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GDP to grow by 4.6% in Q3FY23

Global economy remains unsettled as it battles the wind of uncertainty posed by geo-political tension and concerns emerging over global growth. Investors have been fretting over the future of monetary stiffness by global central banks in their ongoing fight to combat inflation. Fed in its upcoming minutes is expected to provide guidance on rate trajectory. Markets have already priced in the peaking of the terminal rates to 5.3% by Jul'23. Indian economy has been relatively insulated from these global risks. ***For Q3FY23, the economy is projected to grow at a slower pace by 4.6% against a growth of 6.3% in Q2FY23 with major respite offered by services sector (festive surge and hospitality sector has lifted growth). With this, Indian economy is poised to grow by 6.8% in FY23 compared with a growth of 8.7% in FY22.***

Q3FY23 GDP

India's GDP is expected to moderate by 4.6% in Q3FY23 against an increase of 6.3% in Q2FY23. Growth in Q3 is although better than Q2, however it has largely been uneven across sectors with few of them registering better growth than others.

- Agriculture growth expected to improve by 3.5% in Q3FY23. This comes against the backdrop of robust rabi acreage (higher by 3.3% compared with previous year).
- Even as commodity prices have now cooled off from its all-time high, seen back in Q1 FY23 due to ongoing geo-political tensions between Russia and Ukraine. However, input cost pressure continues to impinge on profits of the firms. The impact was visible on corporate results of the industries such as textiles, refineries, chemicals, metal and even plastic. Thereby, manufacturing sector continues to remain in the weak zone with growth of 3.1% in Q3FY23.
- Electricity is expected to clock a growth of 6.5% in Q3FY23 compared with 5.6% in Q2FY23, earning have reported a similar trend of improvement since the last quarter.
- On the other hand, construction sector is expected to grow at a solid pace on the back of the improvement in steel and cement output. This is further supported by steady demand push led by housing. Moreover, buoyancy by infra/construction and capital goods output bodes well for this sector.
- For services, festive surge has brought upon a broad based improvement in Q3. This in turn is expected to boost the hospitality sector. Even as firms passed on higher cost to consumers, robust demand has boosted both profit and sales of this sector. The same has been reflected by the earnings report.

What have others said?

Indian economy is projected to grow by 6.9% in FY23 according to World Bank. While IMF expects India to grow by 6.8% for the current fiscal, touting it as the 'bright spot' and one of the major drivers of growth, even as global economy is expected to witness slowdown (2.9% in CY23 against 3.4% in CY22). Against these forecast, RBI has pegged country's growth at 6.8% for FY23 with Q3FY22 and Q4FY23 growth at 4.4% and 4.2% respectively. Global economic slowdown has been referred to as the biggest downside risk to this growth projection. Economic Survey has projected India to grow by 7% in FY23 even as global economy continues to tackle uncertainty.

Outlook for FY23

High frequency indicator for Q3FY23 and Jan'23 has signalled what is working well for domestic growth and have also pointed towards the pain points. Rural demand is likely to remain buoyant as has already been reflected by improvement in tractor and two-wheelers sales. Revival in pent-up demand and higher discretionary spending is likely to boost urban consumption story. Uptick in railway freight and upward momentum in air passenger traffic along with higher e-way bill generations in Jan'23 will provide further support to services. GST collections continues to remain on strong footing and stands at around Rs 15 lakh crore in FYTD'23 against Rs 12.1 lakh crore in FYTD'22. Financial sector remain positive with stronger credit growth. Input price pressure might have some impact on industrial growth as inflation continues to remain sticky. With capex push given in the budget, government spending is likely to grow at a healthy pace in the coming quarters. Against the above backdrop, we expect the Indian economy to grow by 6.8% in FY23 compared with a growth of 8.7% in FY22.

Table 1: GDP expected to grow by 4.6% in Q3FY23

Sectors (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Agriculture, forestry and fishing	3.2	2.5	4.1	4.5	4.6	3.3
Mining and quarrying	14.5	9.2	6.7	6.5	(2.8)	3.6
Manufacturing	5.6	0.3	-0.2	4.8	(4.3)	3.1
Electricity, gas, water supply and other utility services	8.5	3.7	4.5	14.7	5.6	6.5
Construction	8.1	-2.8	2.0	16.8	6.6	8.4
Trade, hotels, transport, communication & services related to broadcasting	9.6	6.3	5.3	25.7	14.7	8.3
Financial, real estate & professional services	6.1	4.2	4.3	9.2	7.2	4.2
Public administration and Defence	19.4	16.7	7.7	26.3	6.5	1.0
GVA at basic prices	8.3	4.7	3.9	12.7	5.6	4.4
GDP	8.4	5.4	4.1	13.5	6.3	4.6

Source: CEIC, Bank of Baroda Research

Table2: High frequency indicators (YoY %)

Sectors (%)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Agriculture									
Domestic Tractor sales	26.9	67.7	45.5	-4.8	-9.5	-21.6	17.4	4.0	7.2
Two Wheeler Sales	-11.3	-21.2	130.6	7.7	-10.1	-5.5	60.3	1.5	19.5
Industry									
IIP: Mining	-3.2	-0.1	27.5	17.1	6.1	3.8	9.1	-0.9	7.4
Coal	5.2	-1.9	7.9	15.6	9.0	4.6	31.9	10.3	9.3
Crude Oil	-4.9	-3.6	-3.4	-2.4	-2.1	-2.7	0.6	-3.2	-1.5
Natural Gas	-8.4	3.0	21.8	22.3	23.0	10.5	4.8	-1.0	-0.8
IIP: Electricity	1.6	-15.8	0.1	6.7	9.2	16.8	9.3	2.7	3.9
Peak demand	5.6	7.7	18.6	8.9	2.5	4.6	10.4	4.0	6.0
Energy Met	6.9	12.6	17.3	9.3	2.7	3.9	16.7	4.6	7.4
Steel Prodn	3.3	13.1	88.4	7.8	2.0	4.5	6.9	7.0	9.1
Cement Prodn	-4.0	9.6	57.8	22.5	8.7	9.0	17.2	4.9	9.9
IIP: Manufacturing	1.8	6.8	53.0	8.6	1.4	1.2	12.8	1.5	0.9

IIP: Infra and Construction	5.3	9.7	84.0	11.7	3.9	7.0	10.3	5.3	7.3
IIP: Capital goods	-0.7	8.6	109.1	16.7	-2.4	1.9	29.6	6.9	8.8
Services									
Auto Retail Sales	-9.7	-17.5	145.3	14.6	-9.0	-4.0	64.0	3.2	21.3
Passenger Vehicle sales	8.4	11.9	200.2	39.4	-14.2	-5.1	63.7	3.6	22.8
Vehicle Registration	-13.5	-2.2	14.1	22.6	-5.7	-13.3	44.1	1.4	24.4
Rail Freight Traffic	10.8	13.4	40.5	12.8	7.3	7.0	11.8	8.4	3.2
Port cargo volume	2.0	7.5	26.8	6.3	1.8	-1.9	9.2	12.6	5.4
Credit growth	5.9	6.0	6.0	6.5	7.8	7.9	11.2	15.6	15.6
Deposit growth	10.9	11.5	10.1	9.5	10.3	8.6	9.1	10.4	9.3
Diesel consumption	-1.1	4.2	22.3	9.0	-3.8	0.0	20.4	11.4	10.2
GST E-way bill	15.1	27.9	97.9	27.5	10.8	9.2	45.6	20.1	17.2

Source: CEIC, Bank of Baroda Research. Note: Green represent improvement, Red represent moderation, dip or contraction from last quarter on a YoY basis

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