

**HEADLINE GDP HIDES MORE THINGS THAN IT REVEALS: TIME TO SERIOUSLY INTROSPECT ON THE MEASUREMENT OF IIP AND CPI BASKET, LAST REVISED IN 2012: FY23 GDP GROWTH NOW AT 6.8%**

Issue No. 30, FY23  
Date: 01 Sep 2022

The Indian economy grew by 13.5% in Q1 FY23 with the services sector showing a strong rebound. The GVA grew by 12.7%. Though GDP grew in double digits but still it came way below the market expectations. The primary culprit was the growth in manufacturing sector which grew by a measly 4% in Q1.

**We strongly believe that the estimation of manufacturing sector growth needs serious introspection in the sense that IIP is still indexed at 2012 base.** The CPI basket has also not changed since 2012 and this has also possibly resulted in overstating CPI inflation at multiple times. **Take the example of manufacturing exports. Till pre pandemic, the IIP and manufacturing exports have moved in close tandem, but they have completely diverged post pandemic. This is because, with India announcing a lot of incentives under the PLI scheme, there has been an exponential jump in manufacturing exports from India, like handset exports that are not a part of IIP basket, for example Foxcon. Separately, the steel production by select companies has undergone locational shift which are not a part of the IIP sample. Nokia's handset manufacturing facility at Chennai has closed down post 2014. There are many such examples.** This has meant that the correlation between manufacturing exports and IIP growth post pandemic is weak. **A logical corollary to all this is gross misappropriation (or underestimation) of manufacturing sector growth. We believe that the new base of IIP (on which the Government is currently working) will remove these glitches to have a fair representation.**

Global tech major Apple's recent decision to shift part production of its flagship iPhone 14 model for worldwide shipping from India, with a negligible time lag of a few weeks post its slated launch on September 7, bears testimony to further optimism! The move by Apple, the most recognisable face of tech infused innovation in the last two centuries, that captures aspirations of an upwardly mobile population should open the flood gates for other major conglomerates to follow suit.

**The lower growth in manufacturing sector is also a reflection of pandemic induced uncertainties that seems to have impacted the margins.**

On the expenditure side the picture has improved considerably. The private consumption has improved on the back of good urban demand with growth of 25.9%. Urban demand is getting support from contact-intensive services while rural demand has not responded to robust agriculture output growth. Gross fixed capital formation registered a growth of 20.1%. The new project announcements by the private sector in June 2022 as per Centre for Monitoring Indian economy (CMIE) data also rose to 117% of the pre-covid level (June 2019) suggesting healthy momentum.

Nominal GDP growth came at 26.7% yoy in Q1 FY23 compared to 32.4% in Q1 FY22 and 14.9% in Q4 FY22, with the share of private final consumption expenditure increasing in overall growth. Its weighted contribution has increased to 21.9% in Q1 FY23 from 7.5% in Q4 FY22 and 14.2% in Q1 FY22, thereby revealing its relative importance in GDP growth. **Notably, private final consumption expenditure in real terms had improved to 10% above the pre-pandemic level in Q1FY23.**

**Under alternative model specifications, we are now revising our annual GDP growth for FY23 to 6.8%, a large part of which is a statistical adjustment with growth momentum likely to show an increasing momentum in second half of current fiscal. The downward revision is mostly to do with our Q1GDP estimate that was at 15.7%.**

**The lower growth in Q1 also compounds RBI's job, with rate hike trajectory in next two MPC meets trying to find a neutral ground amidst growth and inflation.** A lot should depend on emerging inflation prints locally, but if the message from Jackson Hole summit is a harbinger, US seems bracing for further hardening at elevated pace, with Fed chair also questioning the sustainability of growth and job markets going head, whose robustness has shielded the economy largely, of late. On the other hand, Eurozone seems to enter a conflict zone, accentuated by political melodrama in select jurisdictions, even as inflation promises to further spiral up with Russia likely to squeeze gas supply during ensuing winter to exert a tacit pressure on the block. **Clearly, a fine balancing act by RBI would be on the anvil, keeping the rupee closer than ever to the centre.**

**GDP EXPANDS BY 13.5% IN Q1 FY23**

- ◆ India’s economy grew by 13.5% in Q1 FY23 on the back of buoyant growth in services sector. The GVA grew by 12.7%. Though GDP grew in double digits but it was way below the market expectations. The main culprit is the manufacturing sector which grew by merely 4.8% in Q1.
- ◆ The lower growth in manufacturing sector is a reflection of pandemic induced uncertainties that seems to impacted the margins. Profit growth has also slowed down in Q1FY23. Corporate results, ex BFSI, for Q1FY23 shows lower EBIDTA growth of 7% yoy against significant EBIDTA growth in Q1 FY22 (which was mainly due to base effect). This shows the volatility in numbers when compared to post covid quarters on a yoy basis.
- ◆ Net sales grew by 51% in Q1FY23 while PAT grew by 11% on a yoy basis while on a sequential basis net sales grew by only 7% while PAT was down by 25%.
- ◆ Further, corporate margin seems to be under pressure, as reflected in results of around 3000 listed entities ex BFSI, on account of higher input costs with decreasing EBIDTA margin, on aggregate basis, from 17.65% in Q1FY22 to 12.51% in Q1FY23.
- ◆ Agriculture, the most consistent sector since pandemic, grew by 4.5% in Q1. Construction activity witnessed boom in Q1 and grew by 16.8%. Our assessment (based on new launches and sale) indicate that it will remain buoyant in the Q2 also.
- ◆ Services sector grew by 17.6% due to more than 25% growth in ‘Trade, hotels, transport, communication & services related to broadcasting’ and ‘Public administration, defence and Other Services’. ‘Financial, real estate & professional service’ is the only sector which grew by 9.2% despite very low base.

**TRADE, HOTEL, TRANSPORT STILL NEED TO SURPASS THE PRE-PANDEMIC LEVEL**

- ◆ The ‘Trade, Hotels, Transport, Communication & Services related to broadcasting’ is the only sector still 15% lower than the pre-pandemic level (i.e. Q1 FY20). Despite expanding by whopping 25.7% it is still Rs 1.0 lakh crore less than the FY20 levels. On the expenditure side, both the Private and Government Final Consumption Expenditure crossed the pre-pandemic level by Rs 2.0 lakh crore and 0.36 lakh crore, respectively.

GVA at Basic Price by Economic Activity (%)					
Sectors	FY22				FY23
	Q1	Q2	Q3	Q4	Q1
Agriculture	2.2	3.2	2.5	4.1	4.5
Industry	46.6	7.0	0.3	1.3	8.6
Mining & quarrying	18.0	14.5	9.2	6.7	6.5
Manufacturing	49.0	5.6	0.3	-0.2	4.8
Electricity, gas, water supply & other utility services	13.8	8.5	3.7	4.5	14.7
Construction	71.3	8.1	-2.8	2.0	16.8
Services	10.5	10.2	8.1	5.5	17.6
Trade, hotels, transport, communication & services related to broadcasting	34.3	9.6	6.3	5.3	25.7
Financial, real estate & professional service	2.3	6.1	4.2	4.3	9.2
Public administration, defence and Other Services	6.2	19.4	16.7	7.7	26.3
Total GVA at Basic Price	18.1	8.3	4.7	3.9	12.7
<b>GDP</b>	<b>20.1</b>	<b>8.4</b>	<b>5.4</b>	<b>4.1</b>	<b>13.5</b>

Source: NSO,SBI Research

Corporate Results Key Parameters							
Qtr.	Rs in crore			EBIDTA Margin %	Growth % (YoY)		
	Net Sales	EBIDTA	PAT		Net Sales	EBIDTA	PAT
Q3FY20	1382408	173730	80250	12.57%			
Q4FY20	1321402	66091	15988	5.00%			
Q1FY21	847287	88668	971	10.46%			
Q2FY21	1184166	199323	112157	16.83%			
Q3FY21	1374044	234382	126936	17.06%	-1	35	58
Q4FY21	1572680	256828	162508	16.33%	19	289	916
Q1FY22	1399820	247137	127880	17.65%	65	179	13063
Q2FY22	1632594	269390	175014	16.50%	38	35	56
Q3FY22	1808870	275784	162656	15.25%	32	18	28
Q4FY22	1974550	275590	187507	13.96%	26	7	15
Q1FY23	2112567	264254	141429	12.51%	51	7	11

Source: SBI Research; Cline; common set of around 3000 listed entities ex BFSI

GDP Constant Prices: Loss Recovered		
Sectors	Loss Recovered	
	FY23/FY19	FY23/FY20
<b>Agriculture</b>	<b>114%</b>	<b>110%</b>
<b>Industry</b>	<b>107%</b>	<b>106%</b>
Mining & quarrying	103%	103%
Manufacturing	107%	107%
Electricity, gas, water supply & other utility services	119%	111%
Construction	105%	101%
<b>Services</b>	<b>110%</b>	<b>103%</b>
Trade, hotels, transport, communication & services related to broadcasting	<b>89%</b>	<b>85%</b>
Financial, real estate & professional service	120%	110%
Public administration, defence and Other Services	123%	119%
Total GVA at Basic Price	109%	105%
<b>GDP</b>	<b>109%</b>	<b>104%</b>

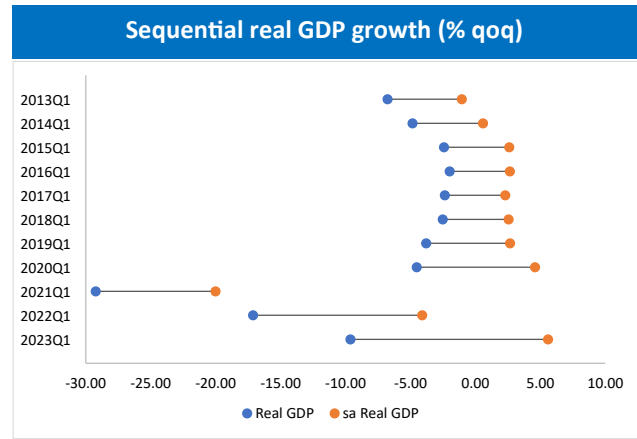
Source: NSO,SBI Research

**SEASONALLY ADJUSTED SERIES SHOWS IMPROVING SEQUENTIAL MOMENTUM**

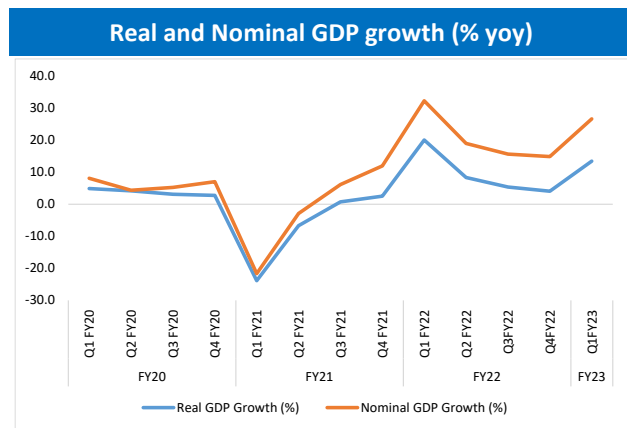
- ◆ Real GDP growth has declined by 9.6% qoq in Q1 FY23. However, the seasonally adjusted real GDP growth series shows pick up in economic momentum, with higher growth at 5.6% qoq in Q1 FY23 compared to -4.1% qoq in Q1 FY22 and 1.9% qoq in Q4 FY22.
- ◆ Notably, this is higher than SA qoq growth achieved in all Q1s since FY13. Also, the sequential seasonally adjusted GDP growth is higher than the non-seasonally adjusted GDP growth for Q1 over the past, indicating higher seasonal component in the first quarter of a fiscal year.

**NOMINAL GDP GROWTH AT 26.7%**

- ◆ Nominal GDP growth came at 26.7% yoy in Q1 FY23 compared to 32.4% in Q1 FY22 and 14.9% in Q4 FY22, with the share of private final consumption expenditure increasing in overall growth. Its weighted contribution has increased to 21.9% in Q1 FY23 from 7.5% in Q4 FY22 and 14.2% in Q1 FY22, thereby revealing its relative importance in GDP growth. Notably, private final consumption expenditure in real terms had improved to 10% above the pre-pandemic level. in Q1FY22.
- ◆ The gap between the nominal GDP growth and the real GDP growth has increased between Q2 FY20 and Q1 FY22 owing to higher inflation. It moderated in Q2 and Q3 FY22 but increased again in the last two quarters.
- ◆ The growth in deflator has increased modestly to 11.6% yoy in Q1 FY23 compared to 10.4% in the last quarter of FY22. Growth in GDP deflator for agriculture has increased further to 12.4% yoy compared to 10.7% yoy in Q4 FY22, indicating the persistent impact of higher food prices. For industry growth in deflator has increased mainly on account of mining & quarrying and electricity, gas, water supply & other utility services. Meanwhile for services, GDP deflator declined only in case of public administration, defence and other services.



Source: SBI Research



Source: SBI Research

Sectors	FY22				FY23
	Q1	Q2	Q3	Q4	Q1
Agriculture	5.9	3.6	6.9	10.7	12.4
Industry	12.8	14.3	16.9	14.7	15.6
Mining & quarrying	41.6	35.7	50.3	40.4	49.8
Manufacturing	10.9	11.8	12.3	10.5	10.3
Electricity, gas, water supply & other utility services	-2.0	3.2	12.5	16.1	18.1
Construction	17.9	19.8	19.8	14.7	13.6
Services	6.9	7.9	8.9	8.7	10.7
Trade, hotels, transport, communication & services related to broadcasting	9.4	9.6	12.2	12.1	15.7
Financial, real estate & professional service	7.9	7.6	8.0	7.4	10.5
Public administration, defence and Other Services	4.6	5.1	5.3	5.7	4.8
Total GVA at Basic Price	7.0	8.8	10.4	10.9	12.2
<b>GDP</b>	<b>10.2</b>	<b>9.8</b>	<b>9.8</b>	<b>10.4</b>	<b>11.6</b>

Source: NSO, SBI Research

**EXPENDITURE SIDE GDP**

- ◆ On the expenditure side the picture has improved considerably. The private consumption has improved on the back of good urban demand with growth of 25.9%. Urban demand is getting support from contact-intensive services while rural demand has not responded to robust agriculture output growth.
- ◆ Gross fixed capital formation registering a growth of 20.1 percent. The new project announcements by the private sector in June 2022 as per Centre for monitoring Indian economy (CMIE) data also rose to 117% of the pre-covid level (June 2019) suggesting healthy momentum.
- ◆ On the external front the outlook is tilted towards the negative side. The real exports growth was 14.7% and the corresponding imports growth was 37.2%. The sharp jump in the imports and corresponding depreciation of rupee has take the net real exports to 8.1% of the GDP. This factor is serious drag on the future outlook and with falling demand in key exports regions, the GDP growth is expected to slow further.

**LOW RURAL DEMAND**

- ◆ FMCG results show tepid demand as rising retail inflation exerted pressure on share of wallet for FMCG. It is natural for consumers, in such inflationary scenarios, to feel the pinch of increased pressure on their wallets and they adjust volumes and prioritize essentials over discretionary spend to manage the household budgets.
- ◆ Furthermore, rural growth continues to lag growth in urban markets. Companies are cautiously optimistic that the trends will improve in the coming quarters as the current quarter was impacted by overall rural slowdown and inflationary pressures. We believe, in near term, growth to be price led, inflation to continue impacting consumption till it starts to decline meaningfully.

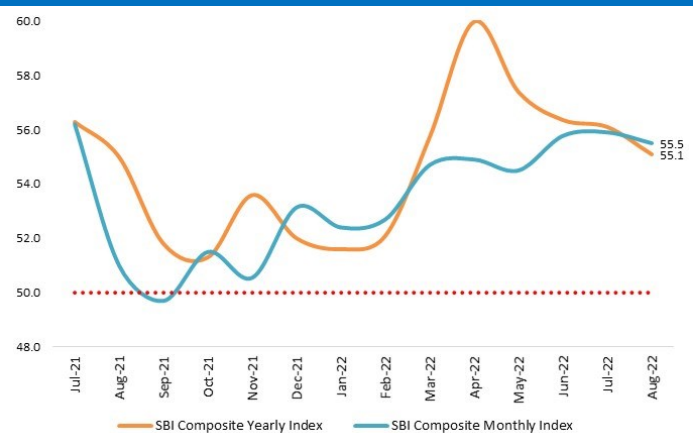
**GDP ESTIMATE FOR FY23**

- ◆ Our economic activity index that employs a dynamic factor model (DFM) with 41 high frequency indicators is showing a marginal moderation in July. The yearly SBI Composite Index declined and is at 55.1 (High Growth) in August 2022, compared to 56.1 (High Growth) in July 2022. While, the monthly index also declined marginally to 55.5 (High Growth) in August from 55.9 (High Growth) in July 2022.

GDP by Expenditure Side (YoY %)					
Levels at Constant Price	FY22				FY23
	Q1	Q2	Q3	Q4	Q1
Total final consumption expenditure	10.2	10.2	6.8	2.3	21.3
Private final consumption expenditure	14.4	10.5	7.4	1.8	25.9
Government final consumption expenditure	-4.8	8.9	3.0	4.8	1.3
Gross fixed capital formation	62.5	14.6	2.1	5.1	20.1
Valuables	515.6	171.7	53.0	-48.9	49.3
Exports	40.8	20.7	23.1	16.9	14.7
Less Imports	61.1	41.0	33.6	18.0	37.2
Discrepancies	-37.6	-108.1	58.4	344	-75.0
<b>GDP At Market Price</b>	<b>20.1</b>	<b>8.4</b>	<b>5.4</b>	<b>4.1</b>	<b>13.5</b>

Source: NSO,SBI Research

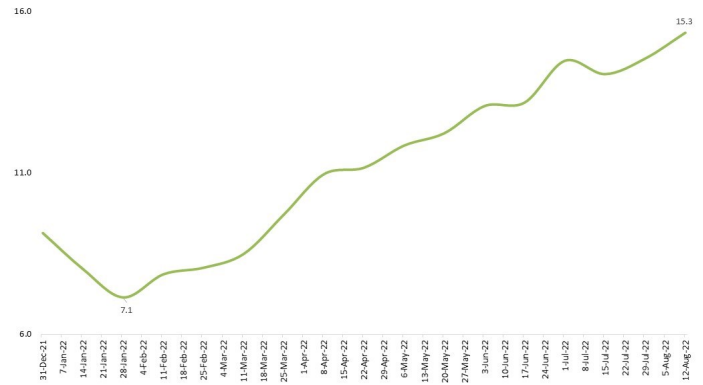
**SBI Yearly and Monthly Composite Index Trend**



Source: SBI Research

- ◆ The banking and financial sector also fared well amidst a pickup in credit growth, lower provisioning costs and improvement in asset quality. Credit growth continues to remain strong and has been consistently rising since February 2022, grew at 15.3% y-o-y as on J12 Aug, 2022 (6.5% a year ago). The incremental growth (YTD) in credit is Rs 5.39 lakh crore (4.5%) till date (degrowth of Rs 0.6 lakh crore last year or -0.6%). It's clearly evident that the demand for credit is still continuing and may end with more than 12% (YoY) growth in FY23.
- ◆ The sector-wise credit data for the month of July 2022 indicates that there is a substantial improvement in incremental credit to each and every sector. Specifically, credit growth to MSME sector has expanded by Rs 64,334 crores in current fiscal as against a de-growth of Rs 67,889 crore in similar period previous fiscal. Retail loans expanded by Rs 2.0 lakh crores against Rs 16,768 crore last year. Credit to services sector rebounded and grew by Rs 1.5 lakh crore during Apr-Jul'22.
- ◆ Under alternative model specifications, GDP growth for Q2:2022-23 would be around 6.2%, supported by a favourable base effect and bumper credit growth but may decline thereafter. With this, we are revising our annual GDP growth for FY23 to 6.8%, a large part of which is a statistical adjustment with growth momentum likely to show an uptick in Q2.

ASCBs Advances Continue to Grow upward (YoY %)



Source: SBI Research

FY23 Real GDP Projections

	SBI	RBI
Q1	13.5%	
Q2 P	6.9%	6.2%
Q3 P	4.1%	4.1%
Q4 P	4.0%	4.0%
<b>Annual P</b>	<b>6.8%</b>	<b>6.7% (Computed)</b>

Source: RBI; SBI Research

\*\*\*\*\*

**Disclaimer:** The Ecowrap is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in Ecowrap.

**Contact Details:**

Dr. Soumya Kanti Ghosh  
Group Chief Economic Adviser  
State Bank of India, Corporate Centre  
M C Road, Nariman Point, Mumbai - 400021  
Email: soumya.ghosh@sbi.co.in, gcea.erd@sbi.co.in  
Phone:022-22742440  
🐦 : kantisoumya