Q2 GDP slows to 6.3% dragged by manufacturing, rising prices

POSITIVE SIGNALS. On track for 6.8-7% growth in FY23 as inflation dips on easing commodity prices, says CEA

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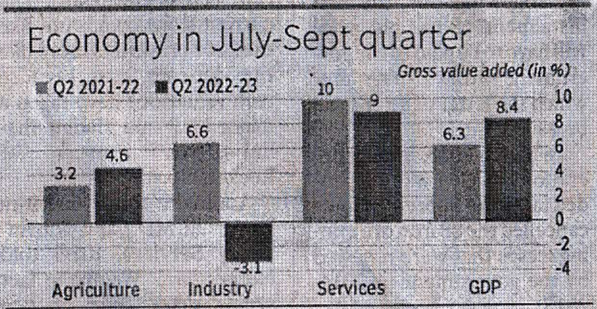
The Indian economy slowed in the September quarter (Q2 FY23) with GDP growth dropping to 6.3 per cent from 8.4 per cent in the year-ago period. The economy had grown at 13.5 per cent in the June quarter (Q1).

Despite the drop in Q2, Chief Economic Advisor V Anantha Nageswaran said he was confident of the economy delivering 6.8-7 per cent growth in 2022-23., driven by domestic demand. "Domestic inflation is expected to ease further on the back of softening global commodity prices and expectation of a good rabi crop. Corporate earnings outlook is to improve as price pressures moderate and supply chain improves," he said. However, he cautioned that the financial conditions in developed economies remain a near-term risk.

DOWNSIDE RISKS

Three factors seem to be lowering growth — waning favourable base impact, pressure on domestic and global demand, and higher inflation. Although it was feared that the growth rate would dip further in the remaining two quarters, various agencies have estimated a growth rate of 6.5-7 per cent for the full fiscal.



Swati Arora, Economist with HDFC Bank, said the Q2 GDP growth was largely supported by contact-intensive services while the manufacturing sector dragged. "GDP is expected to grow by 6.8 per cent in FY23 with downside risks emanating from a slowdown in global growth and tightening financial conditions," she said.

According to Rajani Sinha, Chief Economist, CareEdge, the most critical aspect will be a further pick-up in the domestic demand as the external environment continues to remain challenging. The pick-up in the private capex cycle will be contingent on continued improvement in the domestic demand scenario. The fall in global commodity prices should provide comfort to the manufacturing sector in the coming quarters. "We expect GDP to grow at 6.9 per cent for the full fiscal year," she said.

FISCAL DEFICIT RISES

More sobering news came of the fiscal deficit during the April-October period expanding to 46 per cent of the Budget Estimate (BE) as against 36 per cent in the year-ago period. Experts say though the deficit is expected to exceed the BE in value terms, it is unlikely to exceed in percentage terms. In Budget FY23, the government had targeted limiting the deficit to ₹16.61-lakh crore or 6.4 per cent of GDP.

Aditi Nayar, Chief Economist with ICRA, said: "Taking into account the additional expenditure likely in FY23, we estimate the extent of the overshoot in the fiscal deficit at a modest ₹1-lakh crore, given the considerable upside seen in non-excise tax revenues as well as savings expected under other expenditure heads...," she said.

Core industries growth dips sharply to 0.1% in October

Pulled down by high base effect and some slowdown in infrastructure, India's core sector growth hit a 20-month low of 0.1 per cent in October, down substantially from the 8.7 per cent in the same month last year. In September, the eight core industries had grown at 7.8 per cent, after dipping for two months.

In October, four of the eight core industries — crude oil (-2.2 per cent), natural gas (-4.2 per cent); refinery products (-3.1 per cent); and cement (-4.3 per cent) — contracted.

On the other hand, coal (3.6 per cent), fertilisers (5.4 per cent); steel (4 per cent); and electricity (0.4 per cent) registered growth.

The Commerce and Industry Ministry said the cumulative growth during April-October 2022 stood at 8.2 per cent compared to 15.6 per cent in the year-ago period.

The final growth rate of the index of eight core industries for July 2022 has been revised to 4.8 per cent from 4.5 per cent earlier.