

## Q2FY25 GDP collapses at 5.4% y/y, lowest in 7 qtrs

### Q2FY25 GDP data came in way lower than our and consensus estimate of 6.5%

- Q2FY25 GDP data is a red flag for economic activity, with the number printing 5.4% vs. our and consensus estimate of 6.5% (pls refer [GDP growth likely slowed to 6-qtr lows in Q2 FY25](#)). GVA, a better measure of economic activity in our view, clocked 5.6% with GDP-GVA wedge staying in negative zone. Nominal GDP growth also slowed to 8%, lowest since Q3FY21.
- Interestingly, private sector activity indicator i.e. GVA ex agri and public admin came in broadly in line with our estimate (5.5%) at 5.3%. The drag on GVA was from i/ weaker than expected growth in agri (our estimate was 5% vs 3.5% actual yet on an uptrend on good monsoon) and ii/ relatively flat growth in public admin (our estimate was of double-digit growth) as drop in “other services” sub-segment probably offset the impact of government spending pickup.

### Industry as expected was key source of growth slowdown

- From a broad sectoral perspective, industry, as expected, was major source of GVA growth slowdown even as manufacturing growth of 2.2% was lower than our estimate of 5.2%. As per our analysis, operating profit of our sample of close to 1500 manufacturing companies contracted by 8.5% YoY in Q2 FY25 and adjusted for morbid oil & gas sector, it was +7.2% yet a slowdown from 12.2% in Q1 (pls refer [Corporate performance Q2 FY25 - Looking for silver linings amid dark clouds](#)).
- Services growth showed a modest downtick in growth to 7.1% in Q2FY25 vis-a-vis 7.2% in Q1FY25, with slowdown in financial services offset by pickup in trade & transport.

### Weakness in consumption as expected yet sharp slip in capex surprises

- GDP by expenditure data signals growth was weighed down by slip in both consumption and investment even as improvement in pickup in net exports provided crucial support. The drag from discrepancies was close to 2 percentage points keeping GDP growth muted.
- More importantly, the bigger concern for us was the sharp slip in investment growth in Q2FY25 to 5.4% vs. an average of 8.8% in last 4 qtrs, as public capex growth lagged in election year. Apart from this, the impact of excess rainfall during August-September and Pitru Paksha weighed upon consumption even as rural demand likely outpaced urban demand.

### Recovery in sight in H2-FY25 though downside risks to our forecast remains

- Growth pickup in H2-FY25 is visible in some high frequency indicators for the month of October on the back of festive demand effects. As per RBI Bulletin for November, rural India is emerging as a gold mine for e-commerce companies during the festival season. This is expected to gather further momentum with the sharp increase in kharif output and promising rabi crop prospects.
- Growth pickup likely to be led by government spending and rural demand recovery on good monsoon. However, risks to growth need to be acknowledged from sharper than expected global growth slowdown, geo-political tensions, weak investor sentiment weighing on private capex recovery and any weather disruptions.
- ***Given the growth shock in Q2, we are marginally revising lower our H2FY25 growth forecast to 6.8% from 6.9% previously. Accordingly, our full year GDP and GVA growth projection now stands at 6.4% and 6.6% versus 6.7% and 6.8% previously. We acknowledge downside risks to this number and will closely track trends in high frequency lead indicators to reassess our forecast if required.***

### We maintain our call of status quo from the MPC in 4-6 December meeting

- Overall, this data is likely to shock the MPC as well, in our view, given their forecast of 7% for the quarter and drive sharp downward revision in full year growth projection of 7.2%.
- We maintain our call of status quo on rates from an inflation targeting MPC, with October inflation hump at 6.2%, way higher than their estimates and Q3 & Q4 FY25 inflation tracking close to 5.5% & 4.5% respectively vs MPC’s estimates of 4.8% & 4.2%. Also, we firmly believe, that in a volatile world, FX depreciation pressures are reducing degrees of freedom for the MPC to consider easing policy to support growth.
- Going forward, we maintain our call of a shallow 50bps rate cut cycle starting Feb’25. Yet, in a volatile world, we need to embrace uncertainty and keep a close watch on Trump’s policies which are likely to keep Dollar and rates elevated given upward pressure on both growth and inflation leading to repricing of Fed rate cut expectations. Consequently, risk of rate cuts “later rather than sooner” remains from Indian MPC’s perspective as well. In the interim, we will also watch out for announcements relating to appointment of the RBI Governor and RBI Deputy Governor.

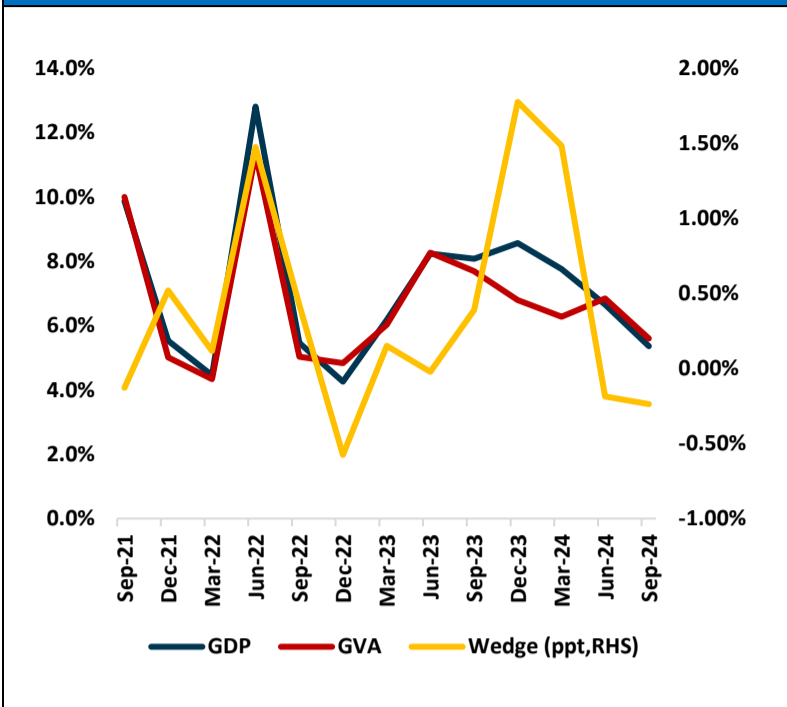
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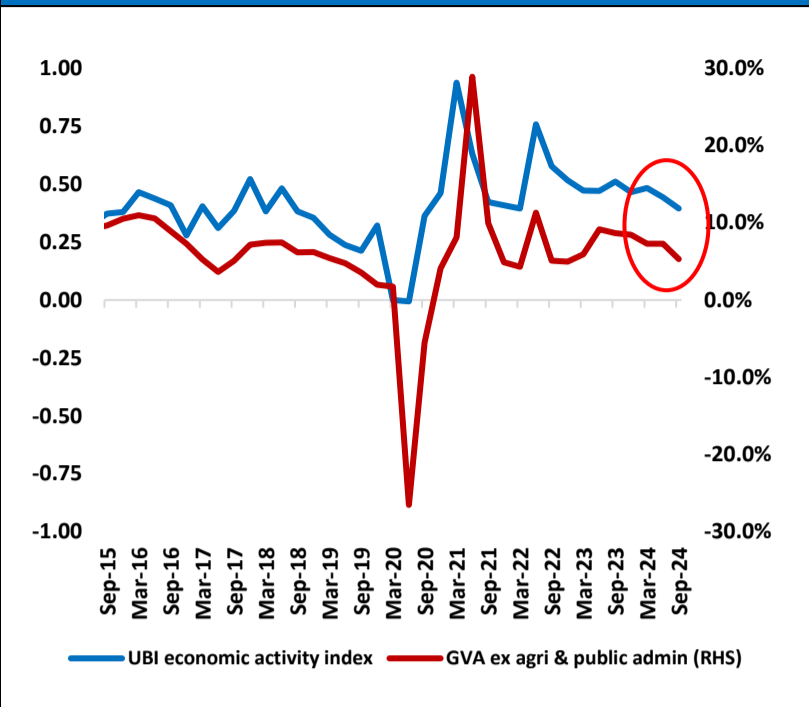
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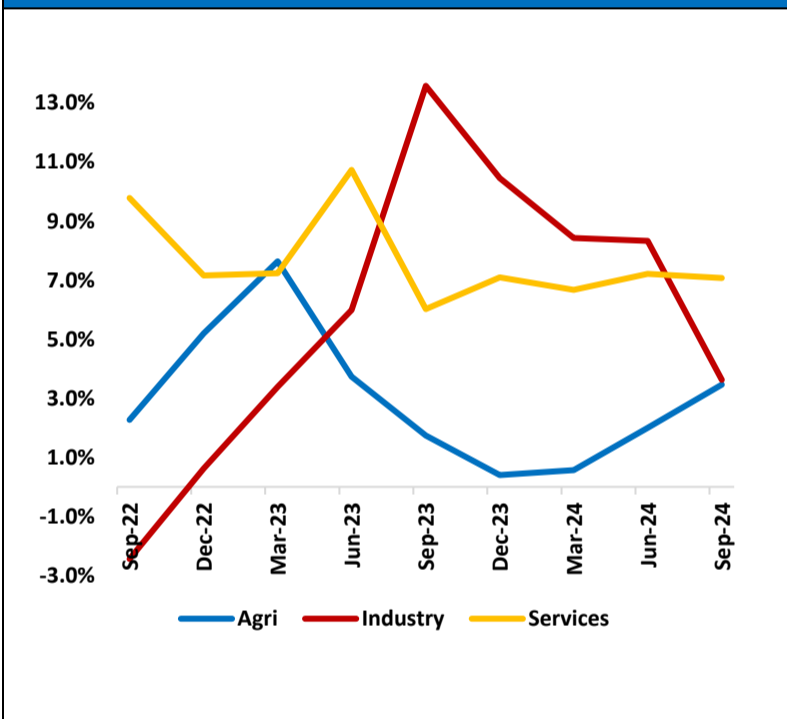
**Chart 1. GDP-GVA growth wedge remains mildly negative as seen in Q1 (% y/y)**



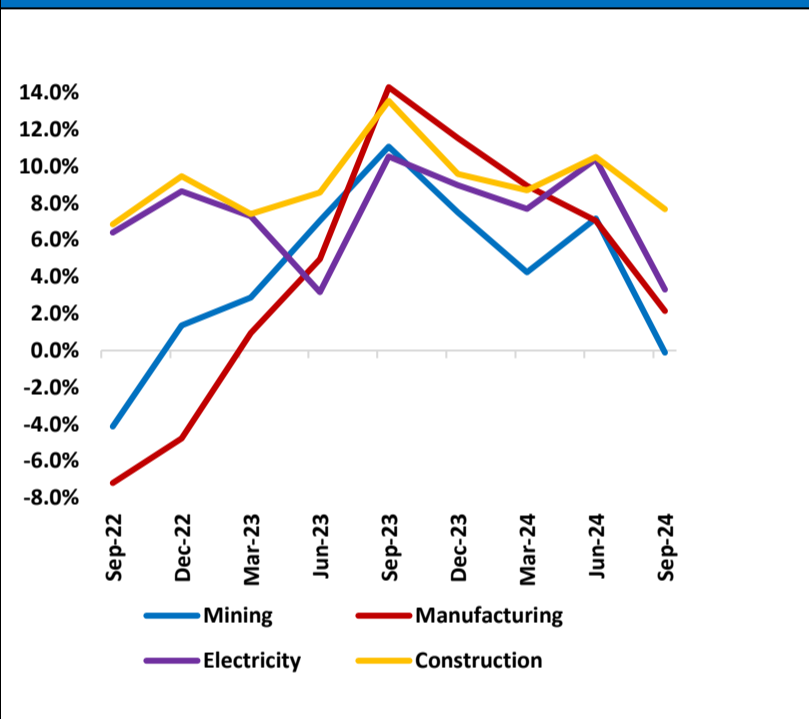
**Chart 2. Private sector growth slow down aligned with our UBI activity indicator**



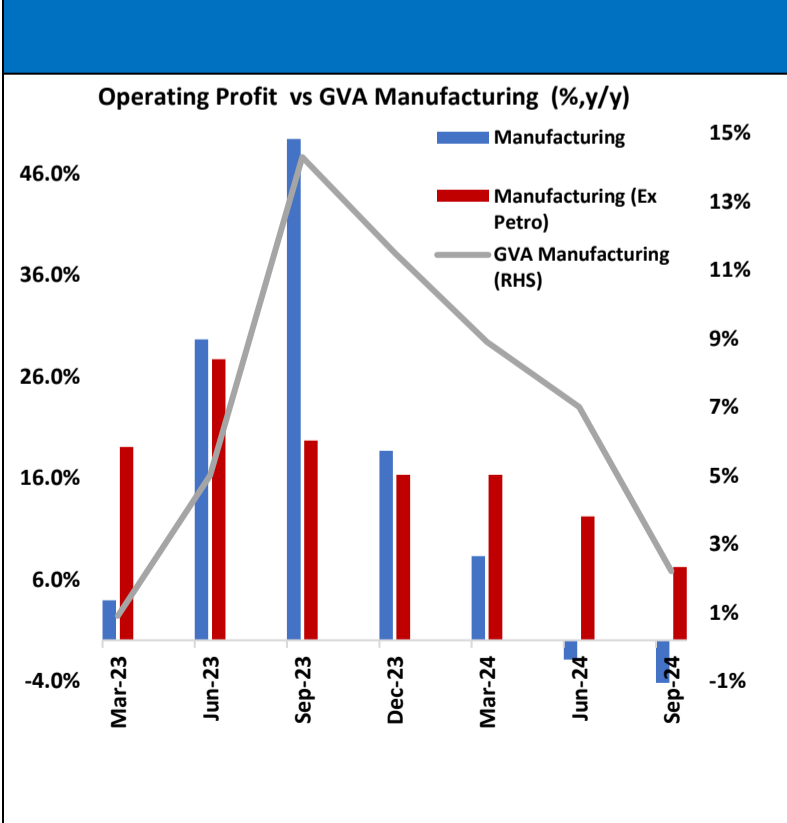
**Chart 3. Growth slowdown as expected led by industry (% y/y)**



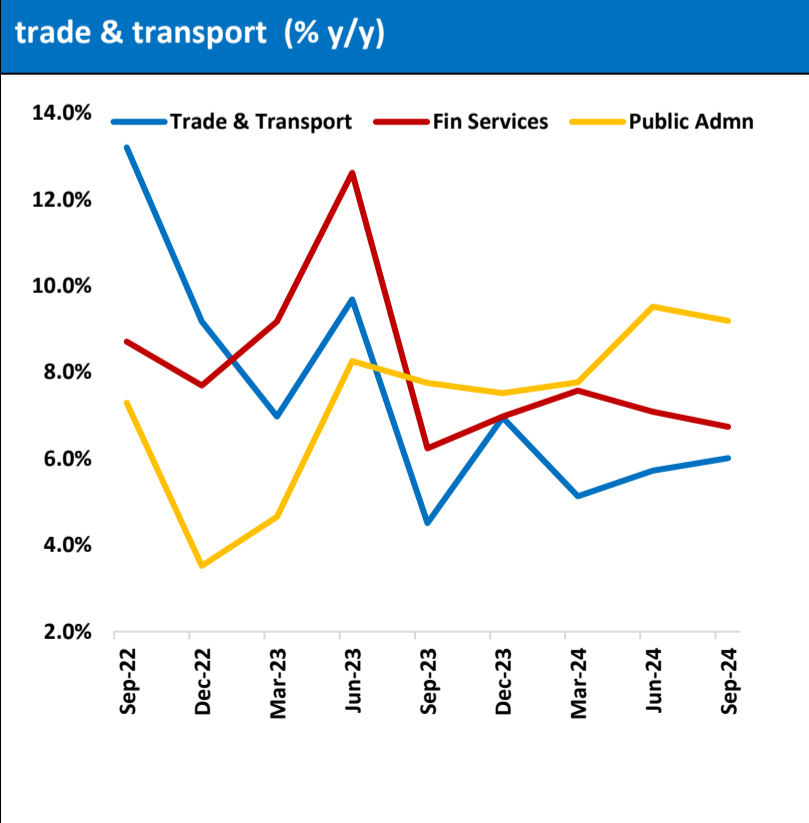
**Chart 4. However, manufacturing surprised sharply on the downside (% y/y)**



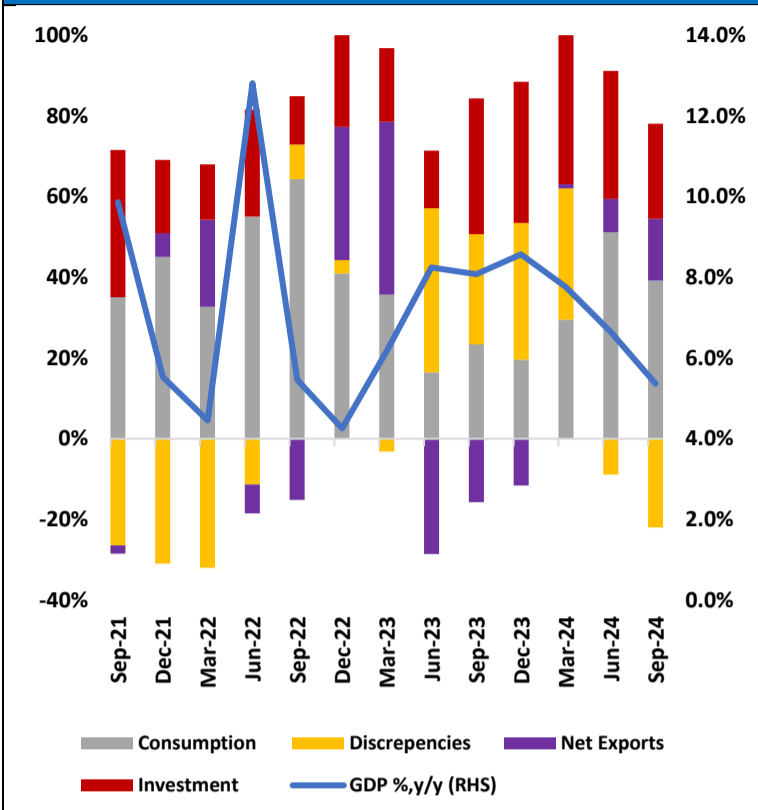
**Chart 5. Corporate earnings growth slowed in Q2 thereby weighing on GVA**



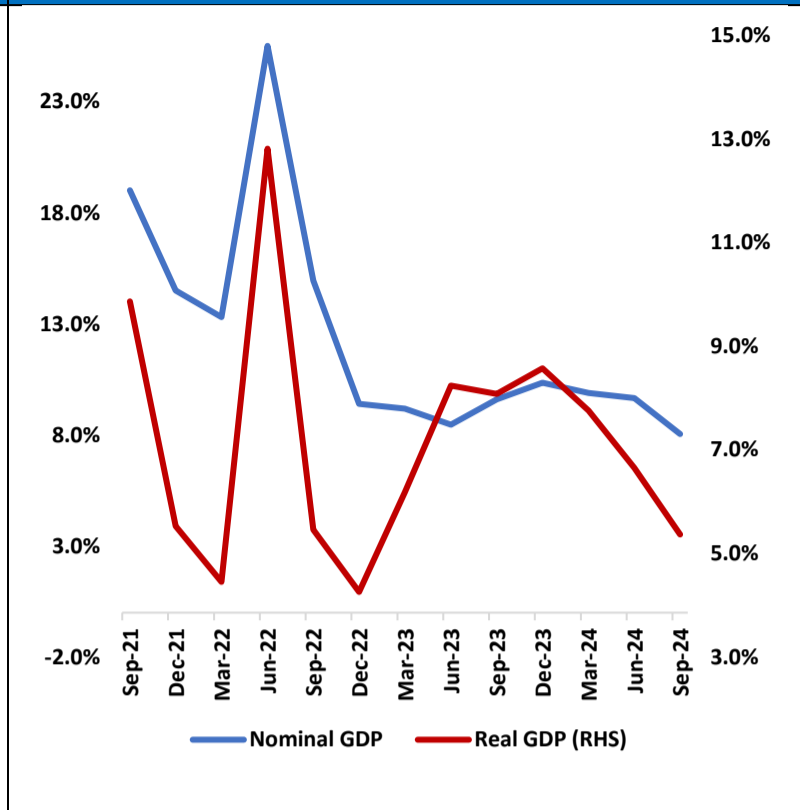
**Chart 6. Services growth was flat vs Q1 with slowdown in financial services offset by pickup in trade & transport (% y/y)**



**Chart 7. Growth slowdown led by consumption and investment while net exports were a saviour (ppt contribution)**



**Chart 8. Nominal GDP growth slipped to lowest since Q3FY21 (% y/y)**



**Chart 9. Data table**

% y/y	Q1'FY24	Q2'FY24	Q3'FY24	Q4'FY24	FY24	Q1'FY25	Q2'FY25	FY25 (F)
<b>GDP</b>	8.2	8.1	8.6	7.8	8.2	6.7	5.4	6.4
<b>GVA</b>	8.3	7.7	6.8	6.3	7.3	6.8	5.6	6.6
<b>Agri</b>	3.7	1.7	0.4	0.6	1.6	2.0	3.5	3.9
<b>Industry</b>	6	13.6	10.5	8.4	9.6	8.3	3.6	6.9
<b>Services</b>	10.7	6.0	7.1	6.7	7.6	7.2	7.1	7.2

Source: CEIC, UBI research

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