

Q4FY19 GDP disappoints: Growth down to 5.8%

India's 4th quarter GDP disappointed weak expectations, rising 5.8%YoY (Vs. 6.3% est.¹), underlining the weak undercurrent running in the economy, over the last four quarters now. Overall growth at 6.8% is the weakest since FY14, marking five years of a sustained downtrend. Consumption, the mainstay of economic growth slipped further to 7.3% in Q4, with the overall growth buoyed by public spending of 13.1%. At a sector level, Agri growth continued to drag (-0.1%)—another sign of rural stress, Industry remained weak (4.2%)—weighed down by Manufacturing and Mining, with Services providing the only silver lining in an otherwise overcast macro firmament. Is this bottom of the cycle, or would the slowdown continue for a few more quarters? The RBI is likely to have its hands full on June 6th, balancing growth and potentially rising inflation. We expect a pause this time (uncertainty over the summer monsoon), but expect an incremental 50bps cut through the year.

- **GDP growth disappoints even weak expectations:** Fourth quarter GDP growth disappointed at 5.8% (vs. 6.6% in Q3FY19 and 8.1% in Q4FY18) – the lowest in 20 quarters – as the sustained drop in domestic consumption, muted private investments and tight financial conditions continued the downtrend in India's GDP growth. The Gross Value Added (GVA) growth also dropped to sub-6% level at 5.7% in Q4FY19 (vs. 6.3% in Q3FY19 and 7.9% in Q4FY18). With this lower GDP print, India is no longer the fastest growing economy, even though it still remains in the race to become the world's third largest economy.
- **Government spending the only saviour:** The Q4 GDP growth was severely dragged down by lacklustre investments (GFCF at 3.6% in Q4 vs. 11.7% in Q3) and a continued slowdown in private consumption (7.3% in Q4 vs. 8.1% in Q3) – the lowest in five quarters. Government spending has been the mainstay this quarter, rising to a four-quarter high of 13.1% from 6.5% in the previous quarter, however, had public investments tracked the same growth in private investments, the fourth quarter GDP growth would have shaved off another 80bps to land at 5.0%.
- **Sector-wise, Services all the way:** Among the sectors, agricultural growth contracted for the first time in 13 quarters to -0.1% underlining the rural distress, and with some private agencies predicting a lower-than-normal monsoon season this year, the agricultural output could likely remain weak for the next few quarters as well. Further, industrial growth fell sharply to 4.2% in Q4 from 7% in Q3 led by underwhelming manufacturing and construction activity. Services (accounting for 53% of GVA), on the other hand, provided some relief rising 8.4% in the quarter (vs. 7.2% in Q3), as government spending rose to 10.7% (from 7.5% in Q3) and the overall financial activity also improved to 9.5% (from 7.2% in Q3) during the quarter.
- **6.8% in FY19 is the lowest in five years, but are we done yet?** The annual GDP print for FY19 recorded a five-year low of 6.8% (vs. 7.2% in FY18) and stood even lower than the downward revised print of 7.0% released in February this year. Even though private consumption and investment activity have improved slightly in FY19, weak public investments and widening trade deficit have been a major drag on the economy. Gross Value Added (GVA) growth fell to 6.6% in FY19 (vs. 6.9% in FY18) with agricultural and services activity continuing its downtrend, while industry growth witnessed a meagre rise in manufacturing output. While RBI has predicted FY20 GDP growth at 7.2%, with H1 growth in the range of 6.8-7.1% and H2 growth in the range of 7.3-7.4%, the current pace of growth may force RBI to revise its forecast in the policy meet next week.
- **RBI expected to pause, for now:** Even though the sustained slowdown in the growth trajectory would remain a central concern for RBI in its monetary policy meet on June 6, uncertainty about the summer monsoon and rising crude prices could demand a pause on rates for now. However, we do not rule out the possibility of further rate cuts, and expect 50bps cut over the rest of the fiscal. Having said that, amidst the tight financial conditions, we would expect corporate spreads to come off in-line with the RBI's easing of policy rates, easing issue of solvency, now that systemic liquidity conditions have already eased.

¹ Bloomberg Consensus Forecasts.

Figure 1: Quarterly growth trend (%YoY)

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Gross Domestic Product (GDP)	8.1	8.0	7.0	6.6	5.8
Private Consumption	8.8	7.3	9.8	8.1	7.2
Government Consumption	21.1	6.6	10.9	6.5	13.1
Gross Fixed Capital Formation	11.8	13.3	11.8	11.7	3.6
Net trade of goods and services	3,091	14.9	84.8	3.9	33.4
Gross Value Added (GVA)	7.9	7.7	6.8	6.3	5.7
Agriculture	6.5	5.1	4.2	2.8	(0.1)
Industry	8.1	9.8	6.7	7.0	4.2
Services	8.2	7.1	7.3	7.2	8.4

Source: CSO, NSE

Figure 2: Quarterly sector contribution to GDP (% GDP)

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
GDP					
Private Consumption	59.0	58.5	58.4	61.2	59.3
Government Consumption	9.8	11.9	12.4	10.2	10.4
Gross Fixed Capital Formation	28.6	29.2	28.5	30.2	27.9
Net Trade	(2.2)	(4.0)	(4.5)	(3.5)	(2.8)

Source: CSO, NSE

Figure 3: Annual growth trend (% YoY)

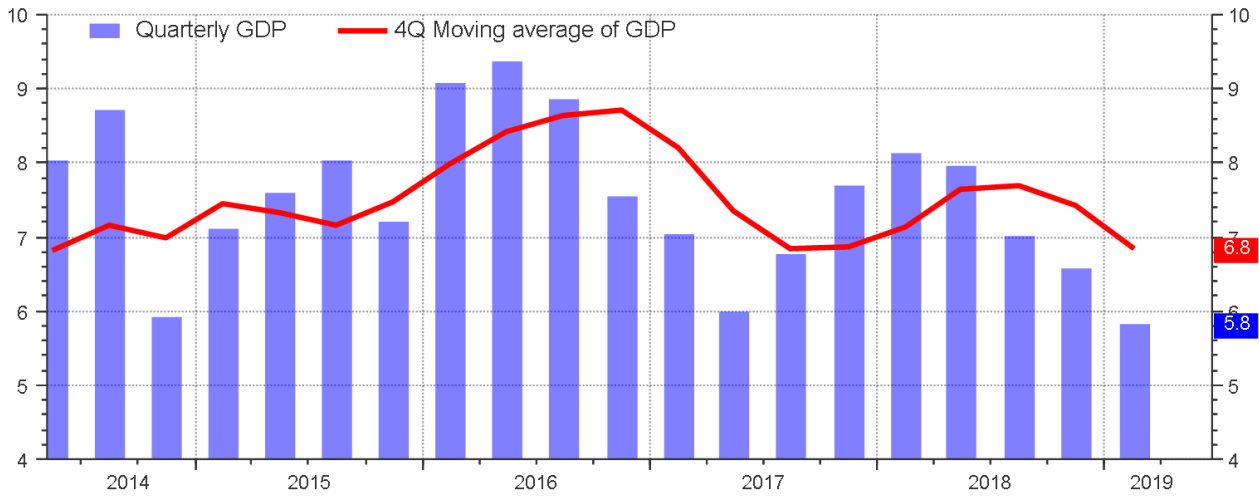
	2015-16	2016-17	2017-18	2018-19
Gross Domestic Product (GDP)	8.0	8.2	7.2	6.8
Private Consumption	7.9	8.2	7.4	8.1
Government Consumption	7.5	5.8	15.0	9.2
Gross Fixed Capital Formation	6.5	8.3	9.3	10.0
Net trade of goods and services	(9.1)	(7.2)	263.1	31.0
Gross Value Added (GVA)	8.0	7.9	6.9	6.6
Agriculture	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

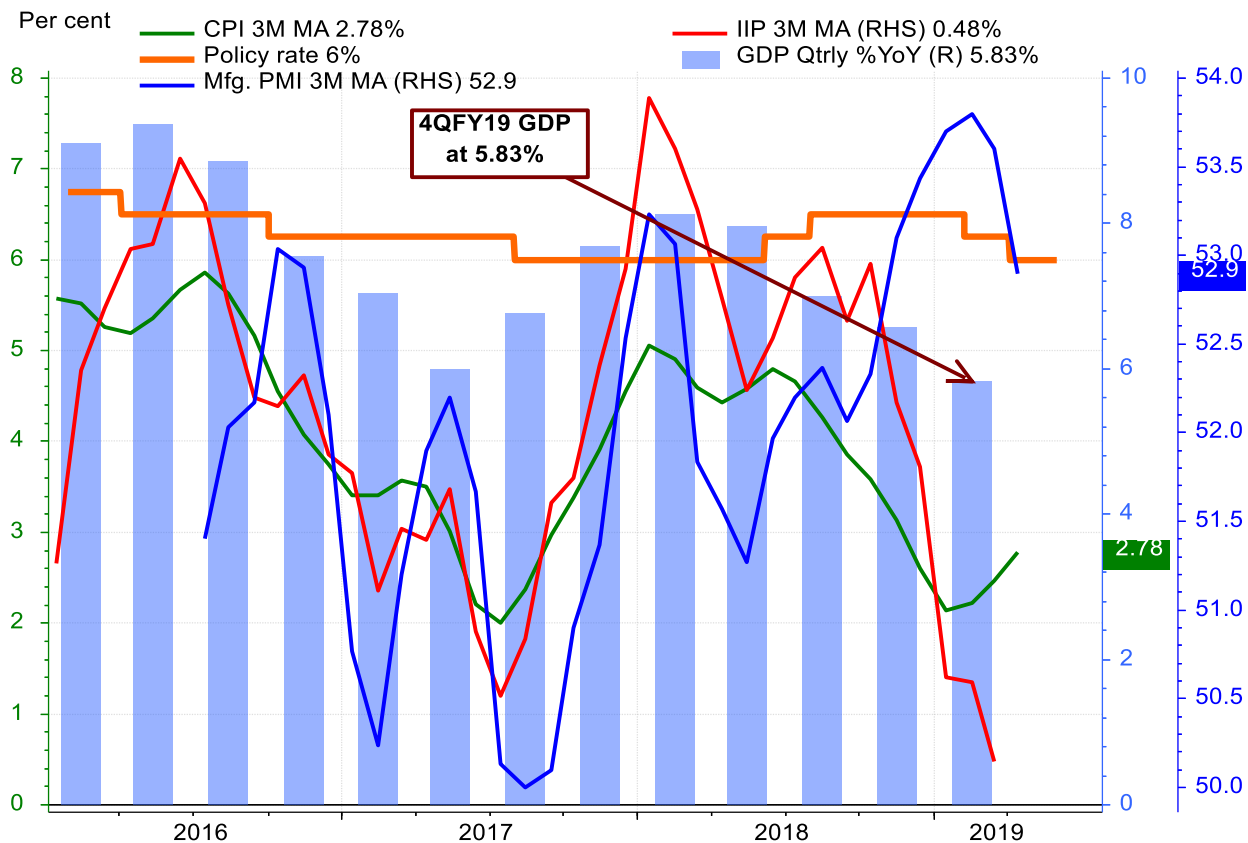
Figure 4: Annual sector contribution to GDP (% GDP)

	2015-16	2016-17	2017-18	2018-19
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)

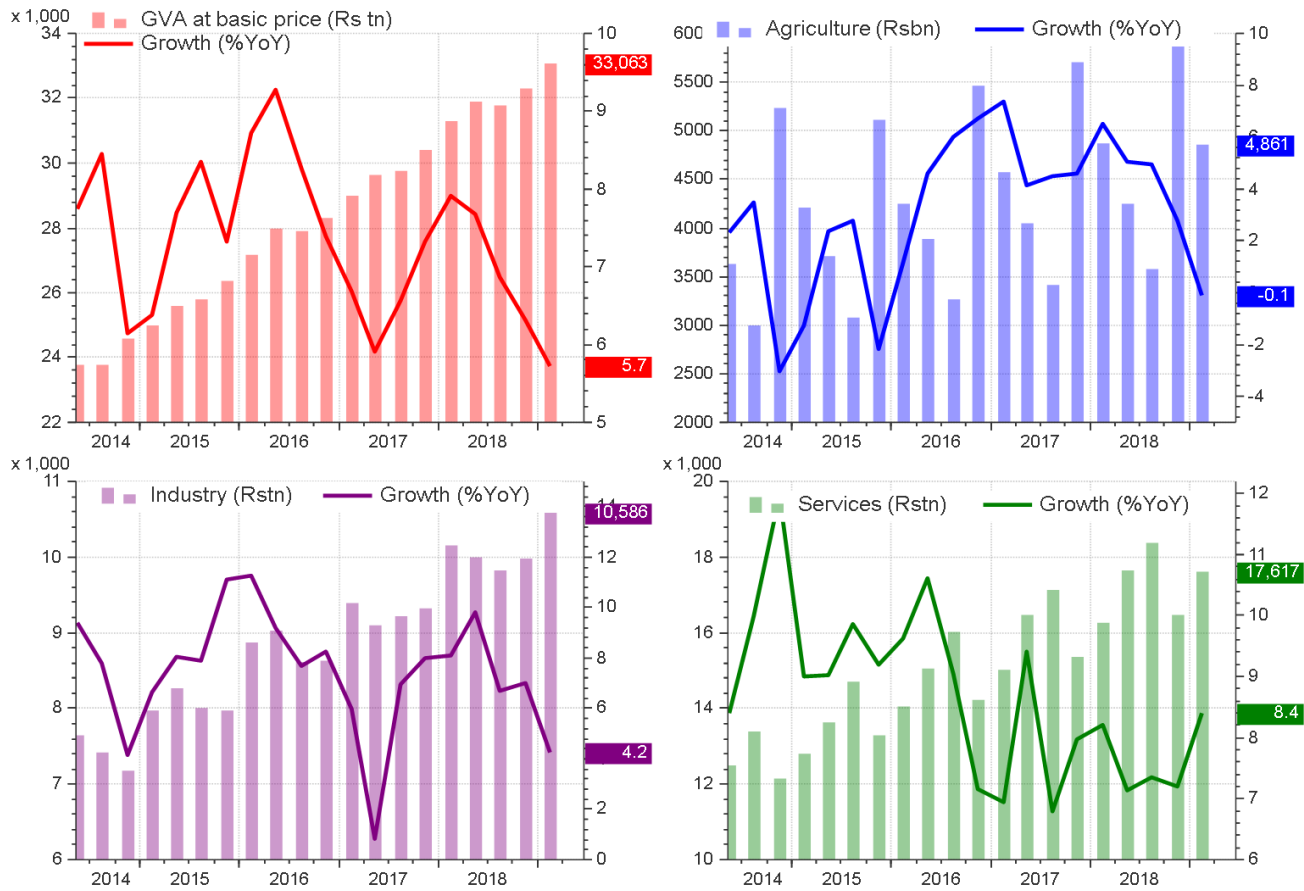
Source: CSO, NSE

Figure 5: India quarterly GDP growth on a downtrend (%)


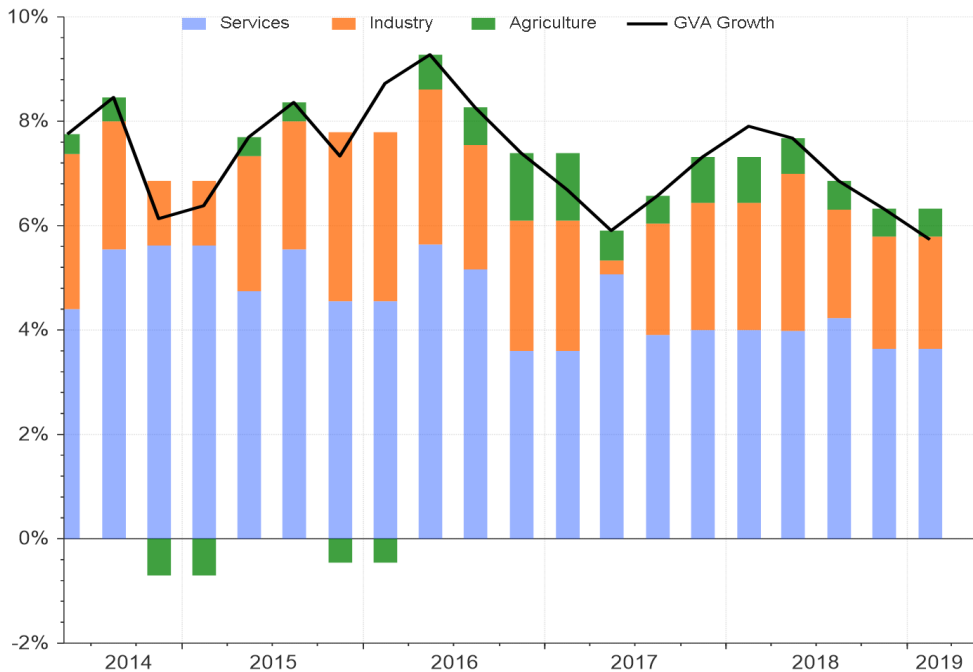
Source: Thomson Reuters Datastream, NSE

Figure 6: Macro indicators in a snapshot


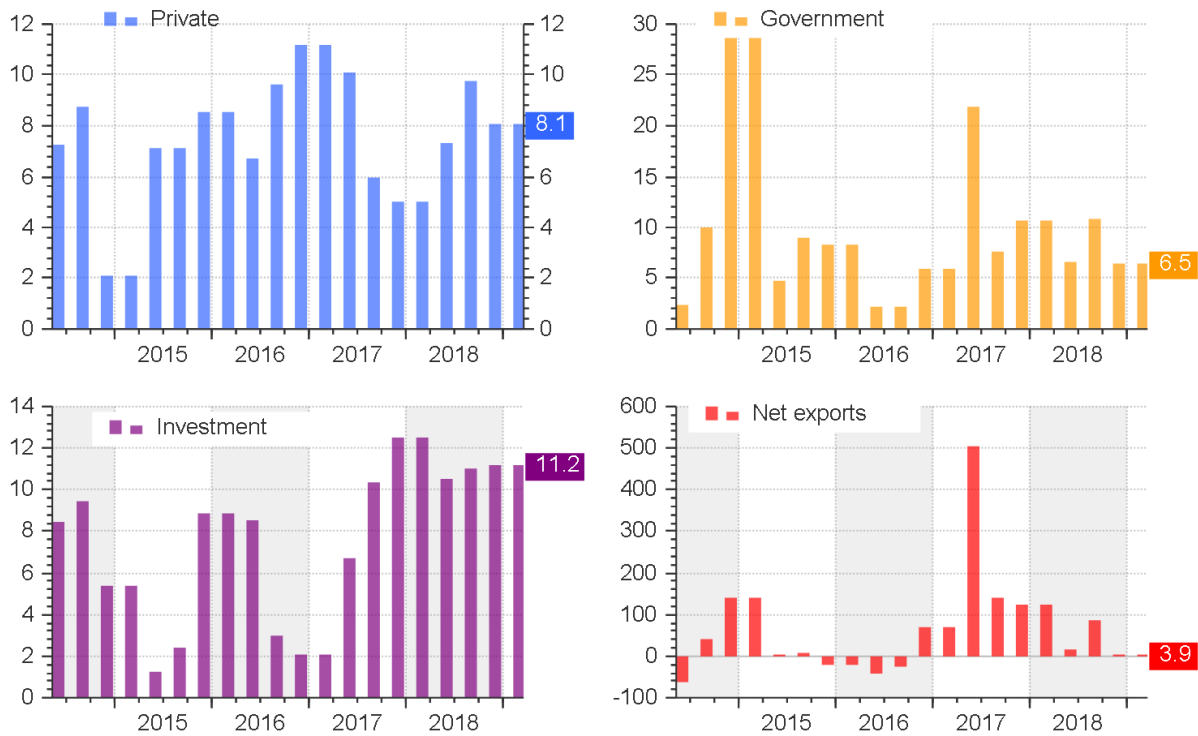
Source: Thomson Reuters Datastream, NSE

Figure 7: Gross value added (GVA) across sectors


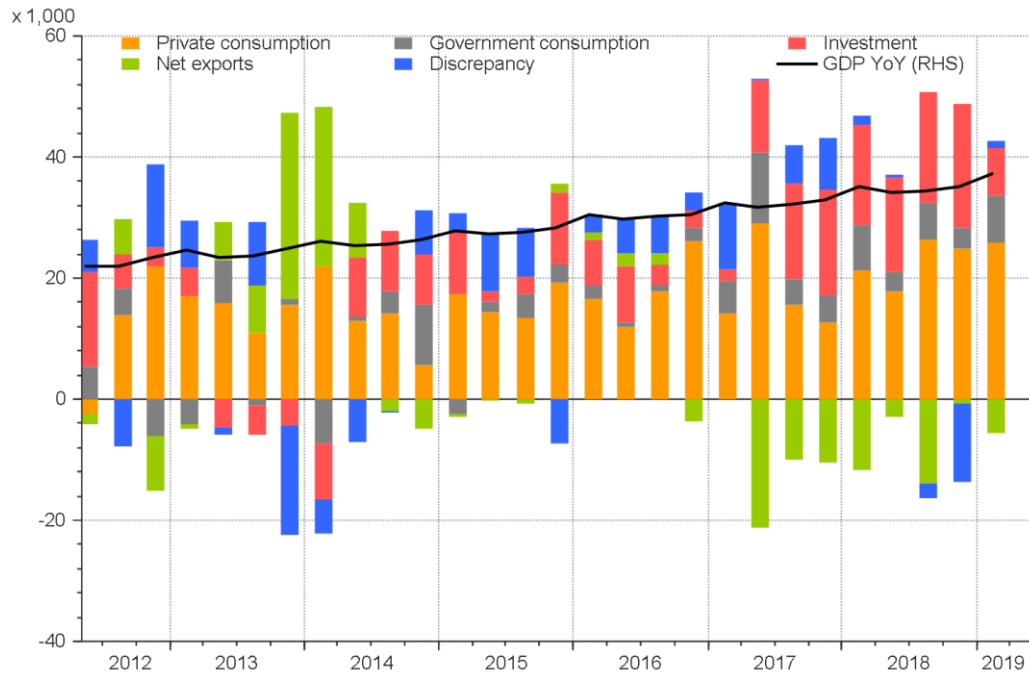
Source: Thomson Reuters Datastream, NSE

Figure 8: India GVA sector share of growth (%)


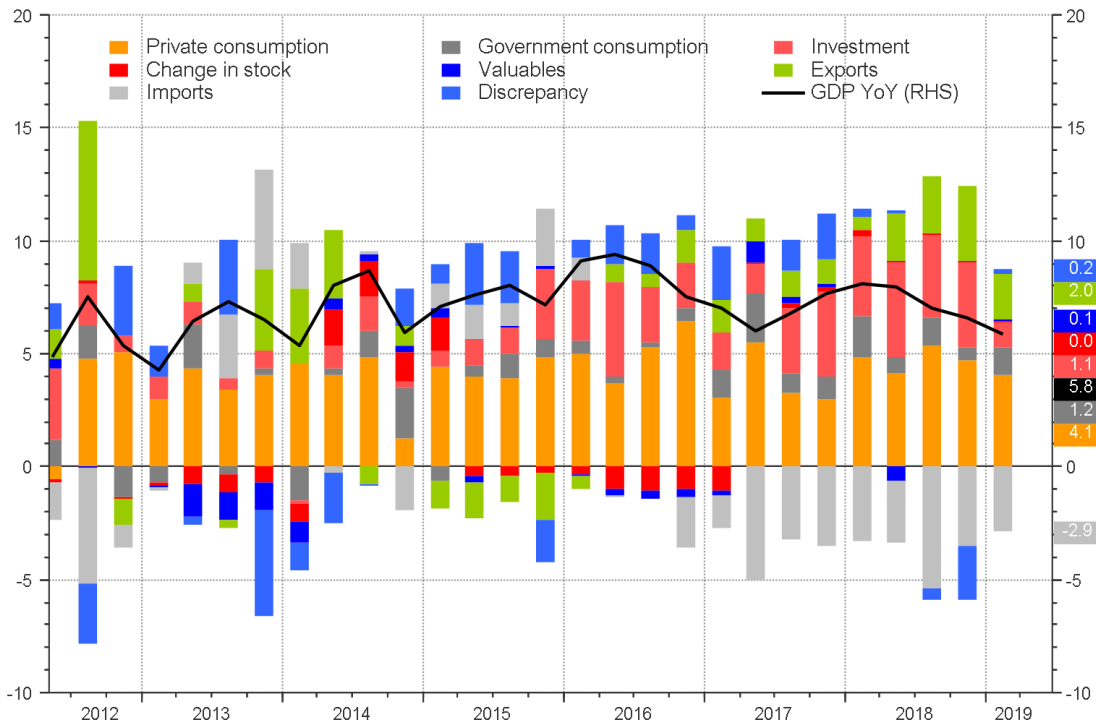
Source: Thomson Reuters Datastream, NSE

Figure 9: GDP sector quarterly growth (%YoY)


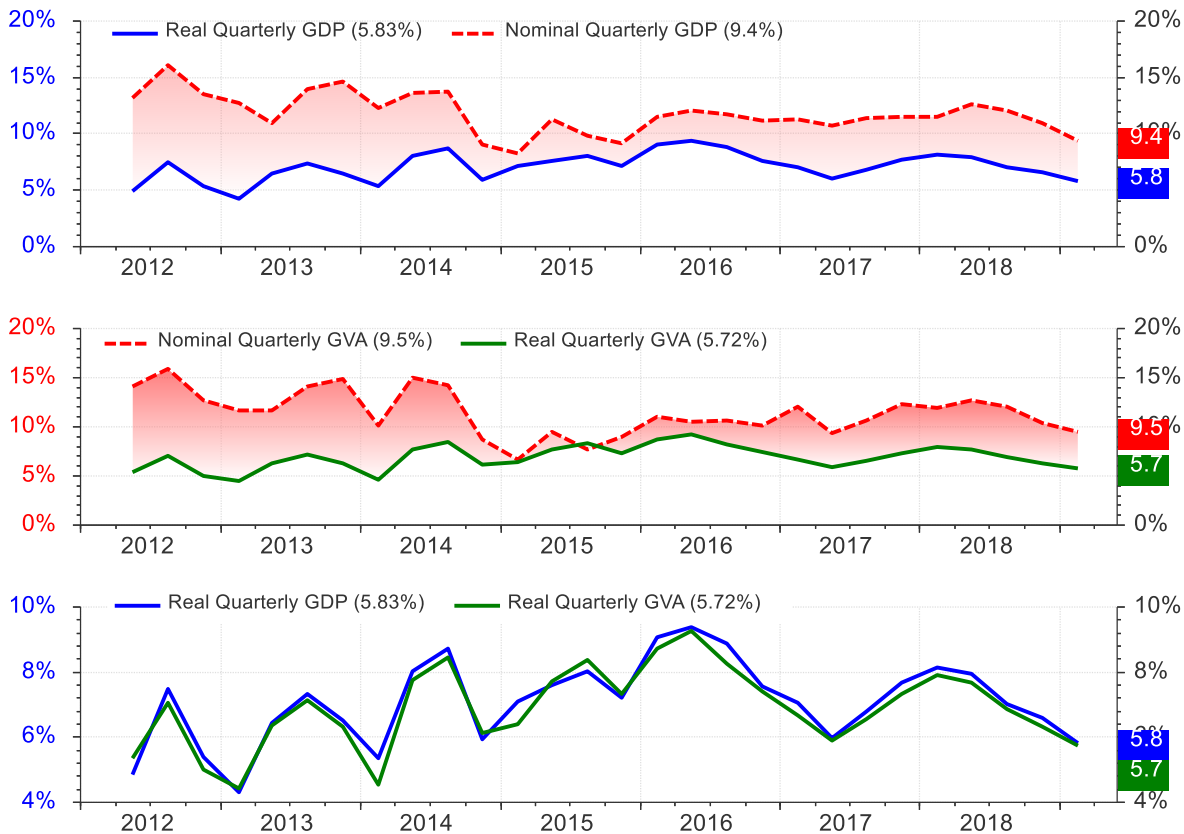
Source: Thomson Reuters Datastream, NSE

Figure 10: GDP sector quarterly contribution (%GDP)


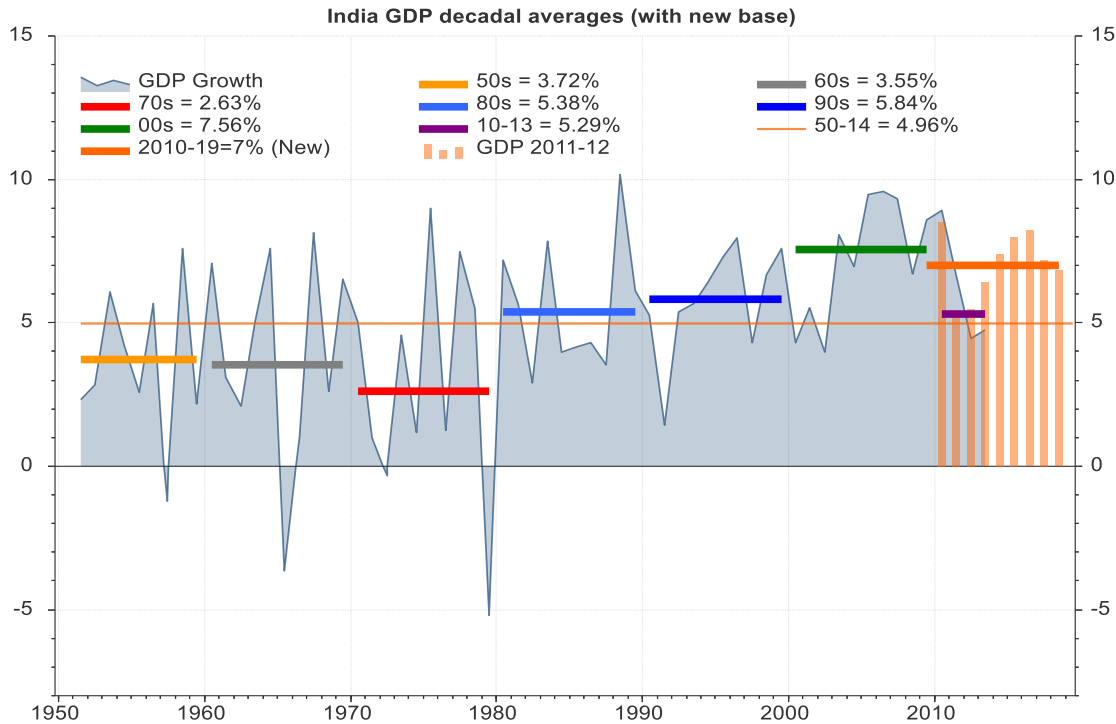
Source: Thomson Reuters Datastream, NSE

Figure 11: India GDP sector share of growth (%)


Source: Thomson Reuters Datastream, NSE

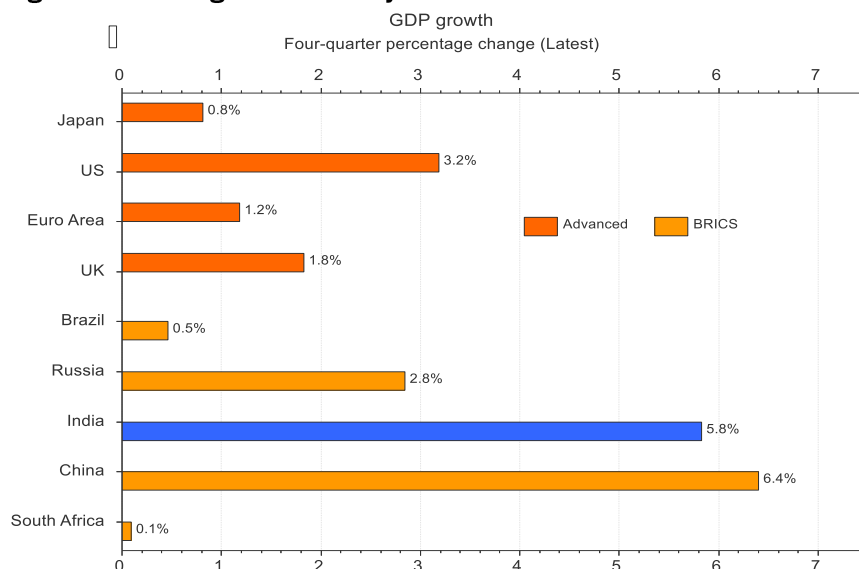
Figure 12: Nominal vs. real GDP and GVA growth
India GDP, GVA: Nominal and Real Growth


Source: Thomson Reuters Datastream, NSE

Figure 13: The long-term India growth story


Source: Thomson Reuters 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 three years.

Figure 14: India growth vs. major economies in the world


Source: Thomson Reuters Datastream, NSE

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