

Urban consumption likely to propel GDP growth in Jul-Sep

HIGH-FREQUENCY INDICATORS

	Q3FY23	Q4FY23	Q1FY24	Q2FY24
INDUSTRY				
IIP growth(%)	2.87	4.57	4.8	7.34
Electricity demand (%)	7.53	7.3	1.47	13.9
PMI Mfg*	56.23	55.7	57.9	57.93
CONSTRUCTION (%)				
Steel	11.47	17.37	10.53	19.23
Cement	11.47	3.97	12.73	10.3
CONSUMPTION (%)				
Domestic passenger vehicle sales	21.3	10.9	15.7	21.53
Passenger domestic aviation	19.2	58.6	19.2	23.1
SERVICES				
PMI services*	56.7	58.1	60.6	61.1
Bank credit (%)	16.6	15.6	15.83	19.8

Source: IDFC Bank & BS Research; *in absolute figures

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The Indian economy is likely to post better than anticipated growth in the second quarter (July-September) owing to robust urban consumption and expansion in services, a Business Standard analysis of high-frequency indicators showed.

While gross domestic product growth in the September quarter is expected to come below the 7.8 per cent print in the June quarter due to a favourable base fading, analysts say the print will be much closer to 7 per cent than the 6.5 per cent anticipated earlier.

While the Reserve Bank of India (RBI) had estimated 6.5 per cent growth for July-September, last month Governor Shaktikanta Das said the growth figure would surprise on the upside. Indicators like sales of domestic passenger vehicles and domestic passenger aviation traffic, which can be used as a proxy for urban demand, posted sequentially better growth of 21.5 per cent and 23.1 per cent, respectively, in the second quarter. Meanwhile, bank credit grew by 19.8 per cent in the September quarter as against 15.8 per cent during April-June. Similarly, the purchasing managers' index for services grew 61.1 in the second quarter as against 60.6 during the preceding quarter.

“Urban consumption, along with growth in services, particularly financial services, continues to be the driving factor for the Indian growth story. The data from high-end luxury products sales, passenger vehicles, domestic air traffic, along with growth in personal loans, shows the growth momentum experienced in the first quarter has spilled over into the following quarter. We expect growth to remain at 6.9 per cent,” said Paras Jasrai, senior economic analyst, India Ratings.

Besides, the index of industrial production (IIP) grew at a robust 7.34 per cent during the quarter along with strong 13.9 per cent growth in electricity.

In construction, steel output grew at 19.23 per cent, along with 10.3 per cent growth registered in the cement sector.

“Consumption is led by urban demand, supported by strong government expenditure at both the (central) and state levels which has supported capex cycle recovery. The combination of government capex and strong growth in real estate services has supported the construction sector with pick-up in steel consumption and cement production,” said IDFC Bank in a statement.

Central government capex grew at 24.6 per cent and state government capex at 39.6 per cent during the September quarter.