Macroeconomics | First cut

Slower but more even

September 2, 2024

Domestic demand picks up, however

Key takeaways from the first-quarter GDP data

- **Gross domestic product (GDP) growth slowed in line with expectations**: GDP grew 6.7% on-year in the first quarter of fiscal 2025, in line with our forecast of 6.8%. The print was a deceleration vs the fourth quarter of fiscal 2024, which saw the economy expand 7.8%. And in the first quarter of fiscal 2024, the economy had grown 8.2%
- **Nominal GDP moderated as well to 9.7% from 9.9%** in the last quarter of fiscal 2024 but was higher than 8.5% in the year-ago quarter

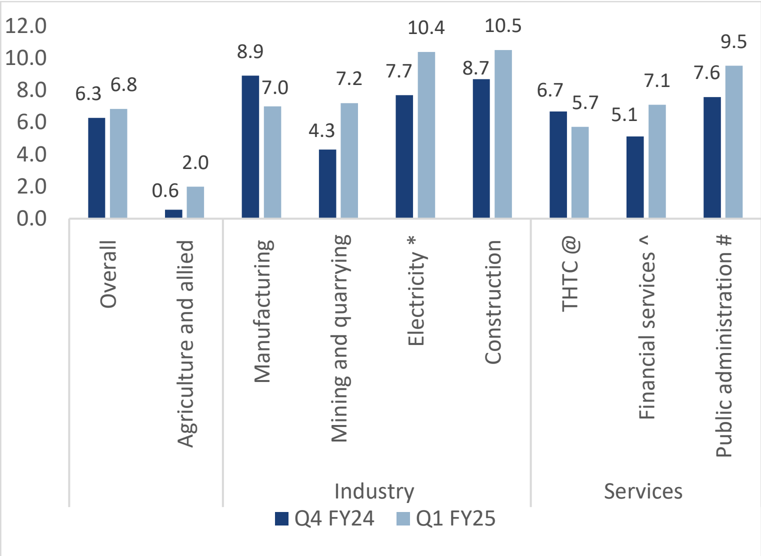
Within the GDP basket:

- **Decline in government consumption spending** was a drag on GDP growth. And reducing growth in net taxes limited the rise in GDP over gross value added (GVA) growth
- Also, despite healthy growth of 7%, **manufacturing was slower** than in the last quarter fiscal 2024, while **agriculture and services improved**. However, the improvement in agriculture was relatively modest, which capped the rise in GDP

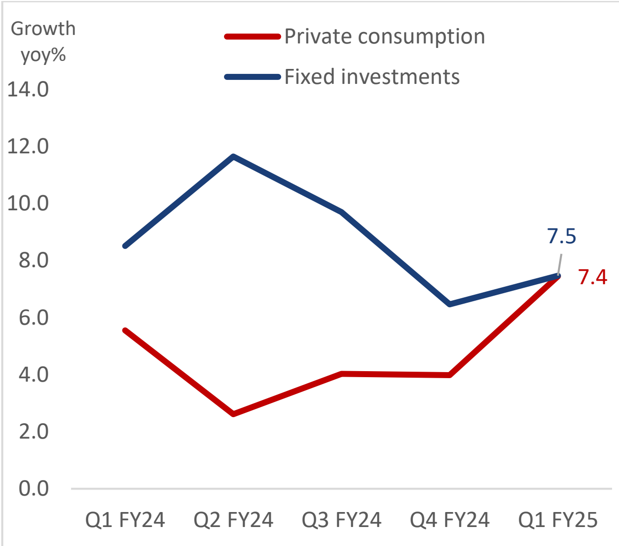
That said:

- **Non-agriculture growth was stronger:** Non-agriculture growth rose to 7.6% from 7.3% in the fourth quarter of last fiscal. Within the space, construction rose the sharpest, overtaking government capital expenditure (capex). This suggests continued momentum in private investment, particularly household real estate activity
- **Consumption and investment pick up:** After a weak fiscal 2024, private consumption picked up significantly in the first quarter of this fiscal. A large part of the increase in consumer demand was owing to improving rural conditions. Also, growth in fixed investments accelerated despite low government capex, indicating other private investments (i.e. household and private corporate investments) have gathered steam

Agriculture and services record stronger growth in Q1



Consumption and investments pick up



Note: THTC: Trade, hotels, transport and communication. # Electricity, gas, water supply and other utility services. @ Trade, hotels, transport, communication and services related to broadcasting, ^ Financial, real estate, and professional services. # Public administration, defence, and other services

Source: National Statistical Office (NSO), CEIC, CRISIL

The fine print

Improving agriculture and services, moderating industry

- **GVA growth slightly higher than GDP growth:** On the supply side, GVA growth of 6.8% was slightly higher than 6.7% GDP growth as growth in net taxes slowed sharply (4.1%)

- GVA growth for agriculture picked up (2.0% vs 0.6% in the previous quarter). Higher growth in agriculture and allied activities reflects a healthy rabi harvest (which typically takes place between March to May) with wheat production picking up 3.1% on-year. However, growth remained significantly below 3.7% recorded in the first quarter of last fiscal (which also happens to be the decadal average growth in the sector). Heatwaves in some parts of the country during April and May adversely impacted agricultural production.

- Industry growth stayed steady at 8.4%. Within industry, manufacturing growth moderated to 7% in the quarter from 8.9% in the previous quarter. Index of Industrial Production (IIP) data shows a mixed trend in demand for goods. Notably, reduced government spending weighed on IIP growth. Input costs also inched up, with Wholesale Price Index-based inflation rising to 2.4% from 0.3% in the previous quarter

  That said, the industrial sector recorded a significantly robust performance compared with 5% growth in the year-ago period.

  Construction GVA rose in the first quarter (10.5% vs 8.7%), despite a contraction in government spending (central capex contracted 35% while state capex[1] fell 14.6%). This indicates that broader construction activity remained strong, possibly buoyed by continued real estate momentum.

---

[1] Based on data from 17 states

A significant pick-up was seen in electricity (10.4% vs 7.7%) and mining (7.2% vs 4.3%). The latter is likely due to high demand during heatwaves in April and May.

- Services growth picked up (7.2% vs 6.7%), driven by increasing growth in public administration and THTC services
    - THTC[2] growth picked up to 5.7% from 5.1% in the previous quarter, supported by rising private consumption
    - Growth in financial, real estate and professional services moderated to 7.1% from 7.6%, but remained elevated
    - Public administration, defence and other services grew 9.5% vs 7.8%

However, growth in the services sector was below 10.7% recorded in the first quarter of last fiscal as pent-up demand for THTC services has consistently slipped.

Consumption and investments up

- **Private consumption rises materially:** Private final consumption expenditure (PFCE) increased to 7.4% in the first quarter from 4% in the previous quarter. High frequency indicators show revival in rural demand.

  Rising agriculture growth and declining job demand under National Rural Employment Guarantee Act (MGNREGA) indicate improvement in rural conditions. Tractor sales rebounded this quarter after several months. Two-wheeler sales continued to show healthy growth, albeit with some moderation.

  The Reserve Bank of India's (RBI) survey released in August indicates that consumer confidence in urban areas weakened in May. Support from bank retail credit growth, while healthy, moderated in the first quarter.

  Sectoral IIP data showed consumer durables slowing and non-durables contracting in the first quarter, indicating a long road ahead for consumption recovery. Despite slowing IIP growth, merchandise imports rose, suggesting rising consumption could have been met by the latter. Rising consumption also ties up with higher services growth relative to the previous quarter.

- **Fixed investment**, as measured by gross fixed capital formation (GFCF), picked up in the first quarter (7.5% vs 6.5%), suggesting recovery in private investment as conditions improved, driven by rising capacity utilisation in the manufacturing sector and foreign direct investment. It also suggests that household investments remain healthy, driven by a robust real estate sector. However, growth in fixed investment was below 8.5% recorded in the first quarter of last fiscal, as fiscal consolidation and election focus resulted in reduced government spending (central capex fell 35% on-year while state capex[3] contracted 14.6% in the first quarter of fiscal 2025).

- **Net exports drag down growth**: Exports of goods and services increased 8.7% on-year in the first quarter vs 8.1% in the preceding one, following improvement in global trade growth. Meanwhile, import growth of goods and services slowed down to 4.4% vs 8.3% growth in the previous quarter. As the base of import values is higher than exports, net exports (exports minus imports) remained a drag on GDP in the first quarter.

[2] Trade, hotels, transport, communication and services related to broadcasting
[3] Based on data from 17 states

- **Government** consumption spending, as measured by government final consumption expenditure (GFCE), contracted in the first quarter (-0.2% vs 0.9%), broadly in line with 0.1% contraction in the first quarter of last fiscal.

Outlook

We expect GDP growth to moderate to 6.8% this fiscal after a high growth of 8.2% last year, weighed down by high interest rates and low fiscal impulse.

On a positive note, last year's laggards — agriculture and consumption — are poised to rise. Rural demand is expected to drive consumption.

Monsoon is progressing well and is above normal as on August 30 (7% above long period average). Kharif sowing, too, is higher on-year. Along with increasing agricultural production, it will help ease food inflation this year, which is critical to raise discretionary spending.

In addition, government spending on employment and asset generating schemes (PM Awaas Yojna for urban and rural areas) should provide additional support to consumption growth.

However, unlike last fiscal, rural consumption is expected to outpace urban, as higher interest rates impact urban areas more. The signs of this are visible in the RBI's consumer confidence survey for urban areas released in August. Net-net, high rural demand and easing food inflation are expected to lift consumption over the anaemic 4% growth seen last year.

Investment prospects hinge on a sustained pickup in private capex. Conditions remain conducive for private investment, with capacity utilisation in manufacturing at a decadal high.

Exports will have to navigate through mixed trends of improving global trade flows but slowing global growth. Recent data for the US indicate its labour market is cooling, which points to slower growth ahead.

Nevertheless, given our growth expectation of 6.8%, we expect India to log the fastest growth among major economies and fare better than 6.7% growth seen in the decade preceding the pandemic.

Analytical contacts

Dharmakirti Joshi
Chief Economist, CRISIL Limited
dharmakirti.joshi@crisil.com

Pankhuri Tandon
Senior Economist
pankhuri.tandon@crisil.com

Bhavi Shah
Economic Analyst
bhavi.shah@crisil.com

Media contacts

Prakruti Jani
Media Relations
CRISIL Limited
M: +91 98678 68976
prakruti.jani@crisil.com

Roma Gurnani
Media Relations
CRISIL Limited
M: +91 70662 92142
roma.gurnani@ext-crisil.com

Sanjay Lawrence
Media Relations
CRISIL Limited
M: +91 89833 21061
sanjay.lawrence@crisil.com

About CRISIL Market Intelligence & Analytics

CRISIL Market Intelligence & Analytics, a division of CRISIL, provides independent research, consulting, risk solutions, and data & analytics. Our informed insights and opinions on the economy, industry, capital markets and companies drive impactful decisions for clients across diverse sectors and geographies.

Our strong benchmarking capabilities, granular grasp of sectors, proprietary analytical frameworks and risk management solutions backed by deep understanding of technology integration, make us the partner of choice for public & private organisations, multi-lateral agencies, investors and governments for over three decades.

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong, UAE and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

CRISIL Privacy Notice

CRISIL respects your privacy. We may use your personal information, such as your name, location, contact number and email id to fulfil your request, service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.