

India Watch

Dec quarter GDP: Look beyond the headline

Real GDP growth improves, GVA growth softens

Real GDP growth for 3QFY24 (Oct-Dec quarter) improved further to 8.4% yoy from 8.1% yoy seen in 2QFY24. This was sharply higher than our (6.4%) and consensus' estimate of 6.6% yoy. Real GVA growth on other hand softened to 6.5% yoy in Dec quarter vs 7.7% yoy seen in Sep quarter. This too was higher than our 6.2% and consensus' 6.4% yoy estimate. Sequentially, real GDP grew by 4.5% qoq, outperforming the median qoq growth rate of 3.7% typical of Dec quarter. Real GVA on the other hand grew by 3.7% qoq, lower than the 4.1% median qoq run rate.

It's not as good as it looks

GDP data release shows up 5 interesting things:

While GDP growth improved, GVA growth slowed in Dec vs Sep quarter (Exhibit 1). This was on account of a 32% jump in net indirect tax growth (Exhibit 6). Remember, $GDP = GVA + NIT$, NIT is indirect tax net of subsidy. Although GST collection grew by 13% yoy in Dec quarter, up from 10.8% yoy in Sep quarter, the sharp jump in NIT was due to decline in subsidy payout, which fell by 50% yoy in Dec quarter (Exhibit 7), thus pushing up net indirect tax growth, resulting in a wide wedge between GDP and GVA growth rates.

Real GVA growth slowed due to decline in agriculture growth and lower industry growth. Services sector growth improved led by higher trade, hotels, transport, communication category (Exhibit 3). As we have highlighted earlier, the average gap between industry GVA growth and quarterly IIP growth is ~190bp. That widened sharply to 570bp in Sep quarter, it came off a bit to 510bp in Dec quarter (Exhibit 2). We believe there is room for this divergence to mean revert and thus we continue to expect FY24 real GVA growth to underperform government's forecast (6.7% BofAe vs 6.9% MOSPI).

Component-wise data shows that real GDP growth improved due to a modest increase in private consumption expenditure, which grew by 3.5% yoy (vs 2.4% yoy in Sep'23 quarter) even as government consumption expenditure de-grew (Exhibit 4). Gross fixed capital formation saw robust growth at 10.6% yoy, down 1pp vs Sep quarter (Exhibit 5). In sum, growth in GDP was driven by lower subsidy payout and not any meaningful increase in expenditure. Exhibit 8 shows that despite similar underlying proxy variables, the correlation between government final consumption expenditure (in GDP) and public administration and defense services (in GVA) has been weakening.

As both CPI and WPI for Dec quarter were higher than Sep quarter, GDP and GVA deflator also inched up a shade to 1.6% and 1.7% respectively (up 20bp, Exhibit 10). Such low deflators implied nominal GDP and GVA growth continued to stay low. Even though nominal GDP is expected to grow by 9.1% yoy in FY24 (vs 8.9% as per FAE), the revised level is lower. This statistically implies that the revised fiscal deficit estimate for FY24 could be higher by 10bp at 5.9% of GDP.

Revision of FY23 data led to lower GVA growth for Dec quarter. If one were to use previously available data, Dec quarter real GVA growth would have been 7.1% (vs 6.5%).

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Glossary

GDP: Gross Domestic Product
GVA: Gross Value Add
GFCE: Government final consumption expenditure
WPI: Wholesale Price Index
CPI: Consumer Price Index
PFCE: Private final consumption expenditure
GFCF: Gross Fixed capital formation
IIP: Index of industrial production
NIT: Net Indirect taxes
FAE: First advance estimate
GST: Goods & services tax
MOSPI: Ministry of statistics & program implementation

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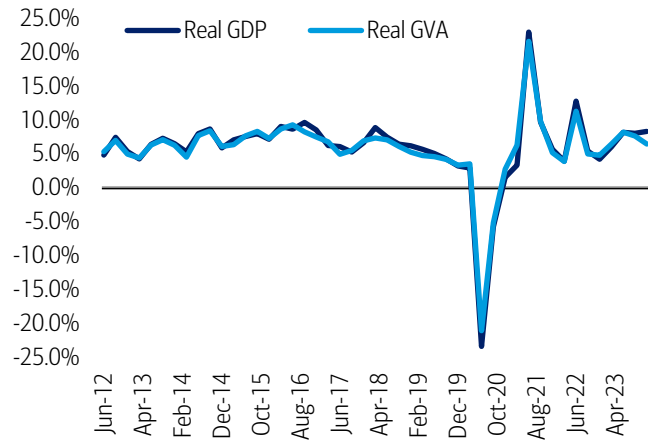
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Dec quarter GDP: Look beyond the headline

Exhibit 1: Real GDP & GVA growth yoy (quarterly)

While Dec quarter real GDP growth surprised on the higher side at 8.4% yoy, real GVA growth was modest at 6.5% yoy

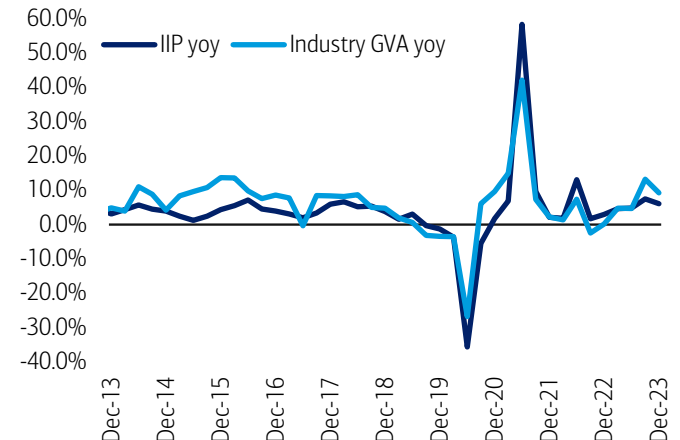


Source: MOSPI

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Exhibit 2: Gap between Industry GVA and quarterly IIP yoy

The avg gap b/w industry GVA & IIP yoy quarterly is 190bp, in dec'23 quarter, the gap narrowed to 510bp vs 570bp seen in Sep'23 quarter, still high



Source: MOSPI

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Exhibit 3: Sector-wise real GVA growth

Real GVA growth slowed to 6.5% in Dec quarter from 7.7% yoy in Sep quarter as agriculture sector de-grew and industry GVA growth slowed. Services sector on the other hand saw higher growth in Dec vs Sep quarter led by trade, hotels, transport & communication

	Wts.	FY22	Dec'22	Mar'23	FY23	Jun'23	Sep'23	Dec'23	FY24 MOSPIe	FY24 BofAe
Real GVA		9.3%	4.8%	6.5%	6.8%	8.2%	7.7%	6.5%	6.9%	6.7%
Agriculture, forestry & fishing	16%	4.2%	5.2%	5.5%	4.1%	3.5%	1.6%	-0.8%	0.7%	1.2%
Industry	23%	10.0%	-2.8%	4.7%	0.2%	5.0%	13.6%	10.9%		
Mining & Quarrying	3%	6.8%	1.4%	4.3%	2.4%	7.1%	11.1%	7.5%	8.1%	7.5%
Manufacturing	18%	10.4%	-4.8%	4.5%	-1.2%	5.0%	14.4%	11.6%	8.5%	5.0%
Electricity, Gas, Water Supply	2%	10.3%	8.7%	6.9%	9.3%	3.2%	10.5%	9.0%	7.5%	8.0%
Services	61%	10.5%	7.5%	7.4%	10.0%	10.4%	6.9%	7.4%		7.5%
Construction	8%	20.8%	9.5%	10.4%	10.3%	8.5%	13.5%	9.5%	10.7%	5.0%
Trade, Hotels, Transport, Communication serv	19%	14.6%	9.2%	9.1%	12.6%	9.7%	4.5%	6.7%	6.5%	7.0%
Financial, Real Estate and Professional Serv	22%	5.3%	7.7%	7.1%	8.6%	12.6%	6.2%	7.0%	8.2%	9.0%
Public Administration, Defense & Other Services	13%	8.1%	3.5%	3.1%	8.5%	8.2%	7.7%	7.5%	7.7%	8.0%

Source: MOSPI

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Exhibit 4: Real GDP growth components

Despite govt. expenditure de-growing, real GDP growth improved in Dec vs Sep quarter to 8.4% yoy on higher pvt consumption & robust fixed capital formation

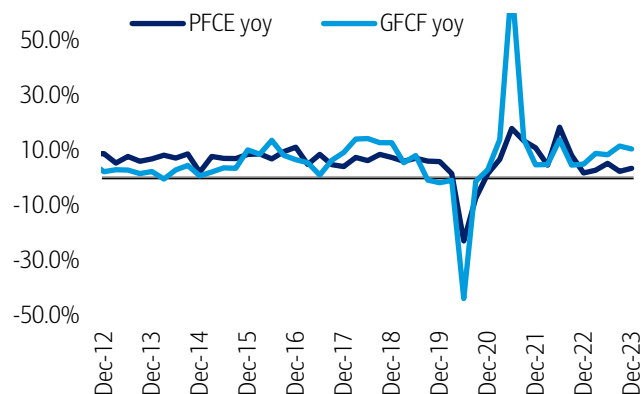
	Wts	FY22	Dec'22	Mar'23	FY23	Jun'23	Sep'23	Dec'23
GDP		9.7%	4.3%	6.1%	7.0%	8.2%	8.1%	8.4%
PFCE	57%	11.7%	1.8%	2.8%	6.8%	5.3%	2.4%	3.5%
GFCE	10%	0.0%	7.1%	2.3%	9.0%	-0.1%	13.8%	-3.2%
GFCF	32%	17.5%	5.0%	8.9%	6.6%	8.5%	11.6%	10.6%
Exports	22%	29.6%	10.9%	11.9%	13.4%	-6.5%	5.3%	3.4%
Imports	25%	22.1%	4.1%	4.9%	10.6%	15.3%	11.9%	8.3%

Source: MOSPI

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Exhibit 5: Pvt consumption and capital formation growth, yoy

Private consumption growth improved in Q3FY24 vs Q2FY24, growth in fixed capital formation stayed strong too

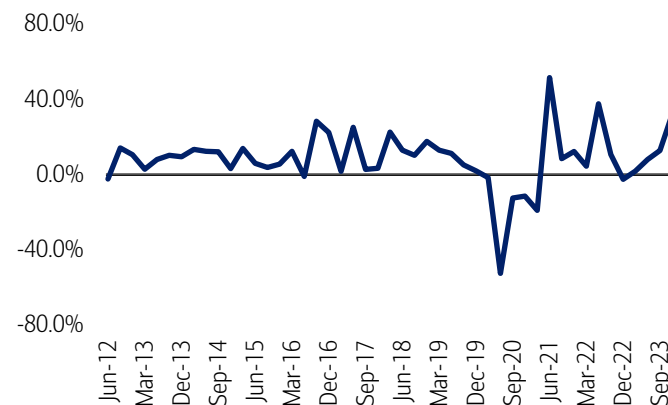


Source: MOSPI

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Exhibit 6: Quarterly yoy growth in real net indirect taxes

A 32% yoy increase in real net indirect tax growth was the key driver of big divergence between real GDP & GVA growth.

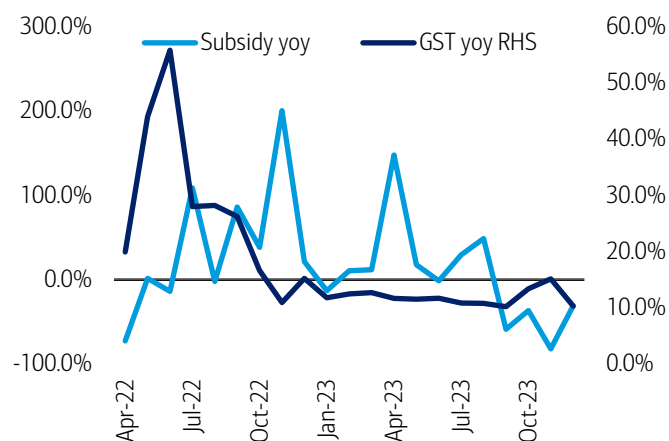


Source: MOSPI

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Exhibit 7: Monthly yoy growth rate of GST & subsidy

While GST collections grew by 12.9% yoy in Dec vs 10.6% yoy in Sep quarter, subsidy payout de-grew by 50% yoy in Dec vs 6.8% yoy in Sep quarter, this drove the sharp increase in net indirect tax growth in Dec vs Sep quarter

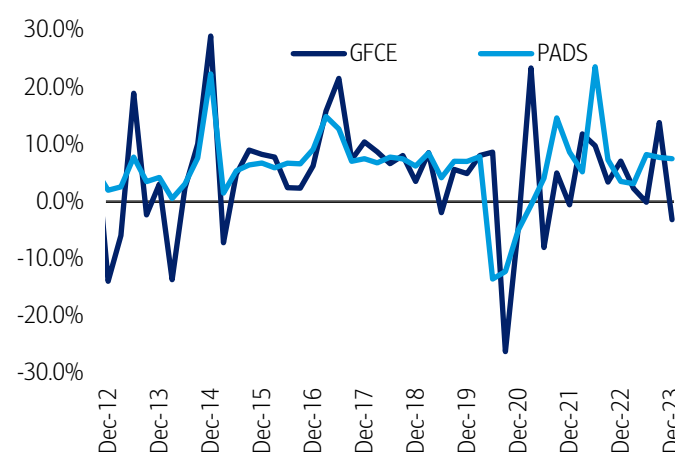


Source: FinMin

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Exhibit 8: Weakening correlation b/w govt final consumption expenditure and public administration & defense services

Although GFCE de-grew by 3.2% yoy in Dec quarter vs 13.8% yoy growth in Sep quarter, PADS growth was strong at 7.5% yoy

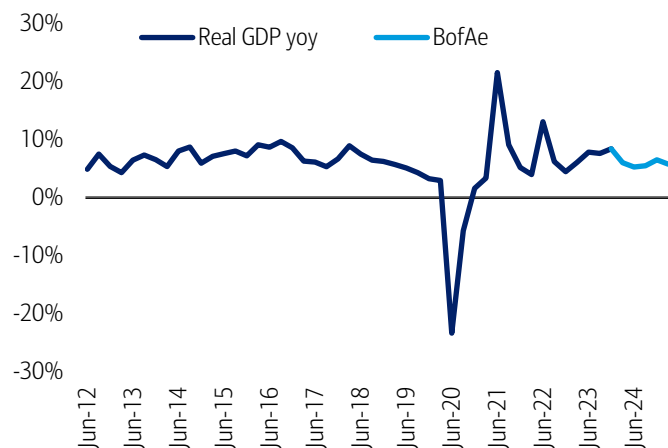


Source: MOSPI

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Exhibit 9: Real GDP growth path (in % yoy)

After a bit beat in Dec quarter GDP, we revise up our FY24 real GDP growth forecast to 7% yoy, still lower than 7.6% yoy (MOSPIe)

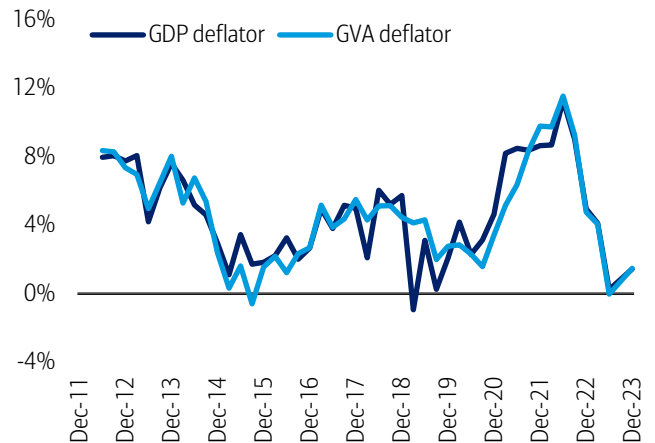


Source: MOSPI

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Exhibit 10: GDP & GVA deflator

As both CPI and WPI inflation for 3QFY24 were higher than 2QFY24, GDP & GVA deflator inched up a shade to 1.6% & 1.7% yoy respectively. Accordingly, gap between nominal & real GDP & GVA continued to stay low



Source: MOSPI

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Still, revising up FY24 growth forecast 7% GDP, 6.7% GVA

Even though there is very little underlying strength in GDP growth release, statistically we see upside to our FY24 real GDP and GVA growth estimates of 6.5% and 6.3% yoy respectively. We now see FY24 real GDP growth at 7% and real GVA growth at 6.7% yoy. We continue to expect growth to be lower than government's estimates of 7.6% and 6.9% yoy respectively as we expect some of the data capturing issues to get reconciled.

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