DAY AFTER Q2 GDP 'SURPRISE ON THE UPSIDE'

Economists raise FY24 growth forecast

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A day after India's gross domestic product (GDP) data for the second quarter (July-September) of the current financial year surprised on the upside, several economists sharply raised their full-year growth projections.

While Morgan Stanley predicted the Indian economy to grow by 6.9 per cent in the full fiscal year, Kotak Mahindra Bank revised its estimate to 6.8 per cent. Earlier, they had projected the economy to grow 6.4 per cent and 6.2 per cent, respectively.

"The GDP print has surprised on the upside for three consecutive quarters, indicating underlying strength in certain pockets of the economy. Further, we expect the growth trend to be more broad-based with consumption growth likely to recover, supported by moderating inflation and improving consumer sentiment," said Morgan Stanley in a statement.

Meanwhile, Nomura Asia revised its full-year forecast to 6.7 per cent from 5.9 per cent predicted earlier. Similarly, Barclays raised its full-year forecast to 6.7 per cent from 6.3 per cent forecast earlier.

This optimism among analysts stem from the official National Statistical Office (NSO) data released on Thursday that showed that GDP rose by 7.6 per cent in Q2 from a year ago, beating the Reserve Bank of India's (RBI's) projection of 6.5 per cent. The upbeat growth in the quarter is due to a boost in manufacturing, construction, and a ramping up of government investment ahead of elections. Growth in gross fixed capital formation (GFCF), a proxy for investment, accelerated to 11 per cent last quarter from 7.95 per cent in the previous three months.

However, growth in the services sector, which is the dominant pillar of India's growth story, slowed in the last quarter as global demand for financial services moderated. Growth in agriculture also faced downturn due to below-normal rains, resulting in a weaker summer crop harvest. High frequency purchasing managers index (PMI) data released on Friday also revealed that the manufacturing activity continued its expansion for the 29 months straight in November, as it rose to 56 from 55.8 in October.

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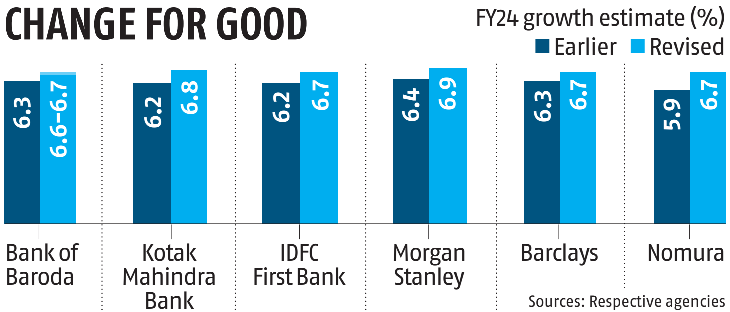

"Monthly indicators show that Q3FY24 is off to a strong start with broad-based pick-up in consumption-oriented sectors, industrial activity, and freight transportation services," IDFC Bank said as it revised its full-year projection to 6.7 per cent from 6.2 per cent estimated earlier.

However, analysts continue to exercise caution for the second half of the current financial year and FY25 as consumption remains a concern.

"GDP growth in H2FY24 is expected to moderate, in large part due to waning support from base-effects, moderation in companies' profit growth, and rise in input cost pressures. Recovery in rural demand has remained mixed due to relatively softer pace of rural wage growth and uneven monsoon," said IDFC Bank.

Echoing similar views, Nomura Asia said while the current growth momentum is stronger than expected, much of this seems driven by the government, with the private sector still missing in strength as rural demand continues to lag and private capex recovery has not been broad-based.

"We maintain our forecast of a moderation to 5.6 per cent in FY25, due to a slowdown in public capex ahead of the election, continued sluggishness in rural demand and private capex," it said.