Research

CRISIL
An S&P Global Company

Deceleration time

Crisil First Cut | January 2018

The Central Statistical Office (CSO) released the first advanced estimates of GDP for this fiscal late last week. It put to rest all speculations and confirmed that the pace of Indian economic growth has slowed this fiscal, which is attributable mostly to the lingering impact of demonetisation, transitory disruptions caused by the implementation of the Goods and Services Tax (GST), and weak agricultural growth.

CSO pegged real GDP growth for this fiscal at 6.5% – not too off from what was widely anticipated – down from 7.1% in last. With this, growth has slowed down for the second consecutive year and is at the lowest level since fiscal 2015.

Gross value added (GVA) growth followed a similar trend, slowing down to 6.1% in this fiscal from 6.6% in last. These estimates imply that real GDP growth would have to swing from 6% in the first half of this fiscal to 7% in the second half. Given the low base and the expected waning of the GST impact going ahead, we retain our forecast of 7.6% real GDP growth in fiscal 2019, with private consumption leading the recovery.

Data readings

- Real GDP growth is estimated to slow down to 6.5% this fiscal from 7.1% in fiscal 2017. While consumption would continue to spearhead growth, investment is expected move up slowly. Private consumption is estimated to grow at 6.3%, over a high base of 8.7% and remain the largest contributor to GDP (55.7% share). Interest rate reduction, pent-up demonetisation demand, pay commission implementation by the states and moderate inflation are the factors supporting private consumption. Gross fixed capital formation or new investments are estimated to grow by 4.5% this fiscal, up from 2.4% in last, with the help of some push from the government capex and FDI investments. That said, share of investments in GDP declined to 29% from 29.5% last fiscal, suggesting still large underutilised capacities in manufacturing and stretched corporate balance sheets deter private capex revival. Companies prefer to use their profits to pare down the debt rather than invest it.
- Gross value-added (GVA) growth, which measures the economy from the producer or supply side – and is supposed to be a better measure of economy activity – also indicated a similar trend with real GVA growth slowing to 6.1% this fiscal from 6.6% in last. Here, the services sector acted as the anchor as both agriculture and industry saw their growth declining significantly. Except for the high base of last fiscal, agricultural growth at 2.1% seems to be on the lower side, given that both kharif production and rabi sowing are only marginally lower compared with last fiscal. Manufacturing growth slowed down to 4.6% from 7.9% on account of the disruptions caused by GST implementation and the lingering effects of demonetisation. Services sector, on the other hand, displayed a broad based improvement, with growth improving to 8.3% from 7.7%. Both 'Trade, Hotels, Transport, Communication and Services Related to Broadcasting' and 'Financial Services, Real Estate and Professional Services' are estimated to grow faster this fiscal.
- It is important to note that the government believes robust tax collections this fiscal, despite the recent episode of slowdown in GST collections. Net taxes on Products are estimated to grow at 10.9%, taking their share higher in GDP - to 8.6% this fiscal from 8.2% in last. This broadly suggests improved tax base and or compliance in the new taxation regime.
- Trade delivered a double whammy. Exports did not benefit from global upturn, while imports spiked. Export growth at 4.5% same as last year imports shoot up 10% (from 2.3% last fiscal), pulling GDP down.

Outlook

We believe real GDP growth would rebound to 7.6% in fiscal 2019 from 6.5% this fiscal as the transitory disruption from GST implementation would wane and a low base would help. Growth would continue to be consumption led as interest rates are expected to remain soft and inflation under control. Implementation of seventh pay commission hikes at the state level would help. Growth would also be mildly supported by public spending (with a rural focus) in infrastructure, especially roads. Government's Rs. 2.11 lakh bank recapitalization plan would mean that the banks would be sufficiently funded to support growth. On the external front too, global recovery is expected to gather pace (S&P Global expects world GDP to grow 10 bps to 3.7% this fiscal) and which should help Indian exports, which were held back to some extent on account of GST-related glitches.

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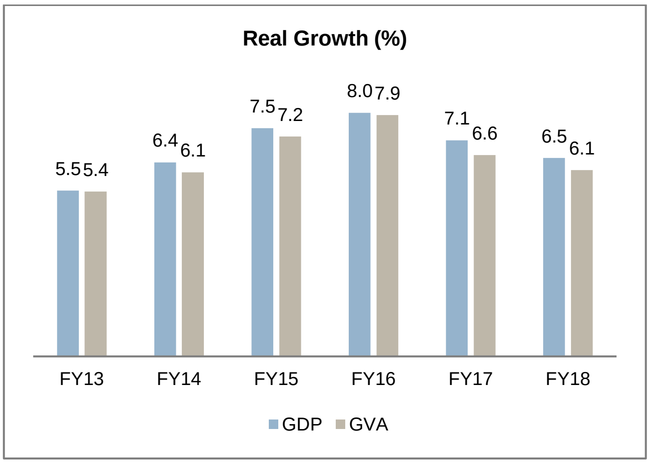
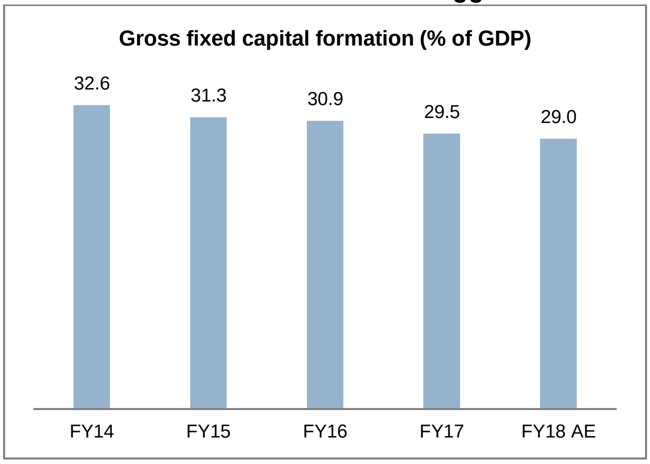


Investment continued to remain sluggish



Source: CSO

Nuances of GDP growth

At basic prices	FY14	FY15	FY16	FY17	FY18 AE
Agriculture & allied	5.6	-0.2	0.7	4.9	2.1
Industry	3.8	7.5	8.8	5.6	4.4
o/w Manufacturing	5.0	8.3	10.8	7.9	4.6
Mining	0.2	11.7	10.5	1.8	2.9
Services	7.7	9.7	9.7	7.7	8.3
GVA	6.1	7.2	7.9	6.6	6.1

At market prices	FY14	FY15	FY16	FY17	FY18 AE
Pvt. Consumption	7.3	6.2	6.1	8.7	6.3
Govt. Consumption	0.6	9.6	3.3	20.8	8.5
Fixed Investment	1.6	3.4	6.5	2.4	4.5
Exports	7.8	1.8	-5.3	4.5	4.5
Imports	-8.1	0.9	-5.9	2.3	10.0
GDP	6.4	7.5	8.0	7.1	6.5

Source: CSO

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