

Macro Insights

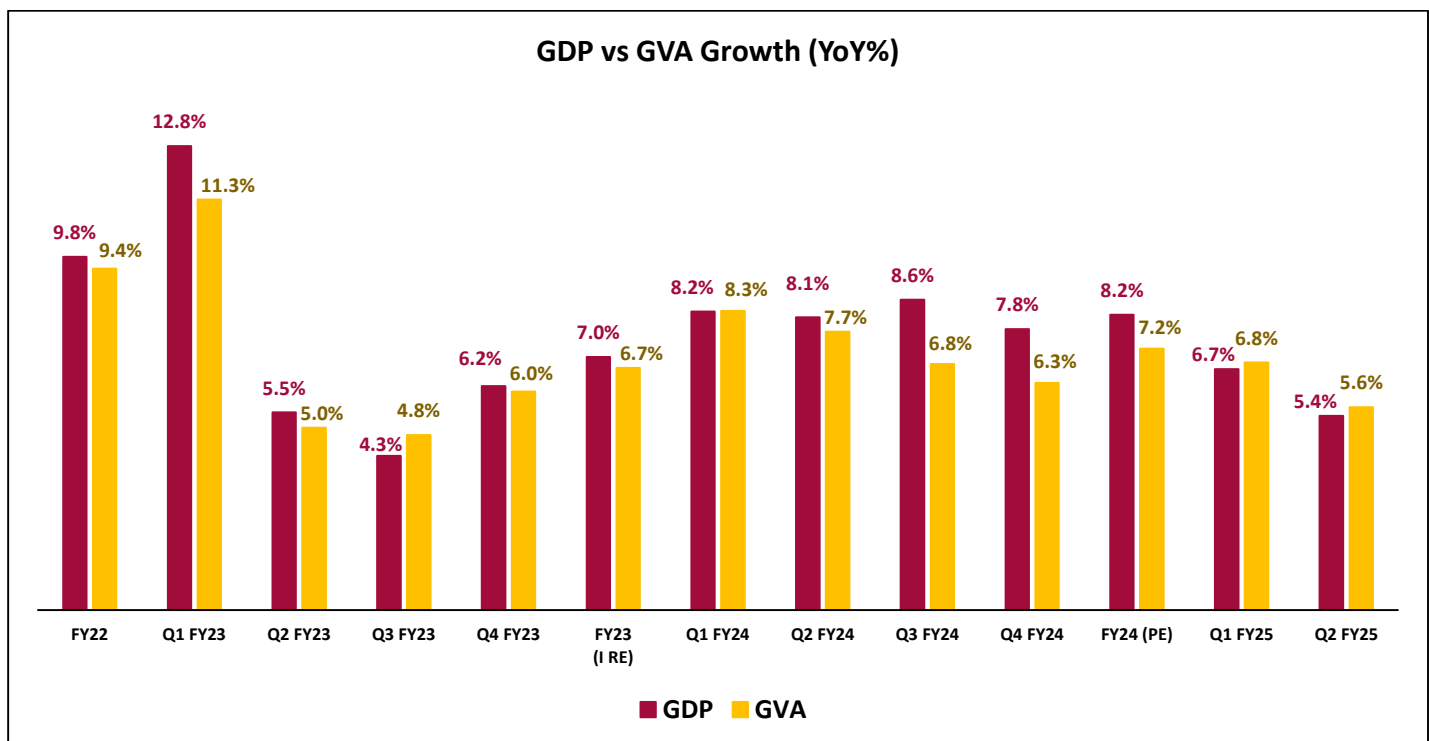
29th November, 2024

GDP growth slows to 5.4% - lowest in 7 quarters

GDP for Q2 FY25 grew by 5.4% as compared to a growth of 6.7% in the previous quarter (Q1 FY25) and a growth of 8.1% in Q2 FY24. Also, GVA in Q2 FY25 grew by 5.6% as compared to a growth of 6.8% in the previous quarter (Q1 FY25) and a growth of 7.7% in Q2 FY24.

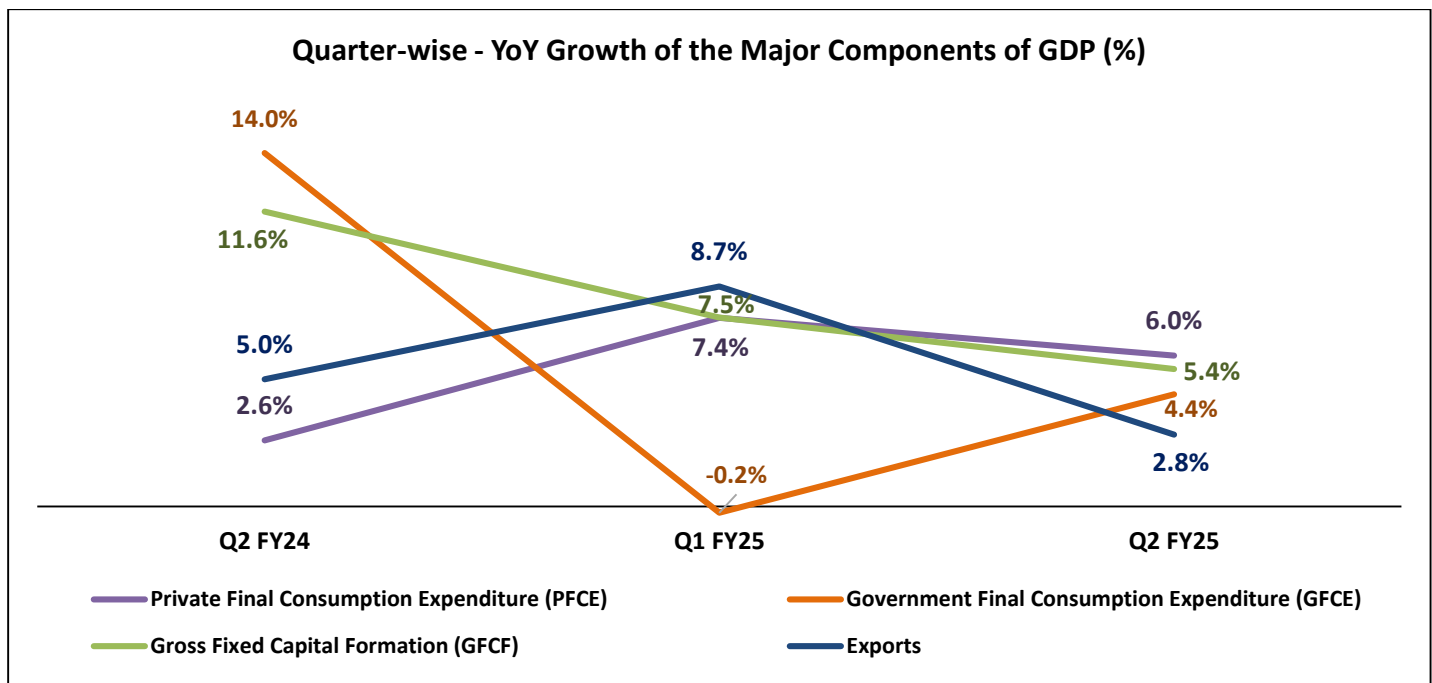
Highlights

- ☞ The slower growth of India's Gross Domestic Product (GDP) to 5.4% during Q2 FY 2024-25 may be attributed to weak urban consumption and sluggish growth in manufacturing and mining sectors.
- ☞ This is the third consecutive quarter of slower growth for the world's fastest-growing major economy.
- ☞ Gross Value Added (GVA) – which is GDP minus net taxes - growth in Q2 FY 2024-25 was pegged at 5.6%.
- ☞ For HY1 FY25, GDP and GVA grew by 6.0 per cent and 6.2 per cent respectively.



Components of GDP

- Growth in Private Final Consumption Expenditure, which constitutes the highest share in GDP, grew by 6.0 per cent in Q2 FY25 as against 7.4 per cent in the previous quarter and 2.6 per cent in Q2 FY24.
- Government Final Consumption Expenditure increased to 4.4 per cent in Q2 FY25, marking a recovery from the negative growth in the previous quarter. However, this growth rate was significantly lower than the 14.0 per cent recorded in the same quarter of the previous fiscal year.
- The growth in Gross Fixed Capital Formation, which denotes investment in the economy, has declined further to 5.4 per cent as against the growth of 7.5 per cent in Q1 FY25.
- Exports also witnessed major decline in the growth rate, registering only 2.8 per cent growth in Q2 FY25 as against the growth of 8.7 per cent in Q1 FY25 and 5.0 per cent in Q2 FY24.

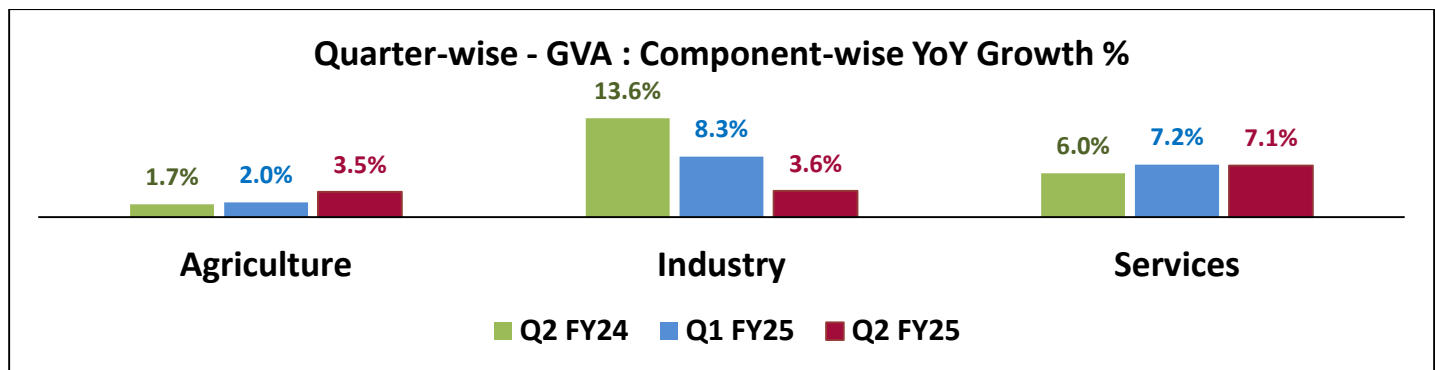


Change of the Major Component's Share in GDP

- Share of Private Final Consumption Expenditure increased marginally from 56.0 per cent in Q2 FY24 to 56.3 per cent in Q2 FY25.
- On the contrary, share of Government Final Consumption Expenditure declined slightly from 9.2 per cent in Q2 FY24 to 9.1 per cent in Q2 FY25.
- Share of Gross Fixed Capital Formation remained constant at 34.3 per cent in Q2 FY25 when compared to the same quarter a year ago.
- Both share of Exports & Imports declined approximately by 60 bps and 210 bps respectively in Q2 FY25 as compared to Q2 FY24.

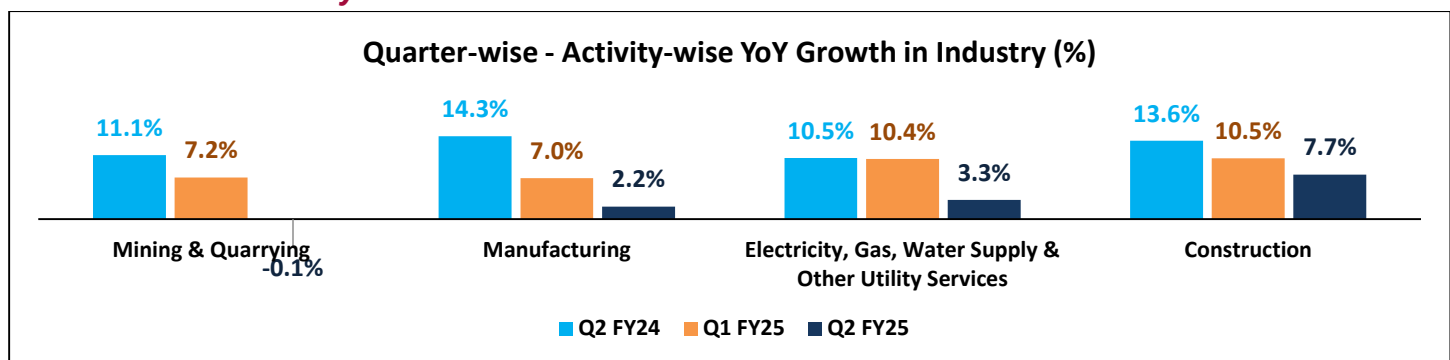
(Details in Annexure, Table 1)

Components of GVA

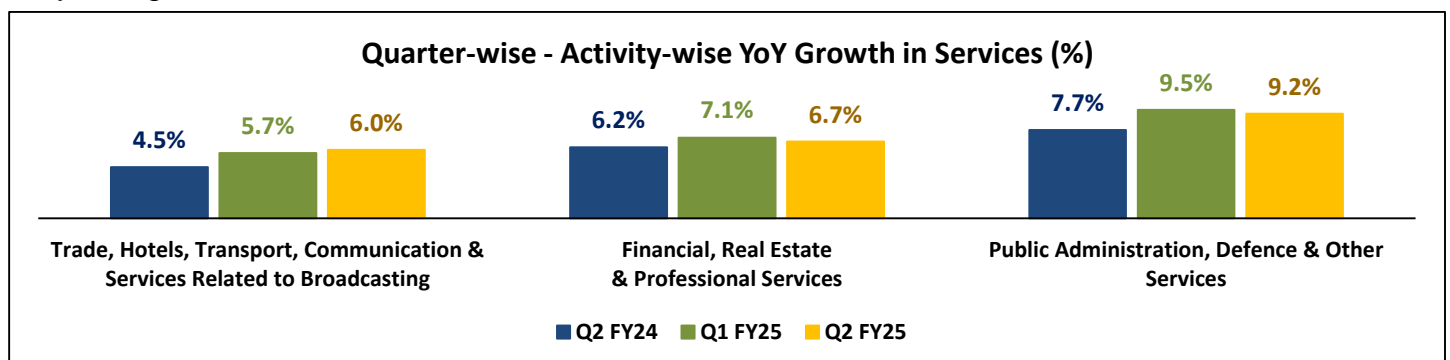


- The GVA growth in the Agriculture sector further increased to 3.5 per cent in the second quarter of FY25 compared to 2.0 per cent in the previous quarter and 1.7 per cent in Q2 FY24.
- The growth in the Industry Sector showed a declining trend, with figures of 13.6 per cent in Q2 FY24, 8.3 per cent in Q1 FY25 and 3.6 per cent in Q2 FY25.
- The growth rate of Services sector also registered a marginal decline from the previous quarter to 7.1 per cent in Q2 FY25 from 7.2 per cent in Q1 FY25. However, the growth is higher than the previous year’s growth of 6.0 per cent.

Closer look at Industry and Services



- The Manufacturing industry, a key driver of the industrial sector, experienced a sharp decline in growth, falling from 14.3 per cent in Q2 FY24 to a mere 2.2 per cent in Q2 FY25.
- Growth in Mining & Quarrying entered the negative zone in Q2 FY25.
- Construction Industry and the ‘Electricity, gas, water supply and other utility services’ also witnessed notable decline in growth rates from both the previous quarter and the same quarter a year ago.



- Growth of 'Trade, Hotel, Transport, Communication & Services related to broadcasting' registered a higher growth of 6 per cent in Q2 FY25 in comparison to last year's growth of 4.5 per cent.
- Despite a slight slowdown from the previous quarter, 'Financial, Real Estate & Professional Services' and 'Public Administration, Defence & Other Services' grew faster in Q2 FY25, when compared to Q2 FY24.

(Details in Annexure, Table 2)

Views

- Q2 FY25 GDP growth **fell short of expectations**, coming in significantly below the RBI's 7.0 per cent projection from its October Monetary Policy Committee (MPC) meeting.
- However, on the greener side, with China's growth of 4.6 per cent in July-September 2024, India **remains the fastest growing major economy**.
- The **recovery in Agriculture & Allied sector** may be attributed to the **above normal monsoon & pick up in rural demand**.
- Meanwhile, the **lower manufacturing growth** could be due to the global economic slowdown impacting the demand for manufactured goods. Mining and quarrying seem to have been sharply hit by the extended rainfall.
- Private Consumption has been hit by **slower urban spending due to higher food inflation**, high borrowing costs and weak real wage growth.
- It is to be noted, the negative 'discrepancies' item in GDP has also contributed to the downward pressure on overall GDP growth figures.
- Going forward, in the second half of this fiscal year, **GDP growth is expected to pick up pace** driven by **increased capex, festive-linked revival in activities and improved rural demand after a favorable harvest**. Construction activity and service-sector momentum are also anticipated to support growth.
- Meanwhile, the RBI is expected to maintain the policy rate at its December MPC meeting next week, however, the likelihood of a rate cut in the February policy meeting has risen.

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ANNEXURE

Table-1: GDP (at Constant Prices) for Q2 FY25 (Jul-Sep)

Item	Expenditures of Gross Domestic Product (Rs Cr)		Share in GDP (%)		% YoY Growth		
	Q2 2023-24	Q2 2024-25	Q2 2023-24	Q2 2024-25	Q2 2022-23	Q2 2023-24	Q2 2024-25
Private Final Consumption Expenditure (PFCE)	2342610	2482288	56.0	56.3	8.2%	2.6%	6.0%
Government Final Consumption Expenditure (GFCE)	383709	400698	9.2	9.1	3.4%	14.0%	4.4%
Gross Fixed Capital Formation (GFCF)	1435079	1513038	34.3	34.3	4.7%	11.6%	5.4%
Change in Stocks	48535	49154	1.2	1.1	8.7%	10.2%	1.3%
Valuables	108733	124366	2.6	2.8	-19.6%	-0.9%	14.4%
Exports	996098	1024347	23.8	23.2	11.7%	5.0%	2.8%
(Less) Imports	1147928	1114743	27.4	25.3	16.1%	11.6%	-2.9%
Discrepancies	18943	-68825	0.5	-1.6	-	-	-
GDP	4185779	4410323	100.0	100.0	5.5%	8.1%	5.4%

Table-2: Real GVA at basic prices for Q2 FY25 (Jul-Sep)

SN	Industry	Gross Value Added (Rs Cr)		Growth (%)		
		Q2 2023-24	Q2 2024-25	Q2 2022-23	Q2 2023-24	Q2 2024-25
1	Agriculture, Forestry & Fishing	440989	456279	2.3%	1.7%	3.5%
	Agriculture	440989	456279	2.3%	1.7%	3.5%
2	Mining & Quarrying	68934	68861	-4.1%	11.1%	-0.1%
3	Manufacturing	687183	701961	-7.2%	14.3%	2.2%
4	Electricity, Gas, Water Supply & Other Utility Services	97686	100922	6.4%	10.5%	3.3%
5	Construction	320067	344640	6.9%	13.6%	7.7%
	Industry	1173870	1216384	-2.4%	13.6%	3.6%
6	Trade, Hotel, Transport, Communication & Services related to broadcasting	707675	750198	13.2%	4.5%	6.0%
7	Financial, Insurance, Real Estate & Professional Services	1011847	1080051	8.7%	6.2%	6.7%
8	Public Administration, Defence & Other Services	508093	554786	7.3%	7.7%	9.2%
	Services	2227615	2385035	9.8%	6.0%	7.1%
	GVA at Basic Price	3842474	4057697	5.0%	7.7%	5.6%

*GVA + taxes on products - subsidies on products = GDP