

## India Q2 GDP Update

India Q2 GDP growth at 7.6%, maintains strong momentum.

India's Q2 GDP growth was at 7.6% (GVA 7.4%) and showed strong manufacturing which was boosted by lower input costs thus partly offsetting slowdown in agriculture (weak monsoon) and services (weaker transportation and financial activity). On the demand side, growth continued to show a strong capex skew with government consumption stabilizing soft private sector spending. Numbers suggest FY24 GDP at 6.7% YoY with upside risks.

Exhibit: India GVA and GDP growth – key metrics

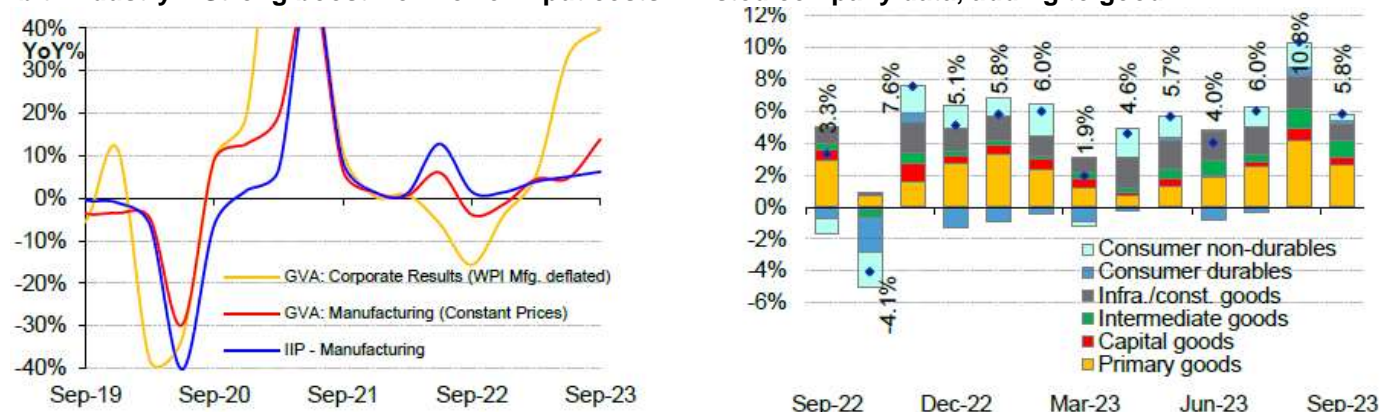
Sector	Share	Real Growth			FY23				FY24	
		FY21	FY22	FY23	Q1	Q2	Q3	Q4	Q1	Q2
Agriculture	16%	4.1%	3.5%	4.0%	2.4%	2.5%	4.7%	5.5%	3.5%	1.2%
Industry	23%	0.9%	10.5%	2.4%	7.3%	(2.5%)	0.1%	4.7%	4.6%	13.2%
Manufacturing	19%	2.9%	11.1%	1.3%	6.1%	(3.8%)	(1.4%)	4.5%	4.7%	13.9%
Services	61%	(7.9%)	9.6%	9.5%	16.3%	8.9%	6.4%	7.4%	10.0%	6.7%
Real GVA	100%	(4.2%)	8.8%	7.0%	11.9%	5.4%	4.7%	6.5%	7.8%	7.4%
Real GDP		(5.8%)	9.1%	7.2%	13.1%	6.2%	4.5%	6.1%	7.8%	7.6%

Source: Axis Bank Business and Economic Research

### India Q2 GDP growth at 7.6% (GVA 7.4%) on strong manufacturing:

- India Q2FY24 GDP growth came in at 7.6% YoY: the numbers translate from 7.4% growth in GVA, driven by strong industry, partly offsetting slowdown in agriculture as well as services. Within industry, growth was seen in mining, electricity and manufacturing, with the latter reflecting input costs. For agriculture and allied, foodgrains output in contraction was likely offset by decent trends in allied activities.
- Services growth was seen normalizing – presaged by weaker rail freight, port traffic, vehicle sales, insurance premiums, and bank credit. Overall services growth was supported by construction, seen in steel and cement activity as well as credit.

Exhibit: Industry – Strong boost from lower input costs in listed company data, adding to good IIP



Source: Axis Bank Business and Economic Research

### Strong investments and government spending offset soft private consumption:

- GDP growth of 7.6% was attributed to strong fixed investment and government consumption, even as private consumption slowed. Strong capex trends were indicated by IIP capital goods, industry fund-raising, capex intentions etc. Private consumption was soft at just 3.1% YoY, as seen in muted trends in IIP consumer goods and FMCG sales.

**GDP growth at 7.6% continues to show a strong capex skew**

- On the demand side, GDP growth of 7.6% was attributed to strong fixed investment and government consumption growth, even as private consumption growth slowed. As noted in our preview note, strong capex trends were indicated by capital goods IIP and imports, sizable industry fund-raising, highest capex intentions since FY11 and good activity seen in listed company data. This also boosted the share of fixed investment to 30% of GDP in nominal terms.
- Private consumption, on the other hand, was soft at just 3.1% YoY, proxied by muted trends in IIP consumer goods as well as FMCG sales – though there might be a festive season effect pushing consumption into Q3 given the change in timing as compared to the previous year. Within overall demand, government consumption was a stabilising factor, reflecting good growth in revenue expenditure (net of interest and subsidies) at 34.6% for the quarter.
- Do note that stronger demand was partly met through increased imports, which net from the GDP figure. Another point of note is the high number for discrepancies – indicating upside risks to individual demand side numbers in future revisions.

**Weak deflator keeps nominal growth in single digits, despite good real prints**

- Nominal GVA growth was at just 9.0% and GDP growth was at 9.1%, in line with limited deflators around 1.5%. These numbers were largely in line with negative WPI inflation, offsetting impacts of CPI inflation. With negative WPI inflation concentrated in manufacturing, the stronger real manufacturing GVA growth translated to a more modest nominal GVA of 11.5% - with similar trends seen in construction as well. In contrast, nominal GDP for private consumption was at 8.3%, in contrast to 3.1% in real terms, owing to the predominance of CPI inflation in this basket.

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