AFTER SURPRISE Q2 GDP PRINT

Agencies cut India's FY25 growth forecast

ASIT RANJAN MISHRA
New Delhi, 1 December

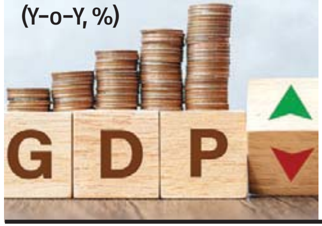
Agencies have sharply reduced their gross domestic product (GDP) growth forecasts for FY25, following the surprise seven-quarter low print of 5.4 per cent in July-September (Q2). Growth stood at 6 per cent during the first half (April-September) of FY25. While the Reserve Bank of India (RBI) has estimated it at 7.2 per cent for FY25, the finance ministry expects 6.5-7 per cent.

The Monetary Policy Committee of the RBI may lower its projection in its policy review, to be announced on December 6.

Sakshi Gupta, principal economist at HDFC Bank, said she had reduced her full-year growth estimate to 6.5 per cent from 6.8 per cent, with further downside risks.

"This is assuming a pickup in momentum in H2 (October-March)," she added.

High-frequency indicators for October point to some improvement across multiple sectors. The Purchasing Managers' Indices (PMI), for manufacturing and services, rose from their September lows, signalling some pickup in momentum.



FY25 GDP OUTLOOK
(Y-o-Y, %)

	Now	Earlier
Bank of Baroda	6.6-6.8	7.3-7.4
ICRA	6.5-6.7	7
HDFC Bank	6.5	6.8
Barclays	6.5	6.8
IDFC First Bank	6.3	6.6
Kotak Mahindra Bank	6.1	6.7
Emkay Global	6	6.5
Goldman Sachs	6	6.5

Source: *BS* Research Bureau

Key metrics, such as goods and services tax (GST) collection, e-way bills, and toll revenues, increased in October. The demand-side dynamics show rural demand is now beginning to outpace it urban equivalent. This shift is evident in the strong performance of rural-focused sectors, with sales of two-wheelers and tractors ringing up double-digit growth in October.

Growth in the output of eight key infrastructure industries — known as the core sector — recovered to a three-month high in October at 3.1 per cent, which is tepid all the same.

Gaura Sen Gupta, chief economist at IDFC First Bank, said she was cutting her FY25 GDP growth estimate to 6.3 per cent from 6.6 per cent. "The weakness in H1FY25 (April-September) is led by slowdown in urban demand and decline in general government capital expenditure. The seeds of moderation in urban demand were sown in H2FY24 with slowdown in urban wage growth. This is likely to persist in the remainder of FY25 as companies' profit growth reduces. The electronic payments data shows a moderate pickup in October-November despite it being the festival season. Given the uncertain outlook on consumption demand, both domestic and external, private corporate capex will remain tentative," she added.

Though public expenditure is expected to significantly improve in the second half of FY25, a persistent contraction in the central government's capex for the third month in a row in October may limit support for public spending to a sluggish economy in the December quarter, unless the trend reverses.

Jahnavi Prabhakar economist at Bank of Baroda, estimated growth at 6.6-6.8 per cent in FY25 compared with 8.2 per cent in FY24.

"A major rebound is expected in H2, supported by a pickup in government spending, revival in investment, and strong consumption demand," she added.

Madhavi Arora, lead economist at Emkay Global Financial Services, who pared her growth forecast by 50 basis points to 6 per cent, cautioned that several headwinds were looming in H2. "Operating profits for key sectors such as manufacturing could normalise toward Q4 with an unfavourable base effect, while financial services could see a further slowdown amid continued tightening of lending standards. Additionally, we are likely to see private consumption remaining tepid – real urban wages have been steadily declining for over 18 months, and the fall in incomes has hit urban consumption with a lag," she said.