

# Economy in recovery mode

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The Central Statistical Office today released the gross domestic product (GDP) data for Q4 fiscal 2018 and the provisional estimates for full fiscal 2018. The broad takeaway is that there has been a sharp upturn in economic activity in the quarter ended March 2018, which has improved the real GDP growth for fiscal 2018 to 6.7%, from 6.6% estimated earlier. This is in sync with the healthy corporate results for Q4, if we leave out banks and oil marketing companies. Clearly, the economy is recovering well post implementation of the Goods and Services Tax (GST) last year, given steps from the government to resolve glitches.

### Data trends

- The economy continued its growth momentum as real GDP growth spurted to an eight-quarter high of 7.7% in Q4, up from 7% (revised downward from 7.2% earlier) in Q3. This suggests that demonetisation impact is fading and GST related glitches are getting resolved. The improvement in growth appears to be broad-based, with both consumption and investment showing improvement. Final consumption expenditure improved to 8.1% in Q4, from 6% in Q3, mostly supported by the 16.8% rise in government consumption expenditure in Q4 (up from 6.8% in Q3). This could be attributed to pay commission hikes being implemented by different states. Private consumption growth improved modestly to 6.7%, from 5.9%. Fixed investment growth jumped to 14.4% from 9.1%. However, the external sector remains a drag on GDP, with imports rising 10.9% in Q4, compared with a muted growth of 3.6% in exports.
- On the supply side, growth in gross value added (GVA) - a firmer measure of economic activity - improved 100 basis points (bps) to 7.6% in Q4 from 6.6% in Q3. While agriculture (Q4 growth at 4.5% vs 3.1% in Q3) and industrial (8.8% vs 7.1%) sector displayed improvement in growth, services sector growth remained stagnant at 7.7%. Agriculture growth was supported by a record food grains production in fiscal 2018. Within industry, manufacturing growth gained momentum, rising 9.1% in Q4 (up from 8.5% in Q3) and so did the construction sector (11.5% growth), albeit helped by a weak base of last year (see tables at the bottom). It is surprising that services sector growth did not pick up despite higher agriculture and industry growth. One reason is the poor performance of the Financial, Real Estate and Professional Services sector in which growth slowed to 5% in Q4 (from 6.9% in Q3). This is largely attributable to poor performance of the banking sector. Growth of the Trade, Hotels, Transport, Communication and Services Related to Broadcasting sector slowed down to 6.8% from 8.5%, seemingly on account of GST related glitches. Government services did the balancing as its growth jumped to 13.3% from 7.7%.
- On an annual basis, real GDP growth for fiscal 2018 has been revised up by 10 bps to 6.7%, compared with the previous estimate. Notably, while consumption remains the biggest driver of GDP growth, investments have started to turn supportive in the last two fiscals, with investment growth surpassing GDP growth in both fiscal 2017 and fiscal 2018. This is largely attributable to the government's focus on capex as the private corporate sector remains focused on improving its capital structure (reducing leverage) and household investments have shrunk. On the supply side, construction sector seems to be picking up speed, again on account of government thrust on infrastructure and affordable housing, with a rural focus.

### Outlook

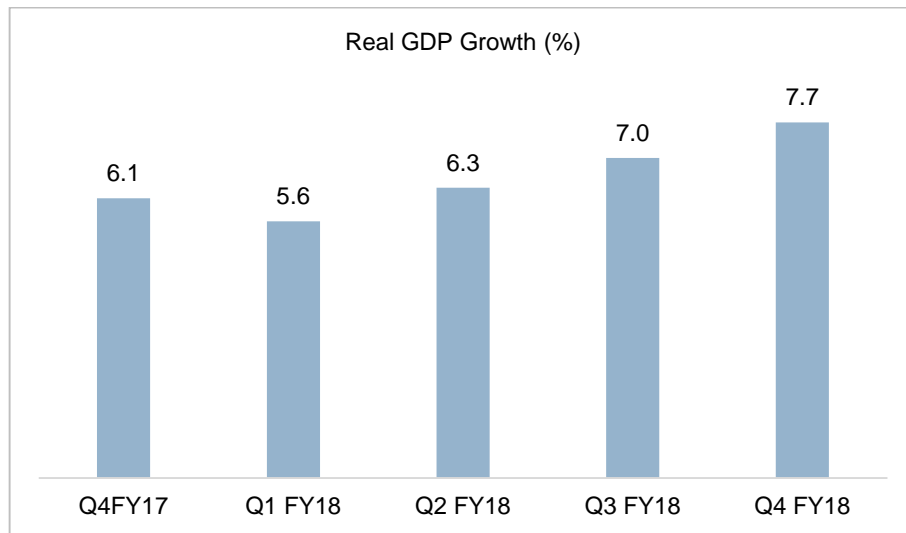
GDP growth has shown a sharp upturn in Q4 fiscal 2018. We expect the momentum to continue and lift growth to 7.5% in fiscal 2019 compared with 6.7% in fiscal 2018.

That, however, would still be lower than the long-term trend of 7.6%. Plus there is a downside risk to this number if oil prices sustain at the current levels.

That said, the growth revival in fiscal 2019 would be consumption-led, with mild support from investments. A normal monsoon in 2018, benign interest rates, return of pent-up demand and implementation of house rent allowance (HRA)

revisions at the state government level would support growth, together with the government's thrust on rural and infrastructure sectors. Quick resolution of GST related glitches and faster trade growth, supported by cyclical recovery in the global economy should help lift India's exports, too. Recapitalisation of public sector banks will allow funding support from banks and support growth.

**A fillip to growth**



Source: CSO

**The GDP growth trajectory**

**Quarterly trend**

At basic prices	Q4FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	At market prices	Q4FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18
<b>Agriculture &amp; allied</b>	7.1	3.0	2.6	3.1	4.5	<b>Pvt. Consumption</b>	4.2	6.9	6.8	5.9	6.7
<b>Industry</b>	5.0	0.1	6.1	7.1	8.8	<b>Govt. Consumption</b>	22.5	17.6	3.8	6.8	16.8
<i>o/w Manufacturing</i>	6.1	-1.8	7.1	8.5	9.1	<b>Fixed Investment</b>	6.0	0.8	6.1	9.1	14.4
<i>Mining</i>	18.8	1.7	6.9	1.4	2.7	<b>Exports</b>	7.0	5.9	6.8	6.2	3.6
<b>Services</b>	6.3	9.5	6.8	7.7	7.7	<b>Imports</b>	6.6	18.5	10.0	10.5	10.9
<b>GVA</b>	6.0	5.6	6.1	6.6	7.6	<b>GDP</b>	6.1	5.6	6.3	7.0	7.7

**Annual trend**

At basic prices	FY14	FY15	FY16	FY17	FY18	At market prices	FY14	FY15	FY16	FY17	FY18
<b>Agriculture &amp; allied</b>	5.6	-0.2	0.6	6.3	3.4	<b>Pvt. Consumption</b>	7.3	6.4	7.4	7.3	6.6
<b>Industry</b>	3.8	7.0	9.8	6.8	5.5	<b>Govt. Consumption</b>	0.6	7.6	6.8	12.2	10.9
<i>o/w Manufacturing</i>	5.0	7.9	12.8	7.9	5.7	<b>Fixed Investment</b>	1.6	2.6	5.2	10.1	7.6
<i>Mining</i>	0.2	9.7	13.8	13.0	2.9	<b>Exports</b>	7.8	1.8	-5.6	5.0	5.6
<b>Services</b>	7.7	9.8	9.6	7.5	7.9	<b>Imports</b>	-8.1	0.9	-5.9	4.0	12.4
<b>GVA</b>	6.1	7.2	8.1	7.1	6.5	<b>GDP</b>	6.4	7.4	8.2	7.1	6.7

Source: CSO

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