Q1 FY25 GDP likely clocked 6.7% (slowest since March 2023)

26th August 2024

GDP data for Q1FY25 due on 30th August, likely moderated to 6.7% sequentially

GVA and GDP for Q1FY25 likely slowed down to 5.8% and 6.7% respectively

- We estimate the GVA growth in Q1FY25 to slow down to 5.8% as against 6.3% in Q4 FY24, led by a slowdown in industry *(ref fig. 1)*.
- Key driver of slowdown was the industry segment and secondly, June is a seasonally weak quarter and election related uncertainty combined with lagged government spending exacerbated the impact. High frequency indicators also signalled a slowdown as reflected in our economic activity index (*ref fig.2*).
- Agri sector likely gave a surprise on the upside with its growth spiking sequentially to 2.2% in Q1FY25 from 0.6% in Q4FY24. This is likely the highest number in the last four qtrs., though still lagging behind the growth rate of 3.7% seen in Q1FY24.
- Services GVA growth slightly came down to 6.6% in Q1FY25 from 6.7% in Q4FY24 while industry growth rate moderated to 5.9% from 8.4% last qtr. This is the third straight qtr. when industry is seen going through a slowdown.
- We estimate Q1FY25 GDP growth rate to slow down to 6.7% vis a vis RBI's projection of 7.1%, on back of sequential moderation in aggregate demand, after consistently clocking more than 7.5% in previous four qtrs.

The wedge between GDP and GVA slipped yet stayed elevated in our view

- The surprisingly large gap between GDP and GVA observed in Q3FY24 GDP growth numbers on account of robust indirect tax collections in Q3FY24 somewhat shrank in Q1FY25 even as indirect tax collections remained buoyant but momentum was slower than the previous qtr. The GDP-GVA gap is seen to have come down from 148 bps in Q4FY24 to 90 bps in Q1FY25 (*ref fig. 3*).

Industry performance likely dragged the GVA growth in Q1FY25

- Industry was the key driver of slip in growth led by manufacturing. This is attributed to sharp drop in earnings results of listed manufacturing companies in Q1 with operating profit up only 2% y/y (*ref fig. 7*) bringing manufacturing GVA growth rate down from 8.9% in Q4FY24 to 4.5% y/y in Q1FY25 (*ref fig. 4*).
- Construction sector, in our view, continued to slide from 8.7% last qtr to 7.5% this qtr., consequent third qtrly fall (*ref fig. 5*).
- Low Services sector growth at 6.6% (6.7% in Q4FY24) was likely due to slower government spending, weak consumption and as credit & deposit growth (ex-merger effects) slipped (*ref fig. 6*).
- GVA ex agri and government i.e. private sector growth has slipped to 6.4% in Q1FY25 from 7.3% in Q4FY24, lowest in 5 qtrs.

On a full year basis, we continue to expect GDP growth to remain strong at 7% with slowdown primarily statistical on closing wedge between GDP and GVA growth. Risks to growth are from sharper than expected global growth slowdown and uneven monsoon distribution limiting rural demand recovery.

Fig.1. GDP likely saw sluggish growth of 6.7% in Q1'FY25 led by drop in industry growth

% y/y	Q1'FY24	Q2'FY24	Q3'FY24	Q4'FY24	FY24	Q1'FY25 (P)
GDP	8.2	8.1	8.6	7.8	8.2	6.7
GVA	8.3	7.7	6.8	6.3	7.3	5.8
Agri	3.7	1.7	0.4	0.6	1.6	2.2
Industry	6.0	13.6	10.5	8.4	9.6	5.9
Services	10.7	6.0	7.1	6.7	7.6	6.6

Fig.2. UBI Economic Activity Index also indicates a slowdown

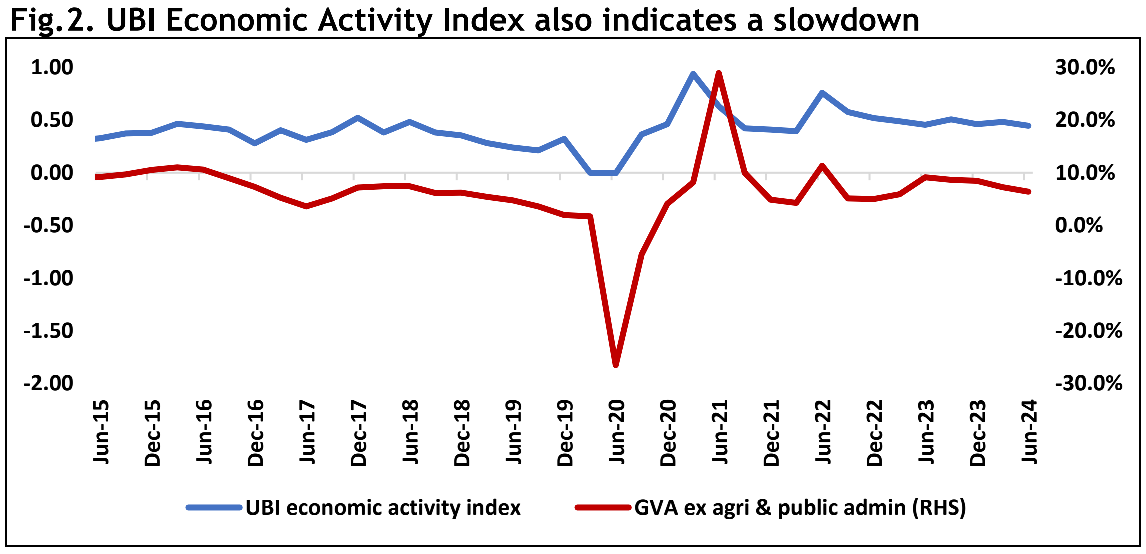

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Fig. 3. GDP-GVA wedge likely narrowed yet stayed elevated on robust collection of indirect taxes; % y/y

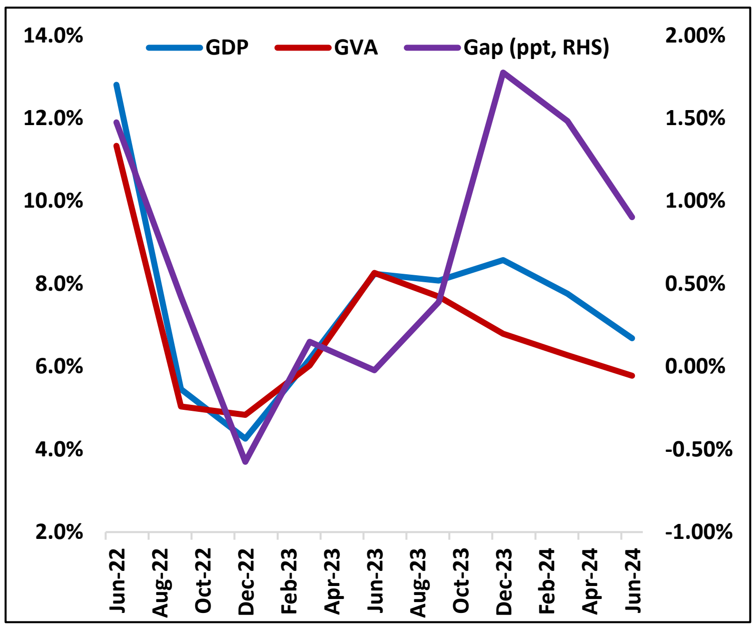

Fig. 4: Slower GVA growth in Q1 FY25 dragged by industry; % y/y

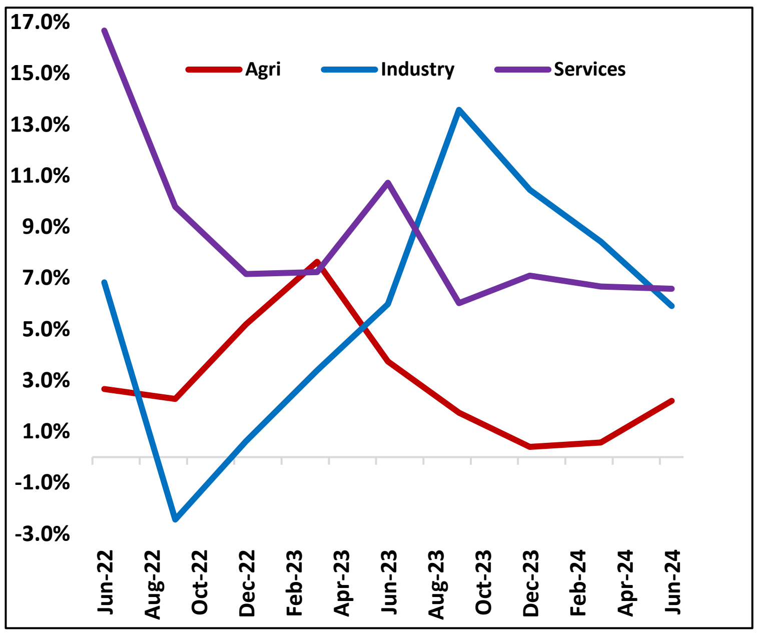

Fig. 5. Manufacturing & Construction saw a muted growth in Q1 FY25 even as electricity & mining picked up; % y/y

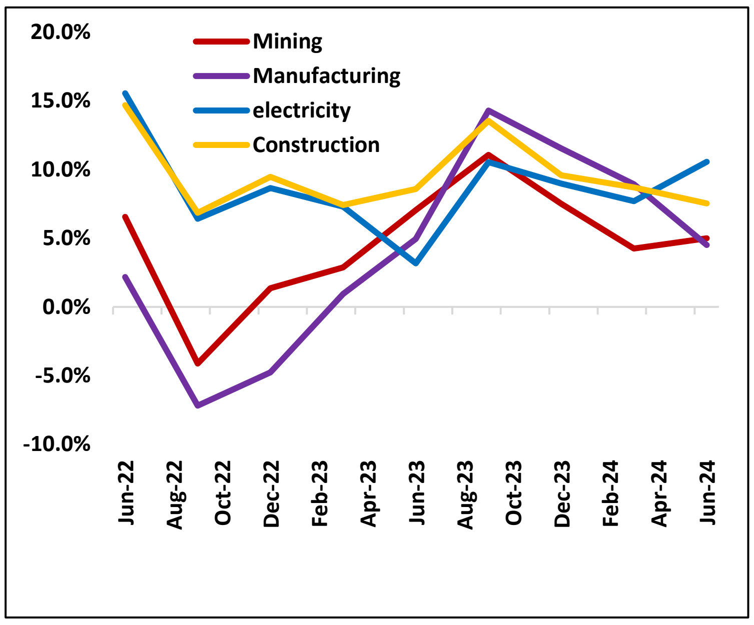

Fig. 6: Services sector likely saw a minor decline in growth rate; % y/y

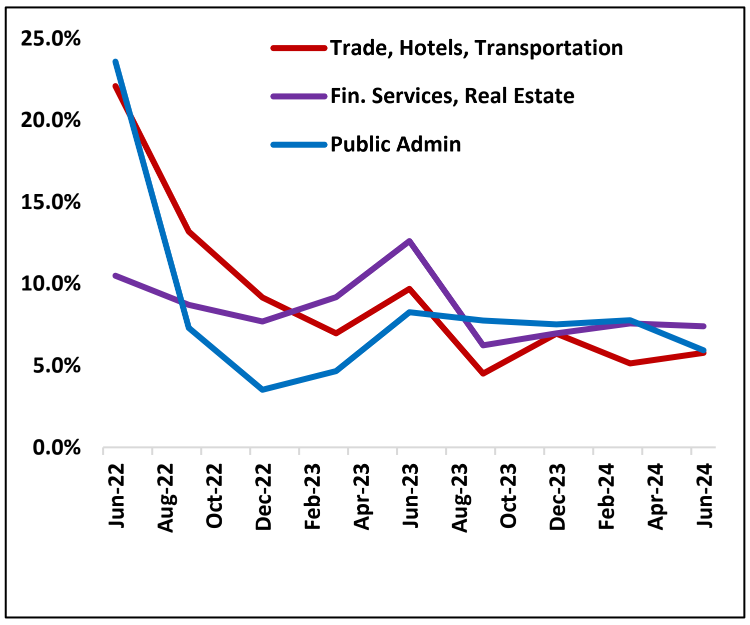

Fig.7. Performance of Manufaturing Companies in Q1FY25

Sectors	Y - O - Y % Growth in Net sales			Y -O- Y % Growth in Operating Profit			Y-O-Y % Growth in Profit after tax		
	Jun-23	Mar-24	Jun-24	Jun-23	Mar-24	Jun-24	Jun-23	Mar-24	Jun-24
Consumer Durables - Electronics & Domestic Appliances	3%	18%	36%	3%	10%	42%	-2%	12%	57%
Construction - Real Estate	5%	24%	20%	13%	37%	29%	-47%	70%	277%
Electric & Electronics Equipments	16%	21%	20%	43%	43%	41%	-46%	39%	58%
Power Generation/Distribution	-1%	9%	15%	16%	13%	1%	32%	80%	-7%
Engineering - Industrial Equipments	14%	15%	13%	27%	19%	22%	28%	10%	34%
Consumer Food & Beverages	6%	12%	12%	23%	18%	15%	25%	48%	11%
Auto & Auto Ancillary	24%	14%	10%	97%	27%	18%	426%	84%	28%
Pharmaceuticals & Drugs	14%	11%	10%	25%	28%	25%	21%	41%	41%
Manufacturing others	7%	12%	9%	13%	33%	14%	12%	28%	11%
Engineering	21%	14%	9%	19%	14%	10%	449%	21%	12%
Textile	-14%	10%	8%	-27%	22%	1%	21%	67%	14%
Metal - Ferrous & Non-Ferrous	-11%	-3%	8%	-33%	-1%	37%	-39%	-8%	36%
Plastic Products	-6%	7%	7%	-15%	1%	17%	-30%	48%	72%
food processing	-4%	-4%	6%	-14%	-4%	15%	-45%	-16%	29%
Chemicals	-10%	-5%	4%	-22%	-17%	13%	-31%	-48%	-2%
Mining & Minerals	4%	-2%	1%	12%	13%	9%	16%	6%	6%
Iron & Steel	5%	-1%	0%	-18%	-6%	0%	-34%	-31%	-23%
Fertilizer & Agrochemicals	-15%	-18%	-1%	-37%	-15%	11%	-63%	-38%	-10%
Cement & Construction Materials	11%	7%	-2%	14%	28%	-4%	10%	29%	-17%
Paper & Paper Products	1%	-12%	-6%	31%	-37%	-41%	39%	-44%	-58%
Diamond & Jewellery	57%	-15%	-20%	0%	-3%	6%	-11%	-9%	6%
Others	-4%	6%	6%	53%	7%	-7%	99%	4%	-13%
Grand Total	**2%**	**5%**	**6%**	**28%**	**11%**	**2%**	**46%**	**17%**	**-1%**

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