GDP Growth Accelerates to 7.8% in Q1 FY24

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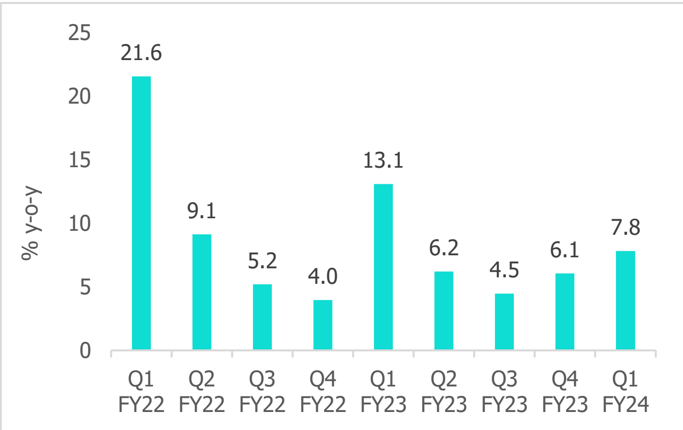
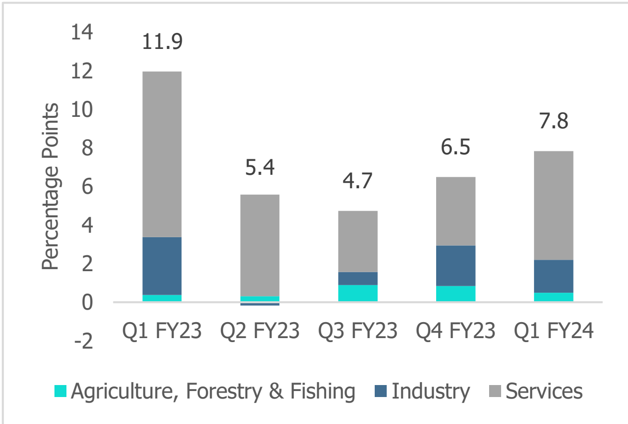
India's economic growth accelerated to 7.8% in the first quarter of FY24 from 6.1% in the previous quarter. It was broadly in line with our expectation (CareEdge: 7.7%). A supportive base along with continued strength in services and construction activities supported the growth. Encouragingly, the manufacturing sector maintained the pace gaining from favourable demand conditions and lower input prices. This was also captured in the improvement in corporates' profit margins during the quarter.

Quarterly GDP Growth



Source: MOSPI

Sectoral Contribution in GVA Growth



Source: MOSPI

On the expenditure side, a pick in private consumption was a positive development. Private consumption expenditure grew by 6%, up from a muted growth of 2.8% a quarter ago. Broadly, it was led by discretionary demand by urban consumers as reflected in healthy numbers for air and railway passenger traffic, growth in retail credit and PV sales. Some pick-up in rural demand was also witnessed during the quarter with higher growth in production of consumer non-durables and improvement in two-three-wheeler sales. It remains to be seen if the strength will be sustained given the emerging challenges on the inflation front. Though moderation in CPI-core inflation and WPI deflation are comforting factors for urban consumers and producers, high food inflation for a prolonged period could hamper rural demand.

Investment growth (as measured by GFCF) remained strong (8% growth y-o-y) benefitting from front-loading of government capital expenditure ahead of elections. The central government capex recorded a growth of 59% in Q1 FY24. A similar trend was visible for capex by states with nearly 76% growth in capex by the top 19 states. For the momentum in investment demand to continue, a sustained pick-up in private investment becomes critical. Improving capacity utilisation levels in the manufacturing sector and healthy balance sheets of corporates and banks are enabling factors for the same.

Interestingly, the trade deficit widened substantially during the quarter and was a drag on growth as exports of goods and services contracted but imports expanded by double-digits.

Growth in Consumption and Investment (% y-o-y)

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Government Final Consumption Expenditure (GFCE)	1.8	-4.1	-0.6	2.3	-0.7
Private Final Consumption Expenditure (PFCE)	19.8	8.3	2.2	2.8	6.0
Gross Fixed Capital Formation (GFCF)	20.4	9.6	8.0	8.9	8.0
GDP (at constant prices)	**13.1**	**6.2**	**4.5**	**6.1**	**7.8**

Source: MOSPI

Sectoral Performance in Q1 FY24

The agriculture sector expanded at a slower pace of 3.5% in Q1 FY24 compared with 5.5% a quarter ago. While the estimate of record foodgrain production in the agriculture year 2022-23 aided by higher Rabi sowing supported the agricultural output, weather-related disruptions during the quarter could have weighed on the sector's performance. Going ahead, the prospects of the sector will depend heavily on how the monsoon plays out. As per the latest data available (August 25), the sowing of Kharif crops such as pulses, oilseeds and cotton are lower compared to last year. Since more than 90% of the sowing is completed by August end, we don't expect a major improvement in the sowing status of these crops. A deficient rainfall will also impact the reservoir level weighing on prospects of Rabi sowing.

The industrial sector grew by 5.5% in Q1 FY24 compared with 6.3% a quarter ago. The industrial growth was mainly supported by sustained momentum in the manufacturing and construction sectors. Within manufacturing (as captured by IIP numbers), industries such as pharma, non-metallic mineral products, rubber, plastic, metals, etc. witnessed higher production growth during the quarter. The construction sector continued to expand at a healthy pace gaining from the government's thrust toward infrastructure development. Indicators of construction activities such as cement production and steel consumption grew at a healthy pace in Q1.

Services sector growth jumped to 10.3% in Q1 FY24 from 6.9% a quarter ago. Within services, there was a broad-based improvement in growth across different sub-sectors. However, the sharpest jump was seen for financial, real estate and professional services. Trade, hotels and transport sub-sectors expanded at a healthy pace gaining from strength in discretionary demand. With core inflation moderating and lower input prices, the overall sentiment remains positive for the sector as reflected in impressive Services PMI numbers.

Sectoral Growth (% y-o-y)

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Agriculture, Forestry & Fishing	**2.4**	**2.5**	**4.7**	**5.5**	**3.5**
Industry	**9.4**	**-0.5**	**2.3**	**6.3**	**5.5**
Mining & Quarrying	9.5	-0.1	4.1	4.3	5.8
Manufacturing	6.1	-3.8	-1.4	4.5	4.7
Electricity, Gas, Water Supply & Other Utility Services	14.9	6.0	8.2	6.9	2.9
Construction	16.0	5.7	8.3	10.4	7.9
Services	**16.3**	**9.4**	**6.1**	**6.9**	**10.3**
Trade, Hotels, Transport, Communication & Broadcasting	25.7	15.6	9.6	9.1	9.2
Financial, Real Estate & Professional Services	8.5	7.1	5.7	7.1	12.2
Public Administration, Defence and Other Services	21.3	5.6	2.0	3.1	7.9
GVA (at basic price)	**11.9**	**5.4**	**4.7**	**6.5**	**7.8**

Source: MOSPI

Way Forward

So far, the economic activity in India has been holding up well despite an uncertain global economic outlook. The strength in urban discretionary demand and government capital expenditure has shielded the economy from spillovers of weakening external demand. However, due to the resurfacing of inflationary woes in recent months and the lagged impact of monetary tightening, some moderation in consumption demand could be on the card. The upsurge in food inflation could impact consumers' purchasing power having implications for upcoming festive season demand. Additionally, weather-related uncertainties could hamper agricultural production posing a threat to rural demand recovery and economic growth outlook in the coming quarters. Government capital expenditure has supported investment demand so far, however, a sustained pickup in private investment will be critical for the momentum to continue.

The growth story in the subsequent quarters will, therefore, depend on various factors such as weather-related developments, the government's effectiveness in taming inflationary pressures, and spillovers from slowing external demand. Nevertheless, with the waning of the base effect, the growth numbers are expected to fall gradually in the coming quarters. Overall, for FY24, we maintain our GDP projection at 6.5% with risks titled towards downside.

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