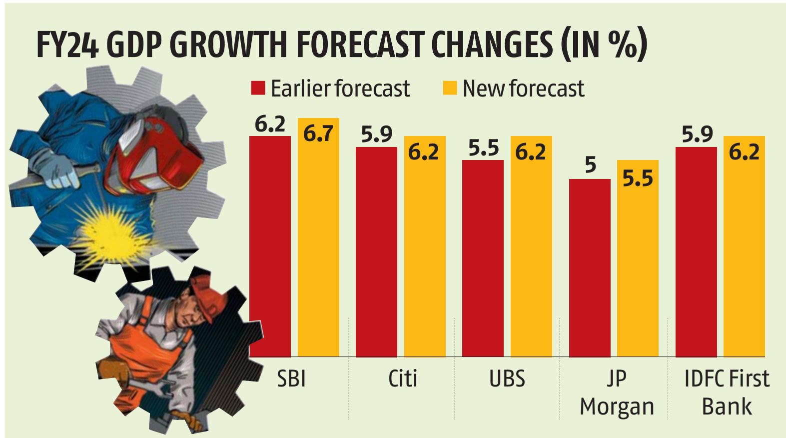
FY24 GDP: Spate of forecast hikes, but not all agree

Some say El Niño conditions may prove to be a headwind for the economy

ARUP ROYCHOUDHURY
New Delhi, 1 June



In the wake of robust gross domestic product (GDP) data for the last fiscal year (FY23), some analysts have revised their FY24 economic growth estimates upwards, citing a resurgence in manufacturing and private investments. Others, however, have stuck to their earlier projections, saying El Niño conditions and a hit on exports due to a slowdown in the West are the two biggest headwinds for the Indian economy.

India's economic growth shot up by 6.1 per cent in Q4FY23 and 7.2 per cent in FY23, beating analysts' expectations, as the expansion in manufacturing and construction surprised on the upside, reflecting sustained strength in domestic demand amid a gloomy global outlook.

"The private investment activity looks robust and domestic monetary and credit conditions remain supportive of growth in FY24. We are now factoring in a pick-up in growth momentum in FY24. We are upgrading our baseline forecast from 6.2 per cent to 6.7 per cent," said Soumya Kanti Ghosh, chief economic advisor, State Bank of India.

Ghosh projects the four quarters of FY24 at 7.8 per cent, 6.5 per cent, 6.3 per cent, and 6.2 per cent, respectively.

"The robust trend in services trade surplus could help in supporting India's net exports contribution to overall growth even as global growth headwinds remain. Accordingly, we now revise India's FY24 real GDP growth by 70 basis points to 6.2 per cent from 5.5 per cent," said Tanvee Gupta Jain, India economist with UBS.

Gupta Jain said crude oil prices (trending below $73 a barrel as of Thursday) were at a sweet spot for the Indian economy. According to India's oil price sensitivity, a 10 per cent decline in average crude oil prices would push real GDP growth higher by 20 bps, if the fuel costs were passed on to consumers, and that the retail prices of gasoline and diesel could be adjusted somewhat lower in the second half of FY24 which bodes well for household consumption and overall growth.

Samiran Chakraborty, India chief economist at Citigroup, said a strong upside 'surprise' on the investment side prompted a rise in FY24 GDP growth forecast to 6.2 per cent from 5.9 per cent.

Gaura Sengupta, economist with IDFC First Bank, revised her FY24 GDP growth estimate to 6.2 per cent from 5.9 per cent. "High frequency indicators available for April show continued strong recovery with growth in construction activity as well as consumption. At the same time, we are seeing some signs of moderation with decline in non-oil non-gold imports, slowdown in freight traffic and softness in industrial activity indicated by decline in electricity demand and slower industrial credit growth," Sengupta said.

India's Chief Economic Advisor V Anantha Nageswaran had on Wednesday said the momentum was expected to continue in FY24 and that downside risks to his GDP growth projection of 6.5 per cent appeared evenly balanced and there was a good chance of this number may be exceeded in the current fiscal year.

Other analysts, however, say global and weather conditions still need to be watched.

"A higher growth number than expected in FY23 will put pressure on growth performance in FY24 which we project at 6-6.5 per cent. The phenomenon of pent-up demand will not be strong and private sector investment has to pick up this year," said Madan Sabnavis, chief economist at Bank of Baroda.

Hence, the two engines that need to fire would face that much more pressure given that exports will not be contributing to growth this year, Sabnavis said, adding that under conditions of a global slowdown, maintaining growth at 6 per cent-plus will be challenging.

"Despite the GDP upside surprise, we maintain our forecast of 6.3 per cent," said Rahul Bajoria, managing and head of emerging markets Asia (ex-China) economics, Barclays.

Bajoria said while India's growth fundamentals remained strong, it was not decoupled from the global economy.

"El Niño and the hit on exports due to slowdown in Europe and North America remain big known unknowns," said Aditi Nayar, chief economist, ICRA, who maintained her FY24 GDP forecast of 6 per cent growth.

FY23 numbers encouraging, but mining & quarrying lags

Sector contracted in FY23, compared with FY19; marginally grew over pre-Covid period

INDIVJAL DHASMANA
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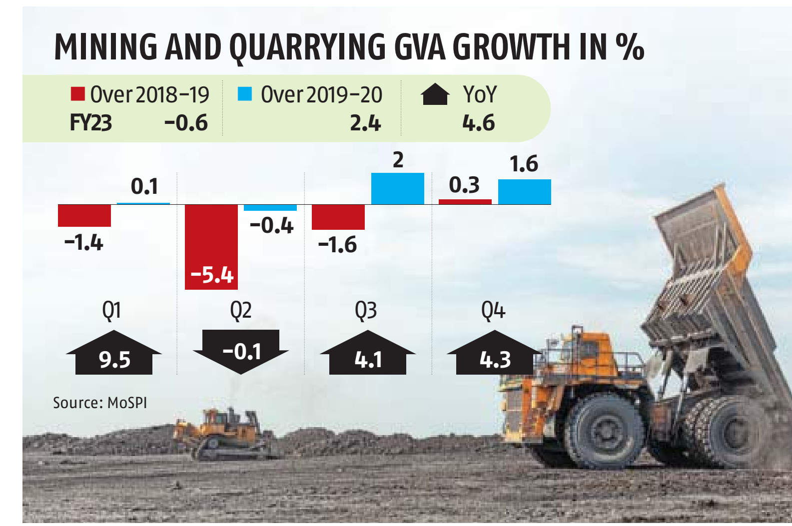

The economy has recovered handsomely from the pre-Covid periods, but mining and quarrying is taking time to pick up even after four years.

The gross value added (GVA) in the segment rose 4.6 per cent in 2022-23 year-on-year (YoY), giving an impression of reasonable growth. However, it contracted 0.6 per cent in 2022-23 over the value in 2018-19.

But since mining and quarrying GVA fell in the pre-Covid 2019-20 YoY, there was a growth of 2.4 per cent in 2022-23 over 2019-20.

The first three quarters of 2022-23 saw a decline in mining and quarrying GVA over 2018-19, with the second quarter declining as high as 5.4 per cent. The first and second quarters saw a fall of 1.4 per cent and 1.6 per cent, respectively.

The second quarter of 2022-23 saw a marginal decline of 0.1 per cent YoY and a bit higher contraction of 0.4 per cent over 2019-20. The remaining quarters saw a growth YoY as well as over 2019-20.

On the other hand, the gross domestic product (GDP) has grown in double digits in 2022-23 over the pre-Covid periods. While it grew 7.2 per cent in 2022-23 YoY, the expansion was 10.12 per cent over 2019-20 and 14.4 per cent over 2018-19.

Bank of Baroda chief economist Madan Sabnavis said the mining sector includes coal, crude, natural gas and metals like copper and iron ore, and as such the uneven growth can be attributed to the nature of some of these products such as crude oil where higher prices lead to higher production while benign prices cause companies to cut back on output.

"Also there are fewer fields explored, which restricts growth. Coal is probably the only mineral that has seen good growth, though here too there have been challenges at times due to strikes, rains as well as logistics issues like transportation. At times we import more coal given the quality differences and hence output growth tends to be volatile," he said.

It should be noted that GVA represents value addition and, as such, companies' margins become important. Otherwise, mining output in physical volume grew 5.8 per cent YoY in 2022-23, 9.4 per cent in 2022-23 over 2019-20, and 11.1 per cent over 2018-19 in the index of industrial production.

The fall in GVA of mining and quarrying could be the result of price pressures due to easing commodity rates on global slowdown. For instance, prominent miner Anil Agarwal-led Vedanta reported a 38.8 per cent fall in its consolidated net profit at Rs 14,503 crore for 2022-23 YoY.

Similarly, NMDC reported over 40 per cent decline in its consolidated net profit at Rs 5,601.5 crore during 2022-23 on a yearly basis.

The fall in GVA of mining and quarrying could also be the result of high deflator as nominal growth in mining and quarrying was over 35 per cent due to high prices in the initial months of FY23.

"Nominal growth in mining in FY23 is 35.9. The low real growth could be related to deflator," ICRA Chief Economist Aditi Nayar said.

She said coal output was significantly higher in FY23 versus FY19, natural gas was slightly higher and crude output was lagging.