

Q2 GDP growth moderates

India's GDP growth softened to 5.4% in Q2FY25, following 8.1% growth in Q2FY24. Even as, this was lower than previous quarter, India continues to remain one of the fastest growing economy across the globe. In line with expectations, agriculture growth rose on the back of favorable monsoon and higher kharif output. Softness in manufacturing growth was reflected with poor earnings data. A sharp rebound is on the card in H2 that is expected to push overall growth higher in FY25 to 6.6-6.8%. The recovery in H2 will be supported by pick up in capex both government and private, robust agriculture growth and a boost to consumption spending.

Q2FY25 GDP slows

GDP growth in Q2FY25 moderates to 5.4% from 8.1% in Q2FY24 on a YoY basis. This was lower than our expectation of 6.9% and the RBI estimate of 7%. Slower pace of growth across sectors including government spending, exports and imports, dragged down the growth lower. Growth in government spending was lower at 4.4% from 14% in Q2FY24, though sequentially it was higher for Q1FY25 (-0.2%). Slower growth was also noted for investment demand (5.4% from 11.6% in Q2FY24). Concerns around global growth and ongoing geopolitical tension had adversely impacted the exports which slipped to 2.8% (5% in Q2FY24) and even imports (-2.9% from 11.6%) in Q2FY25. Despite the moderation in GDP growth, private consumption recorded stupendous growth of 6.0% in Q2FY25 from 2.6% in Q2FY24. India's growth for H1FY25 stands at 6% compared with a growth of 8.2% in H1FY24.

GVA moderates

GVA growth rose by 5.6% in Q2FY25 compared with a growth of 7.7% in Q2FY24. The dip was led by slowdown in manufacturing activity (2.2% versus 14.3%) partially led by unfavourable base and in line with our expectation of weakness in corporate profits. Mining growth contracted down to (-) 0.1% in Q2 against a double digit growth of 11.1% in Q2FY24. Moreover, sluggish pace of growth was noted for power, gas and supplies as it decelerated to 3.3% in Q2 (10.5% in the Q2FY24). Growth in construction sector eased down to 7.7% in Q2 compared with 13.6% growth in the same quarter of last year. Agriculture sector rose at robust pace and was one of the bright spots registering a growth of 3.5% compared with 1.7% growth in Q2FY24 on the back of favourable monsoon and higher kharif output. Additionally, remarkable improvement was also noted in the following sectors, trade (6% from 4.5%), financial services sector (6.7% from 6.2%) and public admin (9.2% from 7.7%). GVA growth in H1FY25 has slowed down to 6.2% from 8% in H1FY24.

Outlook for FY25

India's GDP growth rose by 5.4% in Q2FY25 and in terms of nominal growth it stands at 8%. GDP growth is expected to rebound sharply in H2 in line with RBI's projections supported by pickup in government spending, private capex, specially investment in renewables along with improved outlook for rabi sowing as well as buoyancy in consumption demand. High frequency data points (PMI-both manufacturing and services, auto sales, air passenger traffic) are already showing signs of uptick so far. There has been reasonable traction in consumption demand amidst the recent festival spends and the upcoming spending during the wedding season. A recovery in urban consumption in H2 bodes

well for the growth outlook. Notably, the possibility of US-Sino tensions due to tariff imposition can have an adverse impact on global trade, though it might be positive for Indian economy in the long term.

Table 1: Q2FY25 GDP growth eases marginally

Sectors (%)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Agriculture, forestry and fishing	1.7	0.4	0.6	2.0	3.5
Mining and quarrying	11.1	7.5	4.3	7.2	(0.1)
Manufacturing	14.3	11.5	8.9	7.0	2.2
Electricity, gas, water supply and other utility services	10.5	9.0	7.7	10.4	3.3
Construction	13.6	9.6	8.7	10.5	7.7
Trade, hotels, transport, communication & services related to broadcasting	4.5	6.9	5.1	5.7	6.0
Financial, real estate & professional services	6.2	7.0	7.6	7.1	6.7
Public administration and Defence	7.7	7.5	7.8	9.5	9.2
GVA at basic prices	7.7	6.8	6.3	6.8	5.6
GDP	8.1	8.6	7.8	6.7	5.4

Source: CEIC, Bank of Baroda Research

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