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FY22 GDP growth at 8.7% miss CSO's SAE; Maintain FY23 GDP growth at 6.5%

India's fourth quarter GDP (Q4FY22) growth came in at a four-quarter low of 4.1% YoY—a tad higher than market expectations (Consensus: 4%; Source: Reuters), vs. 5.4% in the previous quarter. Slowing private consumption—reflecting the impact of Omicron-induced restrictions, intensifying inflationary pressures, and waning pent-up demand, coupled with moderating export growth momentum, and fading favourable base effect, weighed on overall activity in the quarter gone by. This was partly offset by Government spending and Gross Fixed Capital Expenditure—a proxy of investments in the economy. The two- and three-year CAGR of Q4FY22 GDP stood at ~3%, reflecting a gradual recovery. By economic activity, Gross Value Added (GVA) growth slowed down to 3.9% from 4.7% in Q3, dragged down by Manufacturing and moderation in the Services sector growth momentum. That said, Trade, Hotels, Transport & Communication sector finally exceeded pre-COVID level (Q4FY20) in the quarter gone by, indicating near-full normalisation of contact-intensive services by the fourth quarter.

For FY22, real GDP growth stood at 8.7%, albeit off a low, negative base (-6.6% in FY21), missing the CSO's Second Advance Estimate (SAE) of 8.9%. Real GVA growth was lower at 8.1% (vs. -4.8% in FY21), netting off the tax-subsidy gap created in FY21. All sectors, barring Trade, Hotels, Transport & Communication, expanded over pre-pandemic levels (FY20). Importantly, nominal GDP growth in FY22 at 19.5% is the highest in 11 years, reflecting high wholesale prices during the year.

An unfavourable global backdrop, with monetary tightening, geopolitical tensions, a slowing China, and elevated commodity prices is likely to weigh on domestic growth via the trade channel and through flows. Alongside, higher input prices would weigh on discretionary spending. A nascent private investment recovery would have healthier corporate and bank balance sheets and Government capex to bank on. However, global demand, subdued consumer sentiments, rising rates with compressed margins are likely act as key deterrents. We maintain our FY23 GDP growth estimate at 6.5% with risks skewed to the downside. Despite deterioration in the domestic growth outlook, we expect the RBI to frontload rate hikes with an aim to anchor inflationary expectations and curb generalisation of price pressures. The policy scheduled for next week to likely see a 35-50bps hike in the repo rate.

- **Q4FY22 GDP slowed to four-quarter lows…:** The GDP growth in Q4FY22 at 4.1% came in marginally higher than the market expectations (Consensus: 4% Source: Reuters) but demonstrated slowing growth momentum (from 5.4% in Q3FY22) on fading support from base effects. This implies a ~3% CAGR over last two-year as well as three-year periods, indicating While comparing the Q4FY22 GDP print to pre-covid levels, real GDP has grown by ~3% on a two-year as well as a three-year CAGR, reflecting a gradual recovery. Sequentially, Q4 GDP expanded by 6.7% from +6.5% in Q3FY22, reflecting steady economic recovery that wasn't significantly deterred by the Omicron wave. Nominal GDP grew by a much higher 14.9%, reflecting elevated wholesale inflation during the quarter.

India's Q4FY22 GDP grew by 4.1%YoY, showing moderation from 5.4%YoY recorded in Q3FY22, leading to 3% growth on a two-year and three-year CAGR basis respectively.

- **…dragged by weaker private consumption:** Moderation in GDP growth in the quarter gone by was primarily led by slowdown in private consumption as visible from a mere 1.8% YoY growth in Private Fixed Consumption Expenditure (PFCE) in Q4FY22 vs. 7.4% YoY growth in the previous quarter. Import growth also moderated from +33.6% YoY growth in Q3FY22 to +18% in Q4. Omicron-induced restrictions (with very low stringency measures), persistent inflationary pressures, and waning pent-up demand have all attributed to the slowdown in consumption demand. Alongside, slowing export growth momentum, thanks to weakening global demand in the wake of ongoing geopolitical tensions and China slowdown, has also weighed on overall activity. As such, export growth dipped from 23% in Q3FY22 to 17% in Q4FY22. This was partly offset by a steady 5.2% (vs. +2.2% in Q3) growth in GFCF—a reflection of investment demand in the economy and 4.8% growth in Government Final Consumption Expenditure or GFCE (vs. +3% in Q3).

Slowdown in private investment was partly offset by strong growth in investment (GFCF) and Government consumption (GFCE) in the quarter gone by.

- **GVA growth moderated to 3.9% for Q4FY22:** Amid fading base effect, GVA growth in Q4FY22 decelerated to 3.9% YoY vs. 4.7% in Q3FY22. This was primarily led by a) contraction in Manufacturing GVA (-0.2% in Q4 vs. +0.3% in the previous quarter), reflecting the impact of accentuated supply-side woes, b) a slower growth in the Services GVA (+5.5% in Q4 vs. +8.1% in Q3) due to localised lockdowns imposed by states to curtail the spread of Omicron, and c) moderation in Mining growth (+6.7% in Q4 vs. 9.2% in Q3) on account of surging commodity prices because of the Russia-Ukraine war. Within Services, growth in public administration, defence & other services reduced substantially from 16.7% in Q3FY22 to 7.7% in Q4FY22. Core GVA (excl. agri. & allied activities and public administration, defence, & other services)—a proxy for growth momentum without external factors such as policy support and weather conditions—marginally improved in Q4FY22 to 3.2% from 3% in Q3FY22.

GVA grew by a sequentially slower pace of 3.9%, thanks to contraction in Manufacturing GVA and slower growth in Services.

- **FY22 GDP growth stood at 8.7%, surpassing pre-COVID level…:** Real GDP growth came in at 8.7% for FY22, a tad lower than the CSO's Second AE of 8.9%, primarily attributed to lower-than-expected growth in Government spending (GFCE) and widening of trade deficit. That said, all levers witnessed a sturdy rebound from post-pandemic recession in the previous year, thanks to robust pent-up demand, accelerated pace of vaccinations and reopening of global economy. While private consumption grew at a five-year high of 7.9% in FY22, Government consumption growth slowed down meaningfully, witnessing an eight-year low growth of 2.6%. Investment activity, however, picked up meaningfully in FY22 from pandemic-lows in the previous year, with GFCF recording a 14-year high growth of 15.8%, but off a very low base (-10.4% in FY21). A much higher growth in imports as compared to exports led to trade deficit widening to record-high levels in FY22.

Real GDP growth came in at 8.7% for FY22, a tad lower than the CSO's Second AE of 8.9%, led by a lower-than-expected growth in Government spending (GFCE) and widening of trade deficit

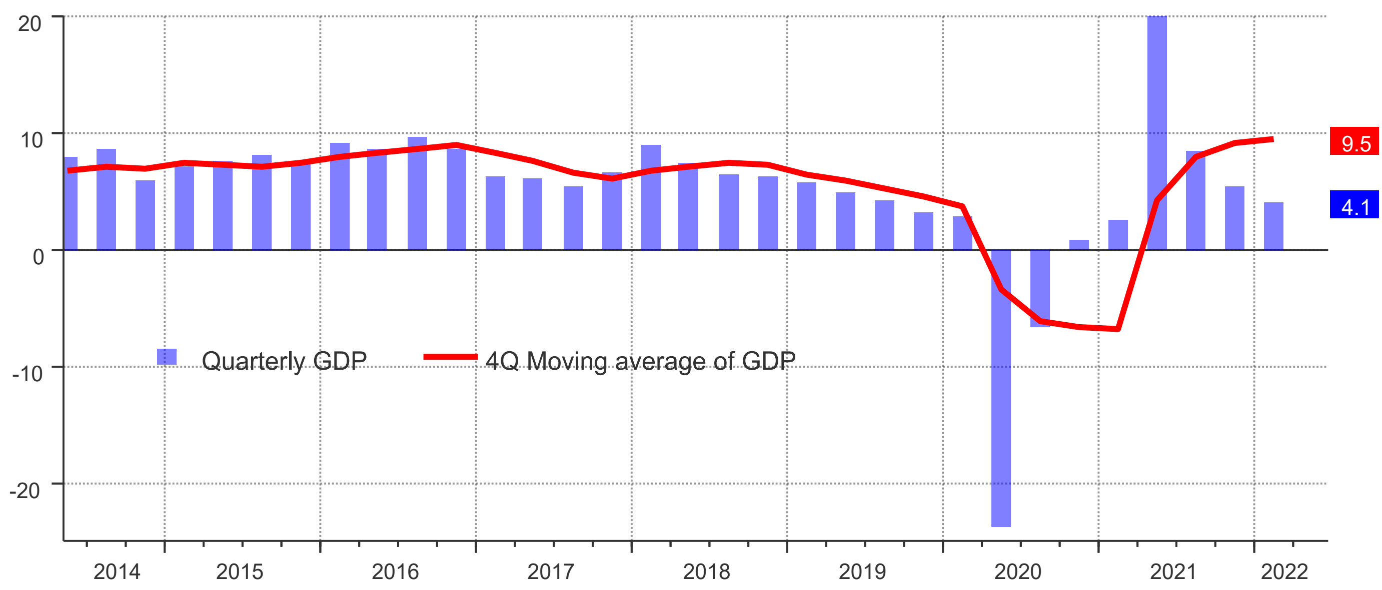
- **…with GVA growth rebounding to 8.1%:** GVA grew by 8.1% in FY22 vs. the second AE of 8.3% following a 4.8% contraction in the previous year. Core GVA, however, grew at a higher pace of 8.5% in FY22, elucidating the re-bound in growth momentum. Among the sectors, Agriculture & allied activities remained resilient and grew by a steady 3% in FY22 (+3.3% in FY21). Industry saw a sharp revival in FY22 and expanded by 10.3% vs. a 3.3% dip in FY21. As the economic activity resumed normalcy, Mining and Manufacturing revived sharply from the low base of FY21, though the growth was slightly below the Second AEs on account of higher-than-expected inflationary pressure in Q4FY22. Services sector, however, remained subdued, with contact-based Services such as Trade, Hotels and Transport remaining below the pre-pandemic levels (CAGR over FY20-22 stood at -5.8%). Wider vaccination coverage and pent-up demand for such services should support revival of the sector. That said, rising inflation may curtail consumer spending on discretionary services, thereby acting as a headwind going forward.

GVA in FY22 grew by 8.1% off a 4.8% dip in the previous year. All sectors, barring Trade, Hotels & Transport, recorded an expansion over pre-COVID levels (FY20)

- **Maintain FY23 GDP growth at 6.5%:** Unfavourable global backdrop in the light of global monetary tightening, ongoing geopolitical tensions, slowing Chinese economy and elevated commodity prices is likely to weigh on domestic growth via reduced demand for Indian exports. Alongside, pass-through of higher input prices by producers to consumers is likely to act as a dampener for discretionary spending. While private investment recovery that's currently underway should continue to find support from healthier balance sheets of corporates and banks and sustained capex push by the Government, weaker global demand, subdued consumer sentiments, rising interest rates and reduced margins are likely act as key deterrents. Considering this, we maintain our FY23 GDP growth estimate at

6.5% with risks skewed to the downside. Despite deterioration in domestic growth outlook, we expect the RBI to frontload rate hikes with an aim to anchor inflationary expectations and curb generalisation of price pressures. The policy scheduled for next week to likely see a 35-50bps hike in the repo rate.

Figure 1: India quarterly GDP growth trend



Source: Refinitiv Datastream, NSE EPR.

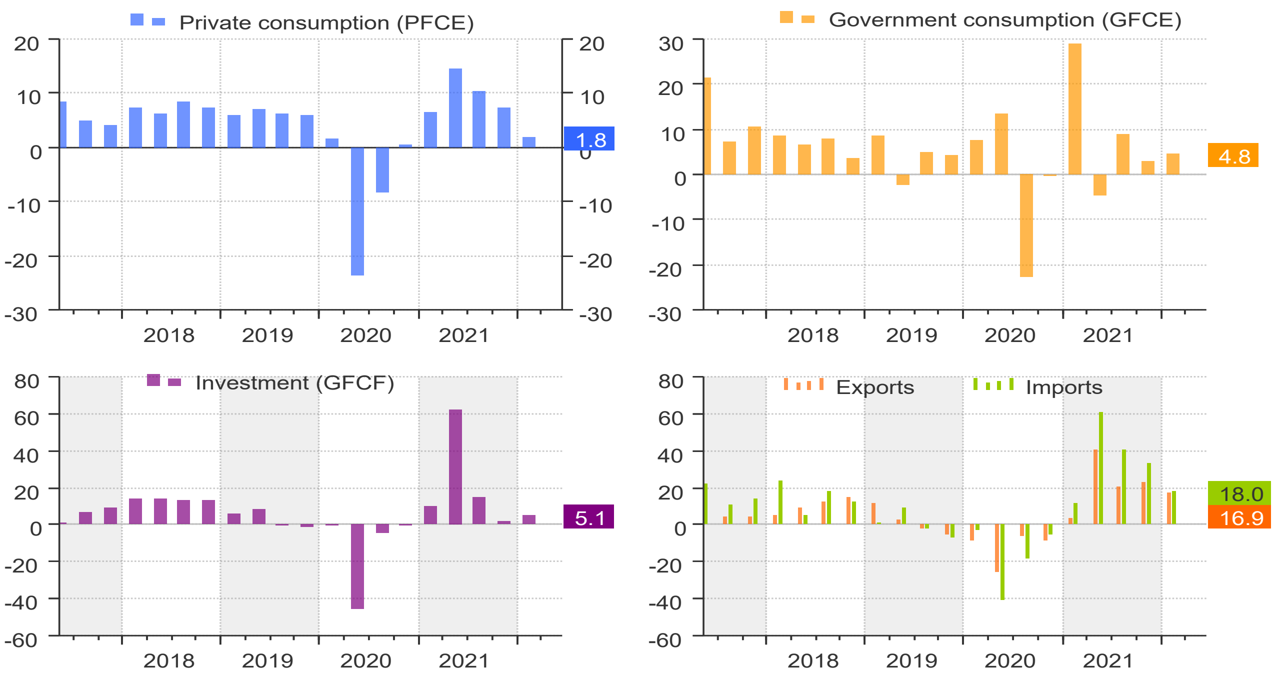
Table 1: Quarterly GDP growth trend (2011-12=100) (%YoY)

	FY20			FY21				FY22			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product (GDP)	**4.2**	**3.1**	**3.0**	**-23.8**	**-6.6**	**0.7**	**2.5**	**20.1**	**8.4**	**5.4**	**4.1**
Private Consumption (PFCE)	5.7	5.6	2.0	-23.7	-8.3	0.6	6.5	14.4	10.5	7.4	1.8
Government Consumption (GFCE)	5.5	4.8	12.1	13.6	-22.9	-0.3	29.0	-4.8	8.9	3.0	4.8
Gross Capital Formation (GCF)	-2.9	-3.7	-0.7	-48.3	-6.1	-1.9	11.9	72.3	26.8	8.4	5.2
Gross Fixed Capital Formation (GFCF)	0.9	-0.1	2.5	-45.3	-4.5	-0.6	10.1	62.5	14.6	2.1	5.1
Exports	-2.0	-5.5	-8.8	-25.5	-6.4	-8.6	3.7	40.8	20.7	23.1	16.9
Imports	-1.9	-7.0	-2.7	-41.1	-17.9	-5.2	11.7	61.1	41.0	33.6	18.0
Gross Value Added (GVA)	**4.1**	**3.2**	**3.7**	**-21.4**	**-5.9**	**2.1**	**5.7**	**18.1**	**8.3**	**4.7**	**3.9**
Agriculture	**4.3**	**4.9**	**6.8**	**3.0**	**3.2**	**4.1**	**2.8**	**2.2**	**3.2**	**2.5**	**4.1**
Industry	**-2.0**	**-2.7**	**-2.2**	**-33.7**	**0.6**	**6.3**	**13.4**	**46.6**	**7.0**	**0.3**	**1.3**
Mining and Quarrying	-4.9	-3.5	-0.9	-17.8	-7.9	-5.3	-3.9	18.0	14.5	9.2	6.7
Manufacturing	-3.3	-3.3	-4.2	-31.5	5.2	8.4	15.2	49.0	5.6	0.3	-0.2
Electricity	1.8	-3.1	2.6	-14.8	-3.2	1.5	3.2	13.8	8.5	3.7	4.5
Construction	0.9	-1.1	0.7	-49.4	-6.6	6.6	18.3	71.3	8.1	-2.8	2.0
Services	**7.3**	**6.1**	**6.4**	**-20.8**	**-10.9**	**-0.9**	**2.1**	**10.5**	**10.2**	**8.1**	**5.5**
Trade, Hotels, Trans., Storage, Comm.	6.5	6.6	5.7	-49.9	-18.8	-10.1	-3.4	34.3	9.6	6.3	5.3
Fin. Svcs, Real Estate & Business Svcs.	8.2	4.8	4.9	-1.1	-5.2	10.3	8.8	2.3	6.1	4.2	4.3
Community, Social & Personal Svcs.	6.9	6.9	9.6	-11.4	-10.2	-2.9	1.7	6.2	19.4	16.7	7.7

Source: CSO, NSE EPR.

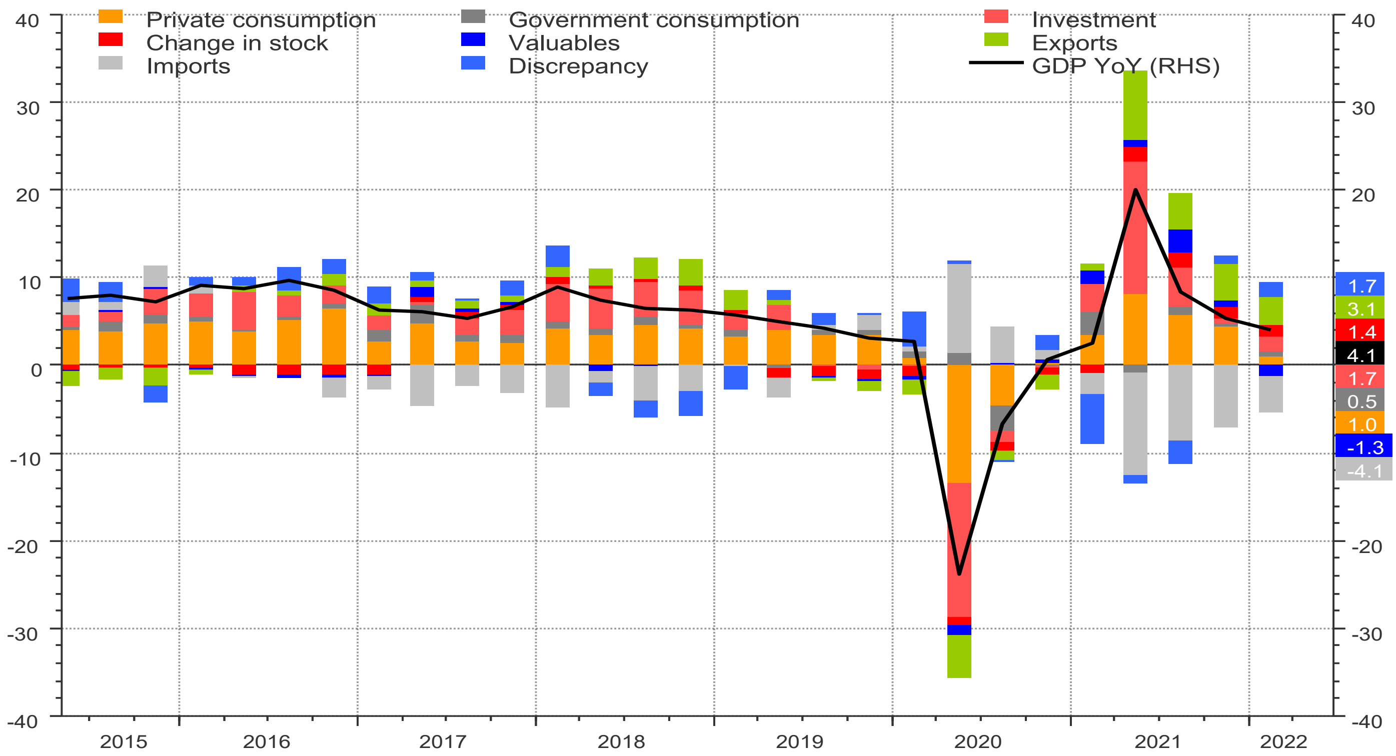
Figure 2: Quarterly GDP growth by expenditure (%YoY)

While Private Fixed Consumption Expenditure (PFCE) grew by a mere 1.8% in Q4FY22 vs. 7.4%YoY recorded in Q3FY22, Gross Fixed Capital Formation (GFCF)—a reflection of investment demand in the economy—grew by a steady 5.2% YoY against 2.2%YoY growth in Q3FY22. Along with strong private investment, Government spending also improved from 3% to 4.8% in Q4FY22. Export growth though remained robust at 17%YoY in Q4FY22 but slowed from 23%YoY recorded in Q3FY22. Import growth too moderated from 33.6%YoY in Q3 to 18%YoY in Q4FY22.



Source: Refinitiv Datastream, NSE EPR.

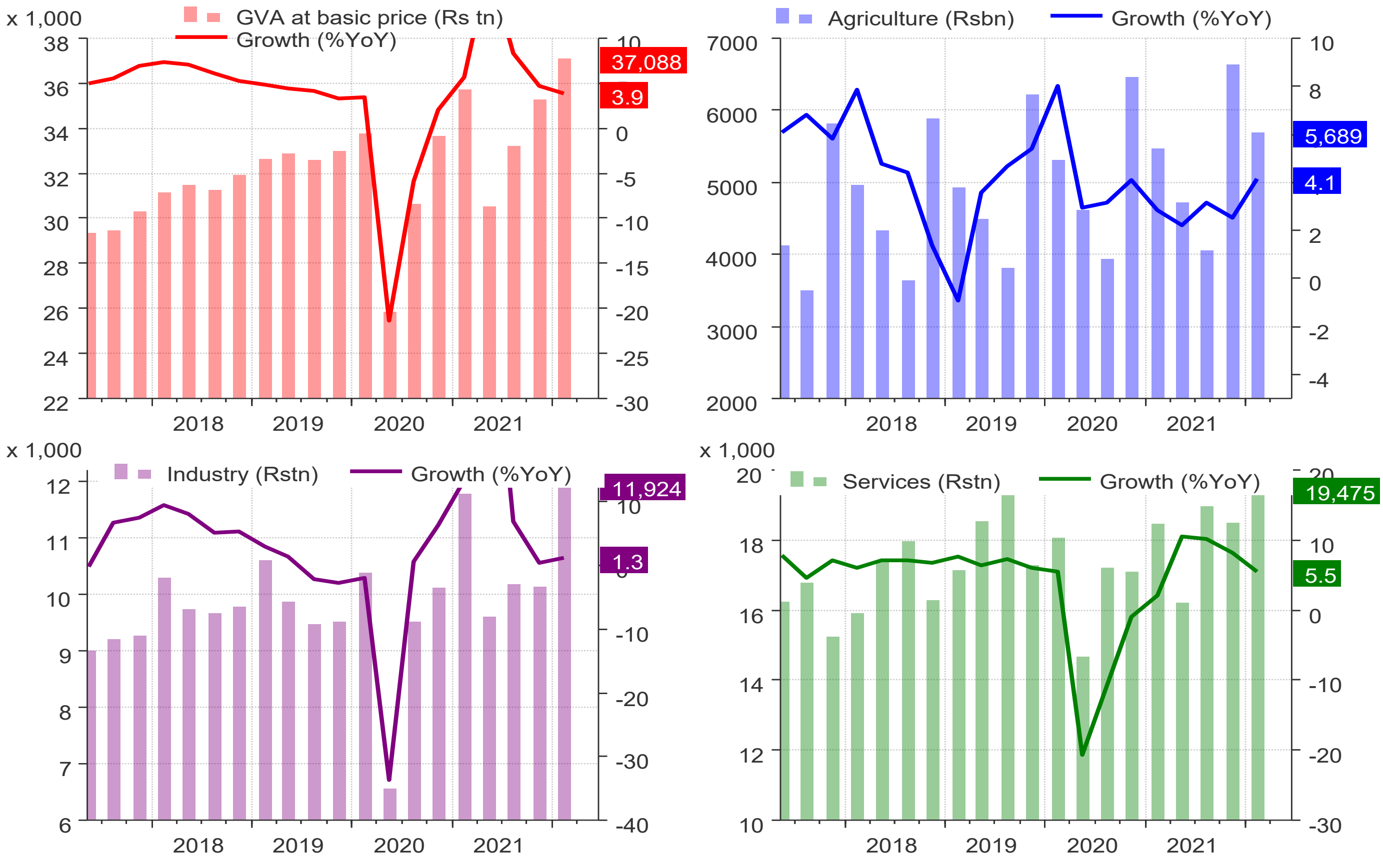
Figure 3: India GDP sector share of growth (%)



Source: Refinitiv Datastream, NSE EPR.

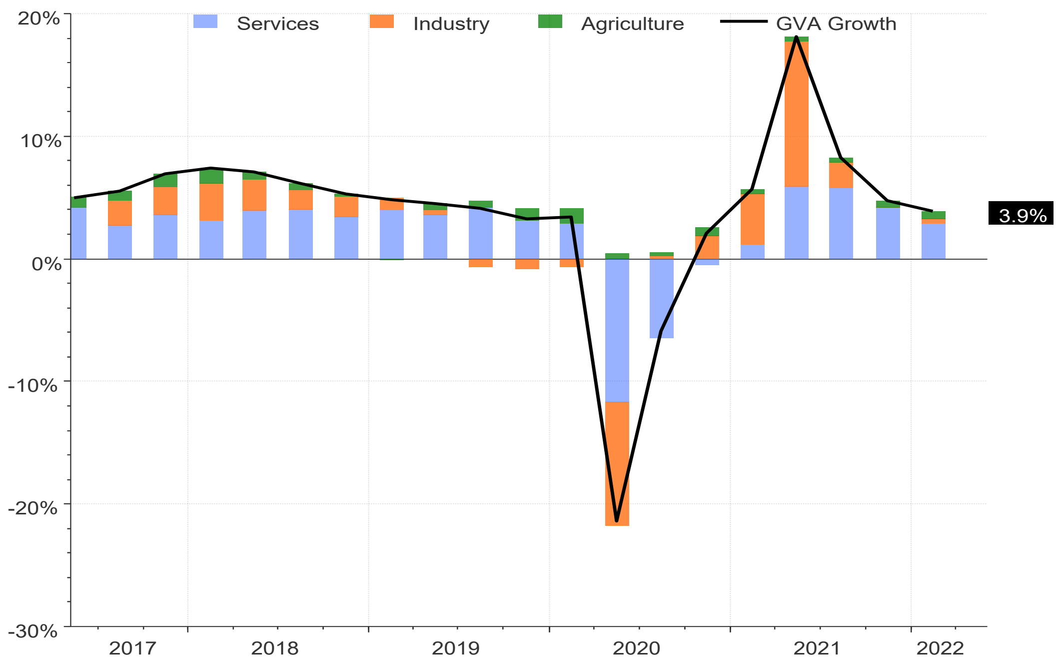
Figure 4: Gross value added (GVA) across sectors:

By economic activity, Gross Value Added (GVA) growth was much weaker than GDP growth and slowed from 4.7%YoY in Q3FY22 to 3.9%YoY in Q4FY22. This was primarily on the back of contraction in Manufacturing sector GVA and moderation in growth momentum in Services, partly offset by steady growth in Agricultural and Construction sectors.



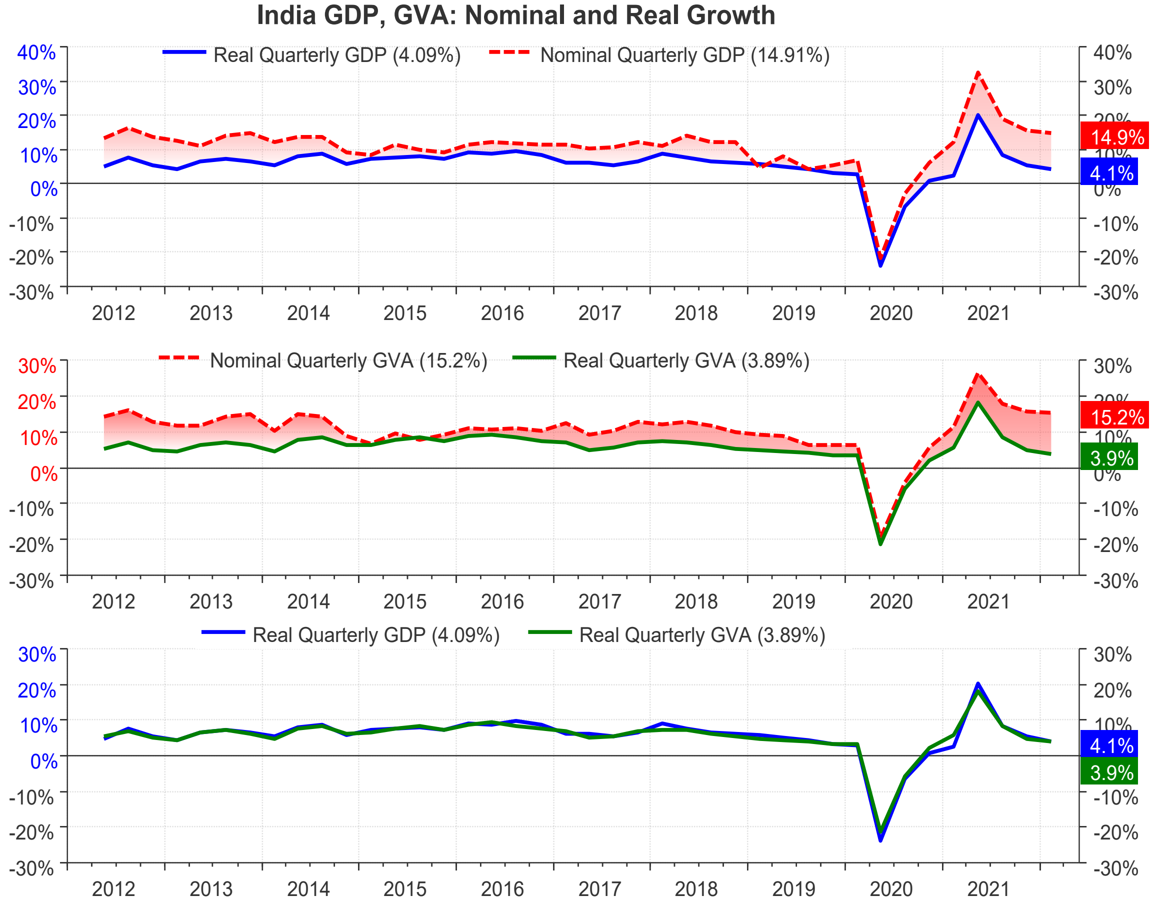
Source: Refinitiv Datastream, NSE EPR.

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.

Table 2: Annual real GDP growth trend (% YoY)

	FY18	FY19	FY20	FY21RE	FY22 FAE	FY22 SAE	FY22PE
Gross Domestic Product (GDP)	**6.8**	**6.5**	**3.7**	**-6.6**	**9.2**	**8.9**	**8.7**
Private Consumption (PFCE)	6.2	7.1	5.2	-6.0	6.9	7.6	7.9
Government Consumption (GFCE)	11.9	6.7	3.4	3.6	7.6	4.8	2.6
Gross Capital Formation (GCF)	10.8	11.0	-2.2	-11.4	17.0	21.5	21.7
Gross Fixed Capital Formation (GFCF)	7.8	11.2	1.6	-10.4	15.0	14.6	15.8
Net trade of goods & services	257.6	-8.2	16.1	-39.1	231.1	102.7	127.5
Exports of goods & services	4.6	11.9	-3.4	-9.2	16.5	21.1	24.3
Imports of goods & services	17.4	8.8	-0.8	-13.8	29.4	29.9	35.5
Gross Value Added (GVA)	**6.2**	**5.8**	**3.8**	**-4.8**	**8.6**	**8.3**	**8.1**
Agriculture	6.6	2.1	5.5	3.3	3.9	3.3	3.0
Industry	5.9	5.3	-1.4	-3.3	11.8	10.3	10.3
Mining and Quarrying	-5.6	-0.8	-1.5	-8.6	14.3	12.6	11.6
Manufacturing	7.5	5.4	-2.9	-0.6	12.5	10.5	9.9
Electricity	10.6	7.9	2.2	-3.6	8.5	7.8	7.5
Construction	5.2	6.5	1.2	-7.3	10.7	10.0	11.5
Services	6.3	7.2	6.3	-7.8	8.2	8.6	8.4
Trade, Hotels, Trans., Storage, Comm.	10.3	7.2	5.9	-20.2	11.9	11.6	11.1
Fin. Svcs, Real Estate & Business Svcs.	1.8	7.0	6.7	2.2	4.0	4.3	4.2
Community, Social & Personal Svcs.	8.3	7.5	6.3	-5.5	10.7	12.5	12.6

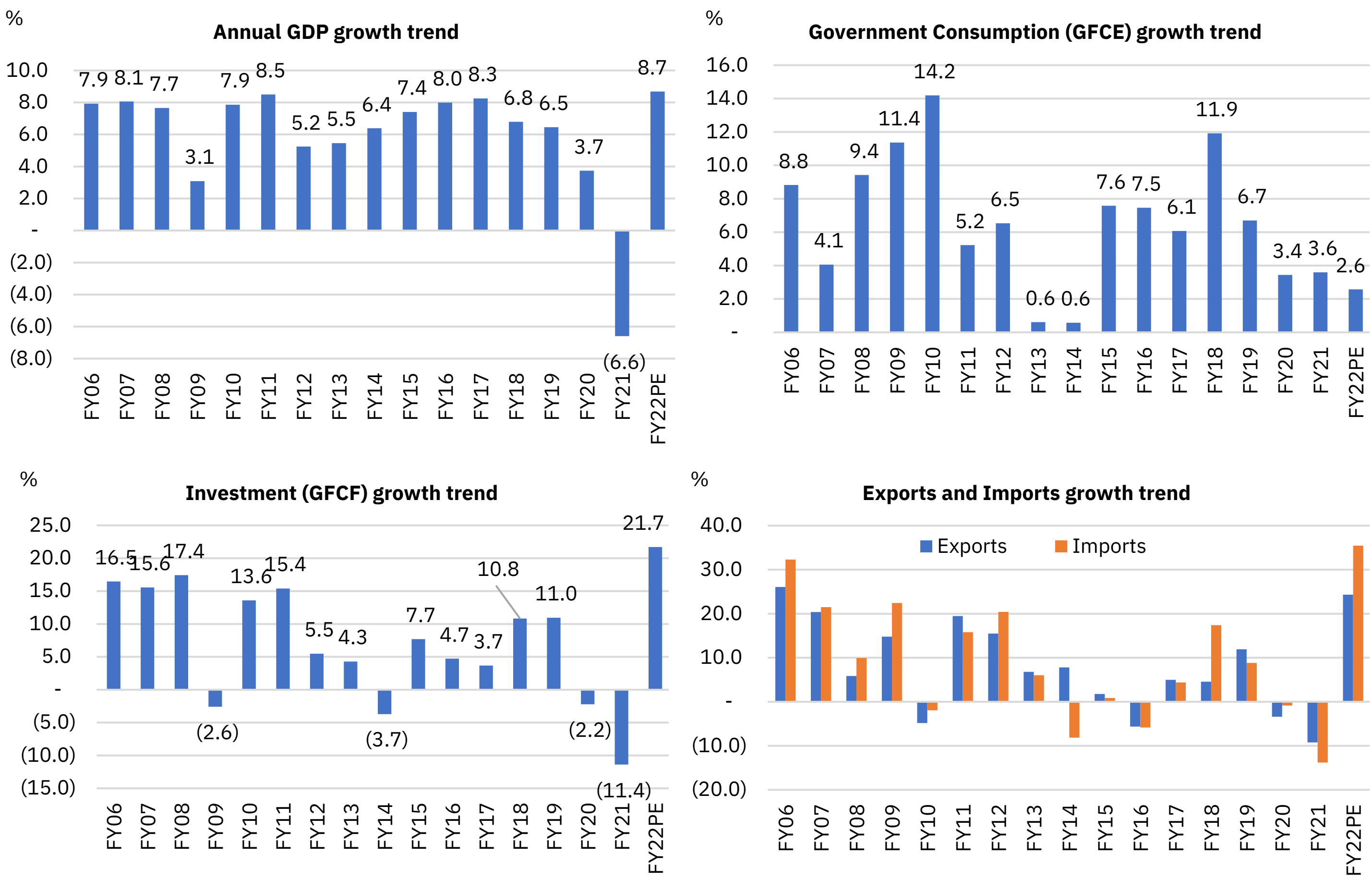
Source: CSO, NSE EPR. RE: Revised Estimates; FAE: First Advance Estimates; SAE: Second Advance Estimates; PE: Provisional Estimates.

Table 3: Share in GDP (%)

	FY18	FY19	FY20	FY21RE	FY22 FAE	FY22 SAE	FY22PE
Gross Domestic Product (GDP)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Private Consumption (PFCE)	55.8	56.3	57.1	56.0	54.8	56.6	56.9
Government Consumption (GFCE)	10.2	10.2	10.6	11.7	11.6	10.9	10.7
Gross Capital Formation (GCF)	34.2	35.3	34.7	33.6	36.0	35.6	35.7
Gross Fixed Capital Formation (GFCF)	31.1	32.0	32.5	31.2	32.9	32.0	32.5
Net trade of goods & services	-3.6	-3.0	-3.4	-1.3	-3.8	-4.2	-4.8
Exports of goods & services	19.8	20.9	19.4	19.9	21.3	20.9	21.5
Imports of goods & services	23.4	23.9	22.8	21.2	25.1	25.2	26.3
Discrepancies	3.4	1.2	1.0	0.0	1.5	1.2	1.5
Gross Value Added (GVA)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Agriculture	**15.3**	**14.8**	**14.8**	**16.4**	**15.7**	**15.5**	**15.5**
Industry	**31.4**	**31.2**	**29.6**	**29.3**	**30.2**	**30.7**	**30.8**
Mining and Quarrying	2.7	2.6	2.4	2.4	2.5	2.4	2.4
Manufacturing	18.4	18.3	17.1	16.9	17.5	18.2	18.2
Electricity	2.3	2.3	2.3	2.5	2.5	2.3	2.3
Construction	8.0	8.0	7.8	7.6	7.7	7.8	7.9
Services	**53.3**	**54.0**	**55.6**	**54.3**	**54.1**	**53.8**	**53.7**
Trade, Hotels, Transport, Storage, Comm.	19.7	19.9	20.3	17.7	18.3	17.6	17.5
Fin. Svcs, Real Estate & Business Svcs.	21.1	21.3	22.0	23.1	22.1	22.7	22.7
Community, Social & Personal Svcs.	12.6	12.7	13.3	13.5	13.7	13.5	13.5

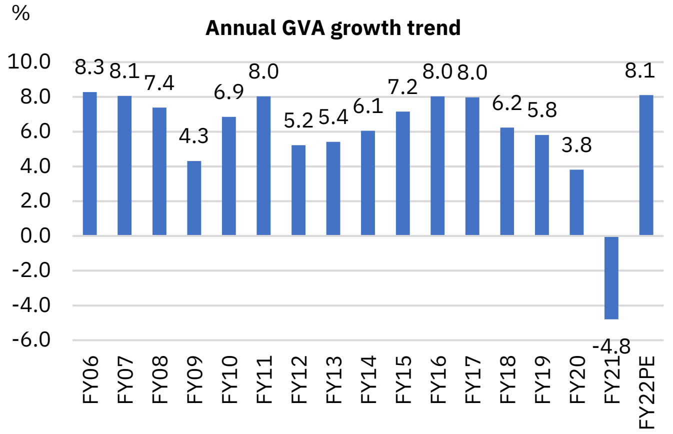
Source: CSO, NSE EPR. RE: Revised Estimates; FAE: First Advance Estimates; SAE: Second Advance Estimates; PE: Provisional Estimates.

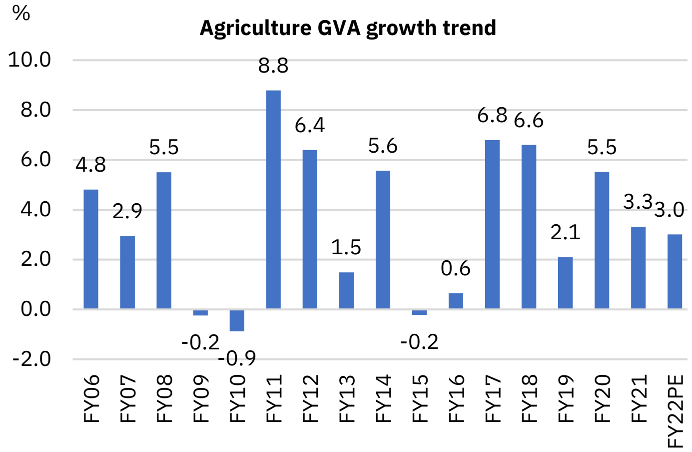
Figure 7: Provisional estimates (PE)of GDP from demand side

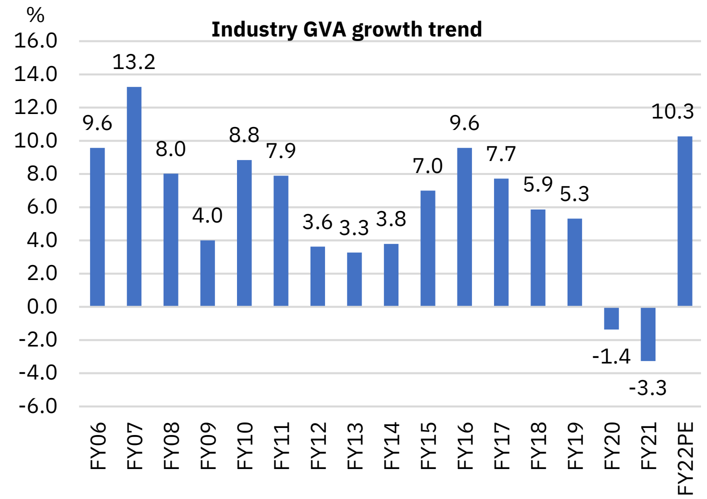


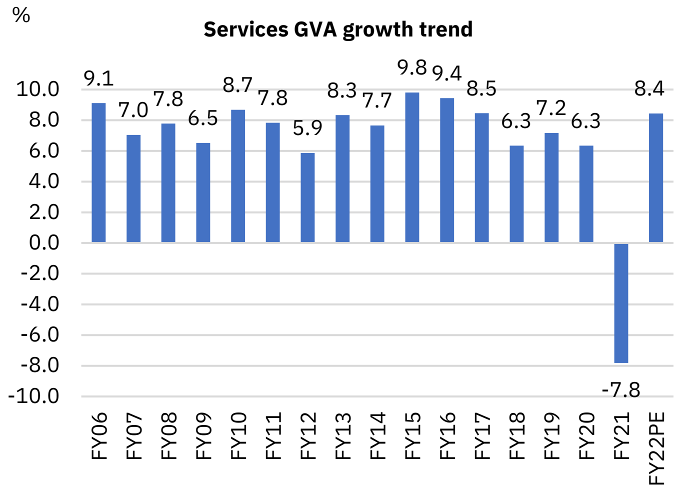
Source: CSO, NSE EPR. PE: Provisional Estimates

Figure 8: Gross value added (GVA) across sectors.



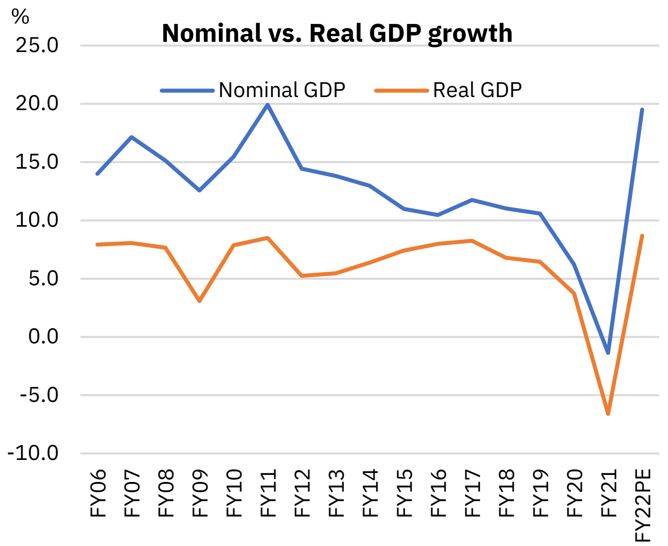


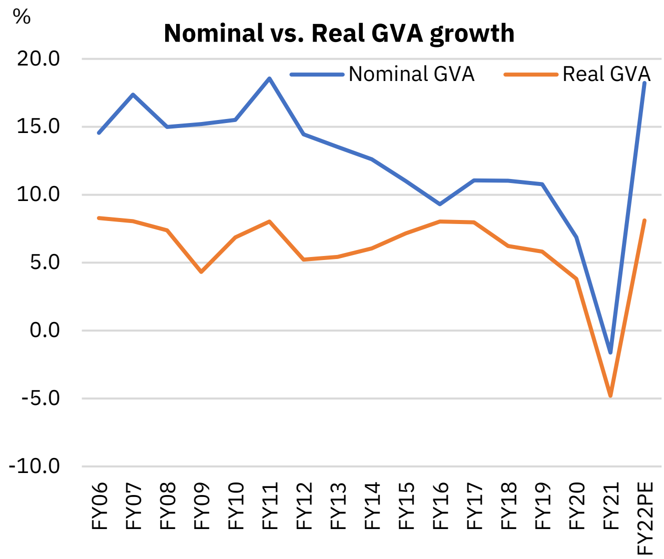




Source: CSO, NSE EPR. PE: Provisional Estimates

Figure 9: Nominal vs. real GDP and GVA growth





Source: CSO, NSE EPR. PE: Provisional Estimates

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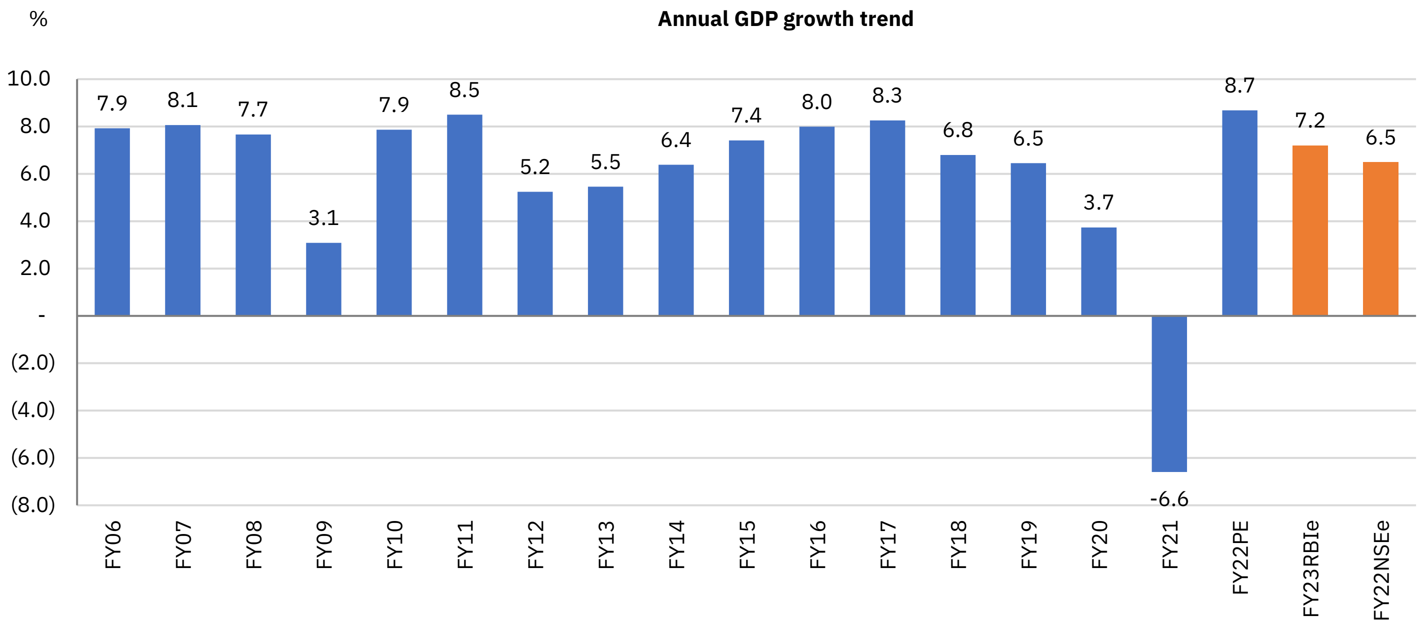
Figure 10: Annual GDP growth trend



Source: CSO, CMIE Economic Outlook, NSE EPR. PE: Provisional Estimates.

Economic Policy & Research

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