GDP Growth Remains Healthy at 6.7% in Q1 FY25

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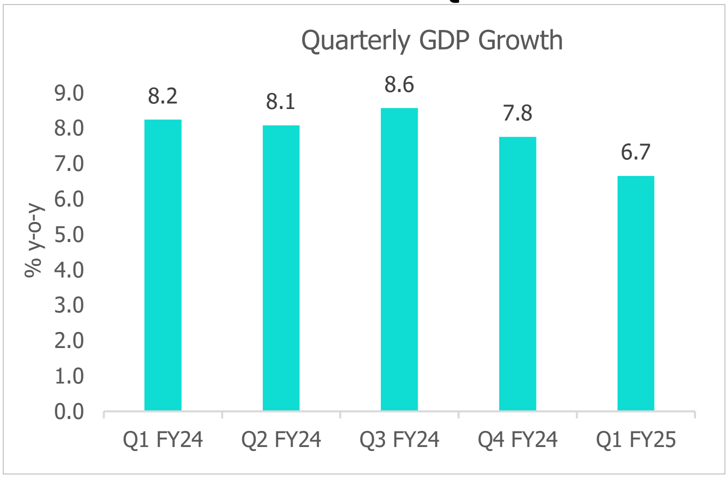
The GDP growth in Q1FY25 moderates to 6.7%, down from 7.8% in the last quarter and slightly below the market expectations. Conversely, the GVA growth came in at 6.8% in Q1FY25, higher than the 6.3% growth witnessed last quarter. This marks reversing of the trend observed in the previous two quarters, where the GDP-GVA gap averaged 160 basis points. Compared to last quarter, all major sectors have seen acceleration in growth except manufacturing and financial, real estate & professional services.

Growth Moderates Below 7% in Q1 FY25



Source: MOSPI

In terms of the sectors, the growth was supported by industries and services which expanded by 8.3% and 7.2% respectively. The agriculture sector experienced a recovery growing 2% in Q1, rebounding from sub 1% growth rates in the previous two quarters. However, this growth remained below the long-term average of approximately 3.7%. The sector was impacted by lower reservoir levels due to last year's poor monsoon and heatwaves which has impacted the productivity. The rabi production is also estimated at 155.2 million tons, slightly below the 157.8 million tons recorded the previous year. Industrial growth was driven by double-digit growth in electricity and utilities (10.4%), as well as construction activities (10.5%). Mining activities also showed a significant improvement in growth compared to the previous quarter. However, the manufacturing growth slowed to 7% from 8.9% in the previous quarter on the expected line, reflecting the moderation seen in IIP data and corporate profitability in Q1.

Within the services sector, trade, hotels, transport, communication and broadcasting services, and public administration services saw an improvement in growth compared to the previous quarter. However, the growth moderated in the financial, real estate and professional services to 7.1% compared to the previous quarter's growth of 7.6%. Overall services sector growth improved to 7.2% compared to 6.7% in the previous quarter.

Sectoral Growth (% y-o-y)

	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Agriculture, forestry & fishing	**1.7**	**0.4**	**0.6**	**2.0**
Industry	**13.6**	**10.5**	**8.4**	**8.3**
Mining & quarrying	11.1	7.5	4.3	7.2
Manufacturing	14.3	11.5	8.9	7.0
Electricity, gas, water supply & other utility services	10.5	9.0	7.7	10.4
Construction	13.6	9.6	8.7	10.5
Services	**6.0**	**7.1**	**6.7**	**7.2**
Trade, hotels, transport, communication & broadcasting	4.5	6.9	5.1	5.7
Financial, real estate & professional services	6.2	7.0	7.6	7.1
Public administration, defence and other services	7.7	7.5	7.8	9.5
GVA (at basic price)	**7.7**	**6.8**	**6.3**	**6.8**

Source: MOSPI

On the expenditure side, the private final consumption expenditure saw a significant recovery with growth jumping to 7.4% in Q1FY25 up from 4% in the last quarter. This positive development bodes well for sustained growth momentum in the coming quarters. Typically, private consumption expenditure contracts in the first quarter due to seasonal effects. However, this time, the sequential contraction was just 1.6%, the lowest since FY12, and significantly below the pre-pandemic average sequential first quarter contraction of 3.3%. Prospects of a good monsoon bode well for the overall consumption demand as it will moderate food inflation and support farm income. However, the temporal and spatial distribution of the monsoon would be an important factor to monitor.

Despite a contraction in central capex in Q1 due to election related restrictions, overall Gross Fixed Capital Formation exhibited robust growth of 7.5%, surpassing the previous quarter's growth of 6.5%. This growth, coupled with double-digit expansion in the construction sector, plausibly suggests increased capex by households and private sector. Notably, household investment in real estate has remained particularly strong post-pandemic.

Export growth remained strong at 8.7% in Q1, outpacing import growth of 4.4% during the same period. This export growth was bolstered by a notable 10.4% increase in both petroleum and services exports. However, the contraction in government consumption expenditure, influenced by election-related restrictions, impacted the overall growth figures.

Growth by Expenditure (% y-o-y)

	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Government Final Consumption Expenditure (GFCE)	14.0	-3.2	0.9	-0.2
Private Final Consumption Expenditure (PFCE)	2.6	4.0	4.0	7.4
Gross Fixed Capital Formation (GFCF)	11.6	9.7	6.5	7.5
GDP (at constant prices)	**8.1**	**8.6**	**7.8**	**6.7**

Source: MOSPI

Way Forward

For the full fiscal year 2025, we project GDP growth to be 7%, slightly below the Reserve Bank of India's forecast of 7.2%. In the upcoming quarters, the agricultural sector is expected to experience improved growth due to a good monsoon, despite ongoing distribution challenges. The overall sowing for this Kharif season remains healthy, particularly for cereals and sugarcane. A normal monsoon is also beneficial for overall consumption demand, as it would alleviate inflationary pressures and support farm income. However, it is crucial to monitor the spatial and temporal distribution of the monsoon. Additionally, an increase in government capital expenditure in the forthcoming quarters will further bolster overall growth.

In a positive development, Q1 GDP data indicates a recovery in private consumption demand, which is essential for revitalizing the private investment cycle. While the overall domestic growth momentum remains healthy, it is important to keep an eye on risks arising from external factors such as global geopolitical tensions.

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