● ECONOMISTS SEE IT BEATING RBI ESTIMATE

Q2 GDP growth may come in close to 7%

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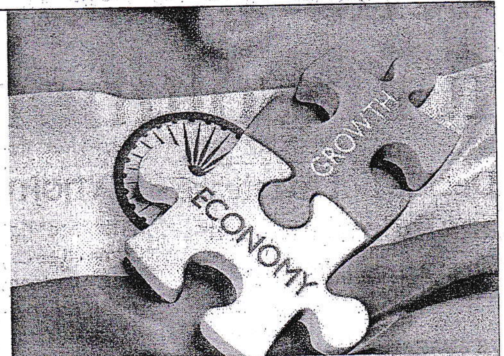
GROWTH STORY



- Strong consumption demand through Q2 key for upward revision of economists' GDP growth estimates
- Experts see govt revenue expenditure uptick providing boost to GDP growth in Q2
- Services activity, which primarily led growth in Q1, also remained buoyant in Q2
- RBI governor Shaktikanta Das had said GDP figure "will surprise everyone on the upside"

INDIA'S GDP GROWTH in real terms in the second quarter of FY24 may have been significantly higher than 6.5% projected by the Reserve Bank of India (RBI), according to a few economists who *FE* spoke to, in this regard. While most have revised their estimates upwards, the estimates range from 6.2% to as high as 6.9%.

Economists cite relatively strong consumption demand through Q2 after an uptick seen in the first quarter, and sequentially stronger government consumption expenditure to support the upward revisions of their estimates. Robust services sector is also being seen to boost growth, while investment rate is stable.

At an event last week, RBI governor Shaktikanta Das had said growth momentum continues to be strong, adding, "I can say that the second quarter GDP number...will surprise everyone on the upside".

DK Pant, chief economist, India Ratings & Research, said, "We expect GDP growth in Q2FY24 to be 6.9% compared to 7.8% in Q1. Both consumption and investment are likely to support growth in Q2 also."

In April-June, private final consumption expenditure (PFCE) growth had risen to 6% from 2.8% in January-March, while gross final capital formation (GFCF) growth had eased to 8% from 8.9%. PFCE indicates overall consumption in the economy and GFCF denotes investments.

The share of PFCE in Q1 GDP had risen to 57.3% from 55.0% in Q4FY23, while that f GFCF had ebbed to 34.7% from 35.3%.

PFCE's share of 57.3% in April-June was the second-highest for the first quarter of any financial year in the current GDP series which started in 2011, and that of GFCF – although equivalent to Q1FY23 – was the highest. This trend is likely to continue in Q2.

Moreover, Abhishek Upadhyay, senior economist, ICICI Securities Primary Dealership, says an uptick in government's revenue expenditure – reflected in GFCE – will also provide a boost to GDP growth in Q2, and it may come in at 6.7%.

In Q1, GFCE's share had fallen to 10.1% from 11.1% in the previous quarter. Government revenue expenditure had contracted 0.1% y-o-y during the period. It saw a rebound in July-September, rising 10% on year.

On the gross-value added (GVA) side, services activity, which primarily led growth in Q1, remained buoyant in Q2. Services PMI, compiled by S&P Global, in Q2 averaged 61.1, the highest in 13 quarters. In Q1, it had averaged 60.6.

But, manufacturing activity too showed an improvement in Q2 against the previous quarter. "Manufacturing and government spending, which were quite weak in the Q1, should be stronger in Q2. High-frequency data has supported manufacturing in Q2," said Upadhyay.

The Index of Industrial production's (IIP) growth in July-August averaged 8.2% as compared to 4.7% in Q1. Although the data for September IIP is not yet released, economists see it around 6%. The Manufacturing PMI in Q2 averaged 57.9 — flat as compared to Q1.

That said, HDFC Bank's principal economist Sakshi Gupta expects GDP growth in Q2 to be 30 bps lower than the RBI's estimate at 6.2% largely due to the uneven monsoon, which shall weigh on agricultural GVA and drag down growth. In Q1, agriculture GVA had grown 3.5% against 5.5% in Q4 FY23.