GDP growth: Q2-FY18

Contact:
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-6754489

Kavita Chacko
Senior Economist
Kavita.chacko@careratings.com
91-22-67543687

Dr. Rucha Ranadive
Associate Economist
rucha.ranadive@careratings.com
91-22-67543531
Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-67543515

GDP has come off its lows in the second quarter of FY18 and has grown by 6.3% in Q2 FY18, higher than the 5.7% growth in Q1 FY18. However, growth in the latest quarter has been lower than the 7.5% growth recorded in Q2 FY17. ***CARE Ratings had estimated GDP growth at 6.5% for Q2 FY18.*** GVA at basis prices grew at 6.1% compared with 6.8% in the comparable quarter in FY17.

Economic growth in the Q2 FY18 was driven by higher private consumption. There has also been an increase in the capital formation/ investment during the period. Among the sectoral performance, the services segment of trade, hotel, transport & communication and manufacturing sector have seen favorable growth.

In the first half of FY18, GDP grew by 6%, compared with the 7.7% growth in the comparable period last year. GDP growth in H1 FY18 is the lowest in the last 6 years. Lower growth in H1 may be attributed to the disruptions caused on account of GST implementation and the continued impact of demonetization.

Sectoral Performance

- In Q2, the agricultural sector grew at subdued rate of 1.7% lower than 2.3% in Q1 and 4.1% in Q2 FY17. The lower growth in the quarter gone by can be attributed to the decline in kharif output this year.
- Mining sector expanded at a higher pace of 5.5% compared with the (-)0.7% growth in Q1 FY18.
- Manufacturing grew at 7% as against growth of 1.2% in Q1. This can be ascribed to restocking activities undertaken post GST implementation in July.
- Utilities grew at high rate of 7.6%, 0.6% higher than the previous quarter.
- Construction sector performance continues to be subdued with growth in Q2 FY18 coming in at 2.6%, lower than the 4.3% a year ago.
- Trade, hotel and transport, which has higher share of sales tax, grew at 9.9% in Q2 FY18 higher than the 7.7% growth last year. It was however lower than the 11.1% growth witnessed in the previous quarter (Q1 FY18).

- The growth in financial, insurance and real estate remained subdued at 5.7%, compared with the 6.4% growth in Q1.
- Public administration witnessed a dip in growth. It grew by 6% as against 9.5% growth in the previous quarter

Table 1: Quarterly sectoral growth

(At constant 2011-12 prices)

Growth (%)	Q1FY17	Q2FY17	Q1FY18	Q2FY18
GDP	**7.9**	**7.5**	**5.7**	**6.3**
GVA at basic prices	**7.6**	**6.8**	**5.6**	**6.1**
Agriculture	2.5	4.1	2.3	1.7
Mining and quarrying	-0.9	-1.3	-0.7	5.5
Manufacturing	10.7	7.7	1.2	7.0
Electricity, gas water supply & other utility services	10.3	5.1	7.0	7.6
Construction	3.1	4.3	2.0	2.6
Trade, hotels, transport communication and services related to broadcasting	8.9	7.7	11.1	9.9
Financial, real estate and professional services	9.4	7.0	6.4	5.7
Public administration, defense and other services	8.6	9.5	9.5	6.0

Source: MOSPI

- In the first half of FY18, the GDP grew at lower pace. In H1 FY18, GVA grew at 5.8% than 7.2% growth in H1 FY17 due to lackluster growth witnessed in the first quarter of FY18.
- While the growth in agriculture, manufacturing, construction financial and real estate and public administration remained muted, the growth was supported by high growth rates in trade, hotels and transport, electricity and utility services and to an extent by mining and quarrying.

Table 2: Half yearly sectoral growth

(At constant 2011-12 prices)

Growth (%)	H1 FY16	H1FY17	H1FY18
GDP	**7.5**	**7.2**	**6.0**
GVA at basic prices	**7.2**	**7.2**	**5.8**
Agriculture	2.3	2.5	2.0
Mining and quarrying	6.9	-0.9	2.0
Manufacturing	8.2	8.1	4.0
Electricity, gas water supply & other utility services	5.7	6.4	7.3
Construction	3.3	2.5	2.3
Trade, hotels, transport communication and services related to broadcasting	8.3	7.6	10.5
Financial, real estate and professional services	10.7	8.8	6.1
Public administration, defense and other services	6.4	12.4	7.6

Source: MOSPI

Expenditure

- Private consumption, the driver of overall GDP, has declined further in Q2 FY18. The growth in this segment has been lowest since Q3 FY16. The growth of 6.5% in Q2 FY18 was marginally lower than the 6.7% growth of Q1 FY18 and the 7.9% of Q2 FY17.
- There has been a notable decline in government consumption expenditure in Q2 FY18 which grew by a mere 4.1%, compared with the 17% growth in Q1 FY18 and 16.5% in Q2 FY17.

- There has been an improvement in investment in Q2 FY18 as reflected by the rise in Gross Fixed Capital Formation (GFCF) which grew by 4.7% , higher than the growth of 1.6% in Q1 FY18 as well as the growth in the corresponding quarters of the preceding 2 years i.e. 3.4% in Q2 FY16 and 3% in Q2 FY17

Table 3: Growth in expenditure components (%)

	Q1 FY13	Q2 FY13	Q1 FY14	Q2 FY14	Q1 FY15	Q2 FY15	Q1 FY16	Q2 FY16	Q1 FY17	Q2 FY17	Q1 FY18	Q2 FY18
PFCE	-0.9	8.7	7.9	6.1	7.0	8.6	2.8	5.2	8.4	7.9	6.7	6.5
GFCE	12.1	11.3	18.9	-2.3	4.3	12.1	0.9	4.3	16.6	16.5	17.2	4.1
GFCF	9.6	5.4	2.9	1.6	3.8	5.3	4.3	3.4	7.4	3.0	1.6	4.7
Change in stocks	-7.5	3.2	-34.4	-36.4	113.0	111.3	-1.0	0.0	8.9	5.9	1.2	6.7
Valuables	16.4	-1.3	-46.8	-41.6	32.4	19.8	-18.1	3.9	-13.8	-21.7	204.8	105.0
Exports of goods and services	6.5	23.7	3.1	-1.1	11.7	0.7	-6.1	-4.1	2.0	1.5	1.2	1.2
Imports of goods and services	6.8	10.8	-3.1	-8.0	-0.5	4.2	-5.9	-3.4	-0.5	-3.8	13.4	7.5
Discrepancies	-262.1	129.3	-45.6	-66.2	-700.2	-2.6	-226.5	-239.6	-45.8	-31.2	-12.1	62.0
GDP	4.9	7.5	6.4	7.3	7.9	8.8	7.6	8.0	7.9	7.5	5.7	6.3

Table 4: Final Expenditure as % of GDP: Q2

(At current prices)

Growth (%)	Q1FY17	Q2FY17	Q1FY18	Q2FY18	H1 FY16	H1 FY17	H1FY18
Private Final Consumption Exp.	57.4	57.3	57.3	57.3	59.7	60.1	57.3
Government Final Consumption Exp.	12.2	13.8	13.4	13.5	12.3	13.5	13.4
Gross Fixed Capital Formation	29.2	27.1	27.5	26.4	31.5	27.7	26.9

Source: MOSPI

- Investment rate in the country continues to be subdued. The share of GFCF as a percentage of GDP has moderated further to 26.9%, 4.6% lower than that in H1 FY16. The investment rate in the country has seen a sustained decline in recent years.

CARE's View

India's economic growth is expected to pick up in the last 2 quarters of the current fiscal given that

- Disruptions associated with the GST implementation will ease progressively in the coming months
- Consumption demand will pick up in 3rd and 4th quarter supported by the pent up demand from last year's demonetization, fairly normal monsoon aiding rural consumption and the 7th pay commission wage rises.
- Investments could see a gradual pick up following the various reforms measures undertaken by the government, improved ranking in ease of doing business and sovereign credit rating upgrade by Moody's, all of which have led to improved sentiments for the Indian economy.

We are expecting the GDP to grow at around 6.7% to 6.8% for the financial year 2017-18.

CORPORATE OFFICE:
CARE RATINGS LIMITED (Formerly known as CREDIT ANALYSIS & RESEARCH LIMITED)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

Follow us on /company/CARE Ratings
/company/CARE Ratings