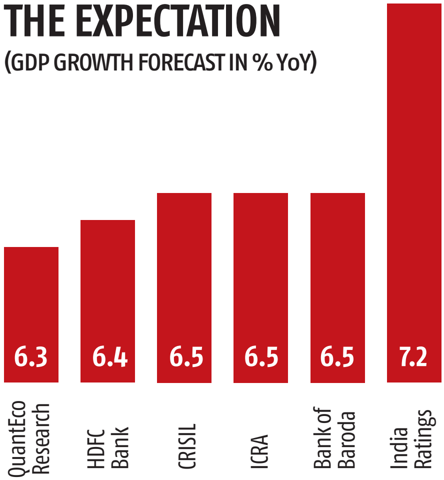
Growth in Q2 may've gone past MPC's 6.3% estimate

INDIVJAL DHASMANA
New Delhi, 22 November

THE EXPECTATION
(GDP GROWTH FORECAST IN % YoY)



Source: Respective agencies

ILLUSTRATION: AJAY MOHANTY

Gross domestic product (GDP) is likely to show a growth rate of 6.3-7.2 per cent in the second quarter this fiscal year as against 13.5 per cent in the first, and this is largely owing to the normalisation of the base effect, say economists. The GDP numbers for the second quarter should be out by the end of this month.

The economy expanded 8.4 per cent in the second quarter last fiscal year. The Reserve Bank of India's (RBI's) Monetary Policy Committee (MPC) had projected it to be 6.3 per cent.

CRISIL Chief Economist D K Joshi subscribes to the base-effect view. "Revival in contact-intensive services, consumption demand, and public investment supported growth in Q2. The high base effect will weigh on growth in the second half as well," he said.

ICRA Chief Economist Aditi Nayar said economic activities in the second quarter benefited from robust demand for contact-intensive services, healthy capital spending by the Union government, and the pre-festive season stocking of goods. "The downsides emanated from the mixed trends in crop output, revealed by the advance estimates of kharif production, adverse input cost movements for certain sectors with a higher fuel intensity, as well as the impact of flagging external demand on non-oil merchandise exports," she said.

Jahnavi Prabhakar, economist at Bank of Baroda, who sees 6.8 per cent growth, said even as the global economy was slowing owing to, among other things, geopolitical conflicts and aggressive monetary tightening by central banks, India's economy was growing at a steady pace on the back of strong fundamentals.

She too said the base effect held back high growth in the second quarter compared to the first and the services sector was expected to hold the key to the revival. India Ratings Chief Economist Devendra Pant, who predicted 7.2 per cent, which is the highest among all economists, said the base effect was petering out. "While government capex is strong, private capex is likely to remain weak. Higher commodity prices and a weak currency will have an impact on pulling down GDP growth."

According to QuantEco Research Economist Yuvika Singhal, who projected the economy to grow by close to 6.3 per cent during the quarter, growth is being led by recovery in the services sector amid a complete opening up of the economy, especially contact-intensive sectors. "Manufacturing in comparison is likely to see low growth momentum with the index of industrial production for both consumer durables and non-durables contracting in the quarter. This underscores some possible downside in consumption, amid elevated inflation, lagged advancement of rainfall, and sowing in Q2," she said.

Improvement in capacity utilisation is likely to have sustained into Q2, she said, adding higher government spending was likely to have offered support. She said growth in capex expenditure — at 49.5 per cent — in the first half this fiscal year on an annualised basis was the highest run rate seen over the last decade or so.

For Q3 of FY23, while festive/pent-up demand and some moderation in inflation/input prices are likely to pan out, headwinds from lingering geopolitical tensions, tightening global financial conditions, and downside to global growth could more materially weigh on growth prospects, she said.

The sequential downside in exports in October — of 16 per cent — can be seen a prelude to the impending slowdown, she said, adding that "for the full year, we continue to hold on to our GDP growth estimate of 6.8 per cent."

The economy grew 20.1 per cent in the first quarter of 2021-22, which was affected by the second wave of the pandemic. This may prompt many to say as the base of 8.4 per cent was comparitvely low in the second quarter of 2021-22, growth should be higher in Q2 than the 13.8 per cent witnessed in Q1. However, the 20.1 per cent came on a base of a 23.8 per cent contraction, and the 8.4 per cent in Q2 of the year came on a contraction of 6.6 per cent. That is why GDP growth in Q2 would have seen base normalisation.