

Q2FY25 GDP growth moderates, H2 outlook remains positive

India's Q2FY25 real GDP growth slowed to a seven-quarter low of 5.4% YoY (vs. 6.7% in Q1), falling short of market expectations (Consensus/RBI's MPC estimate: 6.5%/7%). This translates into a growth of 6% in the first half of FY25. The moderation in Q2 growth, albeit off an unfavourable base (+8.1% in Q2FY24), has stemmed from subdued urban consumption demand, heavy rainfall, and softening investment and export activity amid a challenging global environment. That said, rural consumption showed signs of resilience, supported by robust prospects of *Kharif* output, while Government spending picked up post elections, capping the moderation to some extent. Nominal GDP growth also fell to a 15-quarter low of 8% YoY. By economic activity, Gross Value Added (GVA) growth decelerated to 5.6% YoY, led by muted industrial activity (3.6% YoY), corroborated by slowdown in corporate earnings, partly offset by strong growth in the services sector (7.1% YoY). The GVA growth continues to be higher than the GDP growth for the second consecutive quarter, indicating a higher subsidy outgo.

Following a slowdown in Q2, economic growth is expected to pick-up in the second half of FY25, supported by festive and wedding-led spur in consumption demand, and improvement in rural demand, bolstered by continued strength in agriculture. Additionally, improving capacity utilization, higher capital spending by the Central and State Governments following the H1 shortfall, and revival in private investment activity, supported by strong financial health of corporates and banks are likely to provide an additional support to economic activity in the second half. Key downside risks to the growth outlook stem from prolonged geopolitical tensions, policy uncertainty in the US, volatile global commodity prices, and persistence of inflation at elevated levels, thereby weighing on consumption.

- **Q2FY24 GDP slows to a seven-quarter low of 5.4%...:** India's real GDP growth moderated to a seven-quarter low of 5.4% YoY in Q2FY25, notably lower than the consensus estimate of 6.5% and RBI's MPC estimate of 7% for the quarter. This moderation in growth, albeit of an unfavourable base (+8.1% in Q2Y24) can be ascribed to slowdown in private consumption, particularly urban demand, and softening investment activity and exports. That said, the revival in rural demand, thanks to strong *kharif* output, and improvement in government expenditure post elections helped limit the extent of moderation. GDP growth in the first half of FY25 now stands at 6% YoY, lower than 8.2% YoY growth in the same period last year. In nominal terms, GDP growth came in at a 15-quarter low of 8% YoY in Q2FY25 (vs. 9.7% YoY in Q1).
- **...led by slower growth in private consumption and investment:** Private Final Consumption Expenditure (PFCE) growth softened to 6% YoY in Q2 (vs. 7.5% YoY in Q1) as muted urban consumption — reflected in lower urban FMCG demand growth (2.8%) and negative growth in passenger car domestic sales (-18.2% YoY in Q2) — outweighed the buoyancy in rural consumption, as seen in relatively stronger rural FMCG demand growth (6%), robust prospects of *kharif* output and lower MGNREGA demand. On similar lines, Gross Fixed Capital Formation (GFCF) — a barometer of investments in the economy — grew at a six-quarter low of 5.9% YoY in Q2, as excess rainfall in August/September impacted construction and investment activity. That said, the improvement in capital expenditure by the Central Government post elections (+10.3% YoY in Q2 vs. -35% YoY in Q1) supported overall investment activity. Government Final Consumption Expenditure (GFCE) growth improved to 4.4% YoY, after exhibiting negative growth in the previous quarter (-0.2% YoY), thanks to post-election spending by the Central government. Export growth slowed down to 2.8% (vs. 8.7% YoY in Q1) on the back of tepid global growth and geopolitical challenges impacting key shipping routes. After 15 consecutive quarters of growth, imports contracted by 2.9% YoY (vs. 4.4% in Q1), thanks to benign crude oil prices and muted consumption demand.

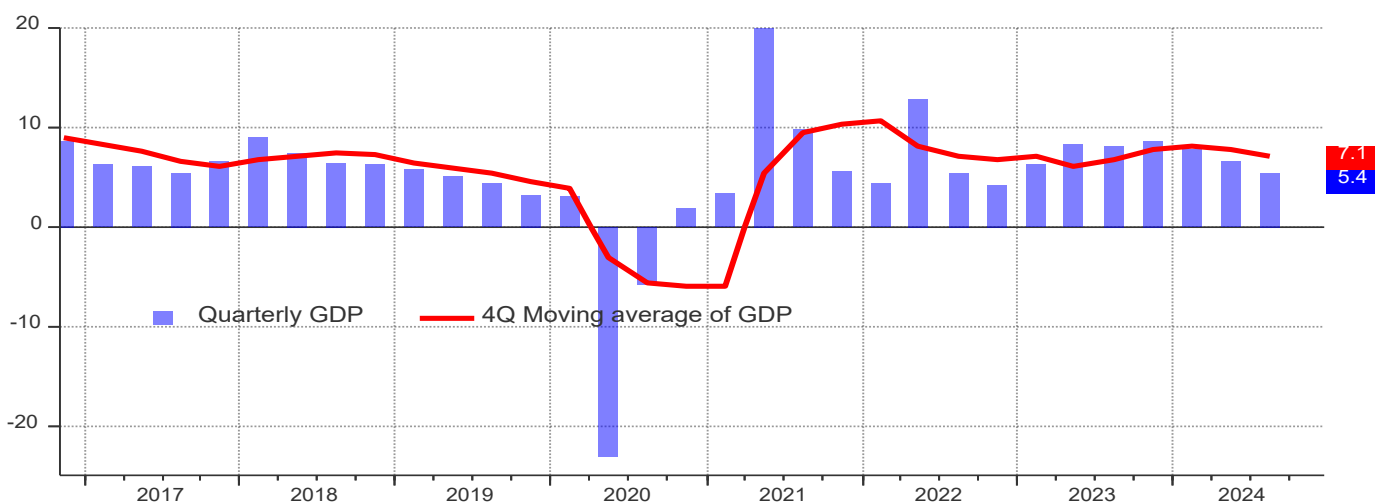
GDP growth in Q2FY25 came in at a seven-quarter low of 5.4% YoY, vs. 6.7% in Q1 and 8.1% in Q2FY24, significantly lower than market/RBI expectations by 110/160bps.

GDP growth moderation was led by muted growth in private final consumption, investment and exports.

- GVA growth moderates to 5.6% led by muted industrial activity:** GVA growth also came in at a seven-quarter low of 5.6% vs. 6.8% YoY in the previous quarter. This can be primarily ascribed to a significant deceleration in the industrial GVA growth to a six-quarter low of 3.6% YoY (vs. 8.3% in Q1), partly offset by robust growth in services (7.1%) and agriculture (3.5%). The GVA growth of electricity and other utilities fell sharply to 3.3% YoY on the back of an unfavourable base (+10.5% in Q2FY24), higher than normal monsoon and lower industrial demand. Manufacturing GVA growth eased to a six-quarter low of 2.2% YoY (vs. 7% YoY in Q1), as reflected in subdued manufacturing output growth (IIP: 3.1% YoY in Q2) and weaker corporate earnings in the manufacturing sector. Construction activity growth also moderated to 7.7% YoY while mining activity contracted for the first time in eight months led by a high base and seasonal impact of monsoon. Agriculture GVA growth, recovered from a sub-optimal performance in the previous four quarter to grow by 3.5% YoY in Q2 (vs 2% in Q1) on the back of robust *kharif* output. The stable and resilient services sector growth of 7.1% YoY in Q2 can be ascribed to improvement in travel and real estate activity, which was partly offset by moderation in financial services, as reflected in slowing credit growth.
- India's growth likely to see a fillip in H2FY25:** Despite a moderation in GDP growth during Q2, India remains among the fastest-growing large economies globally. Following a slowdown in Q2, economic growth is expected to pick-up in the second half of FY25, supported by festive and wedding-led spur in consumption demand, and improvement in rural demand, bolstered by continued strength in agriculture. Additionally, improving capacity utilization, higher capital spending by the Central and State Governments following the H1 shortfall, and revival in private investment activity, supported by strong financial health of corporates and banks are likely to provide an additional support to economic activity in the second half. Key downside risks to the growth outlook stem from prolonged geopolitical tensions, policy uncertainty in the US, volatile global commodity prices, and persistence of inflation at elevated levels, thereby weighing on consumption

Robust growth in services sector GVA (7.1%) and improvement in agriculture GVA growth to 3.5% supported the overall GVA growth while manufacturing GVA growth slowed down to 2.2%.

Figure 1: India quarterly GDP growth trend

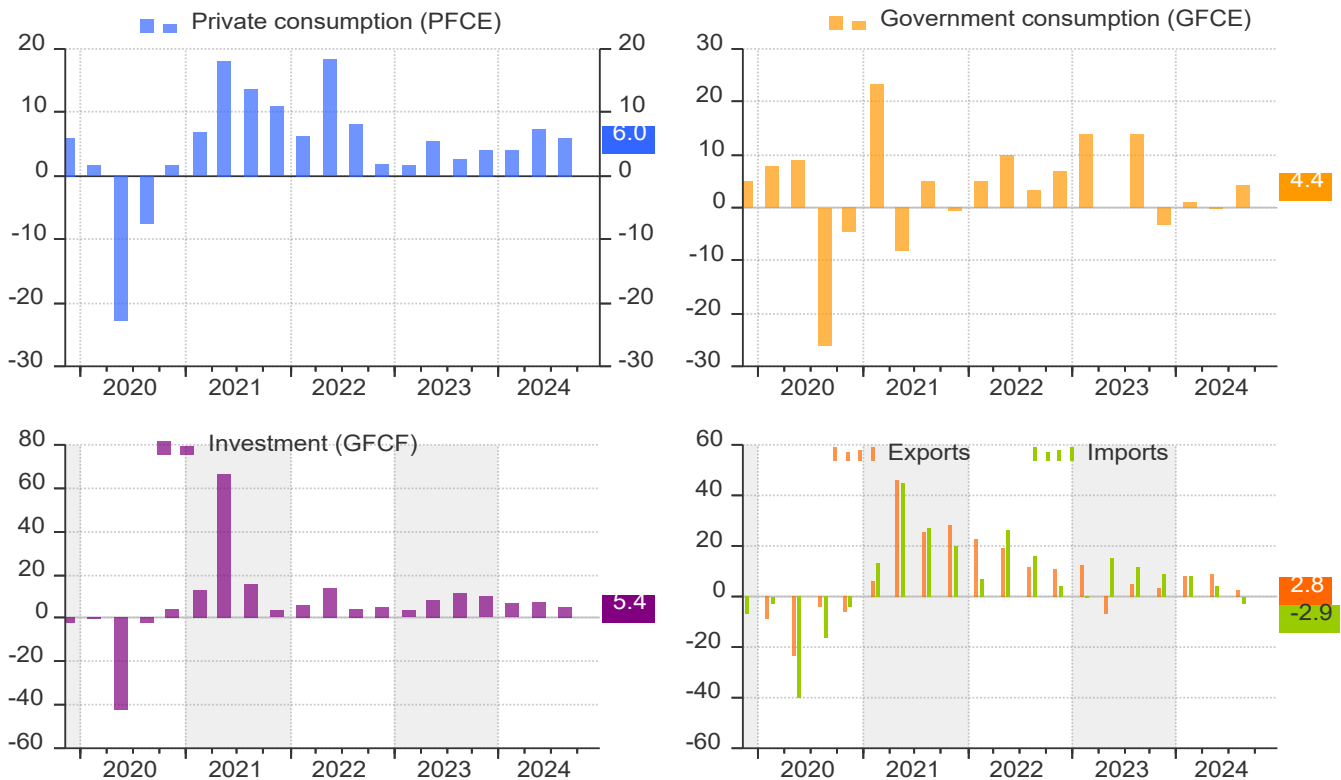


Source: LSEG Datastream, NSE EPR.

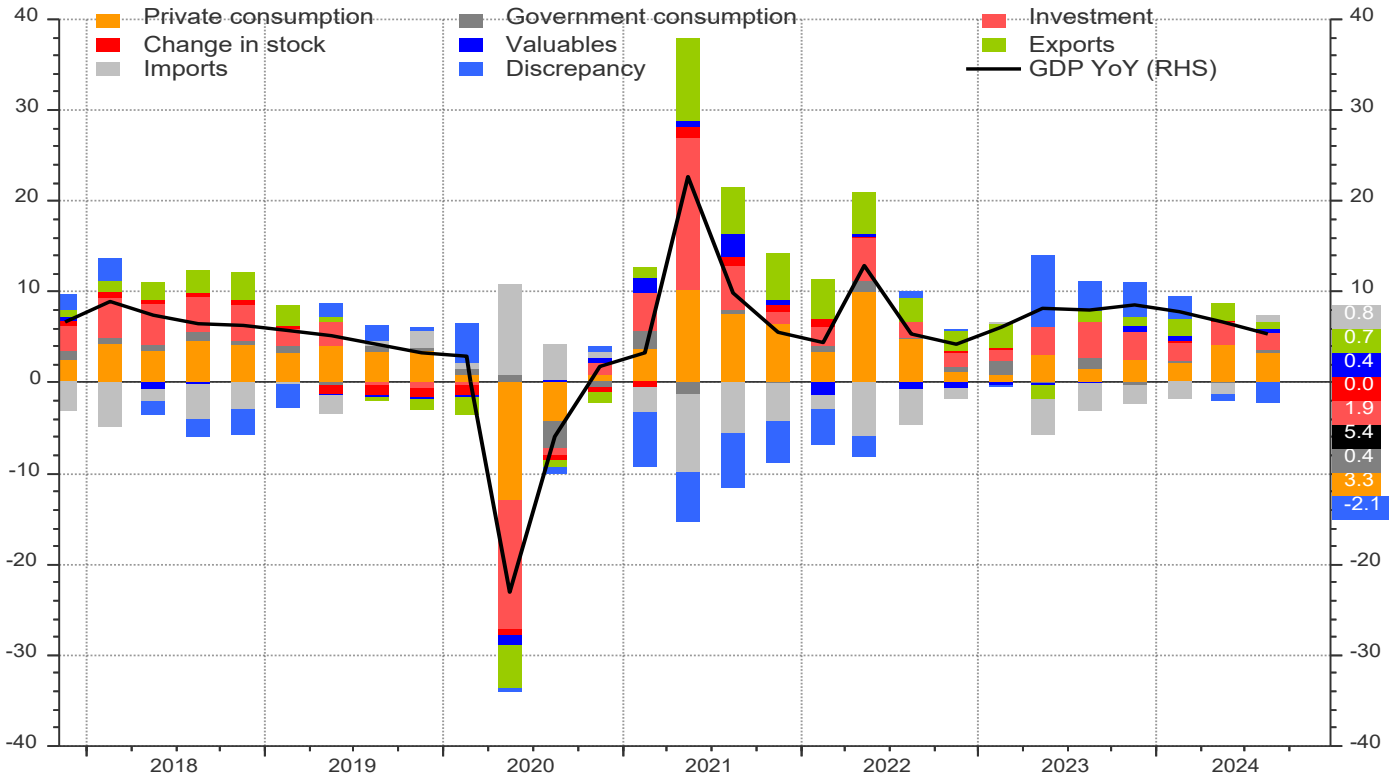
Table 1: Quarterly GDP growth trend (2011-12=100) (%YoY)

	FY23				FY24				FY25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product (GDP)	12.8	5.5	4.3	6.2	8.2	8.1	8.6	7.8	6.7	5.4
Private Consumption (PFCE)	18.5	8.2	1.8	1.5	5.5	2.6	4.0	4.0	7.4	6.0
Government Consumption (GFCE)	9.8	3.4	7.1	13.9	-0.1	14.0	-3.2	0.9	-0.2	4.4
Gross Capital Formation (GCF)	14.9	2.4	2.8	3.3	7.5	10.7	11.5	8.0	7.1	5.9
Gross Fixed Capital Formation (GFCF)	13.9	4.7	5.0	3.8	8.5	11.6	9.7	6.5	7.5	5.4
Exports	19.1	11.7	10.9	12.4	-6.6	5.0	3.4	8.1	8.7	2.8
Imports	26.1	16.1	4.1	-0.4	15.2	11.6	8.7	8.3	4.4	-2.9
Gross Value Added (GVA)	11.3	5.0	4.8	6.0	8.3	7.7	6.8	6.3	6.8	5.6
Agriculture	2.7	2.3	5.2	7.6	3.7	1.7	0.4	0.6	2.0	3.5
Industry	6.8	-2.4	0.6	3.4	6.0	13.6	10.5	8.4	8.3	3.6
Mining and Quarrying	6.6	-4.1	1.4	2.9	7.0	11.1	7.5	4.3	7.2	-0.1
Manufacturing	2.2	-7.2	-4.8	0.9	5.0	14.3	11.5	8.9	7.0	2.2
Electricity	15.6	6.4	8.7	7.3	3.2	10.5	9.0	7.7	10.4	3.3
Construction	14.7	6.9	9.5	7.4	8.6	13.6	9.6	8.7	10.5	7.7
Services	16.7	9.8	7.2	7.2	10.7	6.0	7.1	6.7	7.2	7.1
Trade, Hotels, Trans., Storage, Comm.	22.1	13.2	9.2	7.0	9.7	4.5	6.9	5.1	5.7	6.0
Fin. Svcs, Real Estate & Business Svcs.	10.5	8.7	7.7	9.2	12.6	6.2	7.0	7.6	7.1	6.7
Public Admin., Defence & Other Svcs.	23.6	7.3	3.5	4.7	8.3	7.7	7.5	7.8	9.5	9.2

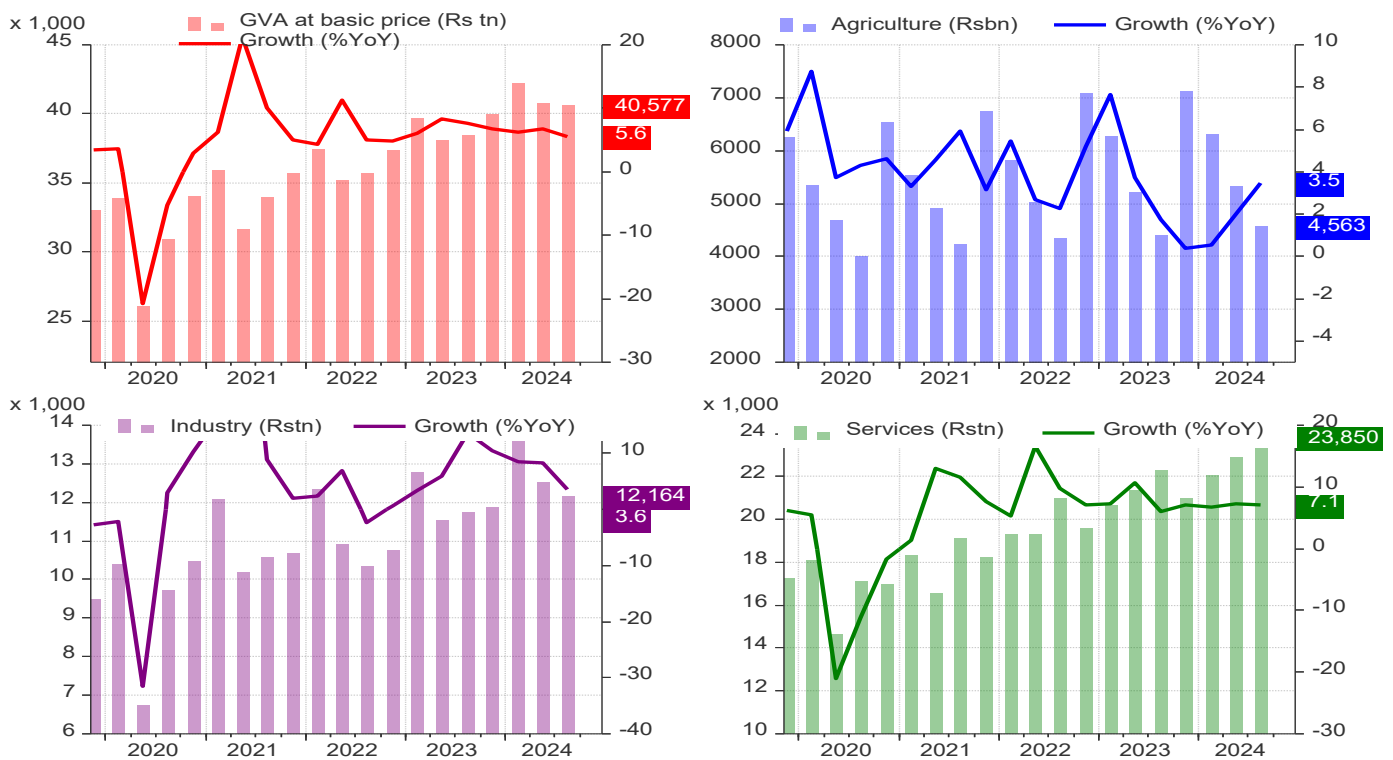
Source: CSO, NSE EPR.

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


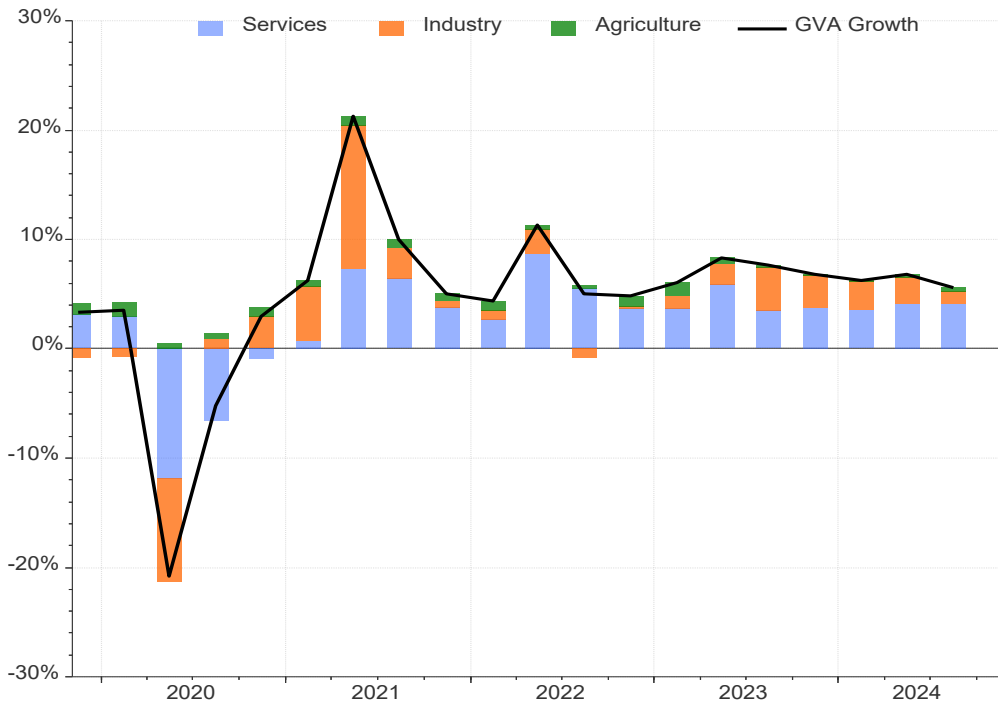
Source: LSEG Datastream, NSE EPR.

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


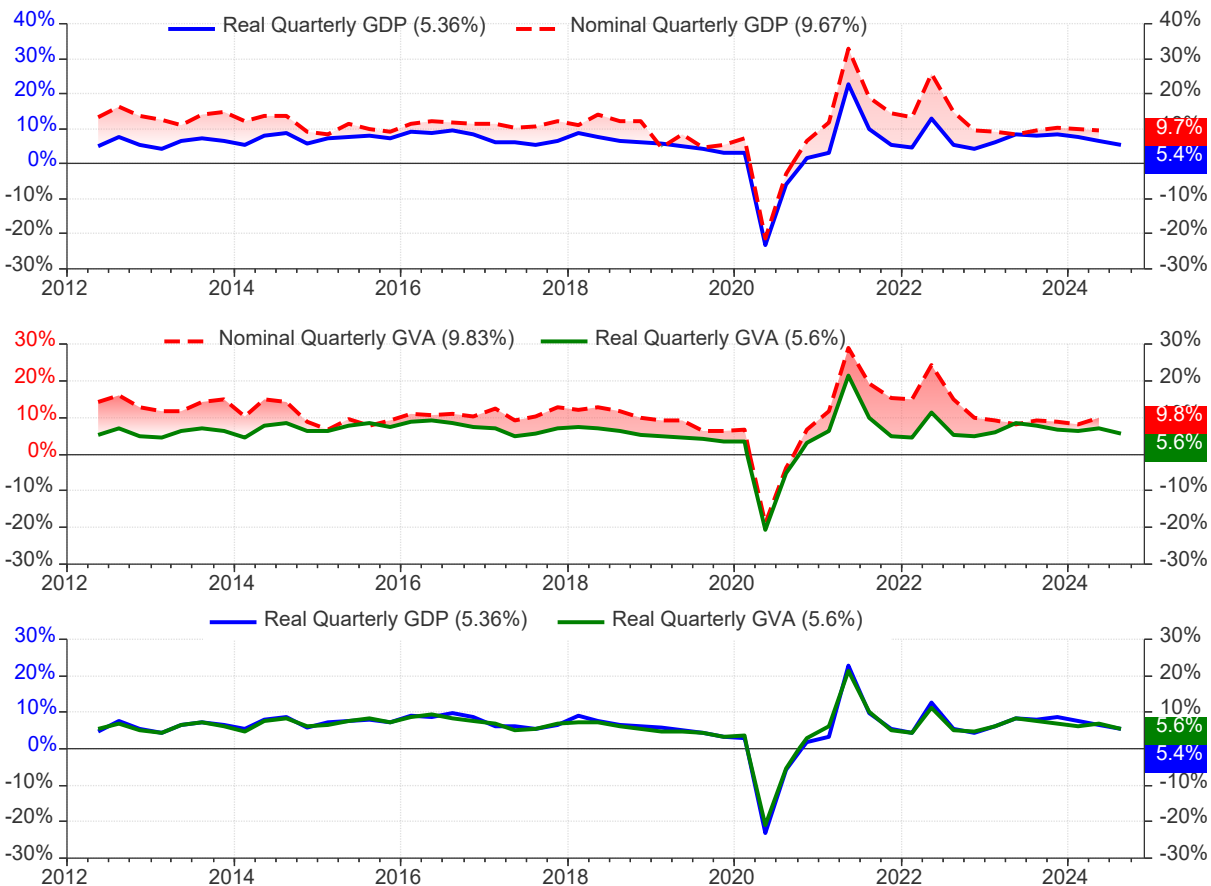
Source: LSEG Datastream, NSE EPR.

Figure 4: Gross value added (GVA) across sectors


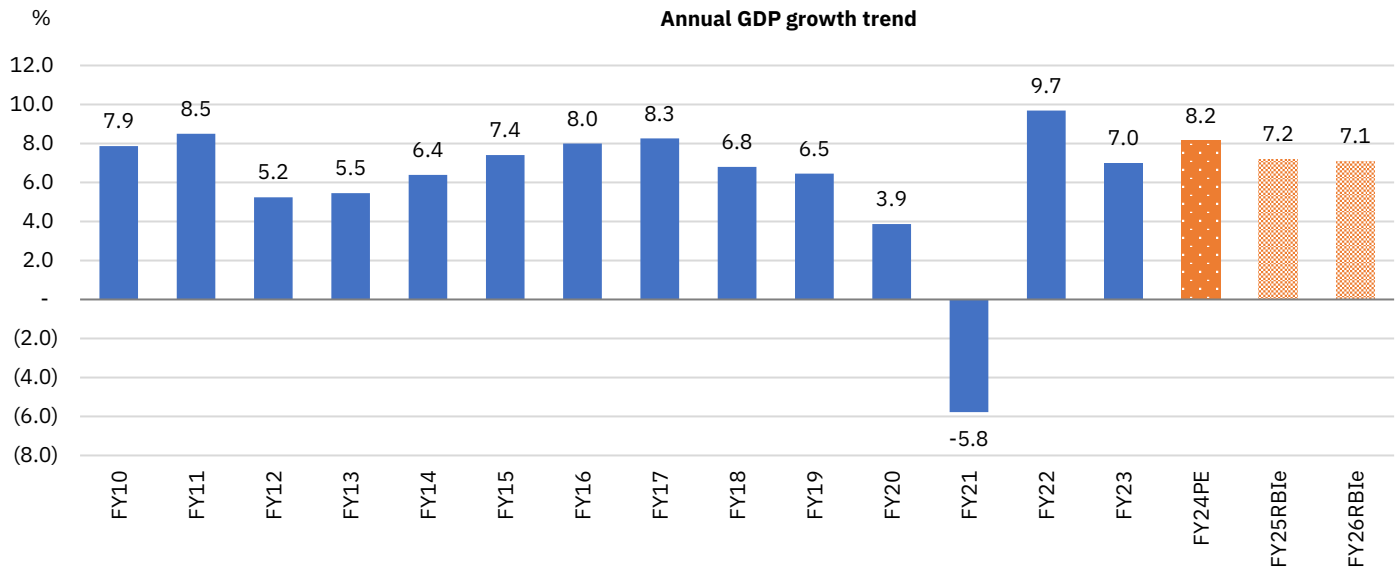
Source: LSEG Datastream, NSE EPR.

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


Source: LSEG Datastream, NSE EPR.

Figure 6: Quarterly trend of nominal vs. real GDP and GVA growth
India GDP, GVA: Nominal and Real Growth


Source: LSEG Datastream, NSE EPR.

Figure 7: Annual real GDP growth trend


Source: CSO, CMIE Economic Outlook, NSE EPR. SAE = Second Advance Estimate; PE = Provisional Estimate; RBIe = RBI Estimate.

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

	FY20	FY21	FY22	FY23	FY24PE	H1FY25
Gross Domestic Product (GDP)	3.9	-5.8	9.7	7.0	8.2	6.0
Private Consumption (PFCE)	5.2	-5.3	11.7	6.8	4.0	6.7
Government Consumption (GFCE)	3.9	-0.8	0.0	9.0	2.5	2.0
Gross Capital Formation (GCF)	-2.6	-7.4	21.1	5.5	9.4	6.5
Gross Fixed Capital Formation (GFCF)	1.1	-7.1	17.5	6.6	9.0	6.4
Exports of goods & services	-3.4	-7.0	29.6	13.4	2.6	5.6
Imports of goods & services	-0.8	-12.6	22.1	10.6	10.9	0.7
Gross Value Added (GVA)	3.9	-4.1	9.4	6.7	7.2	6.2
Agriculture	6.2	4.0	4.6	4.7	1.4	2.7
Industry	-1.4	-0.4	12.2	2.1	9.5	6.0
Mining and Quarrying	-3.0	-8.2	6.3	1.9	7.1	3.9
Manufacturing	-3.0	3.1	10.0	-2.2	9.9	4.5
Electricity	2.3	-4.2	10.3	9.4	7.5	6.8
Construction	1.6	-4.6	19.9	9.4	9.9	9.1
Services	6.4	-8.4	9.2	10.0	7.6	7.1
Trade, Hotels, Transport, Storage, Comm.	6.0	-19.9	15.2	12.0	6.4	5.9
Fin. Svcs, Real Estate & Business Svcs.	6.8	1.9	5.7	9.1	8.4	6.9
Public Administration, Defence & Other Svcs.	6.6	-7.6	7.5	8.9	7.8	9.3

Source: CSO, NSE EPR.

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We gratefully acknowledge the contribution of Shantanu Sharma, Abhijay Nair, Dhruvi Shah, Mihir Raravikar, Ranjeet Singh and Shashidharan Sharma (Research Associates) to this publication.

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