Research

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Cutting GDP growth to 6.3% in fiscal 2020

CRISIL First Cut | September 4, 2019

Feeble first quarter stunts full-year GDP growth forecast

Fiscal 2020's first quarter gross domestic product (GDP) growth estimate at 5% - the slowest in 25 quarters - corroborates that India's economic slowdown is deeper and more broad-based than suspected. While on-ground indicators did suggest that the quarter would look worse than the previous one (at 5.8%), the extent of fall has caught everyone by surprise.

A plunge in domestic private consumption demand, slump in manufacturing, halving of merchandise exports growth, and a high-base effect from last year have gnawed away at first-quarter growth.

Private consumption growth – the bulwark of India's growth story in recent years – registered a scant 3.1% in the first quarter, a four-year low. The last couple of times private consumption fell this sharply was in the first quarter of fiscal 2013 (-0.9%) and third quarter of fiscal 2015 (2.1%), as per the new GDP series *(see Box 1)*.

With over 55% weight in GDP and 7.6% annual growth, on average, in the past five years, the importance of bolstering private consumption cannot be over-emphasised. In the past few years, households had dipped into their savings and leveraged themselves to support private consumption. However, first quarter data shows, they have not been able to sustain the momentum.

How does the future look?

There are mixed signals for the second quarter (Chart 1). The first two months of the quarter (July and August) on average have weaker PMIs (purchase managers' index) for manufacturing, compared with the first quarter, while for services it is somewhat stronger. Meanwhile, export growth turned positive in July. However in some sectors such as automobiles, demand stayed sluggish, as sales continued to tank. Similarly, monsoon, though normal, has brought its share of uncertainty. Rains caught up in August, but the rapid recovery meant excess rains in several regions leading to kharif crop losses. Also, a few regions are still reeling under rainfall deficiency. But healthy groundwater and reservoir levels bode well for the rabi crop, which could still improve the overall prospects for agricultural production this fiscal.

Nevertheless, given the twin trouble of slack private consumption and manufacturing in the quarter, we believe the remaining quarters are unlikely to over reach to take the full year number to our earlier forecast of 6.9%. ***Therefore, we revise down our growth forecast for fiscal 2020 to 6.3%, from 6.9% estimated earlier***. That is under the assumption that the second quarter will see some mild pick-up in growth, which continues through the year. ***We expect growth to get some lift from the low base effect that will now set in (second half fiscal 2019 GDP growth was at 6.2%). An easing monetary policy, improved transmission of rate cuts, and the government's minimum income support scheme to farmers would also feed into consumption. The recently announced steps by the Finance Minister will also address some pain pints and support sentiment.***

Highlights

GDP growth dropped to a low of 5% in the first quarter of fiscal 2020 compared with 5.8% in the previous quarter.

- The sharpest dip was seen in exports, where growth nearly halved to 5.7% from 10.6% in the fourth quarter of fiscal 2019. Private consumption growth nosedived to an 18-quarter low of 3.1%, down from 7.2% in the previous quarter. Not surprisingly, manufacturing sector flatlined, showing 0.6% growth. Government consumption slowed to 8.8% from 13.1%, while investments growth held up, recording a mild uptick at 4% from 3.6%. A sharp slowdown in imports to 4.2% from 13.3% provided support. On-year, the trade balance of goods and services was, in fact, slightly lower.
- On the supply-side, growth in gross value added or GVA slowed to 4.9% in the first quarter of fiscal 2020, from 5.7% in the previous quarter. The slowdown was fairly broad-based. The sharpest slowdown was in the real estate, financial and professional services segment, which slipped to 5.9% from 9.5%. This reflected weakness in the banking and non-banking sectors, where overall credit growth has been sluggish and funding constraints to the real estate sector has slowed activity there. Services sector growth dipped to 6.9% from 7.1%. This was followed by manufacturing (0.6% vs 3.1%) and public administration and defence (8.5% vs 10.7%). Mining and construction activities, too, saw lower growth.
- Agricultural growth, however, picked up to 2% in the first quarter, from -0.1% in the previous. So, while overall GVA growth fell by 80 basis points (bps) between the two quarters, excluding agriculture, it was 140 bps lower. Growth was also higher in the trade, hotels, transport and communication segment (7.1% vs 6%).

Why is consumption in a bind?

- Sluggishness in private consumption could be explained by a number of factors including a possible income slowdown and cost increases, amid other challenges in the automobile sector, slowing activity in real estate, and an overall dent to consumer sentiment *(see charts 2 to 7 below)*
- In fact, much of this cyclical slowdown has affected sectors that are large employment generators, suggesting that incomes and/or employment growth in these might have suffere*d*
- Add to this the fact that households have been dipping into their savings in the near past, while also leveraging themselves, indicates their ability to spend could be constrained.

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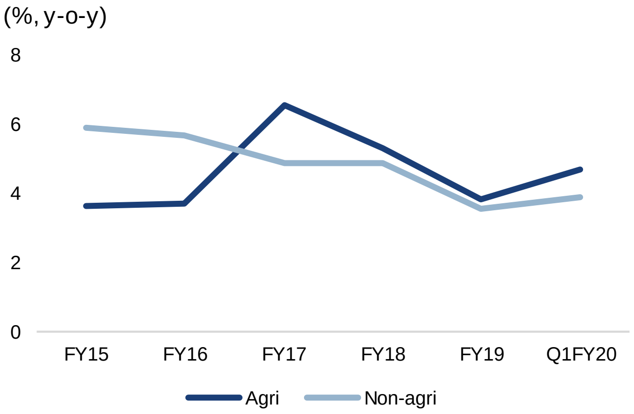
Chart 1: Short-term indicators display mixed picture for Q2

	Growth (y-o-y %)	Jul -18	Aug -18	Sep -18	Oct -18	Nov -18	Dec -18	Jan -19	Feb -19	Mar -19	Apr -19	May -19	Jun -19	Jul -19
Industry	**1. IIP growth**													
	a. Total	6.5	4.8	4.6	8.4	0.2	2.5	1.6	0.2	2.7	4.3	4.6	2.0	
	b. Manufacturing	7.0	5.2	4.8	8.2	-0.7	2.9	1.3	-0.3	3.1	4.0	4.5	1.2	
	c. Capital goods	2.3	10.3	6.9	16.9	-4.1	4.2	-3.6	-9.3	-9.1	1.2	-1.4	-6.5	
	d. Consumer durables	14.1	5.5	5.4	17.4	-3.0	4.1	2.5	0.9	-3.2	2.2	0.3	-5.5	
	e. Consumer non-durables	5.3	6.5	6.4	8.6	-0.3	6.5	3.8	5.0	1.4	5.9	8.1	7.8	
	2. Cement production *(IIP cement)*	11.1	14.7	11.8	18.5	8.9	11.6	11.0	8.0	15.8	2.3	2.8	0.0	
	3. Steel production *(Final steel consumption)*	9.5	11.9	10.3	8.4	10.7	8.9	10.1	7.7	9.8	6.5	6.5	6.4	3.5
	4. PMI manufacturing	52.3	51.7	52.2	53.1	54.0	53.2	53.9	54.3	52.6	51.8	52.7	52.1	52.5
	5. Domestic auto sales													
	a. Total	8.0	3.4	3.7	15.3	5.0	-3.0	-4.7	-3.6	-14.2	-15.9	-8.6	-12.3	-18.7
	b. Tractors	16.7	5.8	-13.9	20.1	27.6	5.4	0.5	-2.6	-17.0	-14.0	-15.7	-13.5	32.9
	c. Commercial vehicles	29.7	2 9.6	24.1	24.8	5.7	-7.8	2.2	-0.4	0.3	-6.0	-10.0	-12.3	-25.7
	d. Two wheelers	8.2	2.9	4.1	17.2	7.1	-2.2	-5.2	-4.2	-17.3	-16.4	-6.7	-11.7	-16.8
	e. Cars	-0.4	-1.0	-5.6	0.4	-0.9	-2.0	-2.6	-4.3	-6.9	-19.9	-26.0	-24.1	-36.0
Services	**1. PMI services**	54.2	51.5	50.9	52.2	53.7	53.2	52.2	52.5	52	51	50.2	49.6	53.8
	2. Domestic airline passenger traffic	21.6	1 6.9	18.0	13.1	10.4	12.3	9.1	4.2	-1.5	-6.4	-0.3	4.6	1.2
	3. Railway freight cargo	4.1	5.2	3.7	9.6	5.1	3.3	2.8	4.3	6.6	3.2	2.9	2.0	1.6
	4. Number of telecom subscribers	-2.6	-1.7	-1.3	-0.8	0.7	0.6	2.4	2.2	-1.9	3.1	2.6	1.5	
Inflation	**1. CPI inflation**	4.2	3.7	3.7	3.4	2.3	2.1	2.0	2.6	2.9	3.0	3.0	3.2	3.1
	a. Core CPI inflation	5.5	5.4	5.2	5.5	5.3	5.5	5.3	5.4	5.0	4.6	4.3	4.4	4.6
	2. WPI inflation	5.3	4.6	5.2	5.5	4.5	3.5	2.8	2.9	3.1	3.2	2.8	2.0	1.1
Wages	*1. Agri wages*	2.5	3.6	3.6	4.3	5.1	3.9	5.2	5.1	5.2	4.8	5.2	4.2	
	2. Non-agri wages	3.4	3.5	3.4	3.5	3.6	3.7	3.7	3.7	3.7	3.7	4.0	3.9	
Bank credit	**Total credit**	10.4	12.2	11.3	13.1	13.6	12.8	13.1	13.1	12.2	11.7	11.5	11.1	
	a. Non-food	10.6	12.4	11.3	13.4	13.8	12.8	13.1	13.2	12.3	11.9	11.4	11.1	
	b. Retail	16.7	18.2	15.1	16.8	17.2	17.0	16.9	16.7	16.4	15.7	16.9	16.6	
	c. Industry	0.3	1.9	2.3	3.7	4.0	4.4	5.2	5.6	6.9	6.9	6.4	6.4	
	d. Services	23.0	26.7	24.0	27.4	28.1	23.2	23.9	23.7	17.8	16.8	14.8	13.0	
Commodity prices	**1. Brent crude ($/barrel)**	74.4	73.1	78.9	80.5	65.2	56.5	59.3	64.1	66.4	71.2	70.5	63.3	64.0
	2. Metal index	5.8	-4.2	-6.3	-4.8	-7.1	-9.6	-14.4	-9.6	-4.0	-5.6	-9.4	-9.7	1.6
G-Sec	**10 year G-Sec yields**	7.82	7.81	8.09	7.95	7.75	7.40	7.50	7.57	7.50	7.39	7.29	6.94	6.52
Currency	**Rs/US$**	68.7	69.5	72.2	73.6	71.9	70.7	70.7	71.2	69.5	69.4	69.8	69.4	68.8
Trade	**Export growth**	15.5	19.1	-2.5	16.4	-1.1	-0.1	3.9	3.2	12.2	0.4	4.0	-9.7	2.3

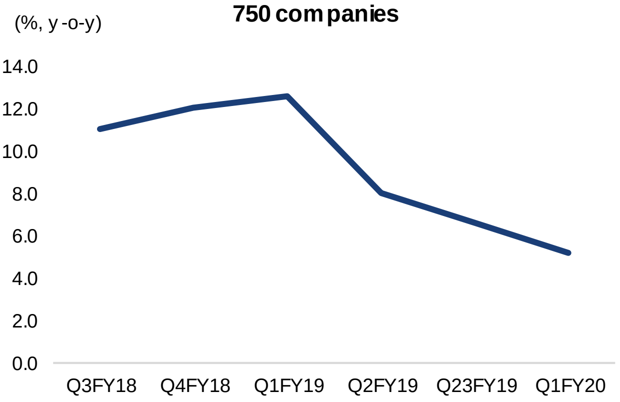
Note: Red denotes worsening, green improvement, and yellow shows little to no change
Source: CRISIL

Chart 2: Rural income growth remains sluggish



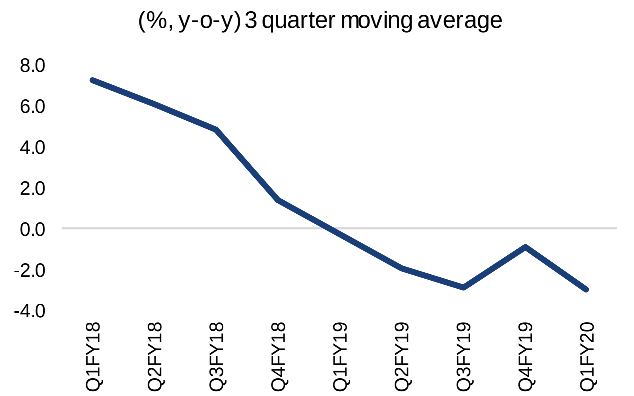
Source: RBI, CRISIL

Chart 3: Urban income growth tepid for formal sector



Source: 'Uphill Trek', August 2019, CRISIL Research

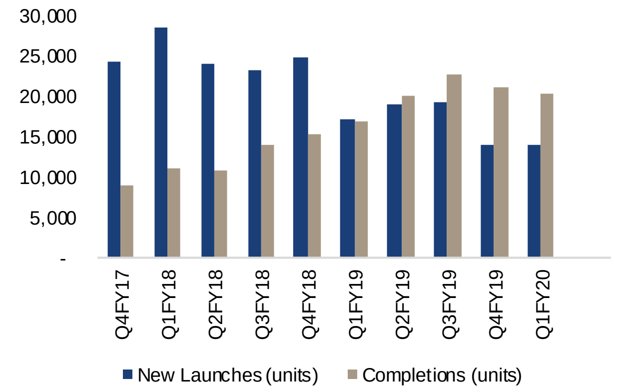
Chart 4: Labour-intensive exports are de-growing



Note: Gems and jewellery, textiles, leather, and agri-related products are taken as labour intensive sectors

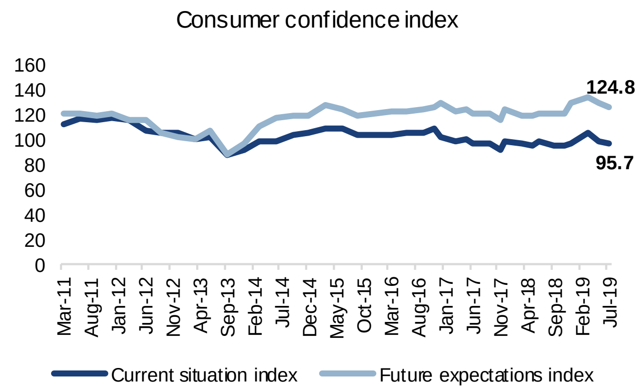
Source: Ministry of Industry, CRISIL

Chart 5: Top four real estate markets show stagnation in project completion, fewer launches



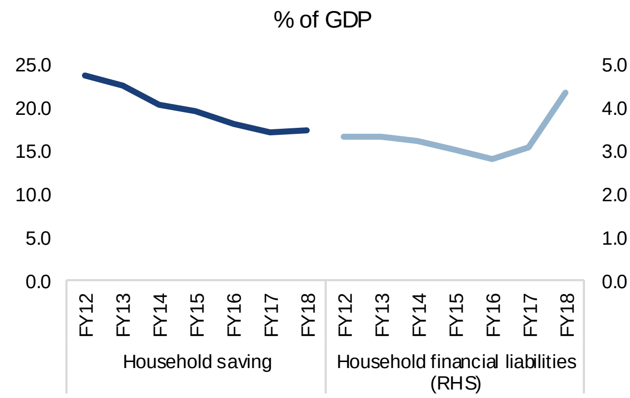
Source: 'Uphill Trek', August 2019, CRISIL Research

Chart 6: Consumer confidence is low



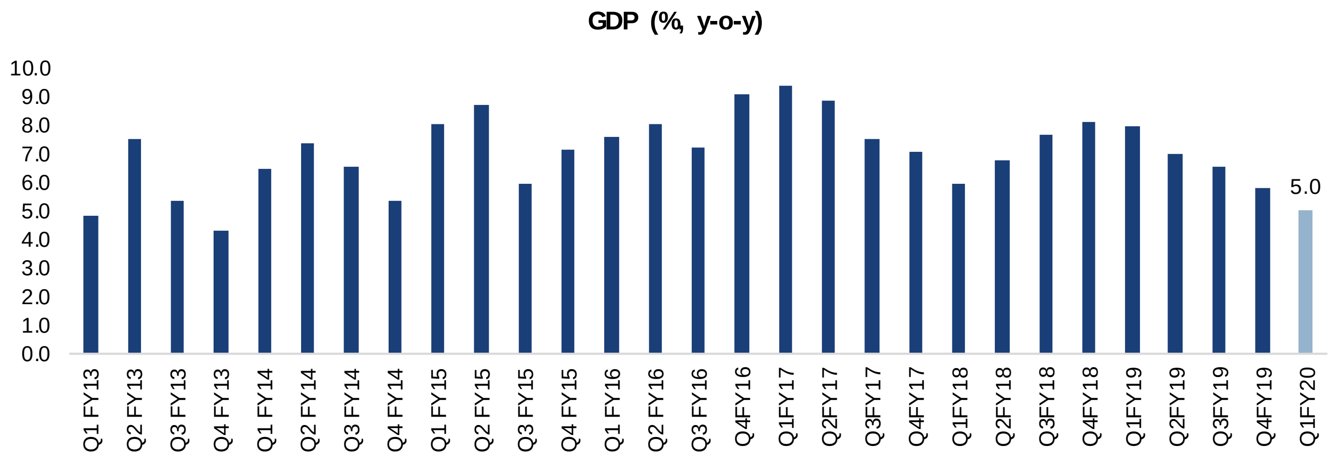
Source: RBI, CRISIL

Chart 7: Savings are dipping, liabilities are on the rise



Source: RBI, CRISIL

Chart 8: Growth at a 25-quarter low



Source: CSO, CRISIL

Chart 9: Growth in sub-components of GDP

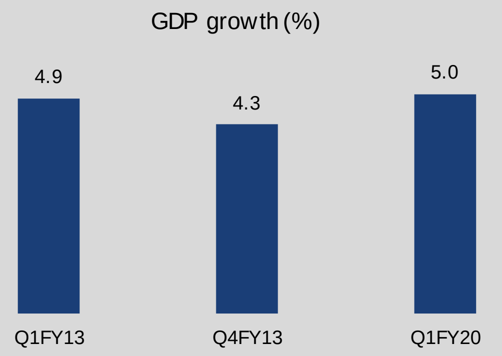
	Q1FY19	Q4FY19	Q1FY20
Private consumption	7.3	7.2	3.1
Government consumption	6.6	13.1	8.8
Investment	13.3	3.6	4.0
Exports	10.2	10.6	5.7
Imports	11.0	13.3	4.2
GDP	**8.0**	**5.8**	**5.0**

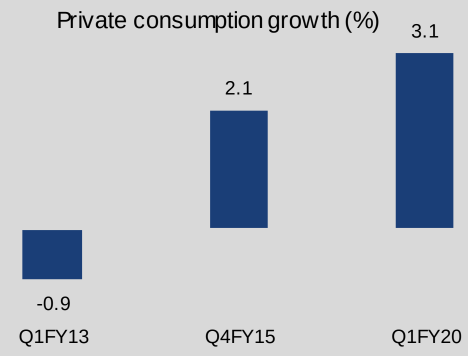
	Q1FY19	Q4FY19	Q1FY20
Agriculture	5.1	-0.1	2.0
Industry	9.8	4.2	2.7
Manufacturing	12.1	3.1	0.6
Mining	0.4	4.2	2.7
Construction	9.6	7.1	5.7
Electricity, gas, water supply	6.7	4.3	8.6
Services	7.1	8.4	6.9
Trade, hotels, transport, communication	7.8	6.0	7.1
Financial, real estate, professional services	6.5	9.5	5.9
Public administration, defence	7.5	10.7	8.5
GVA	**7.7**	**5.7**	**4.9**

Source: CSO, CRISIL

Box 1: When GDP and private consumption growth fared worse than now

This is not the first time that quarterly GDP and private consumption growth fell below 5% since fiscal 2012; the year from which quarterly data is available in the new series. In fiscal 2013, GDP growth was below 5% for two quarters. Private consumption had collapsed to -0.9% growth in the first quarter of fiscal 2013. Unsurprisingly, therefore, GDP growth fell to 5.4% in fiscal 2013.





Source: CSO and CRISIL

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