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AFTER FACTORY OUTPUT CONTRACTS 4.3% IN SEPT...

Economists Say Growth for FY20 may Slip to Around 5%

Growth in July-Sept may have dropped to 4.2% from 5% in first quarter

Our Bureaus

Down, But Not Out

Economists see Q2 growth below **5%**

They see FY20 growth below **6%**

Some expect a better second half

WHAT COULD PROVIDE SUPPORT

RBI to cut rate further in Dec

Govt measures to start having impact

Some sectors beginning to show revival signs

Statistical base effect would diminish

ESTIMATES (%)	Q2FY20	FY20
Care	4.5	6.2*
HDFC Bank	4.8	5.8
ICRA	4.7	5.8
Edelweiss	NE	5.7
Bandhan Bank	<5.0	5.5
SBI	4.2	5
Kotak Mahindra Bank	4.7	5
CRISIL	<5.0	NE

*with downward bias; NE: Not Estimated

New Delhi | Kolkata: Two of India's leading banks see growth slowing to 5% in the current financial year, following a sharper-than-expected contraction in industrial production in September and little evidence of a meaningful recovery. GDP grew 6.8% in FY19.

Growth in the July-September period may have dropped to 4.2% from 5% in the first quarter, according to estimates compiled by **ET**, increasing pressure on the government to take more steps to revive sentiment and demand. Official GDP data for the second quarter will be released on November 29 and the first full-year estimate will be available in January.

"The second-quarter GDP growth rate is likely to slip to 4.2% on account of low automobile sales, deceleration in air traffic movement, flattening of core sector growth and declining investment in construction and infrastructure," according to Ecowrap, a monthly report by the Economic Research Department of State Bank of India (SBI).

The SBI report pegged full-year growth at 5%, down from 6.1% it had estimated earlier and expects "larger rate cuts" from RBI in the December monetary policy review, although it cautioned against such a move. The economy grew 5% in the June quarter, its slowest pace in six years.

Data released on Monday showed industrial production contracted 4.3% in September, the worst performance since October 2011. For the six months to September, industrial growth was 1.3% against 5.2% in the same period last year.

The numbers triggered a raft of downgrades, even sharper than those after the first-quarter GDP estimates were announced in end-August.

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‘Economic Activity has Worsened’

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A Kotak Mahindra Bank note said it expected second-quarter growth at 4.7% and full-year growth at 5%.

“After a disappointing start to 1QFY20 amid a consumption and investment-led slowdown, high-frequency indicators suggest that economic activity has worsened in 2QFY20, despite a pickup in government spending,” the note said.

The weakness in the real estate and financial sectors are feeding into each other, said Crisil chief economist DK Joshi, pegging July-September growth at below 5%. The “recovery will be gradual as the current downturn is accompanied by clean-up in the financial sector.”

LITTLE CHEER

Advance indicators show weak consumption and investment, prompting gloomy estimates.

Power demand fell 13% in October, diesel consumption has contracted in recent months and, despite the festive season, retail car sales were barely positive in November. A quarterly survey by think tank National Council of Applied Economic Research (NCAER) showed business confidence at a six-year low in October, falling sharply by 15.3% from July.

“Most high-frequency indicators remain visibly weak,” said Siddhartha Sanyal, chief economist and head of research, Bandhan Bank. “Business and consumer sentiment indicators are markedly depressed as well. Overall, a sub-5% Q2 FY20 GDP print is a strong possibility.” Any improvement in the second half will likely be modest and gradual.

Sanyal pegged FY20 growth at 5.5%.

HDFC Bank chief economist Abheek Barua is more optimistic about the last six months of the fiscal year.

“Second half will look better... sequentially it would be better,” he said. “There are structural issues in automobile but sectors such as FMCG (fastmoving consumer goods), pharma, chemical seem to be doing well looking at the corporate results.”

HDFC Bank expects second-quarter growth at 4.8% and 5.8% in FY20.

Barua’s optimism was shared by rating agency CARE’s chief economist Madan Sabnavis, who expects second-quarter growth at 4.5% and for the full year at 6.2%, with a downward bias.

“We may expect better numbers in Q3 and Q4 as the statistical bias would diminish,” Sabnavis said. “However, on the whole, growth conditions remain muted and for the full year our projection remains at around 6.2% with downward bias.”

Kotak also expects economic activity to improve somewhat from the second half due to a favorable base effect and lower policy rates amid easier liquidity conditions and government spending.

RATE CUTS AND STIMULUS

The expectations of sharp rate cuts have risen in the December policy review.

The central bank has already cut policy rates by 135 basis points in the current year. In its last policy review the RBI had cut its growth forecast for the year to 6.1% from 6.8% estimated earlier. The central bank had forecast a 5.3% rise in GDP in the July-September quarter.

However, the SBI report said “a larger rate cut” is unlikely to lead to an immediate revival and could result in potential financial instability. Debt-financed consumption against increasing household leverage has not worked overseas and India can’t be an exception it warned, calling for fiscal measures from the government.

“Much of the reluctance about use of fiscal policy in India currently appears from the fact that the monetary policy space is still adequate. This we believe could be counterproductive,” said the SBI report authored by Soumya Kanti Ghosh, group chief economic adviser.

“A more aggressive fiscal and monetary response is needed to arrest the downturn,” Edelweiss said.

The government has unveiled a series of measures, including a cut in the corporate tax rate to 15% and a Rs 25,000 crore special window for stalled real estate projects to help revive the economy.