Q3FY20 GDP

28 February 2020

Growth to recover in FY21

Sameer Narang
Dipanwita Mazumdar | Aditi Gupta
chief.economist@bankofbaroda.com

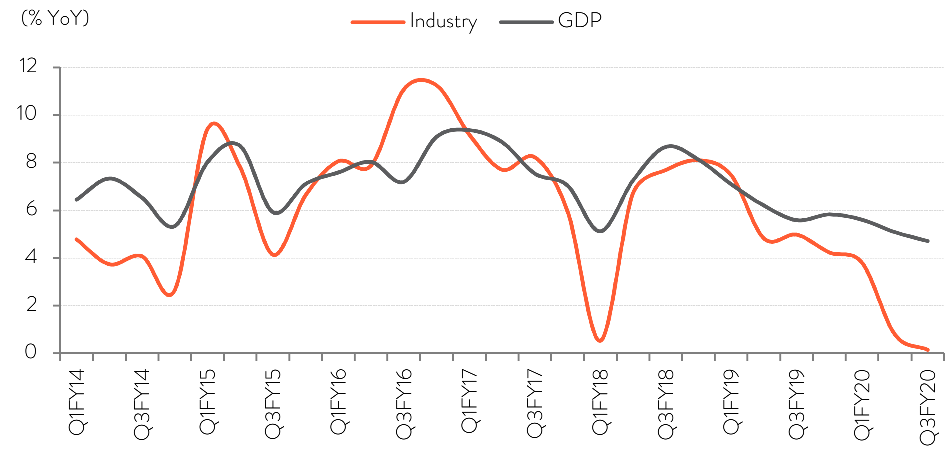
India's GDP and GVA growth moderated to 4.7% and 4.5% in Q3FY20 from a revised growth of 5.1% and 4.9% in Q2. Investment spending has led the dip at (-) 5.2%. Private consumption held up. On the supply side, electricity output declined the most on account of manufacturing slowdown. Growth is likely to recover to 5.5% and 6.2% in FY21 and FY22 respectively on the back of recovery in rural demand and disinvestment led government capex. The recent COVID-19 outbreak remains a significant downside risk in Q4FY20.

GVA growth moderates: India's Q3FY20 GVA growth slowed down to 4.5% from 4.8% in Q2FY20 led by slowdown in electricity, gas and water supply (-0.7% in Q3 vs 3.9% in Q2) and construction (0.3% versus 2.9% in Q2). Manufacturing growth was muted at (-) 0.2% in Q3 versus (-) 0.4% in Q2). However, growth in agriculture (3.5% in Q3 versus 3.1% in Q2) and services sector (7.4% in Q3 versus 7.3% in Q2) held up. In services, improvement was seen in financial, real estate and professional services (7.3% in Q3 versus 7.1% in Q2) and trade, hotels & communication services (5.9% in Q3 versus 5.8% in Q2). Outlook for agriculture is relatively well placed with improved Rabi sowing.

Investment spending falters: GDP growth fell to 4.7% in Q3FY20 from 5.1% in Q2FY20 (revised upwards by 60bps). This was led by a sharp contraction in investment spending growth to the lowest in the current series at (-) 5.2% in Q3 versus (-) 4.1% in Q2. Exports also contracted at the fastest pace in 16-quarters by (-) 5.5% compared with (-) 2.1% in Q2. Government spending too slowed to 11.8% in Q3 from 13.2% in Q2. On the positive side, private consumption picked up to 5.9% in Q3 versus 5.3% in H1FY20.

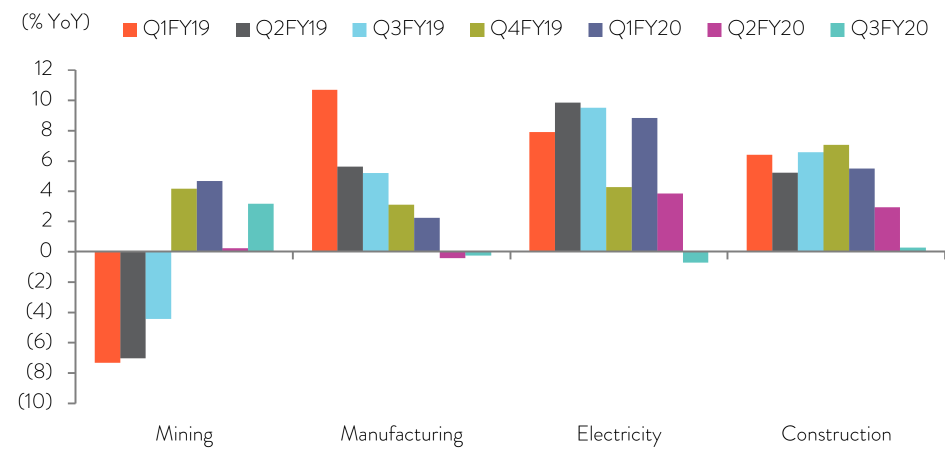
GVA/GDP growth forecasts retained: Both GVA and GDP growth projections for FY20 were unchanged at 4.9% and 5% respectively. Only projections for agriculture and mining have been revised upward to 3.7% (2.8% 1st A.E.) and 2.8% (1.5% 1st A.E.) respectively. However, projections for manufacturing and electricity, gas, water supply and other utility services have been revised downward to 0.9% (2% 1st A.E.) & 4.6% (5.4% 1st A.E.). Investment demand is also set to decline by (-) 0.6% versus an increase of 1% earlier. We expect GDP growth to bottom out in FY20, before seeing a revival to 5.5% in FY21 and 6.2% in FY22, on the back of government divestment led spending and rural recovery.

FIG 1 – GVA GROWTH DIPS, LED BY INDUSTRY…



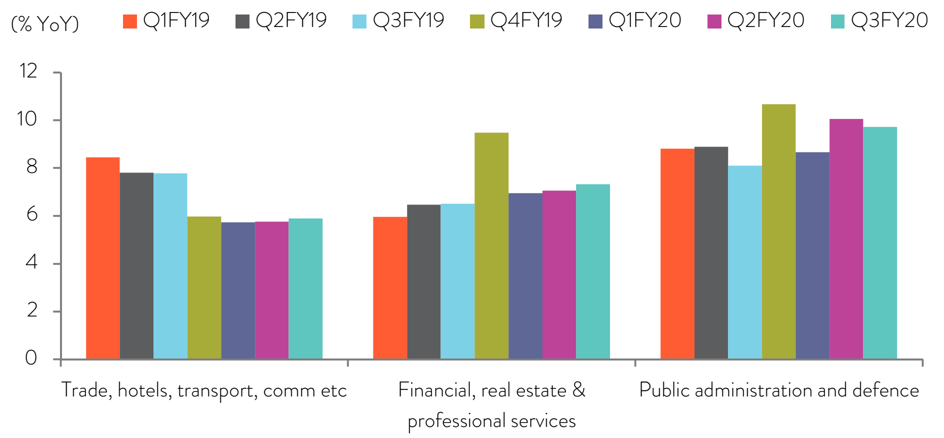
Source: CEIC, Bank of Baroda Research

FIG 2 – …MANUFACTURING DIPS THE MOST



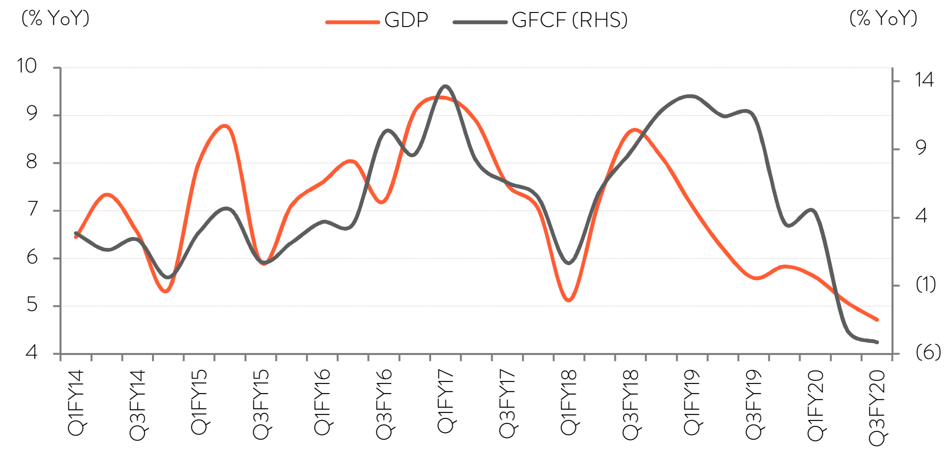
Source: CEIC, Bank of Baroda Research

FIG 3 – SERVICE SECTOR GROWTH IMPROVES



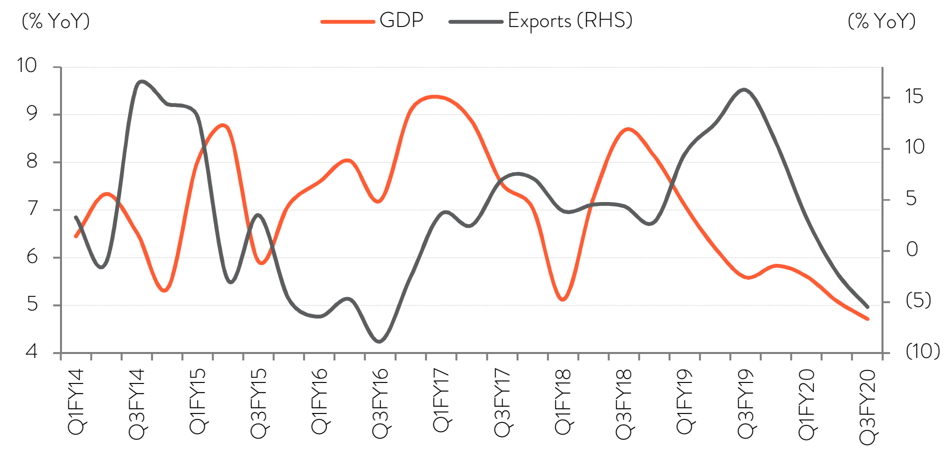
Source: CEIC, Bank of Baroda Research

FIG 4 – INVESTMENT SPENDING DIPS SHARPLY



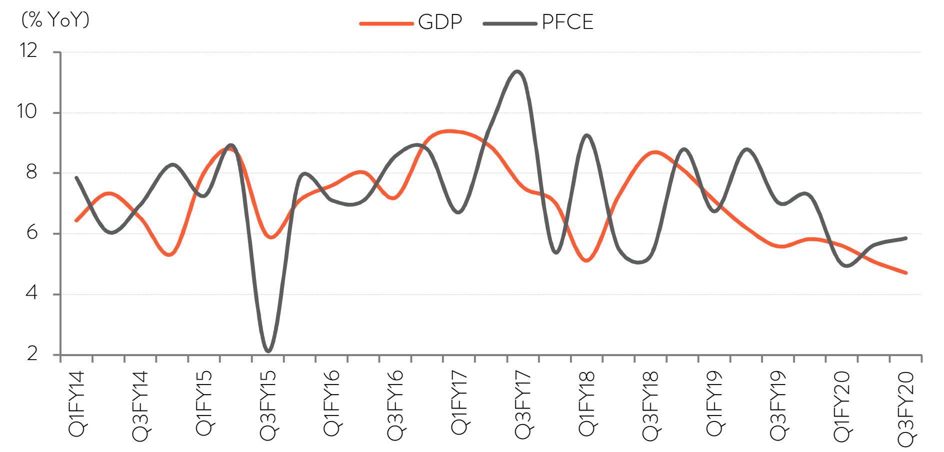
Source: CEIC, Bank of Baroda Research

FIG 5 – EXPORTS TOO CONTINUE TO REMAIN A DRAG



Source: CEIC, Bank of Baroda Research

FIG 6 – PRIVATE CONSUMPTION GROWTH PICKS UP MODERATELY



Source: CEIC, Bank of Baroda Research

Disclaimer

Visit us at **www.bankofbaroda.in**

For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com