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GDP growth slows to 6.3% in Q2FY23

On the back of base effect, India's GDP growth moderated to 6.3% in Q2FY23 (13.5% in Q1). Government consumption contracted, while exports and investment disappointed. Manufacturing growth contracted sharply signaling concerns. Services sector also registered a dip. However, H2FY23 holds key for revival. Even as global economy is under evident threat of slow down owing to ongoing geo-political conflict, aggressive monetary tightening by global central banks and stubbornly high inflation. India's economy is growing at a steady pace on the back of strong fundamentals and as reflected by high frequency indicators. With this, we retain our forecast of Indian economy growing by 6.8% in FY23 with a downward bias with ever evolving landscape.

Q2FY23 GDP

GDP growth moderated by 6.3% in Q2FY23 against an increase of 13.5% in Q1 on a YoY basis. This was marginally lower than our expectation of 6.5%. The moderation was largely owing to base effect. The dip was visible in private consumption which dropped down by 9.7% in Q2 (after clocking double digit growth of 25.9% in Q1). Growth in investment demand also eased by 10.4% in Q2 after increasing by 20.1% in Q1FY23. Exports too joined the bandwagon with growth slipping by 11.5% in Q2 against an increase of 14.7% in Q1FY23. Adding to the pain, government consumption declined sharply by (-) 4.4% after increasing by 1.3% in Q1.

GVA dragged down lower

GVA growth was back in single digits at 5.6% for Q2FY23 compared with double digit growth clocked of 12.7% registered in Q1FY23. Growth in manufacturing sector disappointed the most as it contracted by (-) 4.3% against an increase of 4.8% in Q1FY23, the same has been reflected by industrial production. Electricity and construction sector also registered much slower growth of 5.6% and 6.6% respectively in Q2FY23. Within the services sector, growth in trade, hotel (14.7% versus 25.7% in Q1FY23) and financial services (7.2% versus 9.2% in Q1FY23) slowed down in Q2FY23. Growth for public admin and defence also moderated sharply by 6.5% in Q2 (against 26.3% in Q1FY23). However, the only source of light was reflected by agriculture with growth improving by 4.6% from 4.5% in Q1FY23. Though same needs to be seen with caution as pace of rabi sowing needs to monitored.

Outlook for FY23

Against the backdrop of geopolitical conflict in the beginning of H1FY23, higher commodity prices, accelerating inflation and global rate tightening cycle, India's GDP has grown by 9.7% in the first half of H1FY23. The economy is expected to do much better in H2FY23 as inflation is expected to moderate and other high frequency indicators (buoyant GST collection, soaring credit growth, PMI, etc) signal recovery in the latter half. We expect the economy to grow by 6.8% for FY23 with a downward bias even as the global economy slows down.

Separately, core sector growth in October was flat at 0.1%. While this is a sign of weakening activity, the high base effect has also had a role to play as growth was 8.7% last year. Hence, given that growth last year had moderated from November onwards we may expect a better performance from the core sector. Given a weight of around 40% in IIP we could expect growth in industrial production to also be low at 2-3% (provided consumer goods show a revival)

Table 1: GDP grows by 6.5% in Q2FY23

Sectors (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Agriculture, forestry and fishing	2.2	3.2	2.5	4.1	4.5	4.6
Mining and quarrying	18.0	14.5	9.2	6.7	6.5	(2.8)
Manufacturing	49.0	5.6	0.3	-0.2	4.8	(4.3)
Electricity, gas, water supply and other utility services	13.8	8.5	3.7	4.5	14.7	5.6
Construction	71.3	8.1	-2.8	2.0	16.8	6.6
Trade, hotels, transport, communication & services related to broadcasting	34.3	9.6	6.3	5.3	25.7	14.7
Financial, real estate & professional services	2.3	6.1	4.2	4.3	9.2	7.2
Public administration and Defence	6.2	19.4	16.7	7.7	26.3	6.5
GVA at basic prices	18.1	8.3	4.7	3.9	12.7	5.6
GDP	20.1	8.4	5.4	4.1	13.5	6.3

Source: CEIC, Bank of Baroda Research

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