# Press Release

## Q1FY23 GDP Growth: Double digit but lower than expectations

**Downside risk of 30-40 bps to our full year growth projection of 7.5%**

**01-Sep-2022**

India's annualized GDP growth in Q1 FY23 came in at 13.5% YoY vs. 4.1% in Q4 FY22 primarily led by the positive base effect along with a healthy pick up in private consumption expenditure and investment despite the global headwinds. However, the print has surprised on the downside coming in lower than the market expectations of 15%-16% due to the significant drag in trade deficit and weaker government consumption expenditure. While the double-digit growth needs to be linked to the supportive base GDP that continued to be sub-par in Q1FY22 due to Delta Covid wave, it nevertheless reflects a steady recovery of the economy from the clutches of the prolonged pandemic. When we compare the GDP with the pre-pandemic period of FY20, the print stands 3.3% higher with private consumption followed by government expenditure supporting the recovery momentum.

In line with the GDP growth, the GVA growth improved to 12.7% YoY in Q1 FY23 from 3.9% in Q4 FY22 and as compared to the pre-pandemic levels (Q1 FY20) it grew by 4.1% YoY. Looking at the internals, the GVA in 'trade, hotels, transport and communication' was still 15.7% lower than the pre-pandemic levels. The print was weaker than expected as high frequency indicators had been showing a strong pick-up in passenger and freight movement. On the other hand, manufacturing sector growth slowed to 6.6% YoY in Q1 FY23 from 9.7% in Q4 FY22 (as compared to their respective pre-pandemic levels) reflecting impact of cost push pressures which has dampened corporate profits in the first quarter. Electricity generation witnessed a strong expansion at 11.3% YoY as compared to Q1 FY20 due to an unusually hot summer that added to the demand for electricity during the quarter. On the other hand, moderation in agriculture growth was recorded for the quarter, amidst the lower output of wheat in the last rabi season given the unusual heat wave witnessed during the harvesting season in Mar-Apr'22.

In Q2 so far, growth impetus has remained largely intact. The softness in global commodity prices and the pick-up in southwest monsoon at an all-India level have provided some comfort from growth perspective. Having said so, the global growth prospects have turned bleaker. IMF in its Jul-22 World Economic Outlook update revised lower its 2022 global growth forecast to 3.2% from 3.6% earlier. This could have a stronger bearing on India's exports in the coming months. As a harbinger of impending slowdown, exports growth contracted by 0.8%YoY in Jul-22, the first annualized de-growth in last 17-months, though the imposition of windfall tax on oil exports had an outsized role to play. To rationalize our perspective on growth-

- Cumulative rainfall between Jun-Aug'22 stands at an 8% surplus vis-à-vis long period average, could support Kharif output though the downside in paddy output due to deficient rainfall in UP and Bihar remains on watch.
- CRB commodity price index has eased by nearly 12% since Jun-22 peak, this should offer some incremental reprieve in input costs to producers.

- Capex disbursal by the central government has grown by 57%YoY over Apr-Jun FY23 – the highest Q1 run-rate in last one-decade (see chart below) augurs well for investments.
- Strong vaccination cover (with nearly 70% of the population covered by two doses) supports pent-up demand, especially for contact intensive services and mitigates against the risks of another disruptive Covid wave.

While we continue to remain cautiously optimistic about the domestic growth scenario, the dip in the external demand due to slowing global growth and rising interest rates could offset these gains. Considering the lower than expected GDP print in Q1 FY23, we see a downside risk of 30-40 bps to our full-year GDP growth projection of 7.5%.

Says **Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research Ltd** "Beyond the base factor, the double digit annualized GDP growth also signals a fairly healthy economic recovery after the prolonged pandemic particularly in the context of the strong global headwinds. However, the 200 bps lower GDP growth print vis-à-vis expectations in Q1FY23 highlights the impact of higher commodity costs on the corporate profitability levels and the slowdown in exports. There is still a lot of runaway left in the contact intensive services given that the GVA levels in the trade, transport and hotel segment continues to be lower than the pre-pandemic levels. Further, the softness in commodity prices, largely favourable monsoon and the focus on public capex still makes up optimistic about a GDP growth print of over 7.0% in FY23."

## Annexure

**Table 1: Key highlight of GVA data (% YoY)**

| | % YoY | % QoQ | Vs pre-pandemic levels | |
|---|---|---|---|---|
| | Q4 FY22 | Q1 FY23 | Q4 FY22 | Q1 FY23 |
| **GVA** | **12.7** | **-7.2** | **13.4** | **4.1** |
| Agriculture, forestry and fishing | 4.5 | -13.3 | 15.1 | 9.8 |
| Industry | 8.6 | -12.6 | 12.4 | 5.2 |
| Mining and quarrying | 6.5 | -13.7 | 1.3 | 3.0 |
| Manufacturing | 4.8 | -10.5 | 9.7 | 6.6 |
| Electricity, gas, water supply services | 14.7 | 12.6 | 10.8 | 11.3 |
| Construction | 16.8 | -22.3 | 22.8 | 1.1 |
| Services | 17.6 | -2.1 | 13.6 | 2.2 |
| Trade, hotels, transport, comm. services | 25.7 | -24.6 | 6.9 | -15.7 |
| Financial ser., real estate and profess. Services | 9.2 | 23.7 | 18.3 | 9.7 |
| Public admin., defence and other services | 26.3 | -5.6 | 17.8 | 16.8 |

**Table 2: Key highlight of GDP data (% YoY)**

| | % YoY | % YoY | % QoQ | Vs Q1 FY20 (%) |
|---|---|---|---|---|
| | Q4 FY22 | Q1 FY23 | Q1 FY23 | Q1 FY23 |
| Private Consumption | 1.8 | 25.9 | -2.4 | 9.1 |
| Government Consumption | 4.8 | 1.3 | -10.4 | 5.5 |
| Gross Fixed Capital Formation | 5.1 | 20.1 | -6.8 | 3.6 |
| Exports | 16.9 | 14.7 | -0.2 | 19.6 |
| (less) Imports | 18 | 37.2 | 8.7 | 30.3 |
| **GDP** | **4.1** | **13.5** | **-9.6** | **3.3** |

**About Acuité Ratings & Research Limited:**

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,200 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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