GDP growth in Q2-FY15 higher than expected at 5.3%: CARE Ratings' Report

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There was a pleasant surprise as GDP growth for Q2 FY15 came in at 5.3% (y-o-y) beating market held expectations of closer to 5%. It was the government expenditure in Q2, which supported GDP growth to take it higher than the 5.2% GDP growth in the corresponding quarter of the previous fiscal year. However, there was a deceleration from Q1 FY15 levels where GDP growth stood at 5.7%.

For H1 FY15, GDP growth was recorded at 5.5% vis-?-vis 4.9% over the same period in FY14.

Highlights:

Table 1: Q2 and H1FY15 GDP growth (%) at constant prices

Sector	Q2 FY14	Q2 FY15	H1 FY14	H1 FY15
Agriculture, forestry & fishing	5.0	3.2	4.5	3.5
Mining & quarrying	0.0	1.9	-2.0	2.0
Manufacturing	1.3	0.1	0.1	1.8
Electricity, gas & water supply	7.8	8.7	5.8	9.5
Construction	4.4	4.6	2.7	4.7
Trade, hotel, transport & communication	3.6	3.8	2.6	3.3
Finance, insurance, real estate & business services	12.1	9.5	12.5	10.0
Community, social & personal services	3.6	9.6	6.8	9.4
GDP at factor cost	**5.2**	**5.3**	**4.9**	**5.5**

Source: MOSPI

Overall, the GDP figure stands little changed relative to the corresponding quarter last year; however, here are significant changes in the composition of growth in the quarter gone by.

Strong performers

- Mining and quarrying grew at a markedly higher rate at 1.9% compared with zero growth in Q2 FY14.
- Within the broad group of industries, 'electricity, gas and water supply' witnessed a higher growth rate of 8.7% as against 7.8% in the corresponding quarter of the previous fiscal.
- 'Construction' recorded modest growth rate of 4.6% in Q2 FY15 (4.8% in Q1 FY15), in line with the 9.8% growth in the production of cement and 0.3% growth in the consumption of finished steel which are the key indicators for the construction sector.
- 'Community, social and personal services' recorded a sharp increase from 3.6% in Q2 FY14 to 9.65 in Q2 FY15. The high government expenditure incurred during the last quarter supports the strong growth witnessed by the sector in Q2 FY15.

Weak performers

- Agriculture growth slowed down from 5% in Q2 FY14 to 3.2% in Q2 FY15.
- Manufacturing growth has also fallen slightly when viewed in light of last year's figures for the same period. It recorded a 0.1% growth in Q2 FY15 (1.3% in Q2 FY14).
- Under services, 'Finance, insurance, real estate & business services' while high at 9.5% was lowerthan 12.1% growth in Q2 FY14 (10.4% in Q1 FY15).

Expenditure breakdown

Table 2: Consumption as a % of GDP (current prices)

	Q2 FY14	Q2 FY15	H1 FY14	H1 FY15
Private Final Consumption Expenditure	57.4	57.8	58.0	58.3
Government Final Consumption Expenditure	11.1	11.7	12.0	12.5
Gross Fixed Capital Formation	29.9	28.3	29.3	28.5

Source MOSPI

- Private consumption as a percentage of GDP was almost flat compared with last year levels at 57.8%. For H1 FY15 also the ratio stands at 58.3% little changed from that in H1 FY14.

- Government expenditure has risen from 11.1% in Q2 FY14 to 11.7% in Q2 FY15. This is also captured in the higher growth recorded in the 'community, social& personal services' sector in the quarter gone by. This has been reiterated in the high government spending reported recently which has translated into a 83% exhaustion of the Fiscal Deficit target for FY15.
- Gross fixed capital formation has slowed down to 28.3% in Q2 FY15 (29.9% in Q2 FY14) and for H1 FY15, the figure stands lower at 28.5% as against 29.3% in the corresponding period of FY14. Expenditure on valuables has fallen from 1.6% in Q2 FY14 to 1.1% in Q2 FY15, however, this is significantly higher than 0.7% in Q1 FY15 capturing thereby the end to the ban on gold exports.

GDP growth in H1 FY15

Growth in the first half of FY15 has been driven by the high government expenditure which led to a sharp growth in the 'community, social and personal services' sector. 'Agriculture' and 'finance, insurance, real estate and business services' recorded a moderation in growth from year ago levels, while 'mining and quarrying', 'manufacturing', 'electricity, gas and water supply', 'construction', 'trade, hotel, transport and communication' saw an improvement.

CARE's view

The domestic economy performed better than what was expected in Q2 FY15, however it must be noted that this was largely on account of higher government spending, a fact which would be reversed in H2 FY15 given that the government has already touched 83% of its fiscal deficit target.

Source: CARE Ratings' Report

Hence, to record a healthy growth of over 5% in FY15, the economy would have to see a continued improvement on similar lines across the three sectors and particularly in industries and services, given that agricultural growth is already factored in to be lower this year on account of the disrupted monsoon. The government will not be able to provide a push due to constraints on the fiscal deficit. We retain our growth forecast of 5.2-5.5% for the year.