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India’s Q1 GDP grows at 13.5 percent, lags estimates

Synopsis
A rebound in private consumption - one of the key factors for the economy - and growth in contact-intensive sectors amid declining Covi
19 fears aided economic momentum in the first quarter. Moreover, a severe coronavirus Delta wave in the comparable year-earlier period had impeded growth as consumption demand slackened with state-enforced movement restrictions.

India’s economy grew at the fastest pace in a year from April-June quarter, as a favourable base effect and improved activities following the relaxation of pandemic-led restrictions outweighed the rippling effects of geopolitical and global concerns.

Asia’s third-largest economy posted double-digit growth of 13.5 percent in the fiscal first quarter, lagging the 15.2 percent estimate by Reuters and sharply higher than the 4.1 percent growth rate in the preceding quarter.

A rebound in private consumption - one of the key factors for the economy - and growth in contact-intensive sectors amid declining Covid-19 fears aided economic momentum in the first quarter. Moreover, a severe coronavirus Delta wave in the comparable year-earlier period had impeded growth as consumption demand slackened with state-enforced movement restrictions.

India’s economy grew 20.1 percent in the first quarter of last fiscal year, but the growth reading was magnified due to the economic contraction of 23.8 percent in Q1 FY21 owing to the colossal impact of the outbreak of the pandemic and the ensuing lockdowns that shuttered businesses and even rendered millions jobless.

"The GDP in the first quarter has recorded growth of 3.8% when compared to the pre-pandemic period of Q1 FY20 and is lower than our expectations," said Rajani Sinha, the chief economist at CareEdge.

However, Aurodeep Nandi, India economist and vice president at Nomura, said even if the low base is dicounted, the GDP reading marks a stellar rise in sequential momentum.

"This marks a confluence of tailwinds, such as the catch-up in contact-intensive services, public capex push, and lagged impact of easy financial conditions. Looking forward though, some of these will be replaced as headwinds, as deteriorating global growth prospects, higher inflation impacting consumption, and gradually tightening financial conditions eventually start to impact the pace of growth momentum as the year progresses," he said.

Finance Secretary T. V. Somanthan said today's readings show that India's real GDP was at Rs. 36.85 lakh crore. "This is highest ever GDP definitely, significantly above pre-pandemic level. We have crossed the pre-pandemic level in real terms by about 4%. This performance augurs well for the economy," he said.

The first-quarter growth print for India is in contrast to China barely avoiding a contraction in the same period as the larger neighbour's strict zero-Covid policy locked down several places of key manufacturing and tech hubs.

India's manufacturing sector grew 4.8 percent, while the construction sector posted a 16.8 percent, data released by the ministry of statistics showed on Wednesday.

Private consumption witnessed a growth of nearly 26 percent.

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Q1FY23 GDP REVIEW

Sectoral Breakdown

SECTORS	Q1FY23	Q1FY22
Agriculture, forestry & fishing	4.5%	2.2%
Mining & Quarrying	6.5%	18.0%
Manufacturing	4.8%	49.0%
Elec, Gas, Water & others	14.7%	13.8%
Construction	16.8%	71.3%
Trade, Hotels, Trans, etc	25.7%	34.3%
Fin, Realty & Prof services	9.2%	2.3%
Public admin., Def & others	26.3%	6.2%
GVA at basic price	**12.7%**	**18.1%**

At constant prices
Source: MOSPI

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"Real GDP or Gross Domestic Product (GDP) at Constant (2011-12) Prices in Q1 2022-23 is estimated to attain a level of ₹ 36.85 lakh crore, as against ₹ 32.46 lakh crore in Q1 2021-22, showing a growth of 13.5 percent as compared to 20.1 percent in Q1 2021-22," stated the press release.

The Reserve Bank of India (RBI) had estimated a 16.2 percent growth for the first quarter and 7.2 percent for the fiscal year.

Softening of crude and edible oil prices following excise duty cuts and other fiscal-side measures also provided much-needed support to the economy. Businesses also ramped up capacity as domestic demand recovered, which indicated a nascent recovery in the economy.

However, factors such as the scorching summer (causing heatflation), surging inflationary pressure, depreciating rupee and supply-chain disruptions caused by ongoing geopolitical tensions continued to hinder growth in the Indian economy.

The double-digit growth reading also comes at a time when India's Monetary Policy Committee has initiated the rate-hike cycle and has already lifted rates by 140 basis points since May, including a 50 bps hike earlier this month to tame inflation. The rate-setting panel members also warned about the impact of a global slowdown on domestic growth prospects, while it calibrates withdrawal of the monetary accommodation that was brought in following the outbreak of the Covid pandemic.

The central bank is expected to further raise the repo rate, but some industry experts believe the rate hikes may hit consumption, and thus growth, with demand already under pressure. Going ahead, the economy may also face downw risks, as tighter monetary conditions and higher input costs impact companies' investment plans.

"Going forward, with the global headwinds, India's external sector would face a challenging time. It will be critical for domestic consumption and Investment to gather momentum. The consumption demand revival has been uneven so far with weak rural demand. While lowering of inflation will provide support to overall consumption spending, uneven monsoon will play a spoiler for rural demand," CareEdge's Sinha said.

The finance secretary said India remains on course to achieve real GDP growth of 7-7.5% in this fiscal year. "Today's data is consistent with this projection," he said.

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