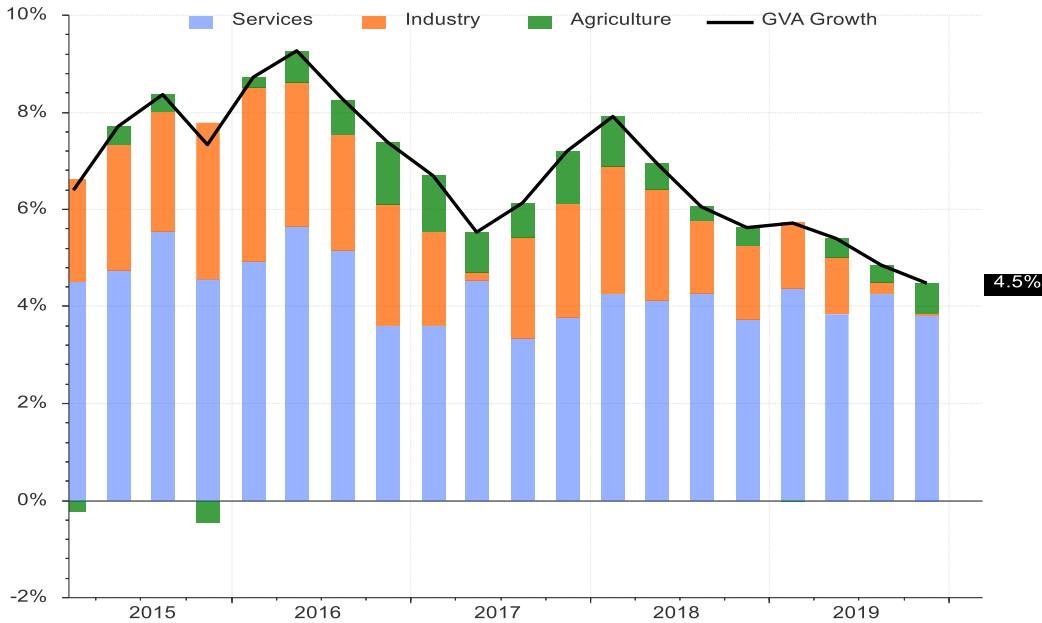
Source: Refinitiv Datastream, NSE

**Figure 6: Gross value added (GVA) across sectors:** While GVA growth for Agriculture and Services sectors remained broadly steady on a sequential basis, Industry sector growth has come off sharply to a mere 0.1% in Q3FY20—the lowest in the new series (base year 2011-12). This has been largely on account of a sharp deceleration in growth in manufacturing, electricity and construction sectors, partly offset by a modest recovery in the mining sector growth. The lacklustre industrial activity is also reflected in several high frequency indicators such as industrial production, eight-core sector growth and manufacturing PMI, amongst others.



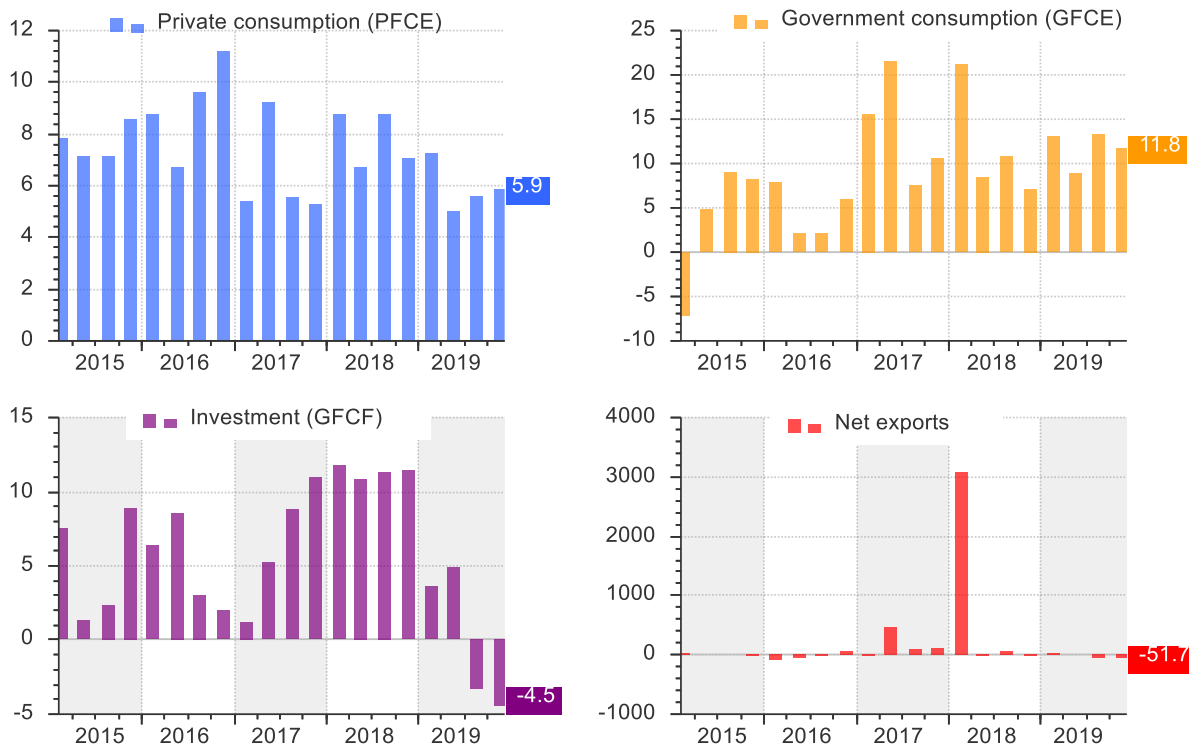
Source: Refinitiv Datastream, NSE

**Figure 7: India GVA sector share of growth (%):** The Industry sector’s contribution to overall GVA growth has also come off sharply from 37% in FY16 to six-year low of 21.8% in FY20AE. For Q3FY20, the contribution of industrial sector to overall GVA growth is a mere 1%—the lowest in the series, even as it’s share in GVA is 29.2%.

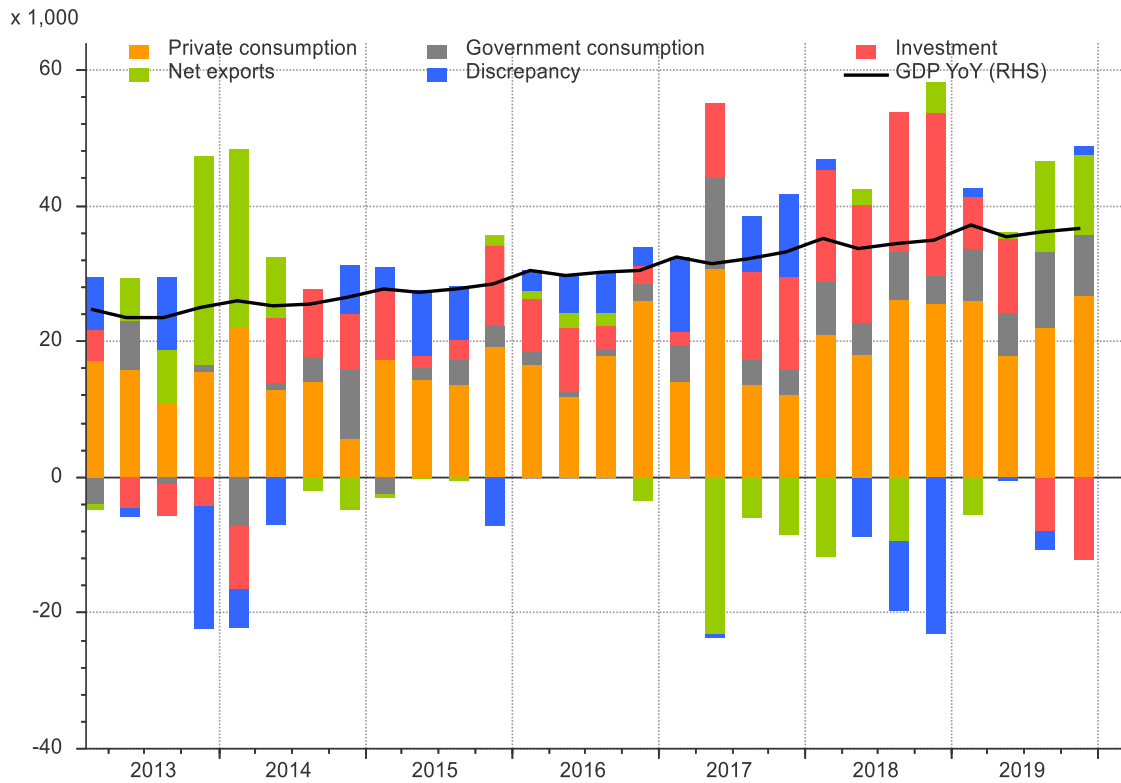


Source: Refinitiv Datastream, NSE

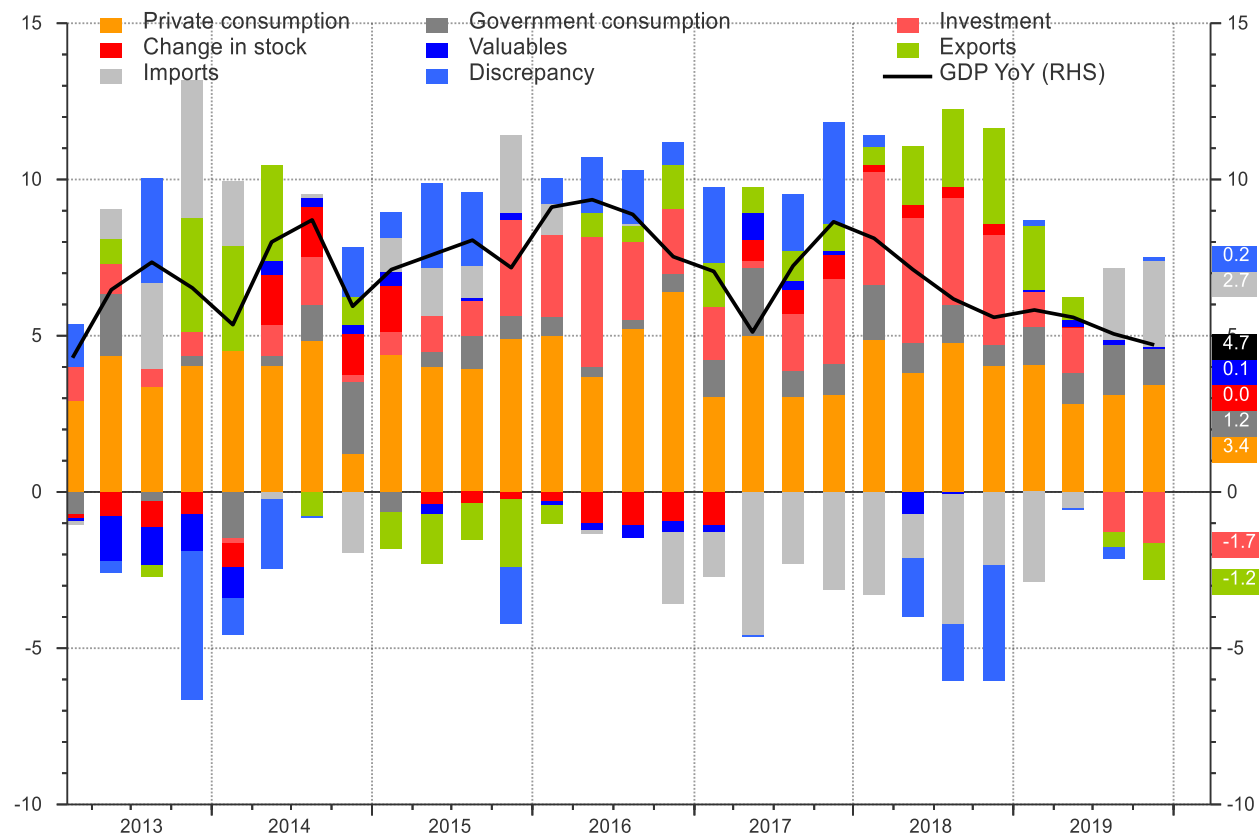
**Figure 8: GDP sector quarterly growth (%YoY):** Consumption—the mainstay of Indian economy—has seen some improvement in the December quarter. While growth in private consumption improved to 5.9% in Q3FY20, Government consumption growth remained robust for yet another quarter at 11.8%. Investments (Gross Fixed Capital Formation) grew at a decadal low of 5.2% in Q3FY20, marking the 2<sup>nd</sup> consecutive quarter of an YoY contraction—a consequence of muted demand environment, weak business confidence, low capacity utilisation and tight financial conditions.



Source: Refinitiv Datastream, NSE

**Figure 9: GDP sector quarterly contribution (%GDP)**


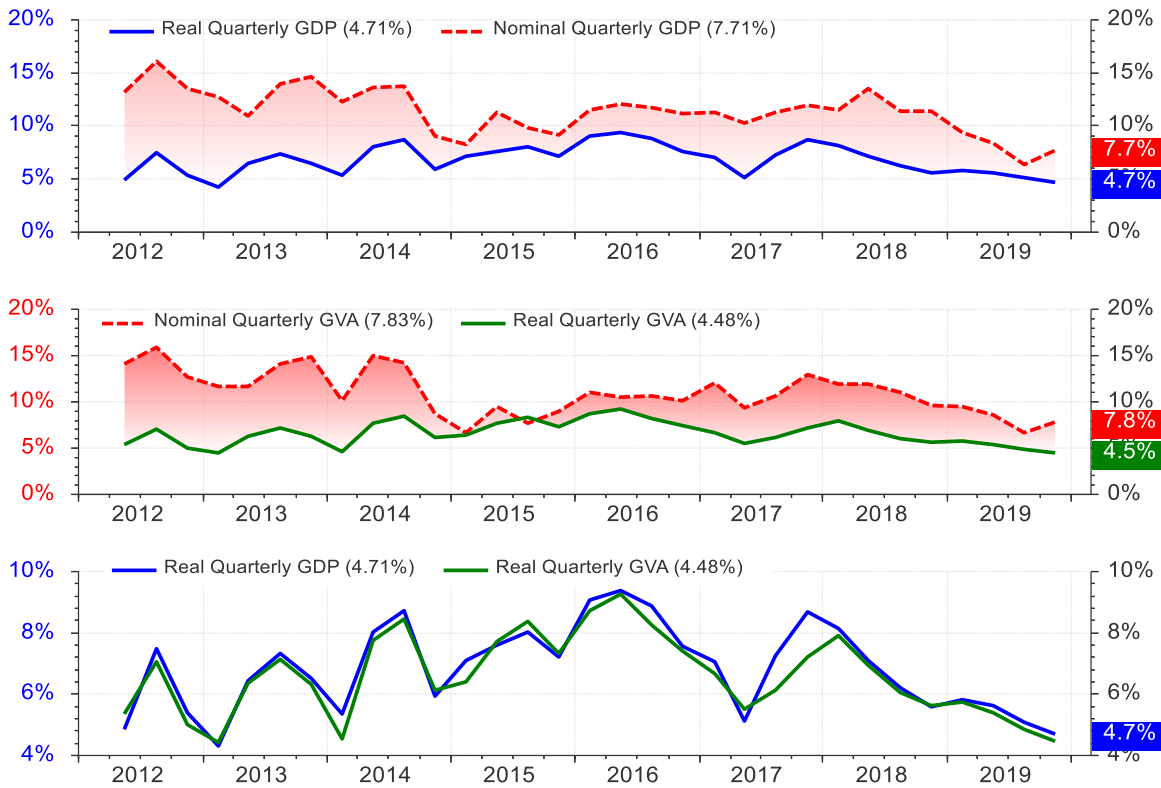
Source: Refinitiv Datastream, NSE

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


Source: Refinitiv Datastream, NSE

**Figure 11: Nominal vs. real GDP and GVA growth:** Gap between real and nominal GDP growth increased in Q3FY20, roughly the same across output and expenditure, thanks to a spike in inflation over the last few months.

### India GDP, GVA: Nominal and Real Growth



Source: Refinitiv Datastream, NSE



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