Business Standard

Private consumption, capital investment rises in Q1, govt consumption slows

The GDP numbers, Finance Secretary T V Somanathan said this trend was par for the course, as GFCF in Q1 was usually lower than the previous year's Q4.

Arup Roychoudhury | New Delhi September 01, 2022 Last Updated at 00:19 IST

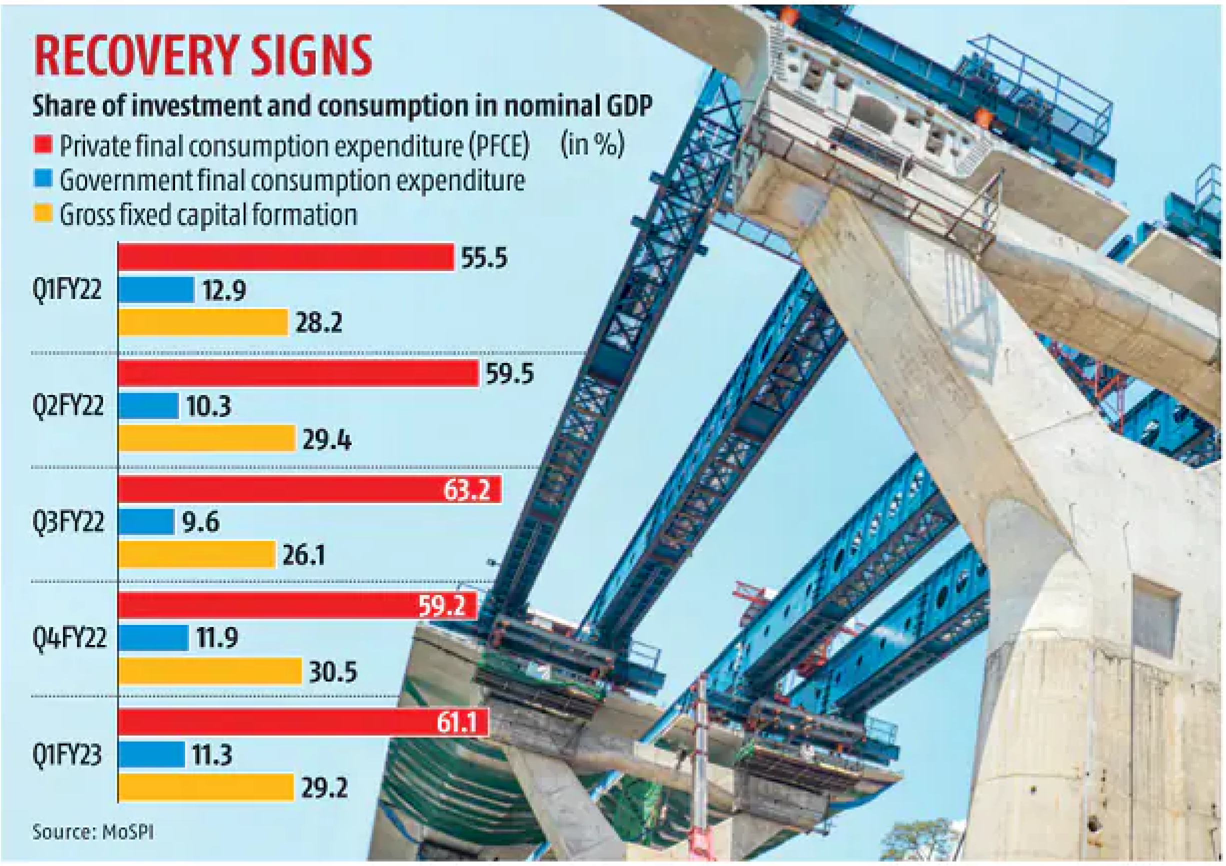
Household and private sector consumption, as measured by Private Final Consumption Expenditure (PFCE), came in at Rs 39.7 trillion in nominal terms in Q1FY23, compared with Rs 28.4 trillion for the same period last year, and Rs 39.2 trillion in the fourth quarter (Q4) of 2021-22 (Fy22).

Notwithstanding inflationary pressures due to the war in Europe, India's private consumption and capital investment showed strong recovery in the April-June quarter (first quarter, or Q1) of 2022-23 (FY23), revealed official data. Government consumption, however, fell as a percentage of gross domestic product (GDP).

Household and private sector consumption, as measured by Private Final Consumption Expenditure (PFCE), came in at Rs 39.7 trillion in nominal terms in Q1FY23, compared with Rs 28.4 trillion for the same period last year, and Rs 39.2 trillion in the fourth quarter (Q4) of 2021-22 (Fy22). As a percentage of nominal GDP, PFCE was 61.1 per cent, compared with 55.5 per cent in Q1FY22 and 59.2 per cent in Q4FY22. However, in real terms or at constant prices, PFCE grew just 9.88 per cent, compared with Q1 of 2019-20 — the year before the Covid-19 pandemic.

"Recovery in domestic demand is reflected in the growth rates of PFCE and gross fixed capital formation (GFCF) over the corresponding quarter of the previous year," said D K Srivastava, chief policy advisor, EY. GFCF, a proxy for investment, came in at Rs 19 trillion in Q1FY23, compared with Rs 14.4 trillion in Q1FY22. However, it was slightly lower than Rs 20.2 trillion in Q4FY22.

In a media briefing after the GDP numbers, Finance Secretary T V Somanathan said this trend was par for the course, as GFCF in Q1 was usually lower than the previous year's Q4.



"There is more capital expenditure (capex) spending in the last quarter of a fiscal year by central and state governments," said Somanathan. As a percentage contributor to nominal GDP, GFCF was 29.2 per cent in Q1FY23, 28.2 per cent in Q1FY22, and 30.5 per cent in Q4FY22.

"Investments continued to improve in Q1 on capex by the central government and in infrastructure-linked sectors such as steel and cement," said D K Joshi, chief economist, CRISIL. However, Joshi added that weaker government consumption expenditure was one of the reasons which kept overall growth soft, compared with analyst estimates.

"Private consumption is improving, with urban demand getting support from contact-intensive services. Had it not been for high inflation and subdued rural demand due to negative real rural wage growth, private consumption would have grown faster," added Joshi.

Nominal Government Final Consumption Expenditure was Rs 7.3 trillion in Q1FY23 (11.3 per cent of nominal GDP), compared with Rs 6.6 trillion (12.9 per cent) in Q1FY22 and Rs 7.9 trillion (11.9 per cent) in Q4FY22.

With global headwinds, economists expect India's external sector to face a challenging time.

"It will be critical for domestic consumption and investment to gather momentum. A 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 spoiler for rural demand. On the investment front, there are positive signals appearing with a rise in capacity utilisation. The central government's healthy capex in the fiscal year so far bodes well for the investment scenario," said Rajani Sinha, chief economist, CARE Ratings.

“Overall, we expect momentum in the economy to gather pace,” said Sinha.