

Q3FY19 GDP

28 February 2019

Sharper than anticipated moderation in growth

India's GDP and GVA growth moderated to 6.6% and 6.3% in Q3FY19 from 7% and 6.8% in Q2 as government spending and agriculture production slipped. Investment spending was stable. However, as government reigns in its capex to meet fiscal target and a global trade slowdown bites, FY19 GDP growth is projected to slip to 7% from 7.2% in FY18. While consumption may see a leg-up due to direct cash transfers, exports and investments are unlikely to pick-up. Thus growth is likely to remain at current levels for FY20 as well.

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GVA growth moderates: India's Q3FY19 GVA growth edged down to 6.3% from 7.3% in H1FY19 on the back of dip in agriculture growth to 2.7% in Q3FY19 from 4.6% in H1. Area sown under rabi crops declined. Even government spending under public administration and defence decelerated to 7.6% in Q3 from 8.7% in Q2 as centre reigned in its expenditure. Hence, services sector growth moderated to 7.2% in Q3 from 7.4% in Q2. However, construction and mining reported an uptick in growth at 9.6% and 1.3% in Q3 versus 8.5% and (-) 2.1% in Q2 respectively.

Investment spending holds up: While government and private consumption has edged lower in Q3 at 6.5% and 8.4% from 10.8% and 9.8% respectively in Q2, investment spending has held up at 10.6% in Q3 versus 10.2% in Q2. This has been possible despite sharp reduction in centre's capital spending. Exports have also seen an acceleration at 14.6% in Q3 even as merchandise exports have slipped. Higher services exports may explain this. Notably, imports have decelerated from Q2 levels thus showing impact of lower oil prices and domestic slowdown. On an overall basis, Q3 GDP growth has slipped to 6.6%, lowest in six quarters.

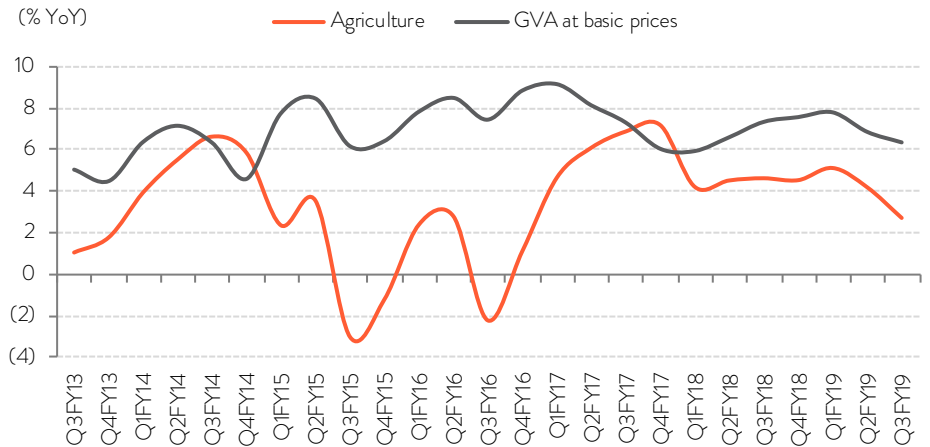
GVA/GDP growth revised lower by 20bps: Led by reduction in agriculture production from 3.8% earlier to 2.7% (2nd A.E.), GVA growth is now estimated at 6.8% (7% earlier). Similarly, growth in investment spending (GFCF) has been revised lower to 10% (2nd adv. Est.) in FY19 from 12.2% earlier which has led to reduction in GDP growth to 7% from 7.2% earlier. Going forward, government capex spending is likely to remain relatively muted as fisc adjusts to direct cash transfers. Weak exports will be a concern as well. However, private consumption should benefit from cash transfers and a normal monsoon. Thus growth is likely to remain at same level as FY19 at 7%.

KEY HIGHLIGHTS

- GVA growth slipped to 6.3% in Q3FY19 from 6.8% in Q2FY19.
- GDP growth also moderates to 6.6% in Q3FY19 from 7% in Q2FY19.
- GDP and GVA growth seen at 7% and 6.8% respectively in FY19.

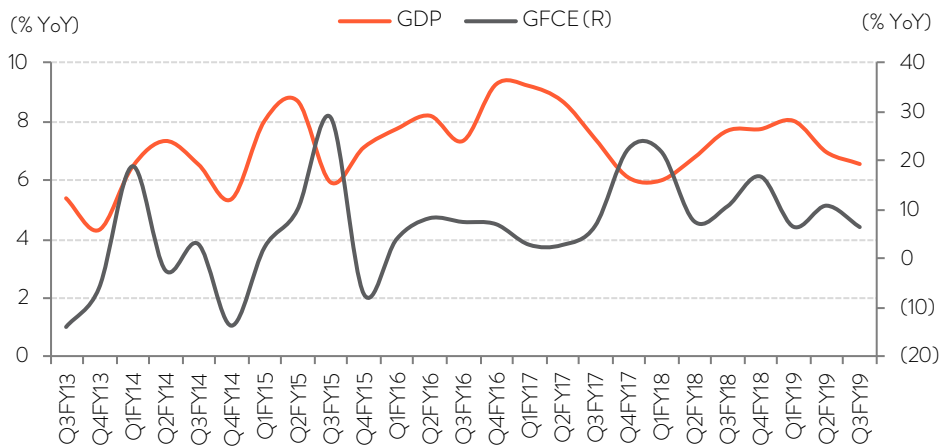


FIG 1 – GVA GROWTH SLIPS TO 6.3% LED BY AGRICULTURE



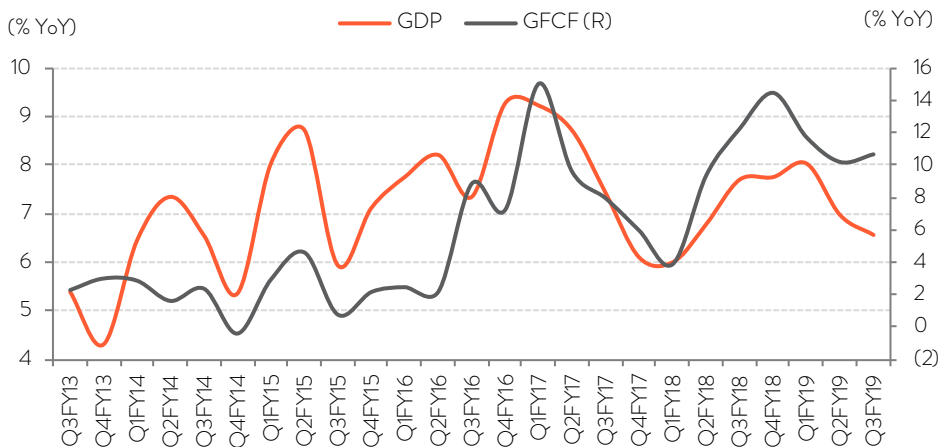
Source: CEIC, Bank of Baroda Research

FIG 2 – GDP GROWTH ALSO MODERATES LED BY LOWER GOVERNMENT SPENDING



Source: CEIC, Bank of Baroda Research

FIG 3 – INVESTMENT SPENDING HOLDS UP



Source: CEIC, Bank of Baroda Research

FIG 4 – GVA AND GDP ESTIMATES FOR FY19 PEGGED AT 6.8% AND 7.0%

(% change)	Weight (%)	FY15	FY16	FY17	FY18	FY19 (1st A.E.)	FY19 (2nd A.E.)	FY20E
Agriculture, forestry and fishing	17.8	(0.2)	0.6	6.3	5.0	3.8	2.7	3.1
Industry	31.8	7.0	9.6	7.7	5.9	7.8	7.7	7.6
Mining and quarrying	3.1	9.7	10.1	9.5	5.1	0.8	1.2	3.9
Manufacturing	17.4	7.9	13.1	7.9	5.9	8.3	8.1	8.0
Electricity, gas, water supply and other utility services	2.2	7.2	4.7	10.0	8.6	9.4	8.0	7.1
Construction	9.1	4.3	3.6	6.1	5.6	8.9	8.9	8.0
Services	50.3	9.8	9.4	8.4	8.1	7.3	7.4	7.5
Trade, hotels, transport, communication & services related to broadcasting	18.1	9.4	10.2	7.7	7.8	6.9	6.8	7.3
Financial, real estate & professional services	19.7	11.0	10.7	8.7	6.2	6.8	7.3	7.5
Public administration and defence	12.5	8.3	6.1	9.2	11.9	8.9	8.5	8.0
GVA at basic prices	100.0	7.2	8.0	7.9	6.9	7.0	6.8	6.9
GDP		7.4	8.0	8.2	7.2	7.2	7.0	7.0

Source: CEIC, Bank of Baroda Research | A.E. - Advance Estimate, E - Bank of Baroda Estimates

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