GDP Growth Surprises on the Upside at 7.6% in Q2 FY24

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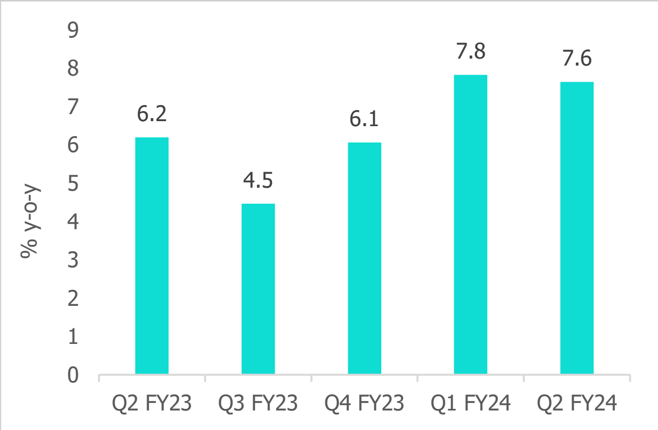
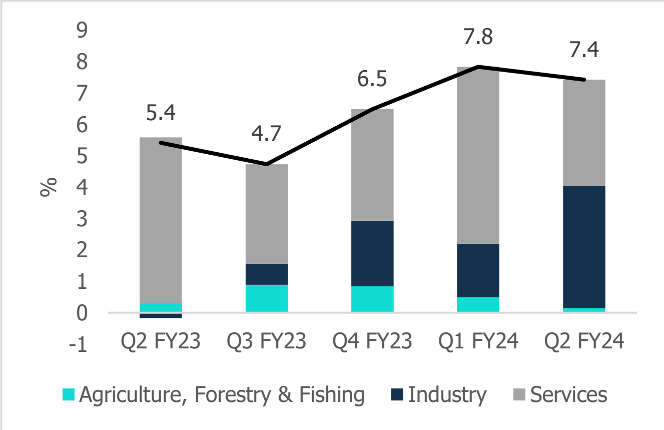
The economy maintained momentum in the second quarter (July-September) of FY24 with GDP growth at 7.6% following a 7.8% growth in the first quarter. The growth was much higher than expected, mainly driven by investments and government consumption. However, private consumption growth was muted due to weak rural demand and some moderation in urban demand amid elevated inflationary pressures in Q2. On the supply side, a significant improvement in manufacturing and construction activities supported growth. The services sector lost momentum which could indicate the normalisation of discretionary spending by the urban consumers. For the first half of the fiscal, the economy expanded by 7.7% compared with 5.3% in H2 of FY23.

Quarterly GDP Growth



Source: MOSPI

Sectoral Contribution to GVA Growth



Source: MOSPI

GDP by Expenditure – Investment Accelerates, Private Consumption Muted

Investment demand grew by 11% compared with 8% growth in the first quarter. Investment rate (GFCF as % of GDP) inched higher to 35.3% compared with 34.2% a year ago. This was supported by higher capital expenditure at both the Central and state government level. The Centre's capex was nearly 26% higher in Q2, while the state's capex grew by more than 40% in Q2 FY24.

Private consumption growth faltered in Q2 to 3.1% from 6.0% growth in Q1 FY24. Despite a robust growth in high-frequency indicators such as GST collections, retail credit, PV sales etc., weakness in rural demand impacted overall consumption growth. A confluence of factors such as weak monsoon and high food inflation have been weighing on rural demand sentiments. Going ahead, the outlook on rural demand remains mixed. The uncertainty surrounding agricultural prospects and elevated prices of certain essential food items will continue to bite. However, government relief measures ahead of the elections such as reduction in LPG prices, extension of Prime Minister Garib Kalyan Yojana (PMGKAY) for another five years till 2029 etc. will provide some cushion. In contrast to private consumption, Government consumption jumped sharply in Q2 by 12.4%. It was the highest rate of expansion in 2.5 years.

Net exports continued to widen and contributed negatively to the growth as imports growth outpaced exports growth in Q2. It fell to negative Rs 2.9 lakh crore in Q2 FY24 from negative Rs 2.6 lakh crore in the previous quarter and negative Rs 1.5 lakh crore a year ago.

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

	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Government Final Consumption Expenditure (GFCE)	-4.1	-0.6	2.3	-0.7	12.4
Private Final Consumption Expenditure (PFCE)	8.3	2.2	2.8	6.0	3.1
Gross Fixed Capital Formation (GFCF)	9.6	8.0	8.9	8.0	11.0
GDP (at constant prices)	**6.2**	**4.5**	**6.1**	**7.8**	**7.6**

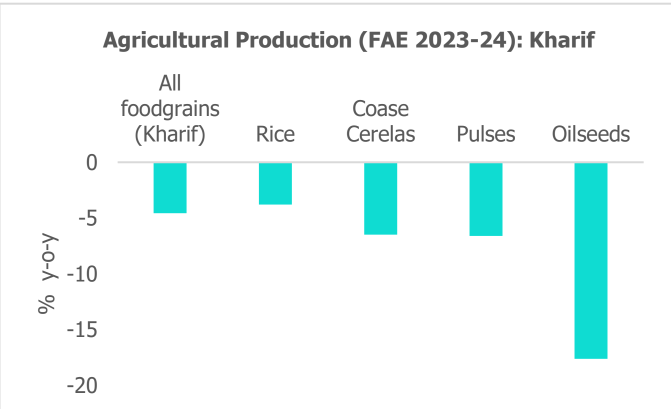
Source: MOSPI

Sectoral Performance in Q2 FY24 – Industry Shines, Agri Struggles

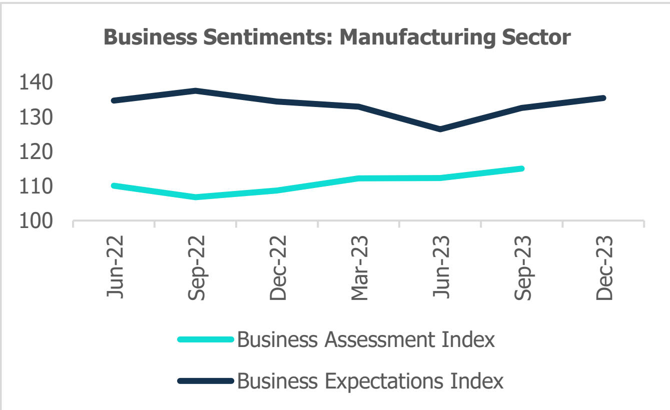
The industrial sector picked up momentum with manufacturing and construction activities witnessing significant acceleration. The sector grew by 13.2%, up from 5.5% growth a quarter ago. A positive business optimism and strong growth in new orders supported manufacturing output with net sentiments on profit margin turning positive during Q2 FY24 (RBI's Industrial Outlook Survey for Q2 FY24). Manufacturing sector growth accelerated to 13.9% in Q2 led by industries such as motor vehicle, trailers, metals, minerals and petroleum, pharma, and chemicals etc. The construction sector (13% growth in Q2) benefited from poor rainfall during August and September and higher implementation of infrastructure projects. This was reflected in robust cement and steel production and power demand during the quarter.

Services sector growth in Q2 moderated to 5.8% from 10.3% a quarter ago partly due to the normalisation of base effect and possibly some dilution in discretionary demand. Consequently, the sector's contribution to GVA growth fell to 46% from 72% a quarter ago.

Agricultural sector growth faltered to 1.2% in Q2 FY24 from 3.5% in the previous quarter. It was the slowest growth seen in 4.5 years due to erratic rainfall this year. India experienced the weakest monsoon in 2023 since 2018 caused by development El Nino conditions. Lower rainfall not only impacted the sowing of some major Kharif crops such as pulses, and oilseeds but also led to lower reservoir levels. The first advanced estimate of Kharif output reinforces the concerns surrounding the production of rice, pulses and oilseeds.



Source: CEIC; Note: FAE – First Advance Estimate



Source: RBI

Sectoral Growth (% y-o-y)

	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Agriculture, Forestry & Fishing	**2.5**	**4.7**	**5.5**	**3.5**	**1.2**
Industry	**-0.5**	**2.3**	**6.3**	**5.5**	**13.2**
Mining & Quarrying	-0.1	4.1	4.3	5.8	10.0
Manufacturing	-3.8	-1.4	4.5	4.7	13.9
Electricity, Gas, Water Supply & Other Utility Services	6.0	8.2	6.9	2.9	10.1
Construction	5.7	8.3	10.4	7.9	13.3
Services	**9.4**	**6.1**	**6.9**	**10.3**	**5.8**
Trade, Hotels, Transport, Communication & Broadcasting	15.6	9.6	9.1	9.2	4.3
Financial, Real Estate & Professional Services	7.1	5.7	7.1	12.2	6.0
Public Administration, Defence and Other Services	5.6	2.0	3.1	7.9	7.6
GVA (at basic price)	**5.4**	**4.7**	**6.5**	**7.8**	**7.4**

Source: MOSPI

Way Forward

The strong growth in the first half of FY24 has been driven by resilience in urban demand and the front loading of the government's capital expenditure. While festive cheer will support urban demand in Q3, the outlook for rural demand revival remains clouded amid monsoon deficiency and likely hit to the agricultural production. The recent announcements of various relief measures such as LPG price reduction and extension of PMGKAY are expected to provide some cushion. So far, investment demand has remained robust. However, there could be some moderation in H2 as both the government and private sector may restrain their capital spending ahead of the general elections. Despite some expected moderation in the second half, India's overall GDP growth for FY24 will remain on a firm footing.

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