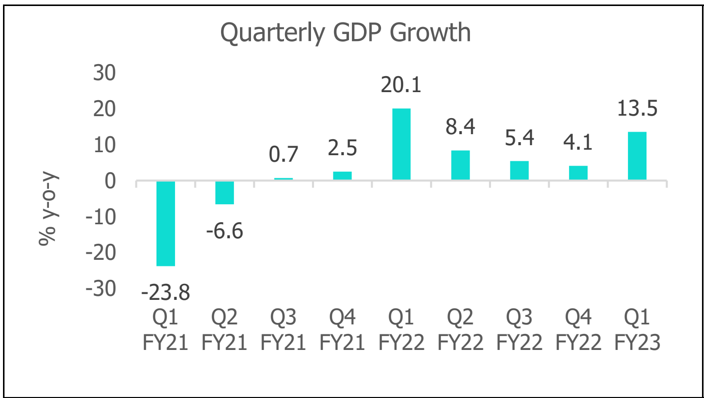
GDP Growth Accelerates to 13.5% on Low Base Effect

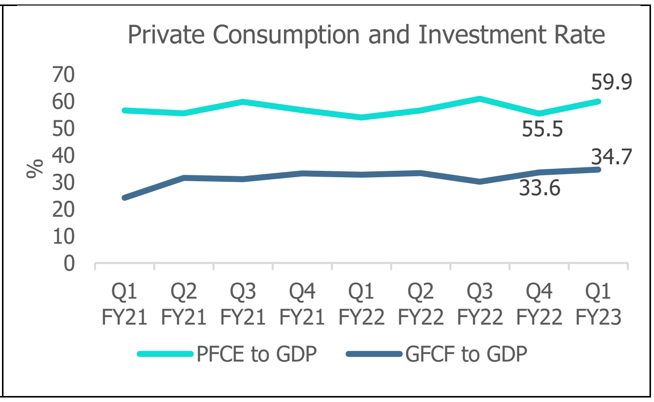
September 01, 2022 | Economics

India's economy recorded growth of 13.5% in the first quarter of FY23, up from 4.1% in the last quarter of FY22. The high GDP growth in Q1 FY23 can, in large part, be attributed to the favourable base. All three major sectors – Agriculture, Industry and Services – witnessed a loss in momentum compared with the previous quarter. When compared with the pre-pandemic period of Q1 FY20, GDP has recorded a modest growth of 3.8%.

The GDP growth in Q1 was lower than our expectation mainly because of lower than expected growth in manufacturing, construction, trade, hotels and transport related sectors. The GDP growth was also lower than RBI's estimate of 16.2% for Q1 FY23.

Encouragingly, both private consumption and investment rate edged up in Q1 compared with the previous quarter. If we do a pre-Covid comparison, private consumption has grown by 9.9% while investment has grown by 6.7% in Q1 FY23 (compared to Q1 FY20). However, with global slowdown and high commodity prices, the external sector has recorded weakness, resulting in sharp weakening of net exports.





Source: MOSPI

Sectoral Contribution

- **Agriculture** recorded a growth of 4.5% in Q1 FY23 over a low base of 2.2% growth in the same period last year. Despite the heatwave-led disruption, overall foodgrain production for the crop year 2021-22 is estimated to be at a record high of 315.72 million tonnes as per the fourth advance estimates. However, due to uneven rains this year, the production of some major Kharif crops such as rice and pulses could be impacted having implications on the agriculture sector's output growth.
- **Industrial output** jumped 8.6% in Q1 FY23 on y-o-y basis. However, sequentially the sector witnessed a sharp contraction due to lower output across mining, manufacturing and construction sectors. Manufacturing contracted 10.5% (q-o-q) in Q1 as it felt the heat of high commodity prices. With easing of commodity price pressures and prospects of improvement in consumption demand, we can expect the manufacturing sector to perform better in coming quarters.
- **Services sector,** having the highest share in GDP, recorded a growth of 17.6% in Q1 FY23. The high growth was supported by a favourable base effect. The services sector output was only 3% higher when compared with the pre-pandemic quarter of Q1 FY20. While the output in the sectors related to trade, hotels, transport, communication and broadcasting recorded a good growth of 25.7% on y-o-y basis, it was still 15.5% lower compared with the pre-pandemic level.

Table 1: Sectoral Growth (% y-o-y)

	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23
Agriculture, Forestry & Fishing	**2.2**	**3.2**	**2.5**	**4.1**	**4.5**
Industry	**46.6**	**7.0**	**0.3**	**1.3**	**8.6**
Mining & Quarrying	18.0	14.5	9.2	6.7	6.5
Manufacturing	49.0	5.6	0.3	-0.2	4.8
Electricity, Gas, Water Supply & Other Utility Services	13.8	8.5	3.7	4.5	14.7
Construction	71.3	8.1	-2.8	2.0	16.8
Services	**10.5**	**10.2**	**8.1**	**5.5**	**17.6**
Trade, Hotels, Transport, Communication & Broadcasting	34.3	9.6	6.3	5.3	25.7
Financial, Real Estate & Professional Services	2.3	6.1	4.2	4.3	9.2
Public Administration, Defence and Other Services	6.2	19.4	16.7	7.7	26.3
GVA (at basic price)	**18.1**	**8.3**	**4.7**	**3.9**	**12.7**

Source: MOSPI

Consumption and Investments

- The share of private consumption in GDP increased to 59.9% in Q1 FY23 from 55.5% in Q4 FY22. High-frequency indicators such as production of consumer durable goods (as measured by IIP) and auto sales reflected double-digit growth in Q1 FY23 compared with Q1 FY22. On the other hand, the production of consumer non-durable goods was only 1.1% higher in Q1 compared with year-ago period showing the uneven nature of demand recovery.
- The investment to GDP ratio increased to 34.7%, the highest in the 39 quarters owing to a revival in business sentiment and strong capital expenditure push by the government.
- A sharp weakening of net exports in Q1 compared with a year ago level has also weighed on overall GDP growth. With fears of global growth slowdown and high commodity prices, decline in net exports will remain a cause of concern.

Table 2: Growth in Consumption and Investment (% y-o-y)

	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23
Government Final Consumption Growth	-4.8	8.9	3.0	4.8	1.3
Private Final Consumption Growth	14.4	10.5	7.4	1.8	25.9
Gross Fixed Capital Formation	62.5	14.6	2.1	5.1	20.1
GDP (at constant prices)	20.1	8.4	5.4	4.1	13.5

Source: MOSPI

Way Forward:

Although the high growth in the first quarter of FY23 was aided by a favourable base effect, green shoots are visible on consumption and investment front. The rise in private consumption to GDP ratio in the first quarter is a positive sign and reflects revival of consumption demand. However, the demand revival has been uneven so far with high rural inflation, uneven rains and muted rural wage growth weighing on rural demand. Nonetheless, higher MSP for Kharif harvest, onset of festive season and easing inflationary pressures are expected to support rural demand in the coming quarters. On the Investment front, there are positive signals appearing with the rise in capacity utilisation of manufacturing sector to 75 level. The Central Government's healthy capital expenditure in the fiscal year so far also bodes well for investment scenario. However, we need to be wary of the global slowdown and its implications for the Indian economy in the coming quarters. **We have revised downwards our GDP growth projection to 6.8-7% for FY23 from our earlier projection of 7.1%.**

Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Shambhavi Priya	Associate Economist	shambhavi.priya@careedge.in	+91 - 22 - 6754 3493
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 I CIN: L67190MH1993PLC071691

Connect :

Locations: Ahmedabad I Andheri-Mumbai I Bengaluru I Chennai I Coimbatore I Hyderabad I Kolkata I New Delhi I Pune

About:

CareEdge (earlier known as CARE Group) is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics capability and detailed research methods. CareEdge Ratings is one of the leading credit rating agencies in India. It has an impressive track record of rating companies for almost three decades and has played a pivotal role in developing the corporate debt market in India. CareEdge provides near real time research on all domestic and global economic developments. The wholly owned subsidiaries include CareEdge Advisory & Research arm focused on providing advisory and consultancy services and CareEdge Risk solutions a platform that provides risk management solutions