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Q2FY23 GDP growth at 6.3% meets expectations

India's second quarter GDP (Q2FY23) growth at 6.3% was a tad higher than our and Consensus estimate and in line with the RBI's forecast. Notwithstanding moderation in YoY growth from 13.5% in the previous quarter, the QoQ growth at 3.6% was higher than the average growth of 0.1% seen in the September quarter over the 15-year pre-COVID period, indicating resilient economic recovery. Steady private consumption and continued recovery in investments made up for lower Government expenditure and widened trade deficit in the quarter gone by. Interestingly, nearly 58% of the 6.3% GDP growth was led by Discrepancies. From the supply side, real GVA growth at 5.6% was led by a strong rebound in Services, primarily Trade, Hotels, Transport & Communication—aided by jump in discretionary spending and improved mobility, and a higher-than-expected uptick in Agriculture sector, even as Manufacturing growth surprised negatively.

Slowing global growth in the wake of rapid monetary tightening, ongoing geopolitical tensions, and China slowdown, is likely to weigh on domestic growth via the trade channel. Amidst this, recovery in domestic demand and continued pick-up in private investments are crucial for growth trajectory over the coming quarters, with the latter expected to find support from healthier balance sheets and strong capex push by the Government. On the positive side, while falling commodity prices bodes well for the Manufacturing sector, Services should benefit from pent-up discretionary demand.

- **Q2FY23 GDP growth moderated on waning base effect:** GDP growth in Q2FY23 at 6.3% moderated from an optically high growth of 13.5% in Q1, thanks to waning favourable base effect. That said, the growth was a tad higher than our and Consensus estimate and in line with the RBI's forecast. Sequentially, Q2 GDP inched up by 3.6%, higher than 0.1% average expansion observed in Q2 of every year from 2005-2019. Nominal GDP grew by a much higher 16.2%, thanks to elevated wholesale and retail inflation levels during the quarter.

GDP growth in Q2FY23 moderated to 6.3% from 13.5% in Q1, but came in a tad higher than the Consensus estimate.

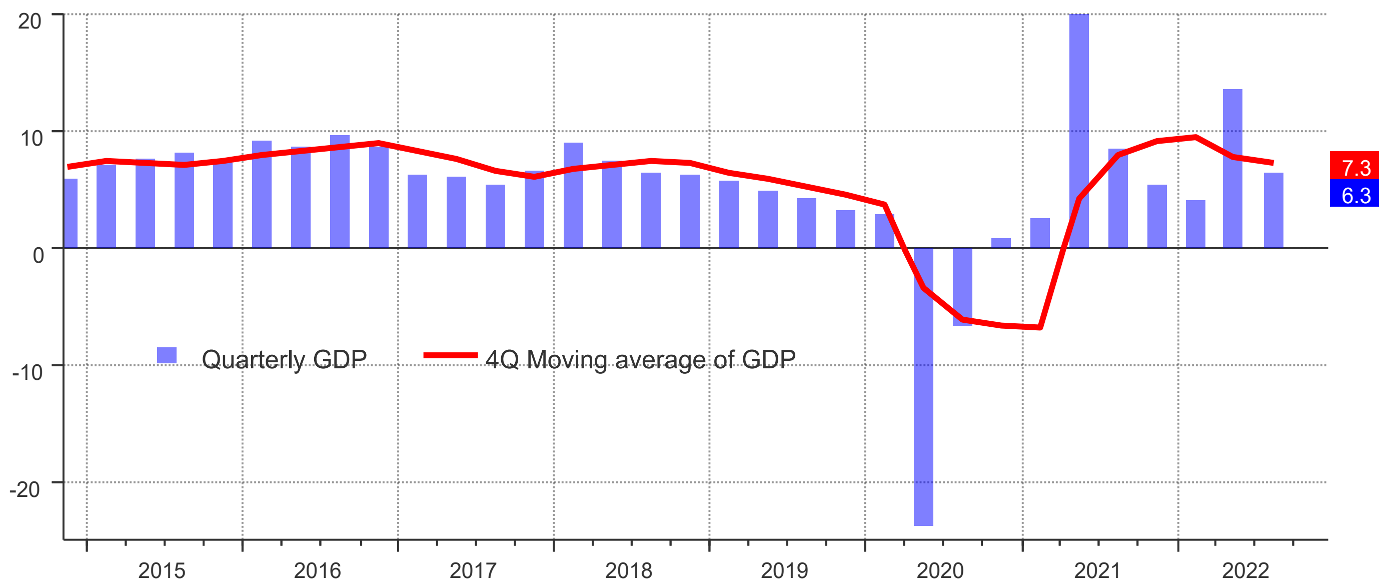
- **Steady private consumption and robust investments drove GDP sequentially higher:** GDP growth in Q2 was primarily led by a steady expansion in private consumption and strong growth in investments, partly offsetting lower Government spending and higher trade deficit. Private Fixed Consumption Expenditure (PFCE) grew by 9.7% YoY/1% QoQ, higher than 7.3% YoY growth projected in the RBI's Survey of Professional Forecasters (SPF). Gross Fixed Capital Formation (GFCF)—a barometer of investment demand in the economy, also accelerated by a higher-than-expected 10.4% YoY (RBI's SPFe: +6.5%). On the negative side, Government Final Consumption Expenditure (GFCE) fell by 4.4% YoY/18.9% QoQ. This, along with a huge 89% YoY jump in trade deficit—reflecting weaker external demand, weighed on the GDP growth. Interestingly, Discrepancies accounted for nearly 52% of the YoY GDP expansion, excluding which growth came in a much lower 3%.

A steady expansion in private consumption (PFCE) and strong growth in investments (GFCF) partly made up for lower Government spending (GFCE) and higher trade deficit.

- **GVA grew by 5.6% in Q2:** Real GVA growth in Q2 also fell to 5.6% YoY from 12.7% in the previous quarter. Growth was primarily led by Agriculture (+4.6% YoY) and Services (+9.3% YoY), with the latter benefiting from a strong rebound in contact-intensive services. This is evident from a robust 14.7% YoY jump in Trade, Hotel & Transport that more than made up for a muted expansion in Public Administration & Defence Services. Industrial GVA, however, contracted by 0.8%YoY (vs. +14.7% in Q1FY23), weighed down by lower Manufacturing output (-4.3% YoY)—reflecting the impact of higher input costs and falling global demand.

- **Services to continue to drive growth:** Slowing global growth in the wake of rapid monetary tightening, ongoing geopolitical tensions, and China slowdown, is likely to weigh on India's exports. Amidst this, recovery in domestic demand and continued pick-up in private investments are crucial for future growth trajectory, with the latter finding support from healthier balance sheets and strong capex push by the Govt. On the positive side, while falling commodity prices bodes well for the Manufacturing sector, Services should benefit from pent-up discretionary demand.

Figure 1: India quarterly GDP growth trend



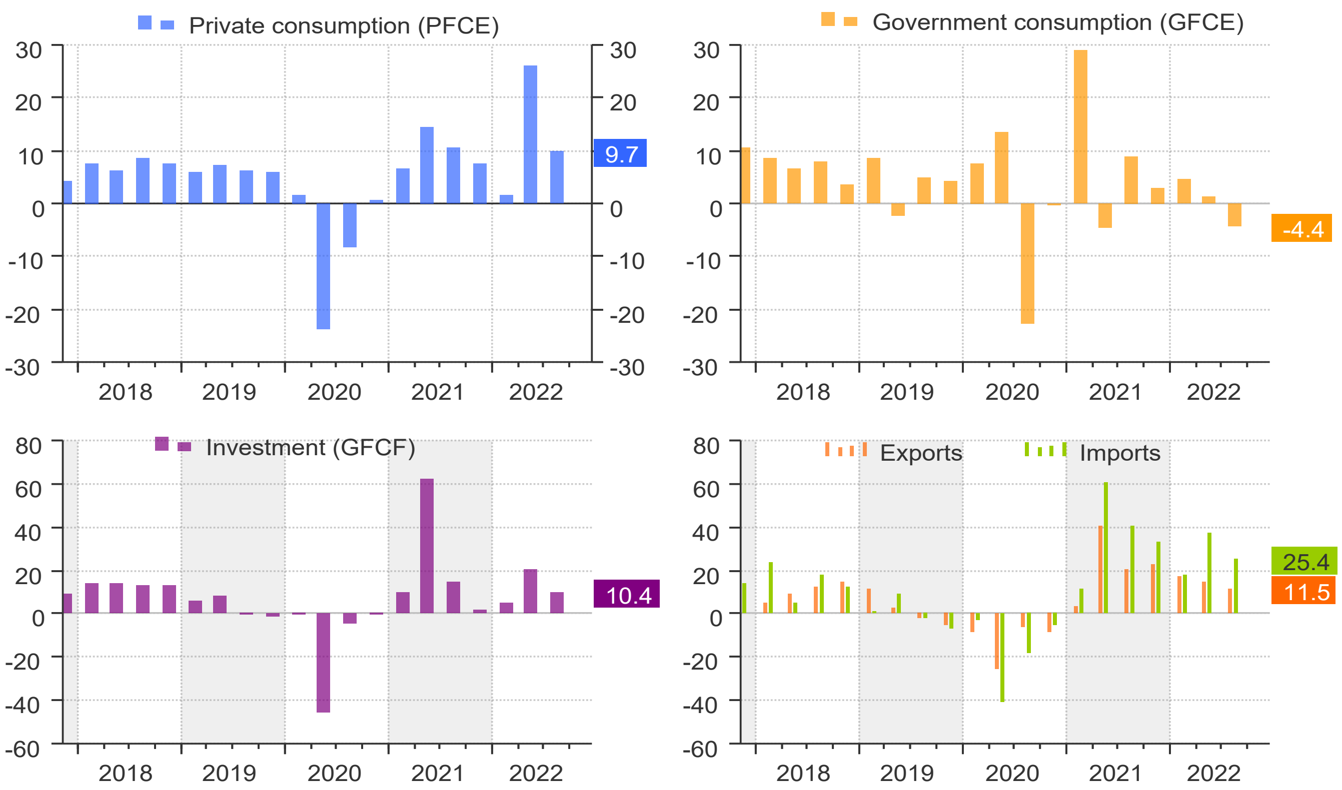
Source: Refinitiv Datastream, NSE EPR.

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

	FY21				FY22				FY23	
	Q1	Q1	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product (GDP)	**-23.8**	**-6.6**	**0.7**	**2.5**	**20.1**	**8.4**	**5.4**	**4.1**	**13.5**	**6.3**
Private Consumption (PFCE)	-23.7	-8.3	0.6	6.5	14.4	10.5	7.4	1.8	25.9	9.7
Government Consumption (GFCE)	13.6	-22.9	-0.3	29.0	-4.8	8.9	3.0	4.8	1.3	-4.4
Gross Capital Formation (GCF)	-48.3	-6.1	-1.9	11.9	72.3	26.8	8.4	5.2	19.3	5.9
Gross Fixed Capital Formation (GFCF)	-45.3	-4.5	-0.6	10.1	62.5	14.6	2.1	5.1	20.1	10.4
Exports	-25.5	-6.4	-8.6	3.7	40.8	20.7	23.1	16.9	14.7	11.5
Imports	-41.1	-17.9	-5.2	11.7	61.1	41.0	33.6	18.0	37.2	25.4
Gross Value Added (GVA)	**-21.4**	**-5.9**	**2.1**	**5.7**	**18.1**	**8.3**	**4.7**	**3.9**	**12.7**	**5.6**
Agriculture	**3.0**	**3.2**	**4.1**	**2.8**	**2.2**	**3.2**	**2.5**	**4.1**	**4.5**	**4.6**
Industry	**-33.7**	**0.6**	**6.3**	**13.4**	**46.6**	**7.0**	**0.3**	**1.3**	**8.6**	**-0.8**
Mining and Quarrying	-17.8	-7.9	-5.3	-3.9	18.0	14.5	9.2	6.7	6.5	-2.8
Manufacturing	-31.5	5.2	8.4	15.2	49.0	5.6	0.3	-0.2	4.8	-4.3
Electricity	-14.8	-3.2	1.5	3.2	13.8	8.5	3.7	4.5	14.7	5.6
Construction	-49.4	-6.6	6.6	18.3	71.3	8.1	-2.8	2.0	16.8	6.6
Services	**-20.8**	**-10.8**	**-0.9**	**2.1**	**10.5**	**10.2**	**8.1**	**5.5**	**17.6**	**9.3**
Trade, Hotels, Trans., Storage, Comm.	-49.9	-18.8	-10.1	-3.4	34.3	9.6	6.3	5.3	25.7	14.7
Fin. Svcs, Real Estate & Business Svcs.	-1.1	-5.2	10.3	8.8	2.3	6.1	4.2	4.3	9.2	7.2
Community, Social & Personal Svcs.	-11.4	-10.2	-2.9	1.7	6.2	19.4	16.7	7.7	26.3	6.5

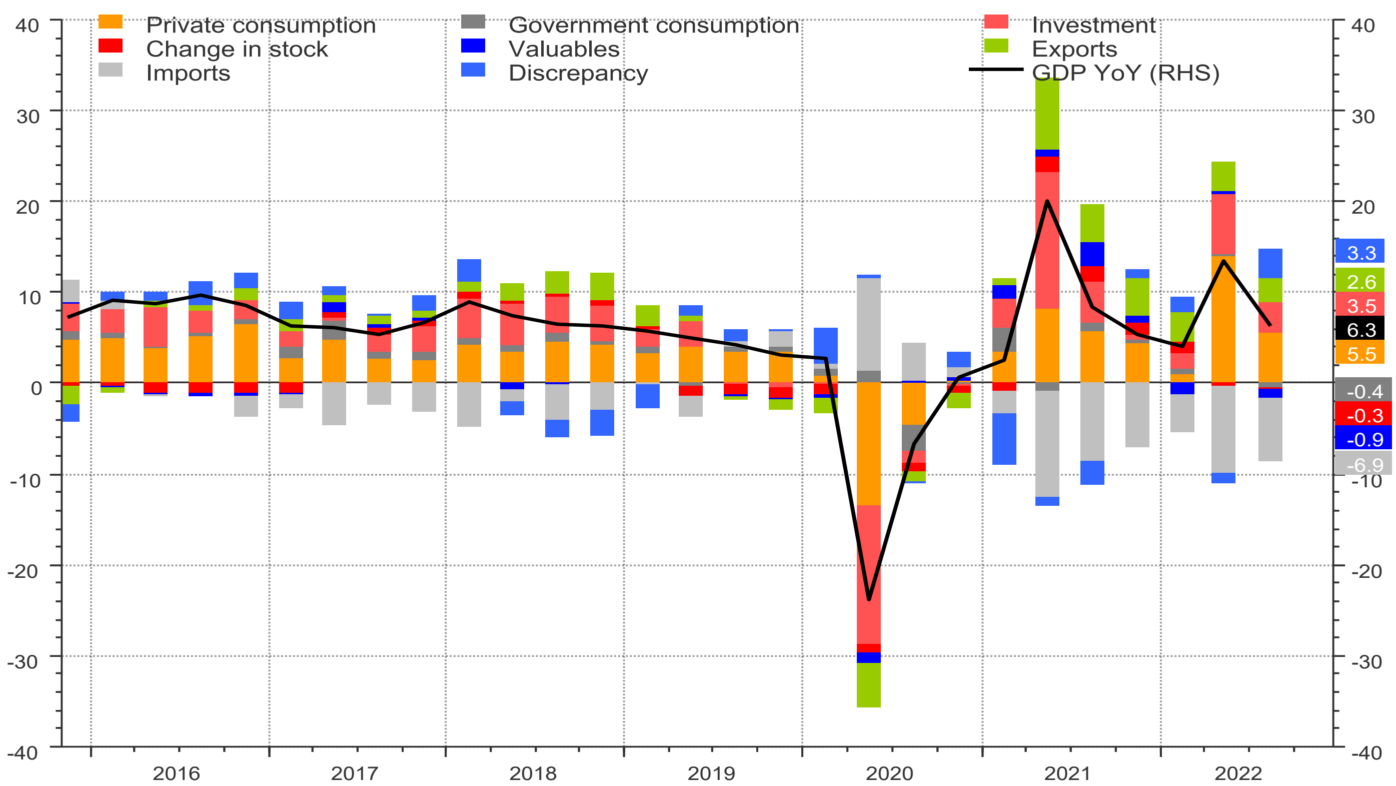
Source: CSO, NSE EPR.

Figure 2: Quarterly GDP growth by expenditure (%YoY)



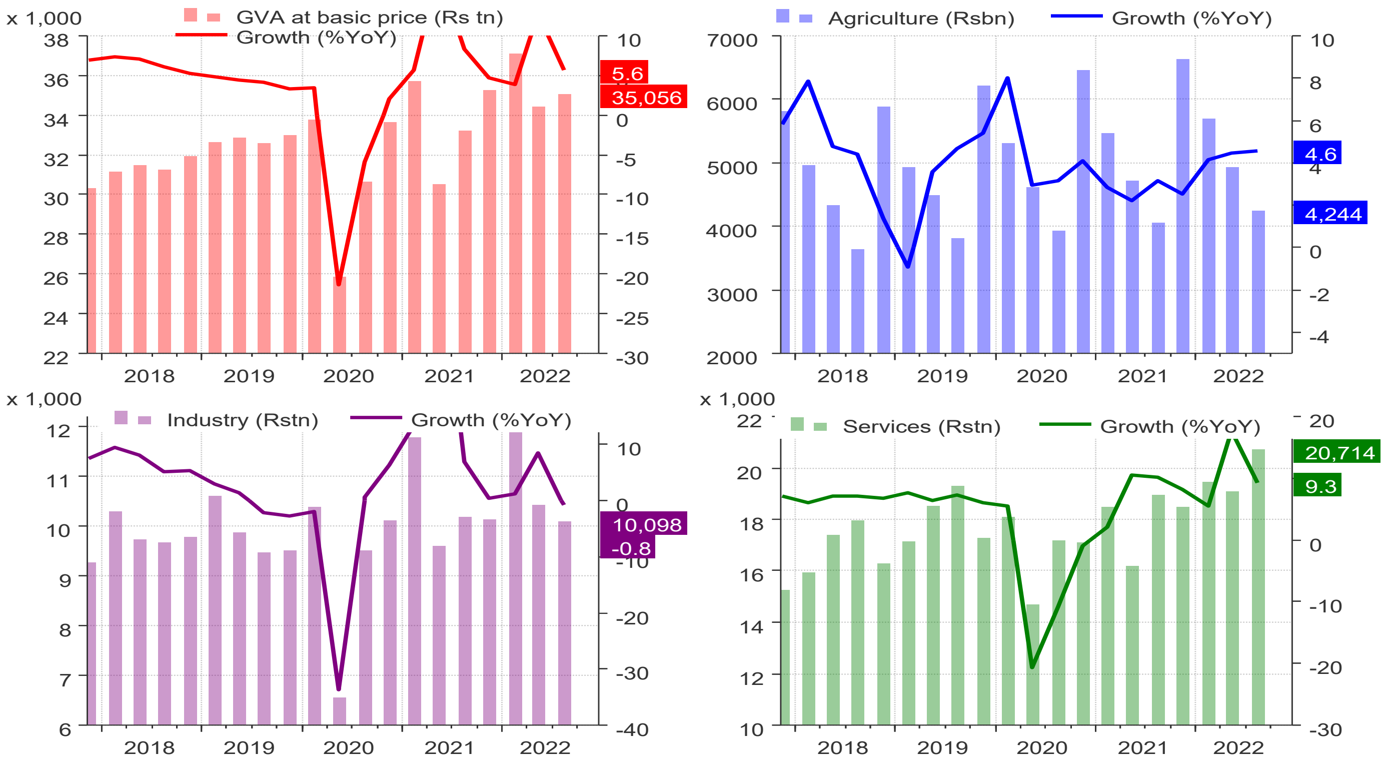
Source: Refinitiv Datastream, NSE EPR.

Figure 3: India GDP sector share of growth (%)



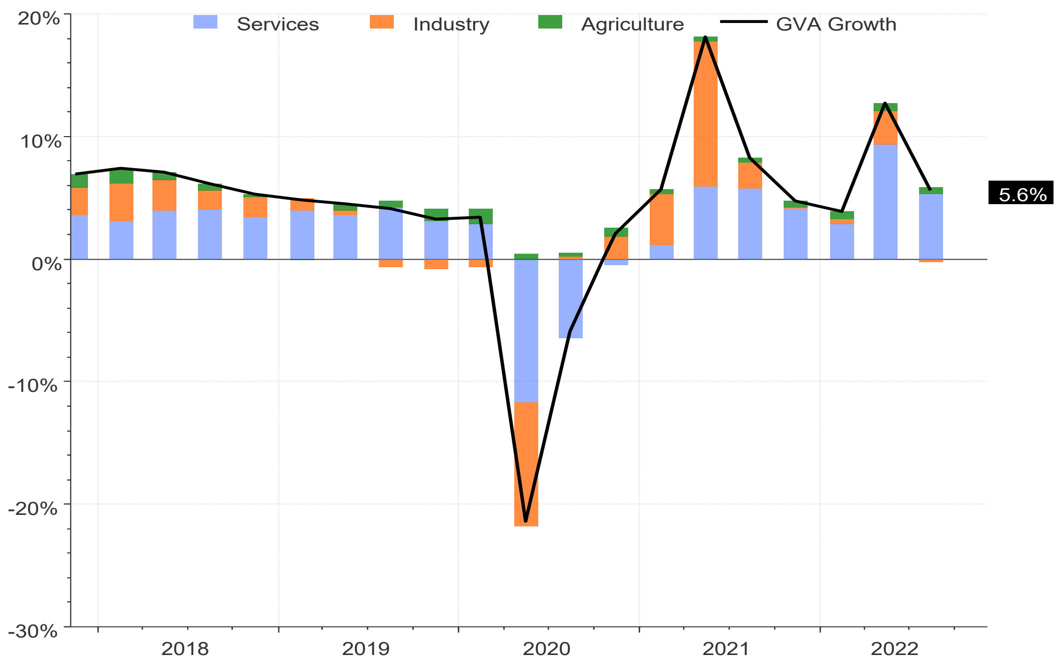
Source: Refinitiv Datastream, NSE EPR.

Figure 4: Gross value added (GVA) across sectors



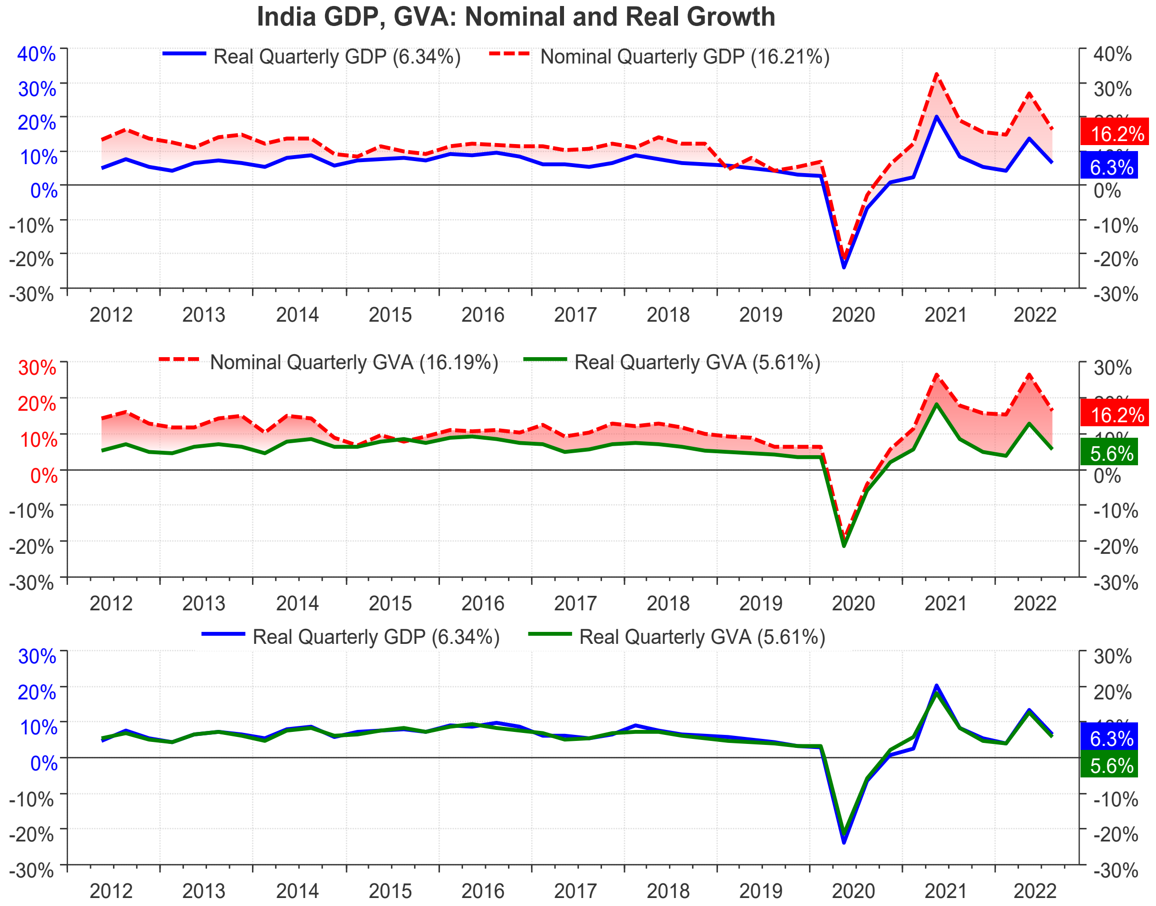
Source: Refinitiv Datastream, NSE EPR.

Figure 5: India GVA sector share of growth (%)



Source: Refinitiv Datastream, NSE EPR.

Figure 6: Quarterly trend of nominal vs. real GDP and GVA growth



Source: Refinitiv Datastream, NSE EPR.

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