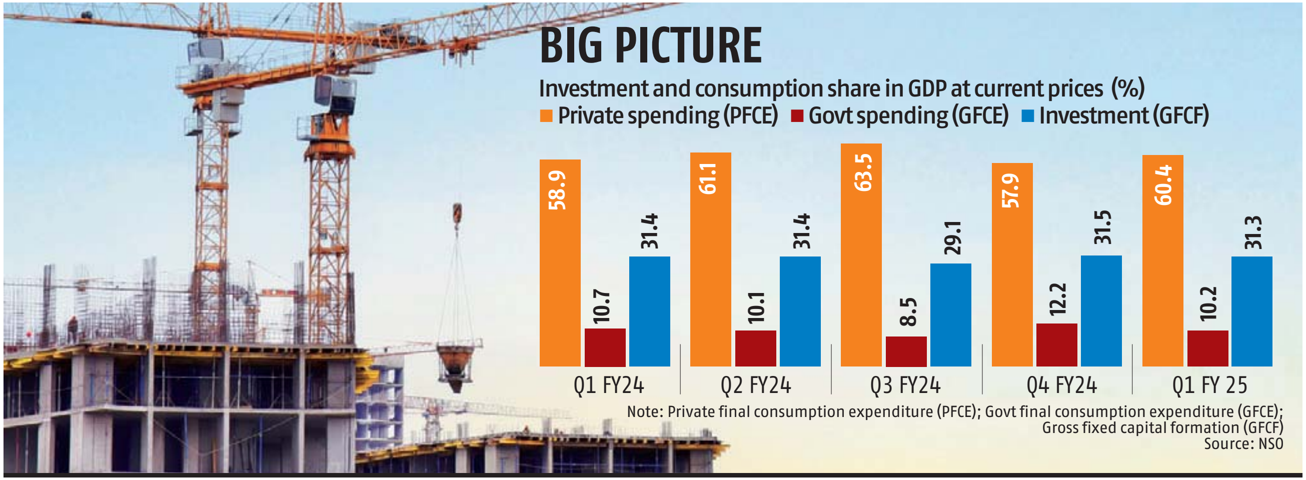
DRIVING GROWTH

Investment, consumption growth picks up

SHIVA RAJORA
New Delhi, 30 August



Increased capital expenditure (capex) by the private sector and households lifted growth in capital investment to 7.5 per cent in Q1FY25 (April-June) from 6.46 per cent in the preceding quarter, the data released by the National Statistical Office (NSO) on Friday showed.

Gross fixed capital formation (GFCF), which represents infrastructure investment, contributed 31.3 per cent to gross domestic product (GDP) in Q1FY25, as against 31.5 per cent in the preceding quarter. An investment share above 30 per cent is considered important for driving economic growth.

The rise in capital investment during Q1 comes even as capital expenditure by the central government declined owing to the general elections.

The data sourced from the Controller General of Accounts (CGA) showed that the Centre's capex in Q1 stood at ₹1.8 trillion, nearly 33 per cent lower than the ₹2.7 trillion during the corresponding period last year.

Rajani Sinha, chief economist, CARE Ratings, said GFCF exhibited robust growth during Q1, surpassing the previous quarter's performance, despite a contraction in the Centre's capex. This suggests increased capex by households and the private sector. Notably, household investment in real estate has remained particularly strong after the pandemic ebbed.

Echoing similar views, Madan Sabnavis, chief economist, Bank of Baroda, said capital formation showed steady growth due mainly to housing and private investment.

"With the government coming back in a big way, there will be acceleration," he added. Meanwhile, growth in private final consumption expenditure (PFCE), which is taken as a proxy for household consumption, grew strongly to a seven-quarter high of 7.4 per cent during Q1FY25 from 3.9 per cent in Q4FY24, due to a partial correction in skewed consumption demand.

The share of PFCE in GDP rose to 60.4 per cent during the quarter as compared to 57.9 per cent in Q4FY24.

"The main indicators of consumption so far indicate the skewed nature of consumption growth is correcting somewhat with the pickup in two-wheeler sales, etc. The quarterly results of fast-moving consumer goods companies also point to revival in rural demand, which is favourable both for consumption as well as GDP growth," said Paras Jasrai, senior economic analyst, India Ratings.

However, Aditi Nayar, chief economist, ICRA Ratings, said the increase in PFCE was surprising, given the moderation in urban consumer sentiment and sporadic heatwaves, which affected footfalls in certain retail-focused sectors such as passenger vehicles and hotels.

"Notwithstanding some green shoots, rural demand is expected to have remained uneven in the quarter, amid the spillover of the impact of the poor monsoon in the preceding year," she added.

However, government expenditure, measured by government final consumption expenditure (GFCE), contracted (-0.24 per cent) during the quarter. The share of GFCE in GDP fell to 10.2 per cent in Q1FY25 from 12.2 per cent in Q4FY24.

"The government expenditure patterns suggest contractionary fiscal policy. For three consecutive months (May-July 2024) expenditure growth has been negative. However, this is more due to negative capex growth, and capex growth picked up in July and this will result in expenditure growing, albeit at a slower pace," Jasrai said.