

GDP to grow by 6.4% in Q3FY24

Global growth continues to witness the risk of slowdown amidst growing challenges such as restrictive financial and tight monetary conditions. Furthermore, downside risk emanate from escalated geo-political tensions especially in Middle East and the higher cost due to Red sea attack and the mounting geo-economic fragmentation. These run the risks of imping on global growth. Indian economy is relatively better off than its global counterparts on the back of resilience reflected through domestic demand and sustained government thrust on capex. However, exports are likely to be impacted due to global headwinds. For Q3FY24, the economy is projected to grow at a slower pace by 6.4% against a growth of 7.6% in Q2FY24 led by subdued growth in agriculture and industry sector. Service sector is expected to lift up growth. For the full year our estimate is 6.8%. Going ahead for FY25 growth will be at a similar level of 6.75-6.8%.

Q3FY24 GDP

India's GDP is expected to moderate by 6.4% in Q3FY24 against an increase of 7.6% in Q2FY24. Growth in Q3 though is a tad slower than Q2, however it is uneven across sectors with few of them registering better growth than others.

- Agriculture growth is expected at 2.1% in Q3FY24. This will be a tad slower growth than was initially anticipated after the first advance estimates for kharif crops noted the total food grain production will be lower this year when compared with last year. However, for the next quarter some recovery is expected in the agriculture growth given robust rabi acreage (already surpassed the last year levels and up by 5.2% over the 5-year average).
- Industrial sector will register some moderation with 8% growth in Q3FY24 compared with a growth of 13.2% in Q2. Mining and manufacturing growth will register a growth of 6% and 8.6% in Q3FY24 respectively. This is attributable to higher base effect. This deceleration is despite the softness in the commodity prices along with improved corporate earnings. Higher profit margins of firms was visible in the corporate performance of industries such as iron and steel, capital goods, textiles and construction materials.
- On the other hand, construction sector is expected to grow at a solid pace on the back of the improvement in steel and cement output. Strong earnings have been reported since the last quarter. This is further supported by steady demand push led by residential housing. Sustained thrust on government capex (24.4% in Q3 from 8.8% in Q2FY24) bodes well for this sector.
- For services, a delayed festive surge and the World Cup event has brought upon a broad based improvement in Q3 at 6.7% (5.8% in Q2). This in turn is expected to boost the hospitality sector. The trade, hotels and transport sector is likely to expand by 6.4% in Q3 from 4.3% in Q2FY24. GST tax collections continues to grow at a steady pace. Robust credit growth will push the financial sector growth higher (6.5% from 6% in Q2FY24).
- Public administration and defence will register some deceleration amidst contraction in net revenue expenditure (excl interest payment) at -19.1% in Q3 after increasing by 23.2% in Q2FY24.

What have others said?

According to IMF, Indian economy is projected to grow by 6.7% for the current fiscal, upgrading the estimates by 40bps from its previous forecast in Oct'23. For FY24 and FY25, the economy is expected to grow by 6.5% for both the years, on the back of 'resilience in domestic demand'.

On the other hand, World Bank expects the economy to clock a growth of 6.3% in FY24 and 6.4% in FY25 led by strong domestic demand, growing infrastructure spending along with robust private-sector credit growth.

Against these forecast, as per the NSO advance estimates, the economy is expected to grow by 7.3% for the current fiscal. RBI has pegged country's growth at 7% in FY24 with Q3FY24 and Q4FY24 growth at 6.5% and 6% respectively. For FY25, it is projected at 7% with downside risk emerging from escalation of geopolitical tensions and volatility in the financial markets.

Outlook for FY24

High frequency indicator for Q3FY24 and Jan'24 has signalled what is working well for domestic growth and have also pointed towards the pain points. Rural demand is likely to slower as has been reflected by some moderation in tractor and two-wheelers sales. Uptick in e-way bill generations in Jan'24 will provide some support to services. Both manufacturing and services PMI continues to scale higher as they remains in the expansionary zone at 56.7 (56.5 in Jan'24) and 62 (from 61.8 in Jan'24) respectively in Feb'24. GST collections continues to remain on strong footing and stands at around Rs 15 lakh crore in FYTD'24 compared with the collections of Rs 13 lakh core in FYTD'23. Financial sector remain positive with stronger credit growth. Nominal GDP growth is expected to remain subdued given the moderation in prices. With capex push, government spending is likely to grow at a healthy pace in the coming quarters.

Table 1: GDP expected to grow by 6.4% in Q4FY23

Sectors (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Agriculture, forestry and fishing	4.7	5.5	3.5	1.2	2.1
Mining and quarrying	4.1	4.3	5.8	10.0	6
Manufacturing	(1.4)	4.5	4.7	13.9	8.6
Electricity, gas, water supply and other utility services	8.2	6.9	2.9	10.1	8
Construction	8.5	9.5	7.9	13.3	7.2
Trade, hotels, transport, communication & services related to broadcasting	9.6	9.1	9.2	4.3	6.4
Financial, real estate & professional services	5.7	7.1	12.2	6.0	6.5
Public administration and Defence	2.0	3.1	7.9	7.6	7.4
GVA at basic prices	4.7	6.5	7.8	7.4	6.2
GDP	4.5	6.1	7.8	7.6	6.4

Source: CEIC, Bank of Baroda Research

Table2: High frequency indicators (YoY %)

Sectors (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Agriculture					
Domestic Tractor sales	7.2	12.4	-5.3	-8.7	-7.2
Two Wheeler Sales	23.8	12.4	2.9	11.8	10.3
Industry					
IIP: Mining	7.6	6.9	6.4	11.5	8.2
Coal	9.7	11.4	8.7	16.3	13.0
Crude Oil	-1.5	-2.9	-2.0	1.3	-
Natural Gas	-0.8	3.7	0.1	8.5	8.0
IIP: Electricity	3.9	17.1	4.9	7.9	6.0
Steel Prodn	9.9	12.9	16.5	15.4	8.6
Cement Prodn	10.1	3.7	12.7	10.4	4.5
IIP: Manufacturing	1.4	3.9	5.1	6.8	5.0
IIP: Infra and Construction	8.8	9.1	13.2	12.8	5.6
IIP: Capital goods	8.2	10.5	5.1	8.8	7.2
Services					
Auto Retail Sales	26.3	12.7	8.1	14.4	8.2
Passenger Vehicle sales	28.5	18.7	14.6	15.9	8.0
Vehicle Registration	24.4	-31.7	30.9	8.7	-22.3
Rail Freight Traffic	3.2	4.0	3.5	3.7	3.6
Port cargo volume	5.2	8.3	11.5	8.2	4.6
Credit growth	15.6	15.6	16.3	18.9	20.5
Deposit growth	9.3	10.1	12.3	12.8	13.6
Diesel consumption	10.3	6.8	8.0	4.3	1.0
GST E-way bill	17.2	18.1	15.8	15.0	17.1

Source: CEIC, Bank of Baroda Research. Note: Green represent improvement, Red represent moderation, dip or contraction from last quarter on a YoY basis

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