Macroeconomics | First cut

Factoring in the slowdown

January 6, 2023

NSO pegs growth this fiscal at 7%, and for the second half at 4.5%

- The National Statistical Office (NSO) released today the first advance estimate (FAE) for gross domestic product (GDP) in fiscal 2023. Real GDP growth is pegged at 7% on-year for this year — same as our forecast — compared with 8.7% in fiscal 2022
- Between January and May each year, India gets to see two 'advance' and one 'provisional' estimate of gross domestic product (GDP) growth, as more data becomes available. But the crucial number will be in the May 'provisional estimate', considered more reliable and with a longer shelf life, as the next revision (called the first revised estimates) will be available only in calendar 2023
- The primary purpose of FAE is to provide an estimate for nominal GDP growth for the upcoming Union Budget, as it is used for preparing revised fiscal deficit number for current fiscal year. FAE pegs nominal GDP at 15.4% for current fiscal, against 11.1% estimated during Budget 2022
- The upward revision in nominal GDP has given the government scope to increase fiscal deficit, while maintaining its proportion to GDP at budget target. Given the latest update on nominal GDP, the government can increase fiscal deficit by Rs 97,080 crore, while sticking to budget target of fiscal deficit at 6.4% of GDP. This will help accommodate additional capital expenditure and subsidies incurred this year. Both fertiliser and food subsidy allocations were revised up significantly soon after the Budget announcement
- Based on the FAE, real GDP growth in second half this fiscal is expected at 4.5% on-year, down from 9.7% in the first half
- The drags would be agriculture (2.7% growth in the second half versus 4.5% in the first), and some industrial components (construction: 7.3% vs 11.5%; electricity: 7.9% vs 10%)
- Notably, all components of services are expected to see slower growth (trade, hotels, transport and communication services (THTC): 9.4% vs 19.5%; financial real estate and professional services: 4.2% vs 8.2%); public administration, defence and other services (1.7% vs 15.3%). This would be a result of fading base effect and progressing catch up to pre-Covid levels. However, THTC will remain slowest to recover to pre-pandemic levels (*see chart below*)
- Manufacturing growth is seen rising mildly in second half (3% vs 0.1%), as is mining (2.6% vs 2.2%)
- A slowdown is expected in all demand components with exception of government consumption spending. Private consumption is expected to decline 0.2% on-year in the second half, after growing 17.2% in first. Private consumption remains slowest to recover to pre-pandemic levels.
- Fixed investment is expected to slow to 8.4% in second half from 15.0%. Among external trade components, exports (11.9% vs 13.0%) are expected to slow more than imports (12.2% vs 30.9%). However, government spending is expected to rise (7.2% vs -1.3%).

CRISIL
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Our view

The first advance estimates are prepared based on high-frequency indicators in the first 7-8 months of the year, and are subject to revisions as more concrete data becomes available.

A deceleration is largely anticipated in the second half of the current year due to base effect as well as adverse impact of slowing global growth. Recovery in household consumption and catch-up in contact-based services is expected to support growth this fiscal.

The slowdown is expected to intensify next year, as global growth falls further. S&P Global expects the US to swing from a GDP growth of 1.8% in 2022 to a contraction of 0.1% in 2023, and the European Union from 3.3% to 0%, driven by tight financial conditions induced by rate hikes of US Federal Reserve, and the European energy crisis.

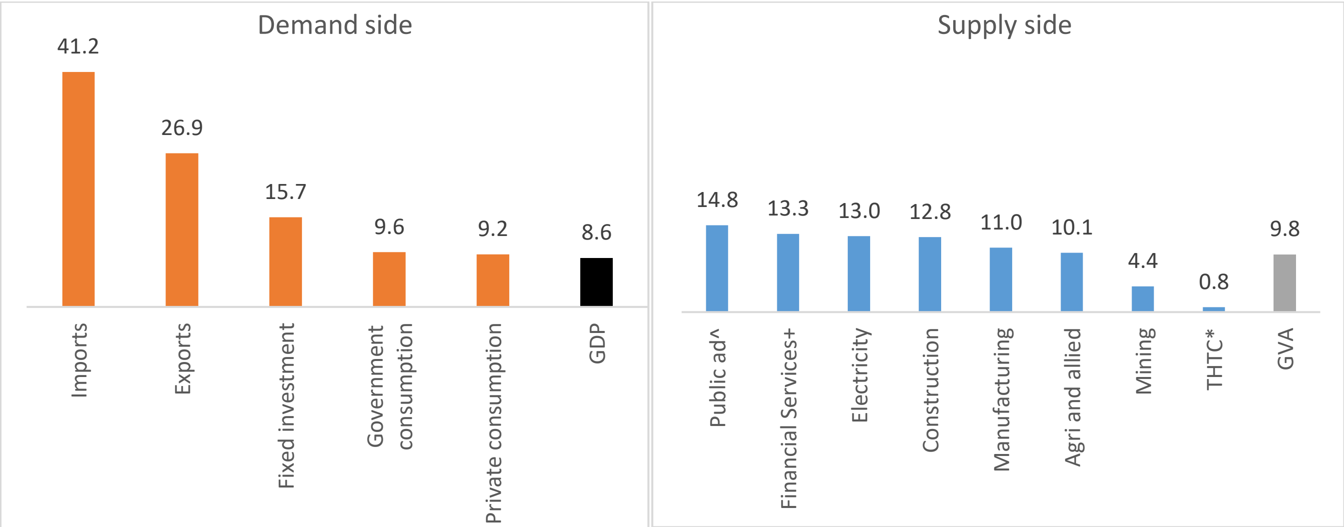
Over the past two decades, India's growth cycles have got increasingly synchronised with that of advanced economies since the 2000s due to enhanced integration of trade and capital flows.

While domestic demand has stayed relatively resilient so far, it would be tested next year by weakening industrial activity. It will feel the pressure from increasing transmission of interest rate hikes to consumers as well, and as the catch-up in contact-based services fades.

Also, rural income prospects remain dependent on the vagaries of the weather. Therefore, increasing frequency of extreme weather events remain a key monitorable. While lowering demand for Mahatma Gandhi National Rural Employment Guarantee Act jobs is an encouraging sign for the rural economy from a job perspective, depressed wages are a matter of concern for rural demand.

Because of these factors, CRISIL projects real GDP growth to slow to 6% next fiscal, with risks tilted to the downside. We expect the nominal GDP growth to slow from 15.4% this fiscal to around 11% next fiscal.

Where GDP stands relative to pre-pandemic levels: Growth this fiscal over 2020 (%)



Note: THTC refers to trade, hotels, transport and communication services; Financial services+ refers to financial, real estate and professional services; Public ad+ refers to public administration, defence and other services
Source: NSO, CEIC, CRISIL

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