# Real GDP growth tops 8% in FY24; details indicate strong growth momentum despite the GDP-GVA wedge

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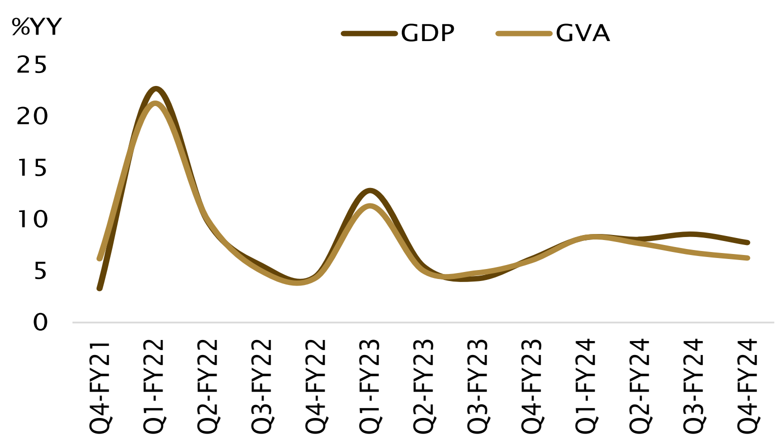
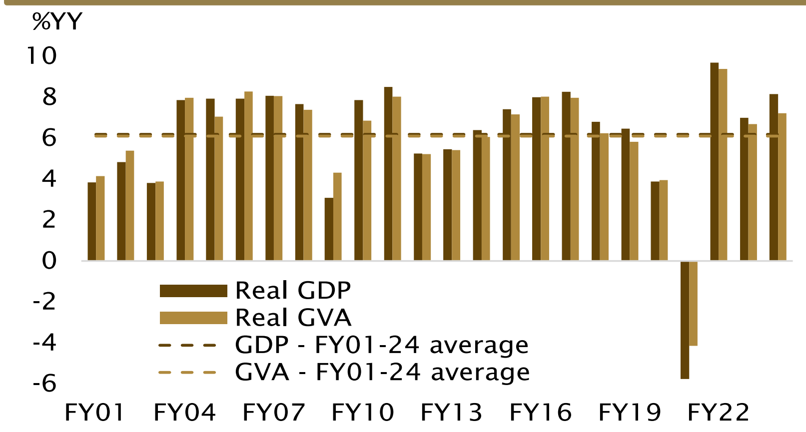
# Key takeaways

- Real GDP grew by 8.2% in FY24, exceeding the statistical office's second advance estimate (SAE) of 7.6% and above the Bloomberg survey estimate of 7.9%. In FY23, real GDP had increased by 7%. Real GVA growth was at 7.2% in FY24, up from 6.7% in FY23 and higher than the SAE of 6.9%. Investment boosted GDP growth, even as consumption (both private and government) growth moderated. Net exports were a drag. Higher real GVA growth was driven by a rebound in manufacturing. Services continued to contribute the most to GVA growth despite the ongoing post-COVID normalization in travel-related services.
- Both real GDP and GVA year-on-year growth moderated in Q4 but surpassed both official and market forecasts. The gap between real GDP and GVA that widened significantly in Q3 narrowed in Q4 but remained high compared to historical trends, as growth in net indirect taxed remained strong in Q4.
- Nominal growth moderated compared to FY23, both in terms of GDP and GVA. Low deflators propped up real growth numbers, which is unlikely to repeat in FY25, as commodity prices edge higher.
- Amid the various push and pull factors, growth is likely to remain strong in FY25. Though it is not unreasonable to expect growth moderation in FY25 due to a high base in FY24, historical data shows instances of successive years of strong growth.
- The latest GDP print is unlikely to change the RBI MPC's ongoing policy pause, as strong growth defies the need for policy easing. However, a change in stance could be on the cards at its August meeting if consumer inflation surprises on the downside, and any easing by systemic central banks necessitates an appropriate response.

High gap between real GDP-GVA persisted in Q4-FY24




Base effects might not impinge on growth trajectory



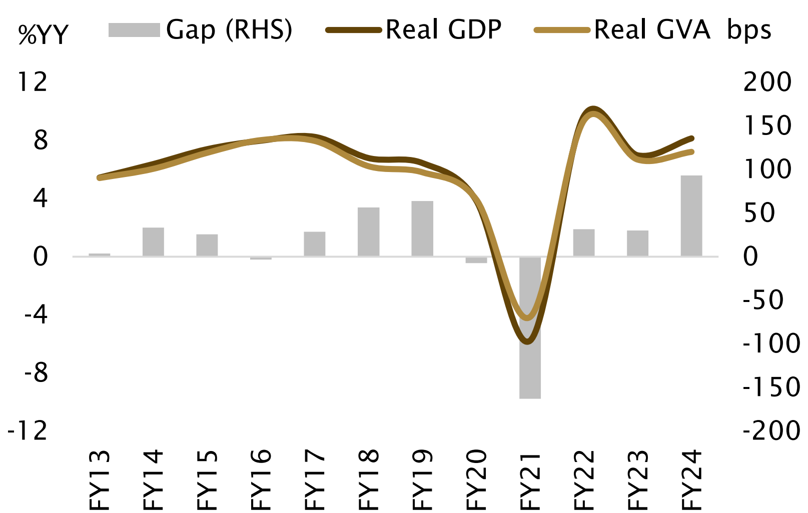
# Both real GDP and GVA headline growth in FY24 exceed expectations

- Provisional estimates suggest real GDP growth of 8.2%YY in FY24, higher than the statistical office's second advance estimate (SAE) of 7.6% and market expectations of 7.9% (Bloomberg survey). In FY23, real GDP grew 7%. Real GVA growth was at 7.2% in FY24, up from 6.7% in FY23 and higher than the SAE of 6.9%.

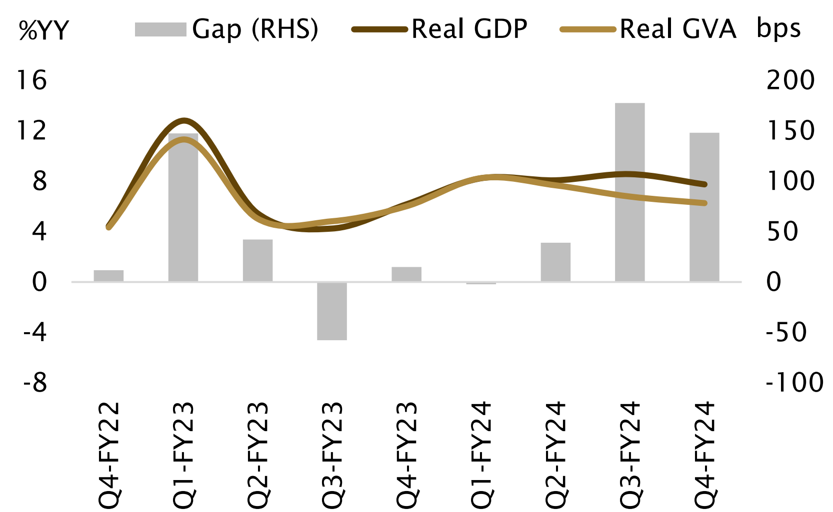
- In Q4-FY24, real GDP expanded by 7.8%, higher than the implied growth of 5.9% based on statistical office's SAE for FY24 and Bloomberg survey estimate of 7%. Real GDP growth for Q3 was revised higher to 8.6% from 8.4% estimated earlier. Real GVA posted growth of 6.3% in Q4, above the implied growth of 5.4% indicated in official SAE, and in line with Bloomberg survey estimate. For Q3, real GVA growth was revised higher to 6.8% from the earlier estimate of 6.5%.

- Based on the official SAE, the wedge between real GDP and GVA was expected to narrow from 185 basis points in Q3-FY24 to 46bps in Q4. However, as per provisional estimates for Q4, this gap narrowed to 148bps from revised estimate of 178bps in Q3, so that **the GDP-GVA wedge remained a key feature of Q4 data, as buoyant net indirect taxes amid a drop in subsidies propelled GDP numbers.** For the year as a whole, the GDP-GVA gap widened to 93bps from 30bps in FY23.

Real GDP growth exceeded 8% in FY24



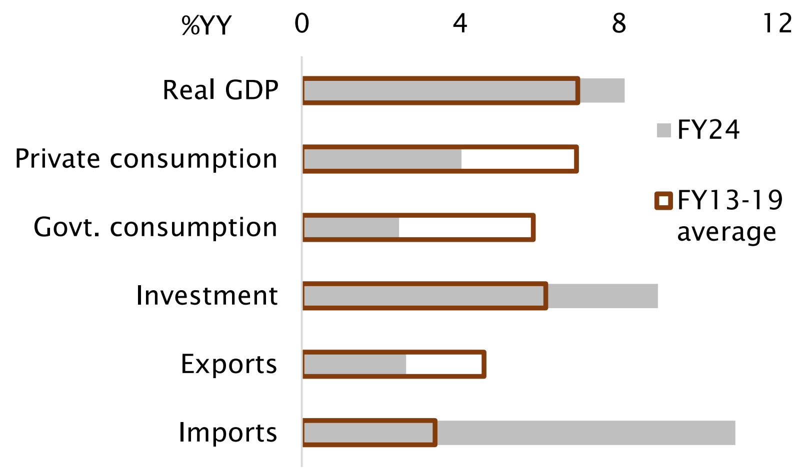

H2-FY24 was marked by high GDP-GVA gap



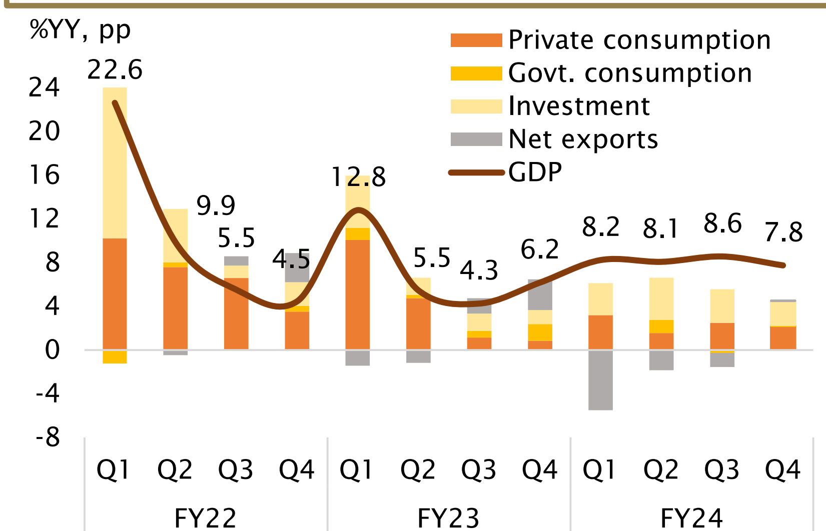
# Investment drove GDP growth in FY24 amid slowdown in consumption

- On the expenditure side, for FY24 as a whole, **investment growth accelerated** to 9%YY from 6.6% in FY23 and exceeded the pre-COVID historical average growth rate. **While private and public consumption drove real GDP growth in FY23, there was a slowdown in both in FY24**, with growth slipping below average. **Net exports were a drag** after adding to growth in the previous two fiscal years, as imports grew sharply and surpassed exports that grew at a slower pace.
- Quarterly data suggests that net exports dragged down growth from Q1-Q3, but contributed slightly positively in Q4. Private consumption growth was flat at 4%YY in both Q3 and Q4. Public consumption recovered in Q4 after contracting in Q3. Investment growth remained firm in both Q2 and Q3, though it moderated from the double-digit peak growth of 11.6% in Q2.

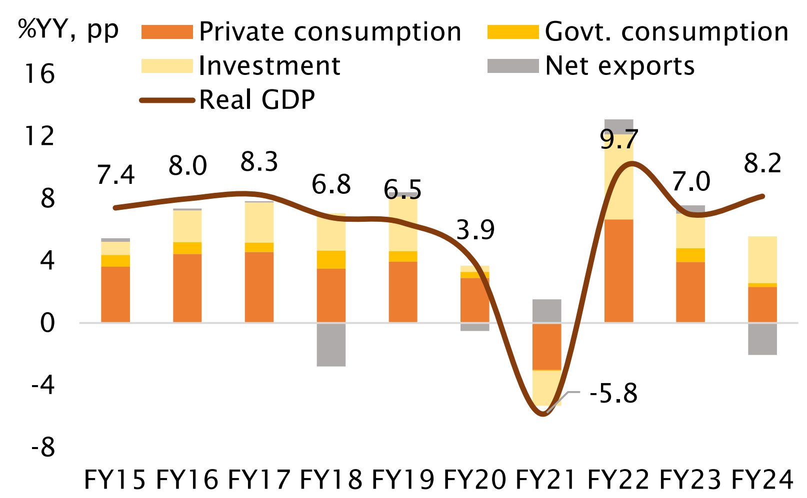
Investment added strongly to real GDP growth in FY24




Growth eased in Q4 after expanding over 8% in Q1-Q3




Net exports were a drag on real GDP growth in FY24



# Higher GVA growth in FY24 driven by rebound in manufacturing

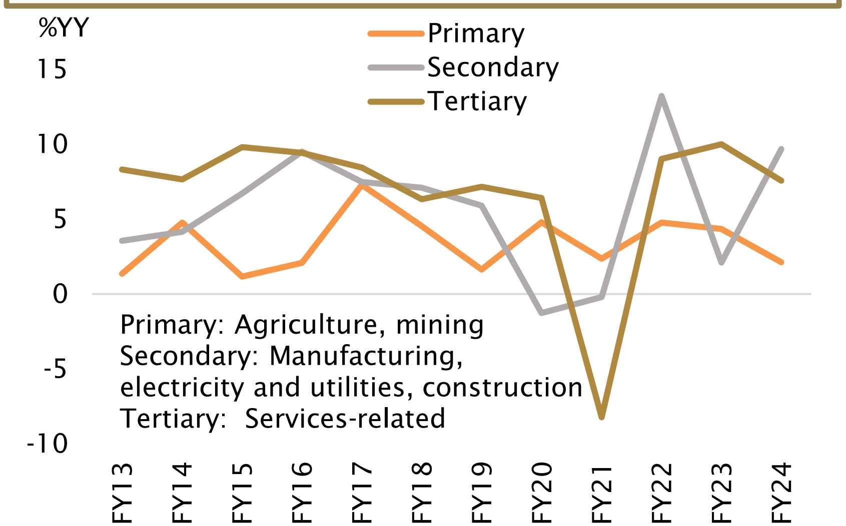
- On the GVA side, primary sector (agriculture, mining) growth eased in FY24, as growth in agriculture moderated to an eight-year low, even as mining output expanded strongly.

- The secondary sector (manufacturing, electricity and utilities, construction) growth at 9.7% exceeded that of primary and tertiary sectors. **Manufacturing growth rebounded, expanding by 9.9% after contracting 2.2% in FY23. Construction growth was also strong, printing at over 9% for the second straight year.** Growth in electricity and utilities was also strong at 7.5%, though lower than in FY23 and FY22.

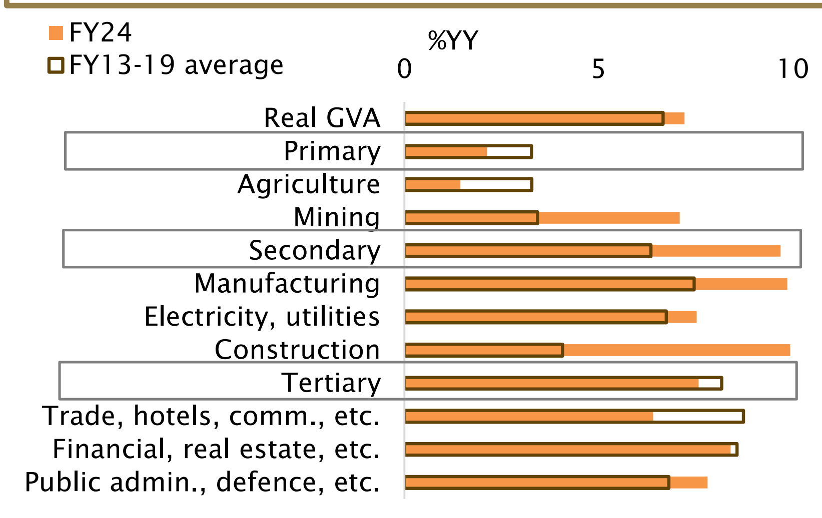
- **Despite higher growth, the contribution of secondary sector to overall GVA growth remained lower than that of the tertiary sector due to higher share of the latter in GVA. However, the improvement in GVA growth in FY24 vis-à-vis FY23 was driven by the recovery in manufacturing.**

- Growth in the tertiary sector (mostly services-related industries) eased to 7.6% from 10% in FY23. The moderation in growth was across sub-sectors, though more pronounced in case of trade, hotels, transport and communication, as post-COVID spending on travel and related services continued to normalize.

Secondary sector posted strong growth in FY24…

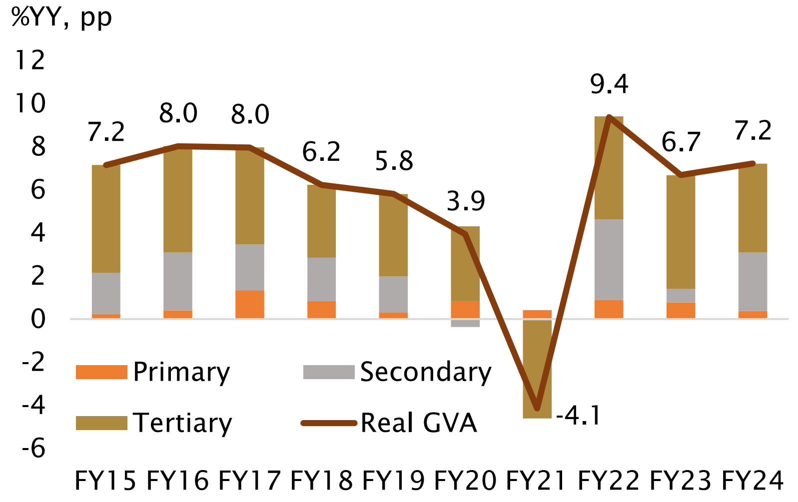



… aided by a rebound in manufacturing

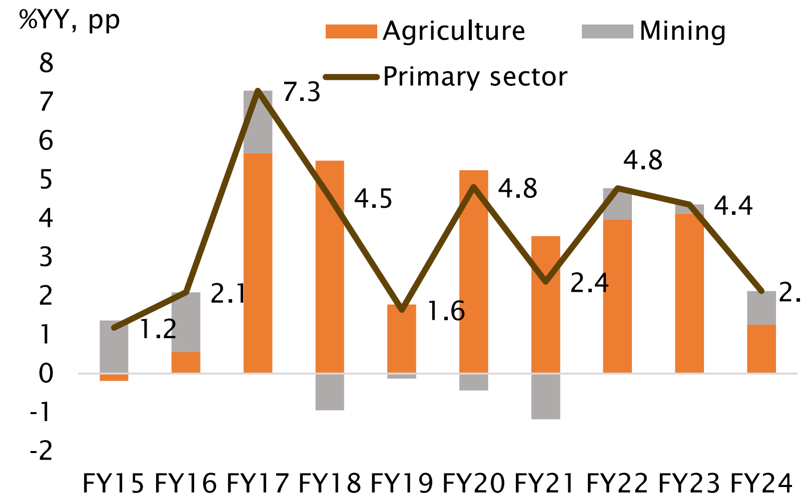


# Notable post-COVID normalization in trade-related services

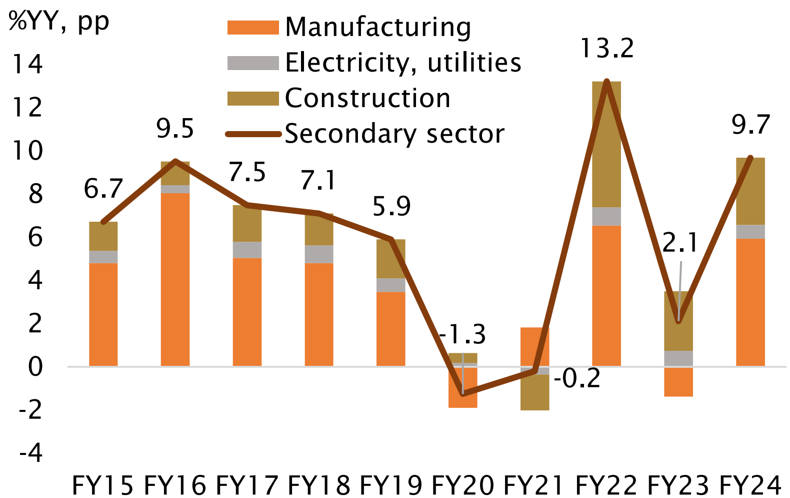
Secondary sector added strongly to FY24 GDP growth



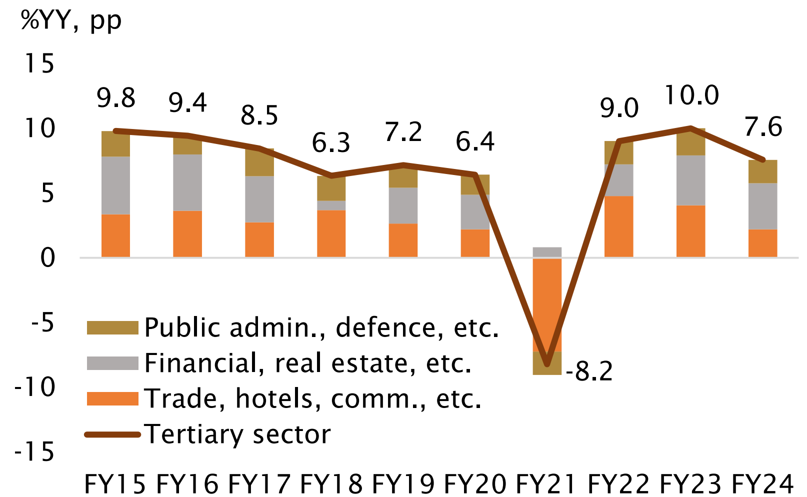

Agriculture growth eased to an eight-year low in FY24




Manufacturing output rebounded in FY24



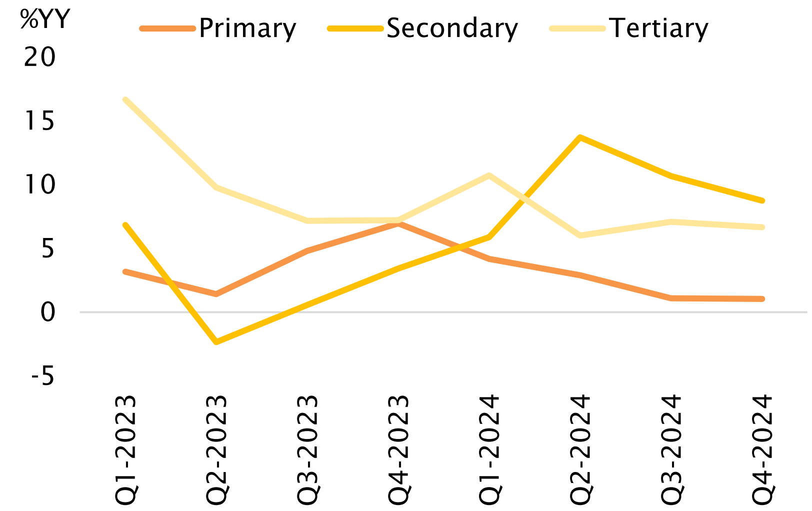

Post-COVID normalization in trade, hotels, etc.



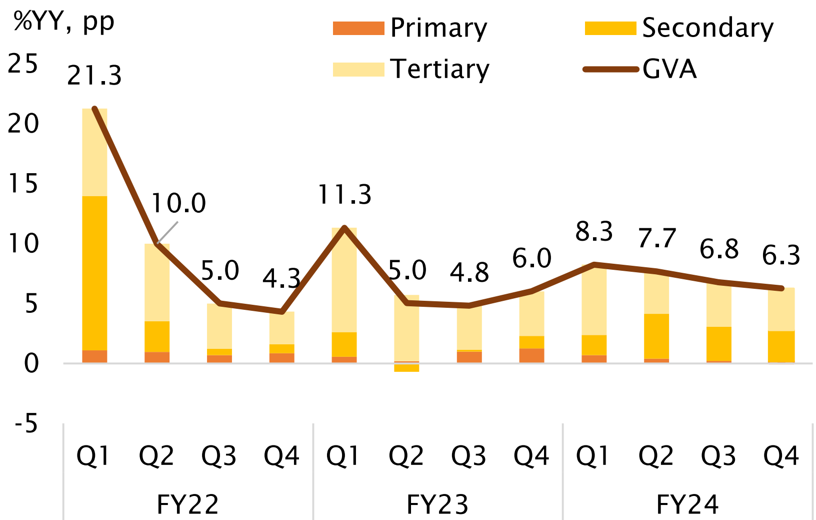
# Moderation in real GVA growth across quarters due to base effects

- **Real GVA growth eased in three straight quarters ending FY24 due to unfavorable base effects, even as growth momentum was positive.** Base effect is expected to be favorable in Q1-FY25, which should support GVA growth, though it is unlikely to be supportive for the remaining quarters of FY25.
- **Secondary sector growth stayed above other major sectors since Q2-FY24, enabling higher growth for the year FY24.** In Q4, there was moderation in growth across sectors. The contribution of manufacturing stayed firm, but growth eased after double digit expansion in Q2 and Q3.
- Within the tertiary sector, year-on-year growth improved in Q4 compared to Q3 in case of financial, real estate services; and public administration, defense services. **Growth eased in trade, hotels, and communication.**

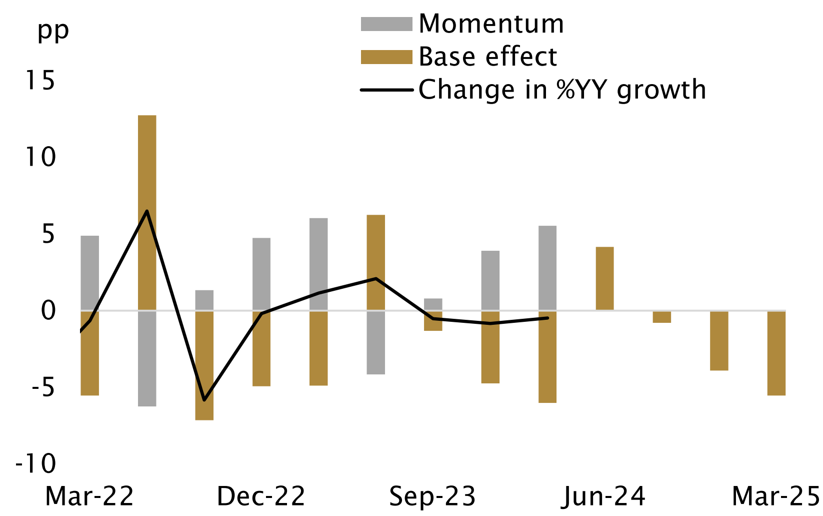
Secondary sector growth above tertiary since Q2-FY24




Real GVA growth eased in three quarters in FY24




Moderation in GVA growth due to base effects

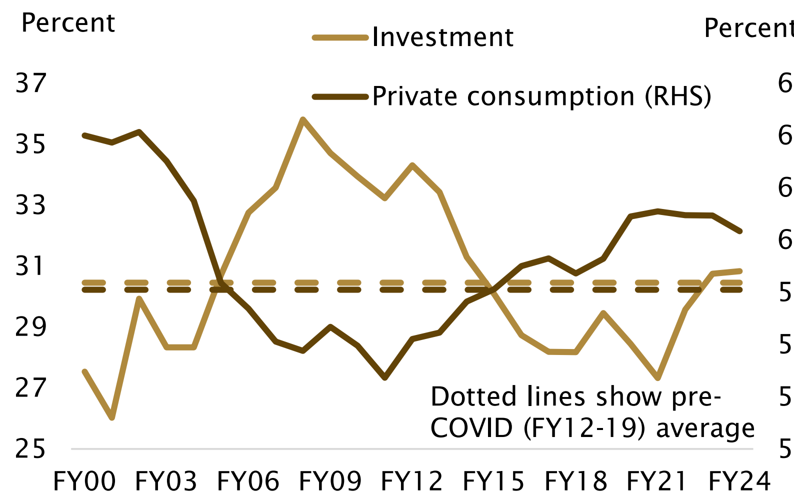


# Declining trend in share of manufacturing in nominal GVA

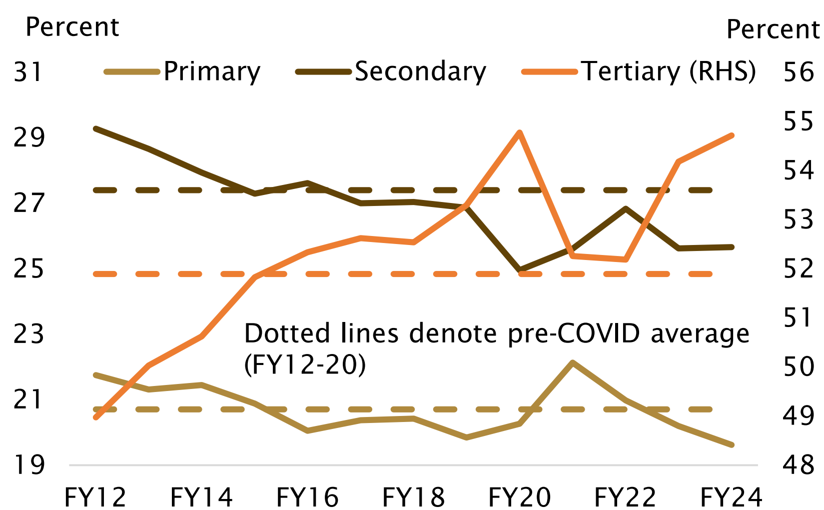
- **Despite the rebound in manufacturing in FY24, share of the sector in nominal GVA remained below that of pre-COVID average.** Share of services or the tertiary sector in nominal GVA stayed above that of the pre-COVID trend, aided by improvement in share of financial, real estate, professional services.

- **Though private consumption growth was weak in FY24 and its share in nominal GDP moderated slightly, it remains a tad above 60% and higher than the pre-COVID average.** The improvement in share of investment in nominal GDP was marginal, though it remained slightly above the pre-COVID average for the second consecutive year.

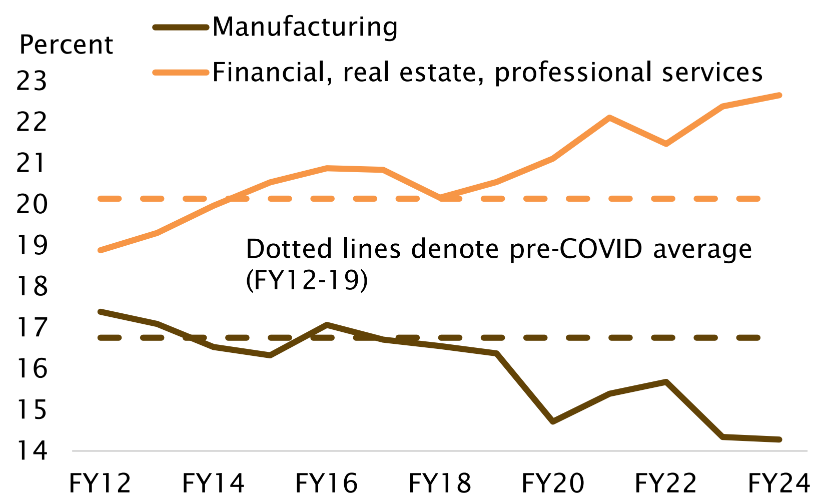
Share in nominal GDP




Share in nominal GVA



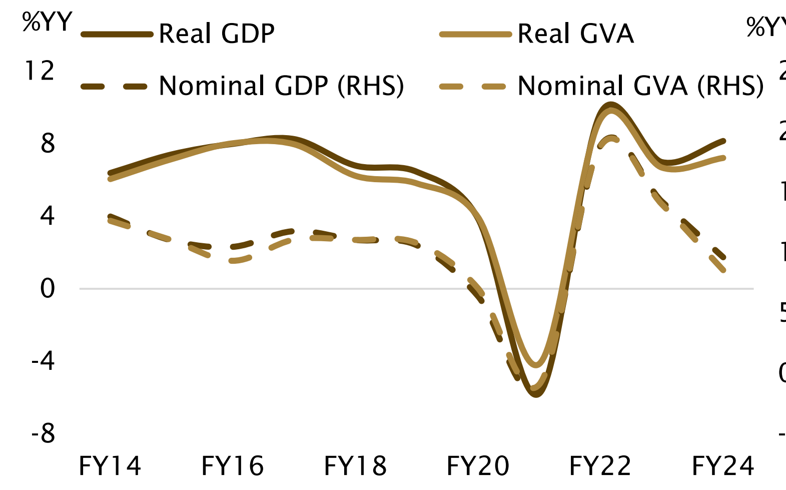

Share in nominal GVA



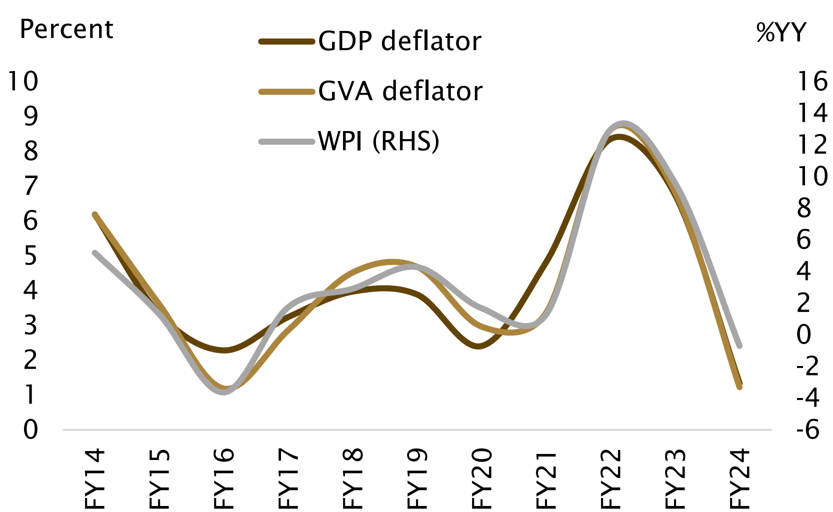
# Lower deflator lifted real growth in FY24 amid muted nominal growth

- Even as real growth improved in FY24 both in GDP and GVA terms, **nominal growth moderated from the double-digit expansion in FY23.**
- This again brings into focus the issue of a **lower deflator probably inflating real growth numbers.** The 2011-12 growth series uses deflator(s) for sectors that tend to largely track movements in WPI to arrive at real values. Wholesale prices tend to track global commodity prices and might not appropriately capture domestic inflation pressures that were relatively higher in FY24.
- Also, **with global commodity prices**, particularly industrial metals, **trending higher, the tailwind to real growth from a muted deflator is likely to fade in FY25.**

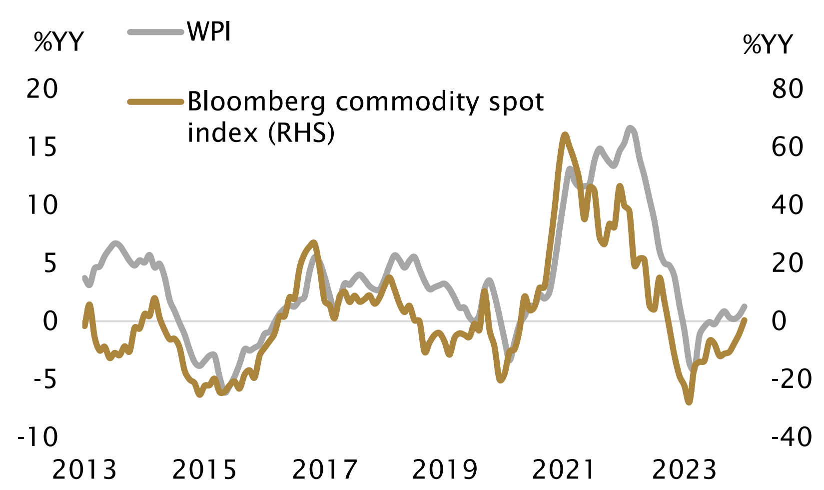
Nominal growth in both GDP and GVA eased in FY24




Growth deflator tends to track trends in WPI




Tailwind from lower WPI likely to fade in FY25

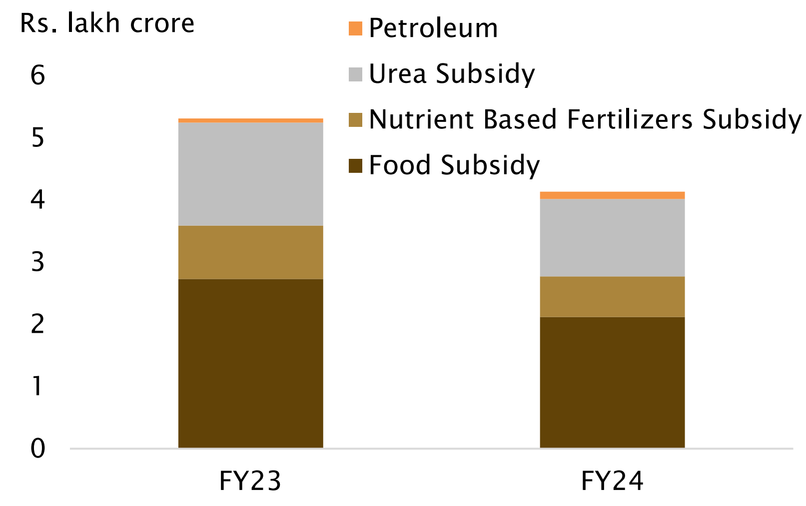


# GDP-GVA gap widened in FY24 due to high net indirect taxes

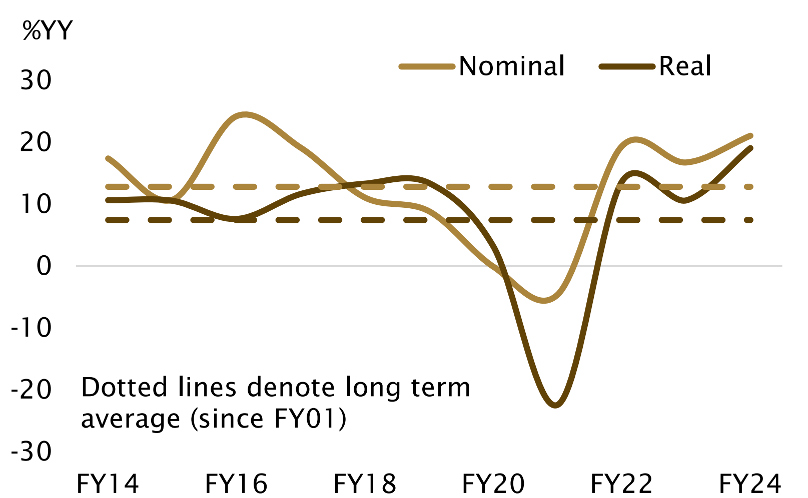
- **The high gap between real GDP and GVA growth was a key feature of data for Q3 and Q4-FY24. This wedge was driven by strong growth in net indirect taxes (indirect taxes minus subsidies) that is included in GDP.** Compared to historical averages, growth in net indirect taxes was high in both real and nominal terms in FY24.

- Provisional estimates for FY24 indicate that the major subsidies fell by 22.1% from FY23. **Interim budget estimates for FY25 indicate further contraction in major subsidies but only by 7.8%, which could ease growth in net indirect taxes, thereby normalizing the GDP-GVA gap.**

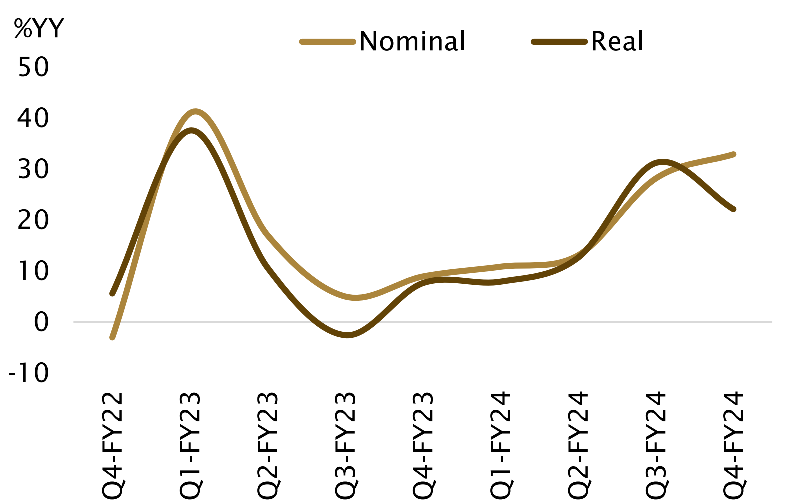
Subsidy bill contracted in FY24




Net indirect taxes growth exceeded historical averages




Strong growth in net indirect taxes in H2-FY24



# Outlook and policy implication

- **Outlook:**

  - Excluding the post-COVID rebound in FY21, real GDP growth averaged 7.6% in FY23 and FY24, while real GVA growth averaged 7%. This is higher than the long-term average growth (since FY01) of slightly above 6% in both GDP and GVA, fueling expectations that the economy is at the cusp of an economic lift-off and a higher growth trajectory. **Though it is not unreasonable to expect growth moderation in FY25 due to a high base in FY24, historical data shows instances of successive years of strong growth.**
  - **Some of the factors that could boost growth in FY25 include forecast of an above normal monsoon that could aid farm sector output and further lift rural consumption that is already showing signs of a revival. Industry could continue to receive an impetus** from supply chain diversification and China+1 strategy, domestic policy support in the form of PLI scheme, among others; and the **government's continued thrust on public capex**. Even as travel-related services consumption continues to normalize post-COVID, growth in other **services-related sectors remains strong, for instance, the ongoing demand recovery in the real estate segment.**
  - However, **risks linger from muted consumption in FY24**, particularly the lagged impact of higher interest rates and macro-prudential regulations on urban consumption, and of lower fiscal deficit targets on government consumption. The ongoing efforts by the central bank and supply-side policy intervention measures to lower inflation could be instrumental in supporting consumption going forward.
  - The **recent gains in global commodity prices**, particularly industrial metals, could add to wholesale price pressures, so that support to real growth from a lower deflator could fade in FY25. Additionally, higher global commodity prices are already starting to **impact firms' input costs** that could spill over to domestic inflation at some point, thereby posing a **risk to consumption and also complicating central bank's policy efforts to curb price pressures**. In addition to raising logistics costs and transit times, the ongoing geopolitical tensions could undermine trade flows. Global outlook remains uncertain, as policy easing by systemic central banks keeps getting pushed back, with the last mile of disinflation proving to be prolonged.

- **Policy implication:** Real GDP growth of above 8% in FY24 is unlikely to change the RBI MPC's ongoing policy pause, as strong growth defies the need for policy easing. However, a change in stance could be on the cards at its August meeting if consumer inflation surprises on the downside, and any easing by systemic central banks necessitates an appropriate response.

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**Trust Group**

1101, Naman Centre, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

Ph: +91 22 4084 5000 • Fax: +91 22 4084 5052 • www.trustgroup.co.in