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GDP growth slows to 4.4% in Q3FY23

Ministry has keptt India's growth projection to 7% for FY23 (9.1% in FY22). RBI expects the economy to clock a growth of 6.8% for the same period. Q3FY23 growth is estimated at 4.4% from 6.3% in Q2FY23. Moderation in growth of consumption, imports and investment dragged the growth lower. Global economy continues to reel under the threat of slow down on the back of aggressive monetary tightening by global central banks, dampening global demand and concerns surrounding ongoing geo-political conflict. India's economy is bound to witness some spillover impact on the domestic shores too with dampness in demand. Certain high frequency indicators too have been signaling the same. Against this backdrop, we retain our forecast of 6.8% growth in FY23 with a downward bias.

Revision in Growth

According to NSO, India's GDP growth for FY23 under the second advance estimates will be 7% against a growth of 9.1% in FY22. The nominal GDP growth is pegged at 15.9% in FY23 against 18.4% growth in FY22.

Q3FY23 GDP

GDP growth has been trimmed down to 4.4% in Q3FY23 against an increase of 6.3% in Q2 on a YoY basis. This was marginally lower than our expectation of 4.6%. The dip was visible in private consumption which dropped sharply by 2.1% in Q3 after registering a growth of 8.8% in Q2FY23. Moderation in both exports (11.3% versus 12.3 in Q2) and imports (10.9% versus 25.9% in Q2) growth added to the slowdown. Growth in investment demand also eased by 8.3% in Q2 after increasing by 9.7% in Q2FY23. Government consumption made some improvement with slower pace of contraction in Q3 at (-) 0.8% against a decline of (-) 4.1% in Q2.

GVA dragged down lower

GVA growth slipped down by 4.6% for Q3FY23 compared with a growth of 5.5% registered in Q2FY23. Growth in trade, hotel and financial services moderated by 9.7% (15.6% in Q2) and 5.8% (7.1% in Q2) in Q3FY23 respectively. Even growth for public admin and defence moderated further by 2% (5.6% in Q2FY23). Pace of contraction in manufacturing sector though was lower than last quarter at (-) 1.1% versus (-) 3.6% in Q2FY23. However it continues to remain a concern even as the entrenched price pressure was reflected in the quarterly results of the firms and the same was also visible in industrial production. On the other hand, Electricity and construction sector registered improvement as it clocked growth of 8.2% and 8.4% respectively in Q3FY23. Agriculture continues to shine brightly with the growth improving by 3.7% from 2.4% in Q2FY23. It is expected to do much better in Q4, however caution needs to be maintained with growing risk of heat wave on the rise.

Outlook for FY23

India's GDP has grown by 7.7% for FYTD'23 (Apr-Dec) compared with a growth of 11.1% in FYTD'22. Fears of slowdown in global economy has risen to the surface coupled with global Central Banks expected to remain on rate hike spree much longer than anticipated along with risk of geopolitical conflict. Against these, on domestic front certain high frequency indicators are signalling uneven growth with factors such as robust credit growth and higher GST collection promising recovery. However, aggravated fears from global economy along with early cracks visible in domestic growth with high inflation remaining a worry. As a result, Q4FY24 is expected to moderate further. We expect the economy to grow by 6.8% for FY23.

Separately, core sector growth in January accelerated by 7.8% (4-month high) against an increase of 7% in Dec'22. There has been broad based improvement across the sectors with fertilizers (17.9% versus 7.3%) and electricity output (12% versus 10.4%) clocking double digit growth. Given a weight of around 40% in IIP we could expect growth in industrial production to also be high at around 5%.

Table 1: GDP slows down to 4.4% in Q3FY23

Sectors (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Agriculture, forestry and fishing	4.8	2.3	4.1	2.5	2.4	3.7
Mining and quarrying	10.6	5.4	6.7	9.3	(0.4)	3.7
Manufacturing	6.6	1.3	-0.2	6.4	(3.6)	(1.1)
Electricity, gas, water supply and other utility services	10.8	6.0	4.5	14.9	6.0	8.2
Construction	10.8	0.2	2.0	16.2	5.8	8.4
Trade, hotels, transport, communication & services related to broadcasting	13.1	9.2	5.3	25.7	15.6	9.7
Financial, real estate & professional services	7.0	4.3	4.3	8.6	7.1	5.8
Public administration and Defence	16.8	10.6	7.7	21.3	5.6	2.0
GVA at basic prices	9.3	4.7	3.9	12.1	5.5	4.6
GDP	9.1	5.2	4.1	13.2	6.3	4.4

Source: CEIC, Bank of Baroda Research

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