Economy likely slowed in Q2; govt to release data today

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Due to a slowdown in industrial activity, the Indian economy is likely to have slowed down during the three-month period of July-September (Q2 of FY25), with growth estimated between 6.3 and 6.6 per cent.

The data will be formally released by the Statistics Ministry on Friday, November 29.

The economic growth rate, based on the GDP (gross domestic product), was 6.7 per cent during the April-June quarter (Q1 of FY25). For the fiscal year as a whole, the growth rate is expected to reach 7 per cent.

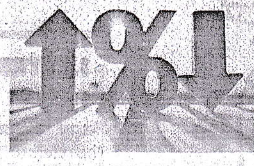
Research agencies estimate that growth likely slowed during the July-September quarter (Q2) of the current fiscal. ICRA projected GDP growth to decline to 6.5 per cent in Q2, compared to 6.7 per cent in the April-June quarter.

Earlier, an SBI research report also estimated growth at 6.5 per cent, while the RBI's October bulletin projected a 6.8 per cent growth. CareEdge appears slightly more optimistic, forecasting growth in the range of 6.6-6.8 per cent.

WEAK MARGINS

In its report released earlier this week, ICRA projected a slowdown in growth due to heavy rains and weak margins, which offset the buoyancy driven by the turnaround in government capital expenditure and healthy trends in kharif sowing.

Further, growth in gross value added (GVA) is estimated to ease to 6.6 per cent in Q2 from 6.8 per cent in Q1 FY2025, driven by the industrial sector (to +5.5 per cent from +8.3 per cent), amid a pick-up in expansion in services (to +7.8 per cent from +7.2 per cent) and agricultural GVA (to +3.5 per cent from +2 per cent).



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GDP refers to the demand side of the economy, while GVA is used to gauge the supply side. GDP is derived by adding taxes and subtracting subsidies from GVA.

RAINS & HEADWINDS

Aditi Nayar, Chief Economist and Head of Research & Outreach at ICRA, said that Q2 saw tailwinds in terms of a pick-up in capex after the Parliamentary Elections, as well as healthy expansion in sowing of major kharif crops. However, several sectors faced headwinds due to heavy rainfall, which affected mining activity, electricity demand, retail footfalls, and led to a contraction in merchandise exports.

Additionally, margins appear to have weakened for corporates in various sectors during this quarter.

As a result, "we project a slight dip in India's GVA and GDP growth in Q2 FY2025 to 6.6 per cent and 6.5 per cent, respectively," she said.

DK Srivastava, Chief Policy Advisor at EY India, listed the contraction in the Government of India's capital expenditure, which decreased by (-)15.4 per cent during April-September, as one of the main reasons for the slowdown.

He emphasised that both fiscal and monetary policy actions are needed at this stage. However, "fiscal policy action in the form of accelerated government investment expenditure should be given the highest priority while monetary policy action may be delayed beyond December 2024.

Eventually, as the US Fed continues to roll down its policy rates, India may also follow suit," he said.