Day after Q1 GDP data, a tide of forecast cuts

SBI, Goldman Sachs, Moody's lower FY23 growth outlook

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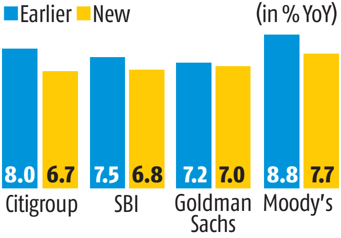
A day after the National Statistical Office released the April-June quarter (first quarter, or Q1) of 2022-23 (FY23) gross domestic product (GDP) data, a number of banks and financial institutions slashed their economic growth estimates for the current fiscal year (FY23). These included State Bank of India, Goldman Sachs, Citigroup, and ratings agency Moody's.

REVISED PROJECTIONS

FY23 GDP growth forecasts for India



Sources: Economists' notes; Bloomberg

Citigroup sharply cut its FY23 growth projection to 6.7 per cent, from 8 per cent earlier, while Goldman Sachs revised it to 7 per cent, from 7.2 per cent earlier. Deutsche Bank said that slow growth may prompt the Reserve bank of India to ease up on the quantum of rate hikes.

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other income was ₹28.13 crore.

The bank has improved its asset quality and profitability, but is in need of capital. The bank's capital adequacy ratio was 12.19 per cent, with common equity tier-1 capital at 9.95 per cent, at the end of June.

The bank was looking to raise ₹127 crore as equity capital through a 2:1 rights issue to improve its capital adequacy ratio to push its growth plans such as coming up with new branches and products. The bank is unable to appoint new directors owing to a legal tussle at the Kerala High Court, between the management and a group of shareholders. The shareholders had approached the court in an attempt to prevent the management from appointing new board members.

Q1 GDP data...

Moody's cut its forecast to 7.7 per cent, from 8.8 per cent, citing dampening economic momentum in the coming quarters on rising interest rates, uneven monsoon, and slowing global growth.

"Although GDP grew in double digits, it still came below market expectations. The primary culprit was growth in the manufacturing sector which grew by a measly 4.8 per cent in Q1," SBI's Chief Economic Advisor Soumya Kanti Ghosh said in a report. Ghosh cut his FY23 GDP growth forecast to 6.8 per cent, from 7.8 percent.

India's economy grew below expectations at 13.5 per cent in Q1FY23, notwithstanding the low base of the equivalent period of 2021-22, when economic activity was severely impacted by the Delta wave of the pandemic. Sequentially, GDP contracted 9.6 per cent in Q1FY23, compared with the fourth quarter of 2021-22. The RBI had projected Q1FY23 GDP growth at 16.2 per cent.

The data showed that while the services sector lifted growth during the quarter, activity in trade, hospitality, and transport was below pre-pandemic levels of Q1 of 2019-20 (FY20).

Ghosh said a lower growth in the manufacturing sector is a reflection of pandemic-induced uncertainties that seem to have impacted margins. He said profit growth had also slowed in Q1FY23.

"Trade, hotels, transport, communication and services related to broadcasting are still 15 per cent lower than pre-pandemic levels. Despite expanding by a whopping 25.7 per cent, these are still ₹1 trillion less than FY20 levels," said Ghosh.

"Fast-moving consumer goods results show tepid demand as rising retail inflation exerted pressure on the share of its wallet. Furthermore, rural growth continues to lag growth in urban markets. In the near term, inflation will continue impacting consumption until it starts to decline meaningfully," he said.

Ghosh also added that the estimation of manufacturing sector growth needs serious introspection in the sense that industrial output is still indexed at 2012 base.

"The Consumer Price Inflation (CPI) basket has also not changed since 2012. This has also possibly resulted in overstating CPI inflation at multiple times," he said.

Goldman Sachs economist Santanu Sengupta said, "Despite the main drivers of domestic demand coming in line with our expectations, a large drawdown in inventories and statistical discrepancies came as a surprise."

Slowing growth and inflation still holding above the RBI's comfort zone will make the monetary authority's job a difficult one, he added.

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