India: Q1-FY25 GDP toes the line, strong GVA growth surprises

31st August 2024

Q1-FY25 GDP growth clocked 6.7% y/y, (vis-a-vis RBI estimate of 7.1%), while it was in line with our expectations (pls refer Q1FY25 GDP likely clocked 6.7%). The key source of surprise was the GVA growth number which saw a much sharper than expected pickup (ref. fig. 1).

GDP-GVA growth wedge became negative for the first time since Q1-FY24

The wedge between GDP and GVA was a major surprise in the data as it became negative for the first time since Q1-FY24 on a sharp drop in net indirect taxes growth. Historically, while there is low correlation between net indirect taxes growth from fiscal numbers and GDP data, yet a sharp growth slowdown was visible in Q1-FY25, with the actuals coming in way lower than our estimates (*ref. fig. 2*).

True indicator of economic activity: GDP or GVA?

- As against expectations of a sharp growth slowdown in Q1 on base effects, election quarter with contraction in government spending and heatwave effects (June was hottest month in 123 years), GVA growth of 6.8% was much better than expectations.
- From RBI's perspective while the GDP growth numbers were lower than the 7.1% estimate, in our view, GVA is a more credible metric of growth momentum and it continues to show strength.
- We believe that the adjustment between GDP and GVA is more statistical in this year and a normalisation was expected post the steep wedge seen in FY24 of 90 bps (GDP: 8.2%, GVA: 7.3%).

GVA data throws surprises and signals a strong growth momentum

GVA growth for Q1-FY25 came in at 6.8% vis-a-vis our estimate of 5.8% with a few segments popping up unexpected surprises (*ref fig 3*):

- On a sectoral basis, while agri GVA growth at 2% was in line with our expectations, industry and services outperformed our estimates. This is attributed to surprise on account of three key sub-segments:
  - Manufacturing sector grew at 7% in Q1 FY25 despite operating profit growth of listed manufacturing companies slipping to single digits during the quarter (*ref fig 4*).
  - Construction sector's growth of 10.5% was much higher than our projections and is probably attributed to delay in monsoon (*ref. fig.5*).
  - Public admin and other services growth of 9.5% was a big surprise given a y-o-y contraction in government spending in the election quarter. This can be attributed to sustained momentum in "other services" at an estimated 20-25% y-o-y growth with 55-60% share in the sector (*ref. fig. 6*).
- Private sector growth, measured by GVA ex-govt & agri also stayed elevated in Q1-FY25 at 7.3% y-o-y, same as in Q4-FY24. While industry growth continued to slow to clock 4-quarter low of 8.3%, services growth picked up to 7.2% (highest since Q1-FY24).

Convergence between consumption and capex growth shows a shift in mix of growth drivers in FY25

- The big switch was witnessed in the underlying drivers of GDP (*ref.fig.7*); while consumption had taken a backseat in FY24, and GDP growth was primarily capex led, Q1 FY25 saw a pickup in private consumption clocking similar growth as gross fixed capital formation (GFCF) at c.7.5%.
- After lagging at a sluggish 4% growth in FY24, pickup up in consumption growth in Q1 was likely contributed by rural demand recovery even as urban consumption growth remained steady (*ref. fig.8*). We see favourable monsoon continuing to support demand recovery in the rest of FY25.
- Capex in our view is still driven by government-led sectors. While private capex recovery is underway, a broad-based pickup is yet to be seen as against expectations of a strong momentum post elections.
- Overall, growth momentum in this quarter was driven by aggregate demand, even as discrepancies were a drag with ppt contribution in GDP down from 7.8 in Q1 FY24 to -0.7 in Q1 FY25. Net exports were another key growth driver, with a +0.7 ppt contribution, highest since Q4 FY23.

We maintain our 7% growth forecast, GDP-GVA wedge may stay negative

- GDP-GVA wedge is expected to slip sharply from 90 bps last year and may probably turn negative going by the trend in Q1-FY25; the y-o-y growth in collection of net indirect taxes as at the end of Apr-July'24 is lower at 7.3% as against 11.8% during same period last year.
- Within GDP, consumption expected to emerge as a key growth driver especially with rural demand recovering from a low base. Meanwhile, capex momentum may slow on strong base effects, with a firm watch on private capex recovery trends.
- On a sectoral basis, the strong momentum seen in industry last year is likely to wane out as tailwinds from lower commodity prices are expected to fade away and top line momentum remains weak. Meanwhile, services momentum is expected to be boosted by recovery in consumption.

Fig.1. Q1FY25 GDP numbers at a glance:

% y/y	Q1'FY24	Q2'FY24	Q3'FY24	Q4'FY24	FY24	Q1'FY25
GDP	8.2	8.1	8.6	7.8	8.2	6.7
GVA	8.3	7.7	6.8	6.3	7.3	6.8
Agri	3.7	1.7	0.4	0.6	1.6	2.0
Industry	6.0	13.6	10.5	8.4	9.6	8.3
Services	10.7	6.0	7.1	6.7	7.6	7.2

Source: CEIC, UBI research

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Fig.2. GDP-GVA wedge in negative territory

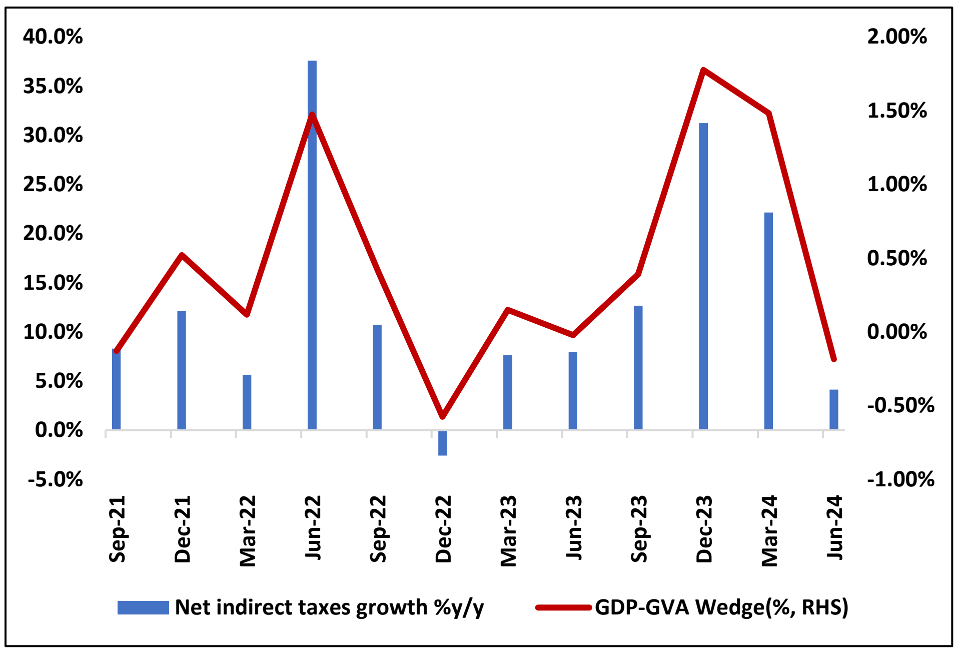


Fig.3. Services contributes the most in GVA; *ppt contribution in GVA*

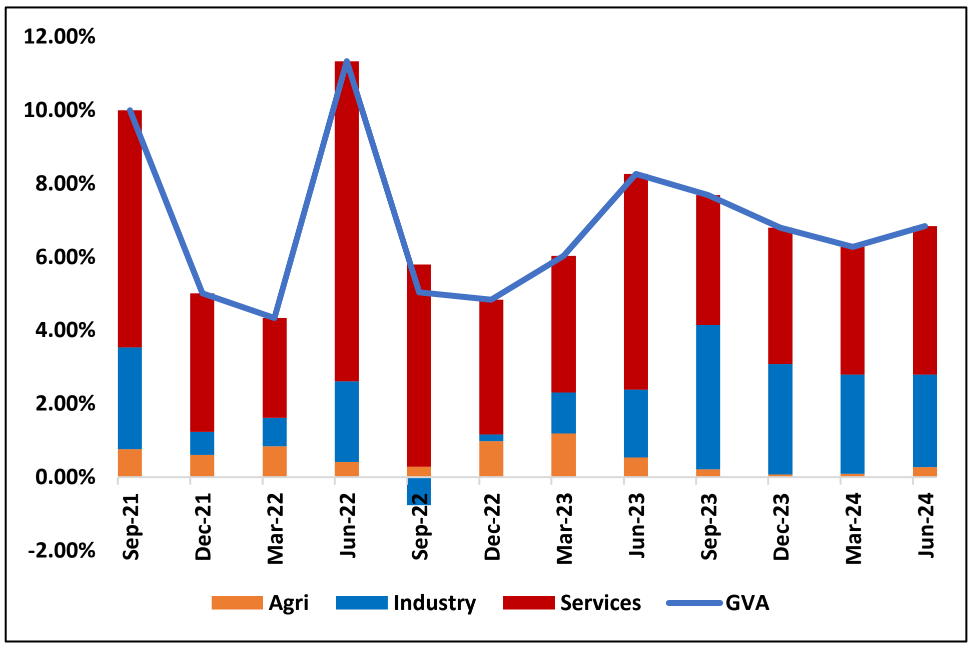


Fig 4. Growth slides in manufacturing GVA reflecting lower growth in Operating profits of manufacturing companies

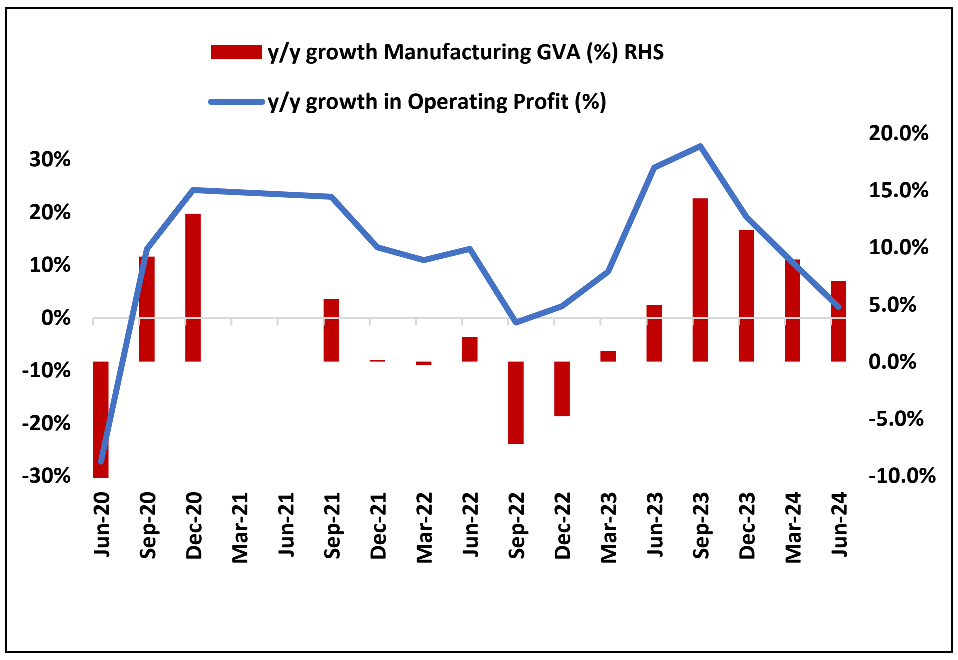


Fig 5. Other than manufacturing, all other sectors have performed better; *(% growth, y/y)*

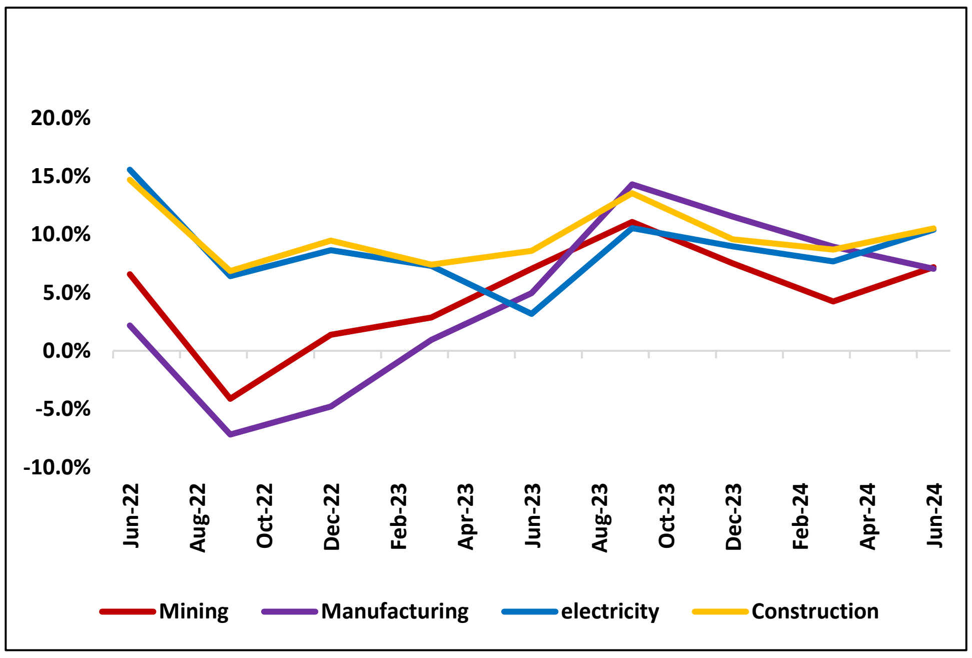


Fig. 6. Public admin & other services push the services sector growth to *four qtr high; % growth, y/y*

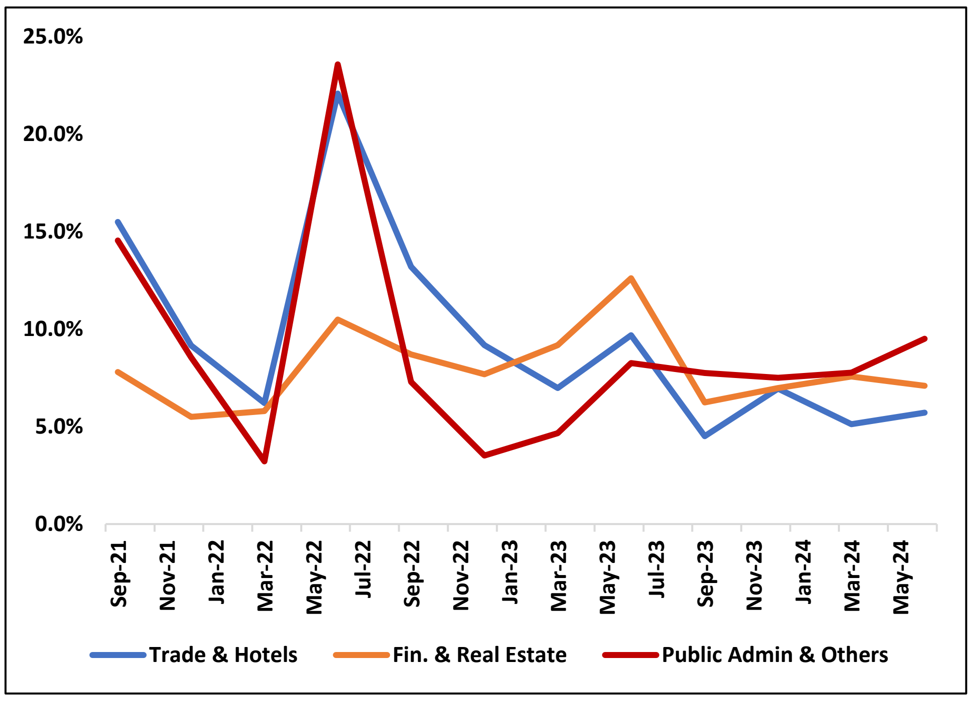
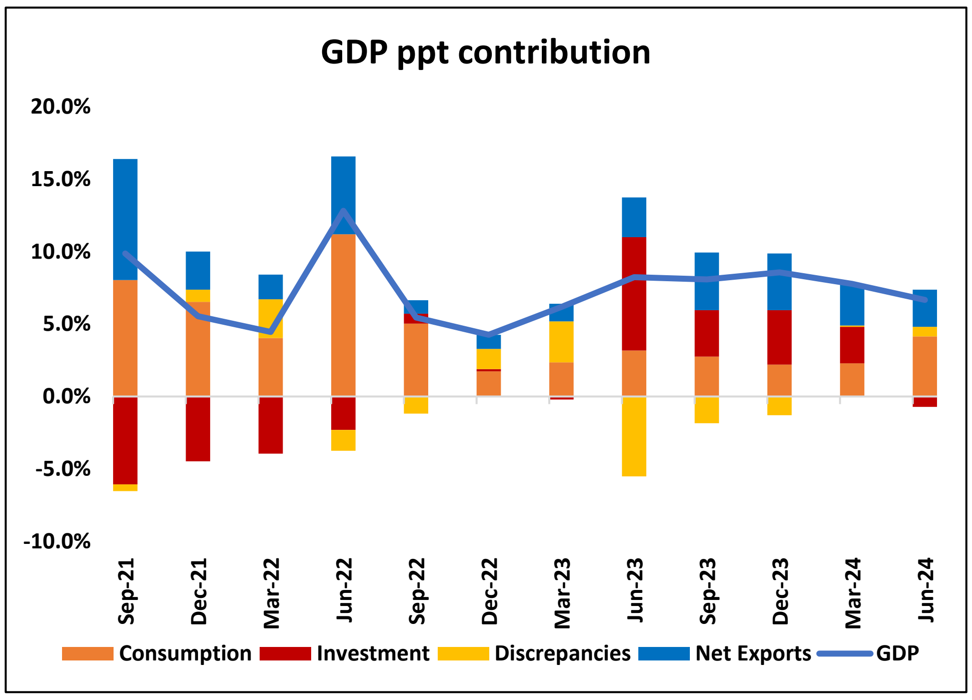


Fig. 7. The big switch in GDP share of consumption & investment; *ppt contribution in GDP*



Source: CEIC, UBI research

Fig.8. Heat map of high frequency lead indicators

MACRO-ECONOMIC DASHBOARD														
Industrial Sector	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
IIP (YoY Gr%)	4.05	6.18	10.87	6.35	11.89	2.47	4.39	4.21	5.60	5.47	4.98	6.18	4.24	
Mining (YoY Gr%)	7.56	10.68	12.35	11.50	13.14	7.01	5.20	6.02	8.13	1.30	6.77	6.56	10.30	
Manufacturing (YoY Gr%)	3.51	5.26	9.98	5.13	10.58	1.31	4.62	3.64	4.94	5.90	3.89	4.96	2.61	
Electricity (YoY Gr%)	4.22	7.99	15.26	9.87	20.38	5.76	1.23	5.63	7.59	8.62	10.24	13.74	8.58	
Core Infra Growth (YoY Gr%)	8.37	8.55	13.42	9.44	12.67	7.94	5.05	4.13	7.09	6.26	6.93	6.32	5.10	6.07
Cement prduction (YoY Gr%)	9.95	6.89	19.74	4.75	16.98	-4.79	3.81	4.04	7.83	10.56	0.16	-0.61	1.88	5.50
Steel Production (YoY Gr%)	21.31	14.92	16.35	14.79	13.61	9.77	8.28	9.19	9.41	7.52	9.82	6.73	6.71	7.19
Petroleum Products (YoY Gr%)	4.58	3.56	9.49	5.55	4.24	12.44	4.04	-4.29	2.64	1.57	3.92	0.48	-1.56	6.63
Fertilizers Prduction (YoY Gr%)	3.44	3.29	1.79	4.21	5.35	3.36	5.85	-0.56	-9.51	-1.29	-0.78	-1.68	2.45	5.34
Coal Prduction (YoY Gr%)	9.76	14.95	17.89	16.03	18.41	10.90	10.75	10.57	11.61	8.72	7.49	10.22	14.75	6.82
Capital Goods Production (YoY Gr%)	2.87	5.15	13.05	8.37	21.67	-1.11	3.70	3.24	1.72	6.99	2.71	2.92	2.42	
PMI Manufacturing (YoY Gr%)	57.80	57.70	58.60	57.50	55.50	56.00	54.90	56.50	56.90	59.10	58.80	57.50	58.30	58.10
PMI Services (YoY Gr%)	58.50	62.30	60.10	61.00	58.40	56.90	59.00	61.80	60.60	61.20	60.80	60.20	60.50	60.30
Banking Sector	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
Bank Credit (YoY Gr%)	16.16	19.55	19.76	19.96	19.73	20.64	19.95	20.30	20.50	20.16	19.01	19.78	17.36	13.71
Agriculture Credit (YoY Gr%)	19.72	16.71	16.48	16.66	17.39	18.11	19.39	19.99	20.00	19.97	19.84	21.60	17.41	18.07
Industry Credit (YoY Gr%)	7.44	5.18	5.91	6.51	5.36	6.06	8.04	7.97	8.89	8.51	7.37	9.36	8.13	10.09
Services Credit (YoY Gr%)	26.77	23.42	24.98	25.39	24.03	25.75	23.34	24.20	24.26	23.49	22.02	23.18	17.36	13.99
Retail Credit (YoY Gr%)	21.32	31.15	30.36	30.03	29.56	30.03	28.41	28.61	28.11	27.46	26.70	28.73	25.60	14.40
Bank Deposits (YoY Gr%)	15.45	12.94	13.22	12.30	13.22	14.21	13.28	13.20	13.12	13.47	12.56	14.02	11.12	10.57
Demand (YoY Gr%)	25.35	10.61	9.36	7.83	8.06	15.04	10.71	9.19	10.12	12.08	9.88	14.83	6.24	8.21
Time (YoY Gr%)	14.13	13.25	13.75	12.95	13.95	14.10	13.64	13.76	13.53	13.67	12.93	13.91	11.83	10.88
C-D Ratio (%)	75.10	77.10	77.50	77.80	79.20	79.60	79.50	80.00	80.20	80.30	79.50	79.60	79.30	79.30
Weighted Average Lending Rate Fresh Rupee Loans (%)	9.20	9.44	9.47	9.38	9.50	9.41	9.32	9.43	9.36	9.37	9.55	9.45	9.32	9.40
Weighted Average Deposit Rate (%)	6.47	6.55	6.60	6.70	6.76	6.79	6.83	6.85	6.86	6.89	6.91	6.92	6.91	6.92
Banking Sector	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
UPI (No. in Cr)	933.51	996.43	1058.60	1055.57	1140.88	1123.53	1202.02	1220.30	1210.27	1344.00	1330.40	1403.58	1388.51	1443.56
IMPS (No. in Cr)	46.81	48.97	48.92	47.29	49.29	47.24	49.88	50.88	53.46	58.06	55.04	55.77	51.68	49.03
NPCI Retail Transaction value (Y-o-Y Gr%)	21.14	23.89	26.71	20.61	23.52	25.99	21.14	25.16	28.51	22.19	23.95	22.01	22.83	22.96
NPCI Retail transactions volume (Y-o-Y Gr%)	42.09	44.83	46.68	43.68	42.59	46.93	44.96	44.68	50.01	46.69	44.24	42.86	44.14	39.05
Inflation	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
CPI (Y-o-Y Gr%)	4.87	7.44	6.83	5.02	4.87	5.55	5.69	5.10	5.09	4.85	4.83	4.80	5.08	3.54
Core CPI (Y-o-Y Gr%)	5.11	4.94	4.79	4.52	4.26	4.11	3.89	3.59	3.37	3.24	3.23	3.12	3.14	3.35
WPI (Y-o-Y Gr%)	-4.18	-1.23	-0.46	-0.07	-0.26	0.39	0.86	0.33	0.20	0.26	1.19	2.74	3.36	2.04
Consumer	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
Petroleum Consumption (YoY Gr%)	9.77	4.87	11.69	-1.97	1.91	-4.37	9.41	6.46	-4.84	15.31	-2.56	8.18	9.35	4.28
Consumer Durables (YoY Gr%)	-6.78	-3.62	6.02	0.97	15.93	-4.83	5.24	11.58	12.56	9.53	9.99	12.63	8.65	
Consumer Non Durables (YoY Gr%)	0.55	8.33	9.93	2.66	9.29	-3.38	3.04	0.30	-3.17	5.22	-2.46	2.54	-1.43	
Unemployment (YoY Gr%)	8.45	7.90	8.10	7.10	10.10	9.16	8.65	6.80	8.00	7.40	8.10	7.93	7.98	8.03
Trade	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
Merchandise Export (YoY Gr%)	-18.82	-10.03	3.47	-2.78	5.80	-3.27	0.80	4.26	11.87	-0.57	1.99	13.41	2.54	-1.48
Merchandize Import (YoY Gr%)	-16.84	-16.12	0.68	-14.03	9.55	-4.33	-7.79	0.98	12.19	-5.98	10.69	7.44	4.96	7.46
Service Export (YoY Gr%)	3.25	8.10	8.34	-2.74	10.66	4.16	1.74	10.75	3.43	-1.40	17.65	10.25	3.68	8.41
Service Import (YoY Gr%)	-1.02	-2.26	-0.87	-10.41	-0.41	-11.13	-1.05	0.10	1.72	-2.12	19.14	5.43	-3.77	5.87
Logistics	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
E Way bill generated (Nos. in Cr)	8.61	8.80	9.34	9.20	10.03	8.76	9.53	9.60	9.73	10.35	9.67	10.32	10.01	10.49
Air Fright (YoY Gr%)	-0.76	-1.16	6.86	-0.25	13.15	6.58	10.80	15.52	22.66	17.32	9.98	15.57	15.94	18.06
Fiscal	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
GST Collection (YoY Gr%)	11.67	10.81	10.76	10.17	13.37	15.12	10.28	10.39	12.54	11.17	12.42	10.13	7.63	10.28
Govt Expenditure (YoY Gr%)	17.27	84.55	10.55	3.19	-14.01	-13.82	7.13	-14.03	20.44	-0.62	39.26	-37.87	-18.42	

Source: CEIC, UBI research

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