Q3GDP: Key indicators show continuing uneven growth

Car sales and airline capacity have been strong, but rural wages remain stagnant

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New Delhi, 8 March

After the October-December (third quarter, or Q3) gross domestic product (GDP) came in below market expectations last week, Chief Economic Advisor (CEA) V Anantha Nageswaran said that the figures came across as tepid due to revisions made in earlier years, and had to be analysed in that context.

Interacting with reporters following the release of official data, Nageswaran said: "Given the high-frequency data we have been seeing, and their pace of recovery, it is likely that data for the current year's Q3 will undergo upward revision," adding that the latest data is based on incomplete print, especially since quarterly data in India is not seasonally adjusted.

India's economy grew at a weaker-than-expected 4.4 per cent in Q3 amid wide revisions to earlier GDP figures, as manufacturing output contracted for the second consecutive quarter and consumer demand slowed.

A survey of 41 professional forecasters by the Reserve Bank of India (RBI) earlier this month pegged median GDP growth at 4.6 per cent for Q3. However, the RBI projected December quarter GDP growth at 4.4 per cent.

Business Standard takes a look at some of the high-frequency indicators that the finance ministry and private economists track, to get a sense of how the economy has been performing in Q3 of 2022-23 (FY23), and to ascertain whether there is a divergence between GDP data and the said indicators.

The biggest indicator of improved economic activity since the pandemic has been the increase in goods and services tax (GST) monthly collection, which has been above the ₹1.4 trillion mark each month in the current financial year (FY23). The same held true for Q3, and GST in October, November, and December registered a growth of 16.6 per cent, 11 per cent, and 15 per cent, respectively. Not all of this was because of an increase in economic activity, with better compliance and assessment also playing a part.

There is one dataset here which is urban-focused (car sales), and two which are indicative of rural consumption (two-wheelers and tractors). Many analysts have argued that the current consumption demand is skewed towards goods and services consumed largely by households falling in the upper-income bracket.

What is interesting is that for October and November 2022, two-wheeler sales have not expanded year-on-year (YoY) as much, compared with motorcar sales. These two months were supposed to be the big festival period, following two years of pandemic-stricken restrictions. Hence, pent-up demand may have dissipated in rural areas.

Another high-frequency indicator is biased towards the urban population and those with higher disposable incomes. This data captures the extent of pent-up demand in the aviation, travel, and tourism sectors, as restrictions lifted.

The month of October 2022 is particularly illustrative of the demand in the aviation sector. People travelled despite skyrocketing airfares and longer-than-usual check-in times at airports.

Another indicator showed strong recovery in economic activity once Covid restrictions were largely lifted. The YoY rise in passenger data was quite staggering, particularly for the festival month of October. In revenue terms, freight earnings also showed decent growth.

The cold months of November and December saw a bigger YoY jump in peak electricity demand. Overall, the improvement in peak demand in all three months indicates that more businesses, whether micro, small and medium enterprises or large industries, manufacturing or service establishments, were utilising their capacities. A clear indicator of the improvement in economic activity from the pandemic-affected 2021.

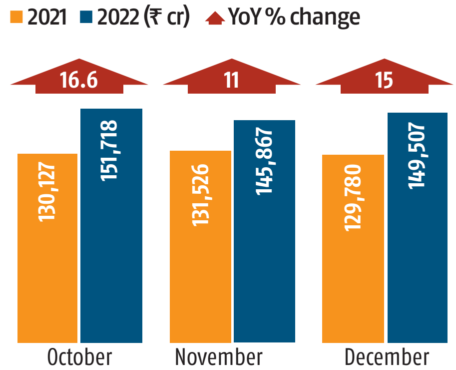
These two data points perhaps best support the argument of many economists, that consumption is being driven by the urban economy. Demand for National Rural Employment Guarantee Act (NREGA) came down in Q3FY23 from the same period last year, especially in October.

However, demand from households again increased in November and December. Of particular concern is the fact that NREGA work demand for these three months in FY23 was still above the pre-pandemic period of October-December 2019-20.

If one looks at rural wages, it is clear that adjusted for inflation, wages have hardly risen in October and November, from the comparable months last year. Data for December is not yet available.

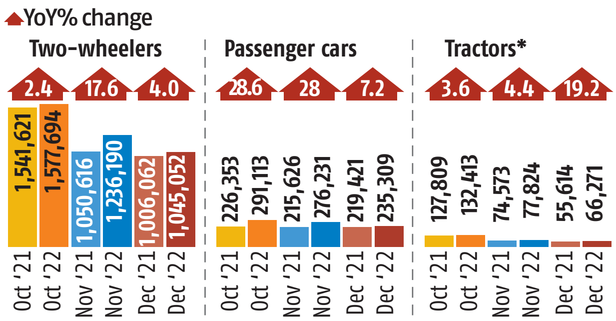
A MIXED BAG

GOODS AND SERVICES TAX



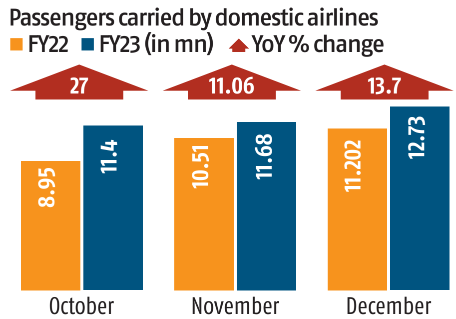
Source: Finance ministry

VEHICLE SALES



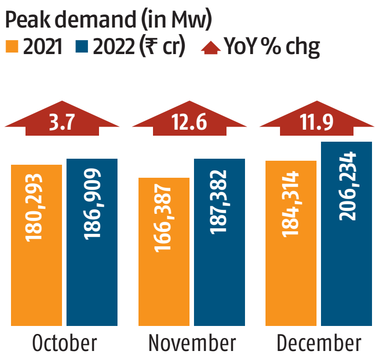
*includes exports; Sources: SIAM, Tractor and Mechanization Association

AIRLINES



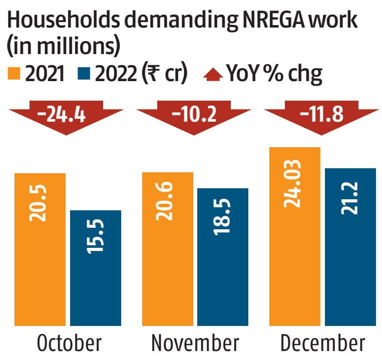
Source: DGCA

ELECTRICITY CONSUMPTION



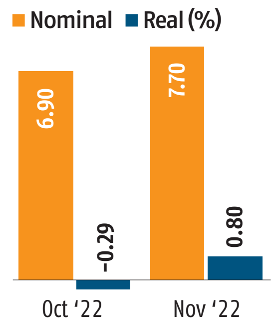
Source: cea.nic.in

RURAL ECONOMY



Source: NREGA portal

RURAL WAGE GROWTH



Source: Labour Bureau