

Private consumption edges up in Q2

Infra investment almost flat; govt consumption falls

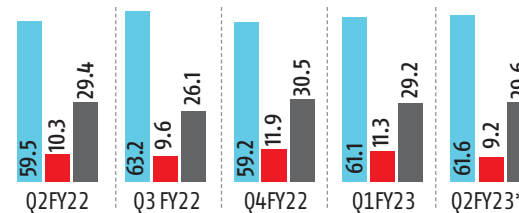
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India's household consumption as a percentage of nominal gross domestic product (GDP) showed recovery in the July-September 2022 quarter (Q2FY23) compared with the same period last year. Infrastructure investment, on the other hand, remained almost flat, while government consumption showed a decline for a second straight quarter.

Private final consumption expenditure (PFCE), a proxy for household and private sector consumption, was 61.6 per cent of nominal GDP in Q2FY23, as against 61.1 per cent in the previous quarter and 59.5 per cent a year ago.



■ Private final consumption expenditure ■ Government final consumption expenditure ■ Gross fixed capital formation



All figures in percentage | *PE: Provisional Estimate
Source: mospi.gov.in

Gross fixed capital formation (GFCF) was 29.6 per cent of GDP in Q2FY23, as against 29.2 per cent in Q1 and 29.4 per cent in Q2FY22, indicating that the central and state governments are still driving infrastructure spending.

In the recent pre-Budget consultations with Finance Minister Nirmala Sitharaman, representatives of India Inc admitted that they were not as optimistic about ramping up their investment plans as

they were earlier due to the impact of the war in Europe.

“We believe that in the absence of corporate sector capex, government capex is providing the necessary support to the ongoing recovery. While Union government capex grew by 49.5 per cent year-on-year (YoY) during H1FY22, the combined capex of 19 large states grew by 7.5 per cent during the same period,” said Sunil Kumar Sinha, principal economist with

India Ratings.

A broad-based recovery in PFCE is some distance away because the current consumption demand is skewed towards goods and services consumed largely by households falling in the upper-income bracket, Sinha said.

However, government final consumption expenditure (GFCE) dropped to 9.2 per cent as a share of GDP from 11.3 per cent in the previous quarter and 10.3 per cent in

the same period last year.

“Consumption GDP has recorded a modest growth of 6 per cent, while investment GDP has recorded a strong jump of around 20 per cent when compared to the pre-Covid period (Q2FY20). Going forward, the most critical aspect would be a further pick-up in the domestic demand scenario as the external environment would remain challenging. The pick-up in the private capex cycle would be contingent on continued improvement in the domestic demand scenario,” said Rajni Sinha, chief economist, Care Ratings.

Aditi Nayar, chief economist at ICRA Ratings, said GDP growth was boosted by the performance of private consumption expenditure and GFCF, whereas government expenditure displayed a discouraging contraction in Q2FY23, on account of the modest degrowth in the non-interest revenue expenditure.