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Headline	Q2FY24 GDP surprised on the upside		

COMMENT

Q2FY24 GDP surprised on the upside

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Led by healthy year-on-year (Y-o-Y) as well as sequential pick-up in manufacturing, construction and majority of the services, India's real GDP growth in Q2, FY24 at 7.6 per cent (Y-o-Y) was much higher-than-anticipated. However, the contribution of a favourable statistical base for mining & manufacturing sectors cannot be underplayed. Both these sectors had posted negative growth rates in Q2FY23.

From the expenditure side, the real push to growth continued to come from the capital formation (fixed investment) than consumption spending during the first half of the current financial year. As revealed by the fiscal statistics, India's Central Government had frontloaded the capital spending and spent ₹4.90 trillion on capital formation during H1FY24, or 49 per cent of the budgeted target. This is reflected in an improved share of gross fixed capital formation (GFCF) in GDP from 34.4 per cent in H1FY23 to 35 per cent in H1FY24. This was also seen in the robust growth of 12.2 per cent (Y-o-Y) in infrastructure/construction goods in the industrial production statistics for April-September, 2023.

However, the growth of private final consumption expenditure has eased from 5.97 per cent (Y-o-Y) in Q1FY24 to 3.13 per cent in Q2FY24 indicating a slowdown in broad-based demand. This fact was also corroborated by the corporate earning results for Q2FY24, which showed a better performance by the big-ticket consumer goods companies as compared to the small-ticket consumer goods companies.

The real pressure point in today's GDP statistics is the "agriculture & allied activities" sector that has posted a growth of just 1.2 per cent (Y-o-Y) in Q2FY24, the lowest in the past 18 quarters. This year's monsoon was extremely uneven, both temporally and spatially and the agriculture ministry has estimated production of kharif cereals, pulses, oilseeds, and also cotton, and sugarcane to be lower this time compared to last year.

Within the services sector, while hospitality, tourism, transport, communications, etc. have posted good growth both sequentially and on year during Q2FY24, the group "financial, real estate and professional services" has degrown sequentially in the second quarter. This could be due to the slowdown witnessed by the IT and ITES on account of the global recessionary trends. The effect of global economic slowdown is also seen in the further widening of the trade gap by 10.6 per cent from ₹2.58 trillion in Q1FY24 to ₹2.85 trillion, in today's GDP statistics.

Going forward, we may see a further pick-up in the manufacturing and construction activities during Q3FY24 on the back of a growth-supportive festival season. The early reports on this front have been quite positive. But "agriculture and allied activities" sector may give more negative surprises.

Rabi sowing is off to a sluggish start due to the delayed harvesting of kharif crops and water storage position in the reservoirs across the country remains sub-par. With a strengthening El Niño (projected to last up to April-June 2024), the possibility of moisture stress for the standing rabi crops cannot be ruled out. There could be some "damage" to the yields from higher-than-normal temperatures associated with El Niño years.

Moreover, the tempo of government's capital spending may slow in H2FY24 ahead of the general elections. The rating agency ICRA has warned that the government may miss the capex target for FY24, as there will be overshooting of expenditure on account of food subsidy, LPG subsidy, fertilizer subsidy, NREGA allocations, etc. prior to the general elections.

While the average GDP growth at 7.7 per cent(Y-o-Y) is very healthy during H1FY24, it may not sustain at the same level in the second half of the fiscal year due to a mix of domestic and global headwinds. But the robust GDP print for H1FY24 will give Reserve Bank of India more space to extend monetary tightening to control inflationary pressures.

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