● MODERATION IN PURCHASING POWER DENTS OUTPUT

GDP growth in Q2 likely dropped to 6.3%, lowest in six quarters: FE poll

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New Delhi, November 25

INDIA'S ECONOMIC GROWTH likely slowed down to a six-quarter low of 6.3% in Q2FY25, mainly due to a moderation in growth of both manufacturing and services sectors, going by the median of a poll among 18 economists.

In Q1 of FY25, the gross domestic product (GDP) had grown 6.7% and in Q2 of FY24 at 8.1%. The National Statistical Office (NSO) will release the official data for the July-September quarter on Friday.

At 6.3%, the growth would be starkly lower than the Reserve Bank of India's (RBI) projection of 7% for the September quarter. Moreover, to reach the central bank's projection of 7.2% for FY25, growth in H2 will have to touch 7.9%, which is unlikely, say the economists.

"The projection of 6.3% is below RBI's projection, and if it materialises, will pose downside risks to our FY25 GDP projections of 6.8%, and to RBI's projections of 7.2% as well," noted Rahul Bajoria, India & Asean economist, BofA Securities.

Radhika Rao, senior economist, DBS Bank, said, "Idiosyncratic developments, delayed start to the public capex spending, benign listed corporate earnings, and moderation in real purchasing power dented output in the first half." "But we are counting on a catch-up in momentum in the second half to lift the full-year growth to 6.7%," she added.

In Q2, factory output growth, as measured by index of industrial production (IIP), averaged 2.6% year-on-year compared with 7.8% in the same period last year. It was 5.5% in the first quarter of FY25. And services activity, gauged through services PMI, dipped, with the Q2 print averaging 59.6 as against 60.5 in Q1. Agriculture activity saw an upturn due to an uptick in rural consumption, say analysts. BofA expects agriculture GVA to rise to a six-quarter high of 6% in the backdrop of elevated kharif crop production.

ICICI Bank said rural demand is showing "resilience" as evident from higher FMCG sales at 6% in Q2 as against 2% seen in urban markets. In April-October, two-wheeler and tractor sales have increased at 13.2% and 3.2%, respectively.

Meanwhile, on the expenditure side, growth in household consumption remained relatively healthy, due to low base, ongoing fiscal transfers, and low core inflation, say analysts.

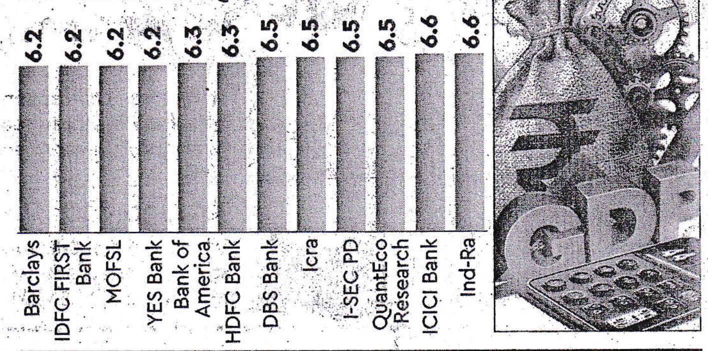
IDFC FIRST Bank chief economist Gaura Sen Gupta said that growth will get support in Q2 from higher government expenditure too, which picked up in Q2 after declining in Q1FY25 due to elections.

However, the biggest concern remains over the slow pace of public capex spending, said the economists. "Currently it's running 15% below last year's spending levels and needs to accelerate to over 50% growth between October and March to meet the budgetary estimates, which in our view is an uphill task," said Bajoria. In H1, the Centre's capex stood at ₹4.15 lakh crore, which is 49% of the FY25 target of ₹11.11 lakh crore.

On trade, both exports and imports have slowed largely due to falling energy prices, but a surge in gold imports meant that the consolidated trade deficit widened during the quarter, which can potentially shave off some growth, say analysts.

STATE OF THE ECONOMY

GDP forecast for Q2 (in %)



S&P retains FY25 forecast, cuts FY26 and FY27 estimates

FE BUREAU
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RATING AGENCY S&P Global has retained its India growth forecast for FY25 at 6.8%, which is 40 basis points lower than the RBI's estimate, in the backdrop of modest urban demand.

"In India we see GDP growth easing to 6.8% this fiscal year as high interest rates and a lower fiscal impulse temper urban demand," the agency said in a report. "While purchasing manager indices (PMIs) remain convincingly in the expansion zone, other high-frequency indicators indicate some transitory softening of growth momentum due to the hit to the construction sector in the September quarter," it said.

For FY26 and FY27, S&P Global has reduced its growth estimate for India by 20 basis points each.

The agency has forecast India's economy to grow at 6.7% and 6.8% in the next two fiscal years, respectively. On monetary policy, the agency expects the Reserve Bank of India (RBI) to cut the repo rate only once this fiscal year. At present, the repo rate stands at 6.5%. It said the RBI cannot ignore food inflation when considering rate cuts.