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Growth's upside surprise

Q4 manufacturing, services drive GDP growth

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The quarterly growth prints for the Indian economy are always keenly watched. Interest piques further in May, when the annual growth estimate is released as well. Our key takeaways from the latest data are as follows: the pace of GDP expansion of 6.1 per cent in Q4 FY2023 resoundingly exceeded expectations, pushing up the annual FY2023 growth to a higher than estimated 7.2 per cent.

On expected lines, there was a sequential improvement in growth from the previous quarter's low of 4.5 per cent, even as it remained rather uneven across the sectors and expenditure aggregates,

First off, India's GDP and GVA prints for Q4 FY2023, at 6.1 per cent and 6.5 per cent respectively, were significantly higher than the consensus estimates for that quarter. The positive surprise in the Q4 numbers relative to our forecasts was largely driven by manufacturing, reflecting a combination of higher volumes and margin improvement related to the moderation in commodity prices. The performance of this sub-sector improved to an expansion of 4.5 per cent in Q4 FY2023 after having contracted in each of the last two quarters.

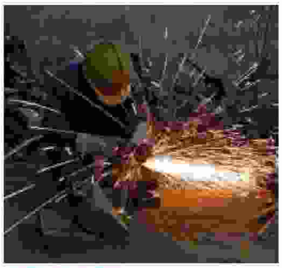
At the same time, growth in the construction segment rose to a robust 10.4 per cent in Q4 FY2023 from 8.3 per cent in Q3 FY2023, surpassing the performance of the other sub-sectors of the GVA.

SERVICES BOOST

Notably, the services sector remained the fastest growing segment, rising by 6.9 per cent YoY in that quarter, led by the sustained recovery in contact-intensive services as well as robust services exports. We foresee services to remain the fastest growing sector in FY2024 as well.

In spite of the unseasonal rainfall, agri GVA rose by a surprisingly robust 5.5 per cent in Q4 FY2023, reflecting the trend in the production of rabi crops.

On the expenditure side, the subdued growth in private final consumption expenditure (PFCE), at just 2.8 per cent in Q4 FY2023, is quite concerning and at odds with the sustained improvement in consumer sentiments. Surprisingly, the growth in PFCE relative to the pre-Covid levels of FY2019 has softened to 16.8 per cent in Q4 FY2023 from 21.9 per cent in Q3 FY2023, which may portend



GDP GROWTH. Manufacturing push REUTERS

subsequent upward revisions.

Gross fixed capital formation (GFCF), on the other hand, witnessed a healthy growth of 8.9 per cent in Q4 FY2023, contributing as much as 3.1 pp to the GDP growth in that quarter. India's growth trajectory for FY2024 will be constrained by the slowdown in external demand.

This trend is likely to continue through the next few quarters, amid expectations of a recession in some advanced economies.

Notwithstanding the subdued outlook for exports, domestic consumption and investment demand are expected to remain buoyant on and softening inflationary pressures, and the increase in budgeted capex by the Centre and the States.

At present, ICRA expects the GDP growth to moderate to 6 per cent in FY2024 from 7.2 per cent in FY2023, partly led by the base effect. However, the impact of rising EMIs on household budgets, export contraction on employment, and a potential El Nino on crops, food prices and farm incomes pose challenges. ICRA estimates the downside risk to the FY2024 GDP growth from the latter at up to 50 bps, even as frontloaded capex by the Centre and the States and a rapid execution of infra projects could provide an upside.

Our GDP growth projection for FY2024 remains below the Monetary Policy Committee's (MPC's) estimate of 6.4 per cent on account of materially lower projections for the second half of the fiscal. Besides, the CPI inflation is expected to trail the MPC's estimate for Q1 FY2024, which may support a reduction in its inflation forecast for full-year FY2024, although concerns about the monsoon may dissuade it from doing so at the current juncture. All told, we expect the MPC to vote for another pause in its June 2023 policy meeting.

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