

**GDP SURPRISES ON THE UPSIDE: MANUFACTURING & CONSTRUCTION
FRONTLEAD AGAINST A DOCILE SERVICES WHILE ALLIED AGRICULTURE
ACTIVITIES ARE THE NEW COUNTER CYCLICAL BUFFERS TO AUGMENT
INCOME: SBI FY24 GROWTH PROJECTION REVISED TO 7% FROM 6.7%**

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The strong growth numbers for Q2 released today are a harbinger of interesting times ahead and can in fact reinvigorate the interests of global corporations, policy makers, investment gurus and fund managers across jurisdictions afresh along themes like investments, infrastructure, consumption and markets by going Overweight.

Our optimism has been more than vindicated as we have been penciling growth during the current FY sailing above RBI projection at 6.5% for quite some time, despite the vagaries of climate and rain induced asymmetry seeping in of late. **That way, as an institution siding with higher trajectory, we remain happily surprised with today's boisterous display of numbers which is actually better than feeling sorry! This also makes a case for revisiting the forecasted numbers, First by Mint Street coming at 6.8% (6.5% earlier) and applying the same logic our numbers inch towards 7% now (6.7% earlier).**

Certain reports continuously casting a net of doubt on India's proven macroeconomic resilience, i.e. prophesizing sub par GDP numbers for the FY 24 & 25 appear to be part of a cohort, if not cabal, of institutions and agencies suffering from some innate, almost indecipherable myopic modelling disorder that greatly curtails their ability to embed rationality and objectivity to read the tell-all signposts. Hiding comfortably behind forecasting and modelling errors when predictions go haywire, these agencies/institutions truly need to do a fact check fast, to weed out the mental blockades, whatsoever, in accepting the unsettling realities for the economy on rise sure.

Summing up, economy grew by 7.6%, better than consensus, in Q2 FY24 on the back of buoyant growth in manufacturing (at 13.9%) and construction (13.3%) while the GVA grew by 7.4%. Nominal GDP grew by 9.1% in Q1. Agriculture, the most consistent sector since pandemic, grew by only 1.2% in Q2 (18-quarters low). Industry grew by 9-quarters high to a whopping 13.2% in Q2 as compared to 5.5% in Q1. Services sector was the only laggard and grew by only 5.8% due to 10-quarters low growth of 4.3% in 'trade, hotels, transport, communication & services related to broadcasting' sector. On the expenditure side, PFC growth decelerated to 3.1%, perhaps reflection the impact of higher inflation.

With 7.7% real GDP growth in H1 FY24, the overall growth for full fiscal would be around 7.0% (assuming 6.2-6.4% growth in H2). Though there are chances that it may cross the 7.0% mark in FY24. Core GVA though registered a deceleration sequentially and grew by 8.4% yoy in Q2 FY24 compared to 8.7% yoy in Q1 FY24 but was much higher than 5.9% yoy growth in Q2 FY23. Nominal GDP growth came at 9.1% yoy in Q2 FY24 compared to 8.0% growth in Q1. Growth in GDP deflator accelerated to 1.4% in Q2 FY24 from a low of 0.2% in Q1 FY24, while it is way less than the FY23 growth numbers. The Q2 numbers are in line with deflation in WPI and easing of CPI inflation.

Manufacturing sector grew at a robust pace of 13.9%, compared to 4.7% in Q1FY24 and -3.8% in Q2FY23. The contribution of manufacturing sector reached to 9-quarter high of 2.5% in Q4. Excluding base effects, manufacturing GVA growth stands at 5.3% which could be due to lower deflator numbers. India Inc. continued the momentum, a top line growth of 4% while PAT grew by 31% after a robust result in Q1FY24 with a 30% growth in bottom line. Major contributors remained sectors such as Banks, Auto, Capital Goods, Cement, Electronics, Power Generation, Realty, FMCG, etc.. **Interestingly, FMCG sector, a barometer of rural consumption, reported revenue growth of 5% while EBIDTA and PAT grew by 16% and 15% respectively.**

Growth in agri and allied sector has remained muted over the last 2 years. Weighted contribution of agriculture in overall GDP growth came at 0.1% compared to 0.5% in Q1FY24 and 0.3% in Q2 FY23. Its share in GDP has been declining in recent quarters, from 18.8% in Q3 FY23 to 13.6% in Q1 FY24 and further to 11.4% in Q2 FY24. Weaker monsoon has led to lower-than-normal kharif crops output this year. Delayed harvesting of kharif in turn affected the rabi crop sowing. However, the deficit in acreage has reduced. The total sowing area under the rabi crops till 24 Nov'24 is now down by 5.3% compared to the year ago period. **However, on the upside share of allied activities, a counter-cyclical buffer in agriculture ecosystem towards augmenting income is increasing (34.6% in FY12 to 40.0% in FY16 to 46.1% in FY22).**

GDP EXPANDS BY 7.6% IN Q2 FY24

- ◆ India’s economy grew by 7.6% in Q2 FY24 on the back of buoyant growth in manufacturing (at 13.9%) and construction (13.3%). The GVA grew by 7.4%. Nominal GDP grew by 9.1% in Q1.
- ◆ Agriculture, the most consistent sector since pandemic, grew by merely 1.2% in Q2 (18-quarters low). Industry grew by 9-quarters high to whopping 13.2% in Q2 as compared to 5.5% in Q1.
- ◆ Services sector is the laggard and grew by only 5.8% due to 10-quarters low growth of 4.3% in ‘trade, hotels, transport, communication & services related to broadcasting’ sector.
- ◆ **With 7.7% real GDP growth in H1 FY24, the overall growth for full fiscal would be around 7.0% (assuming 6.0-6.2% growth in H2).** Though there are chances that it may cross the 7.0% mark in FY24.
- ◆ **Core GVA though registered a deceleration sequentially and grew by 8.4% yoy in Q2 FY24 compared to 8.7% yoy in Q1 FY24 but was much higher than 5.9% yoy growth in Q2 FY23.**

GDP DEFLATOR

- ◆ Nominal GDP growth came at 9.1% yoy in Q2 FY24 compared to 8.0% growth in Q1. Growth in GDP deflator accelerated to 1.4% in Q2 FY24 from a low of 0.2% in Q1 FY24, while it is way less than the FY23 growth numbers. The Q2 numbers are in line with deflation in WPI and easing of CPI inflation.
- ◆ Growth in GDP deflator for agriculture and services increased significantly to 5.9% yoy and 2.3% yoy compared to 0.8% in Q1 FY24. Within industry, all subsectors exhibited negative growth (except mining and quarrying) and owing to that the industry deflator registered negative growth of -1.4% in Q2.

MANUFACTURING ACTIVITIES REBOUNDED; SHOWS IN CORPORATE RESULTS

- ◆ In Q2FY24, India’s manufacturing sector grew at a robust pace of 13.9%, compared to 4.7% in Q1FY24 and -3.8% in Q2FY23. The contribution of manufacturing sector reached to 9-quarter high of 2.5% in Q4, compared to -0.7 and -0.2% in Q2 & Q3 FY23 respectively.
- ◆ There are many reasons of the increase in manufacturing growth but Government’s PLI scheme, which targets 14-sectors, is among the one.

GVA and GDP at Constant Price by Economic Activity (YoY%)							
Sectors	FY23					FY24	
	Q1	Q2	Q3	Q4	Annual	Q1	Q2
Agriculture	2.4	2.5	4.7	5.5	4.0	3.5	1.2
Industry	9.4	-0.5	2.3	6.3	4.4	5.5	13.2
Mining & quarrying	9.5	-0.1	4.1	4.3	4.6	5.8	10.0
Manufacturing	6.1	-3.8	-1.4	4.5	1.3	4.7	13.9
Electricity, gas, water supply & other utility services	14.9	6.0	8.2	6.9	9.0	2.9	10.1
Construction	16.0	5.7	8.3	10.4	10.0	7.9	13.3
Services	16.3	9.4	6.1	6.9	9.5	10.3	5.8
Trade, hotels, transport, communication & services related to broadcasting	25.7	15.6	9.6	9.1	14.0	9.2	4.3
Financial, real estate & professional service	8.5	7.1	5.7	7.1	7.1	12.2	6.0
Public administration, defence and Other Services	21.3	5.6	2.0	3.1	7.2	7.9	7.6
Total GVA at Basic Price	11.9	5.4	4.7	6.5	7.0	7.8	7.4
GDP	13.1	6.2	4.5	6.1	7.2	7.8	7.6
Core GVA	12.5	5.9	5.3	7.3	-	8.7	8.4

Source: NSO & SBI Research

Growth in Sectoral Deflator(%)							
Sectors	FY23					FY24	
	Q1	Q2	Q3	Q4	Annual	Q1	Q2
Agriculture	13.6	10.9	4.9	4.6	7.8	0.8	5.9
Industry	16.1	12.2	7.6	3.9	9.4	-1.3	-1.4
Mining & quarrying	55.2	41.3	24.7	11.5	29.9	-5.3	1.1
Manufacturing	10.5	7.5	3.9	1.6	5.6	-2.7	-2.1
Electricity, gas, water supply & other utility services	22.0	28.5	22.7	18.3	22.5	9.7	-1.1
Construction	14.3	8.5	3.3	1.3	6.1	-1.4	-0.3
Services	10.7	8.8	5.6	4.0	7.1	0.8	2.3
Trade, hotels, transport, communication & services related to broadcasting	14.7	11.4	6.2	3.1	8.0	-1.4	0.5
Financial, real estate & professional service	10.7	8.8	5.3	3.7	7.2	-0.1	1.3
Public administration, defence and Other Services	5.6	6.4	5.8	6.2	6.2	5.3	6.0
Total GVA at Basic Price	12.5	10.1	6.0	4.0	7.9	0.2	1.5
GDP	12.9	10.3	6.6	4.1	8.2	0.2	1.4

Source: NSO & SBI Research

- ◆ PLI Schemes have transformed India’s exports basket from traditional commodities to high value- added products such as electronics & telecommunication goods, processed food products etc.
- ◆ Though, China continues to be the world’s largest production hub, but tariff conflicts, stop-and-start economic pressures, and soaring labour costs are slowly chipping away at the country’s dominant market position. Improvements in industrial productivity thanks to automation and worker training have also helped bring down manufacturing costs in India, particularly for “labour-intensive” consumer products.
- ◆ We have mapped IIP growth with Manufacturing GDP growth from Q1FY13 to Q2FY24, which shows correlation of 0.87, however in the post-covid period the correlation has increased to 0.93. This seems that the corporate performance has been well integrated with the GDP calculations with improved digitalisation, and reporting by companies.

Q2FY24 RESULT UPDATE – BACK-TO-BACK OVER 30% GROWTH IN BOTTOM LINE

- ◆ After a robust result in Q1FY24 with a 30% growth in bottom line, in Q2FY24 also, Indian Inc., though reported a top line growth of 4%, reported PAT growth of 31%, as compared to Q2FY23. This was mainly contributed by sectors such as Banks, Auto, Capital Goods, Cement, Electronics, Power Generation, Realty, FMCG, etc.
- ◆ FMCG sector reported revenue growth of 5% while EBIDTA and PAT grew by 16% and 15% respectively. HUL reported volume growth of 2% while value growth of 4% in Q2FY24.
- ◆ However, Marico reported no growth in value terms, due to price corrections in key portfolio but reported 3% growth in volume. Company reported demand trends in the domestic FMCG sector largely in line with the preceding quarter, while urban sentiment improved sequentially, instances of higher food inflation and uneven rainfall distribution led to a slower-than-expected pace of recovery in rural demand.
- ◆ Global trade continues to face significant headwinds. Export orders for manufacturing declined in October, after two months of improvement. Export orders for services recorded a sequential improvement, reversing the declining trend observed since June 2023. Despite the headwinds, we expect manufacturing activities will continue the momentum in Q3FY24 too.

Manufacturing GDP Growth vs IIP Growth (YoY %)



Source: SBI Research

Result Q2FY24: Sector reported growth (%) in all key parameters

Sector	No of Cos	Net Sales	EBIDTA	PAT
Auto Ancillaries	98	7	49	124
Automobile	18	17	55	85
Banks	38	34	50	33
Cables	19	16	34	54
Capital Goods - Electrical Equipment	62	13	38	40
Capital Goods-Non Electrical Equipment	107	15	10	45
Castings, Forgings & Fastners	44	3	33	22
Cement	36	14	91	408
Electronics	15	15	18	32
Finance	537	22	27	26
FMCG	97	5	16	15
Hotels & Restaurants	53	16	22	38
Infrastructure Developers & Operators	49	10	11	30
Power Generation & Distribution	28	3	23	54
Realty	127	26	26	35
Total	3897	4	66	31

Source: CIne, SBI Research; Q2FY4 vis a vis Q2FY23, select sectors

Results of Major Listed FMCG Companies (qtr. ended Sept'2023)

Company	Volume growth	Value growth	Remarks
Hindustan Unilever Ltd.	2	4	4% revenue growth, volumes grew by 2%; in home care revenue grew by 3%, while in beauty & personal care and Food and refreshment both revenue grew by 4%; while volumes grew by mid single digit; Rural recovery likely to remain gradual; focused on driving competitive volume growth
Marico Ltd.	3	-1	Revenue from operations down 1% YoY, with underlying volume growth of 3% in the domestic business; Domestic revenue was down 3% on a yoy basis, lagging volume growth due to price corrections in key portfolios
Nestle India Ltd.	-	9	Revenue growth of 9.4% reported in Q2FY24 as compared to Q2FY23
Colgate-Palmolive (India) Ltd.	-	6	Revenue growth of 6.1% reported in Q2FY24 as compared to Q2FY23
Godrej Consumer Products Ltd.	11	9	Organic value growth of 4% and sales growth of 2%, Home Care volume growth in mid-single digit and Personal Care (Organic) in low-single digit, Consistently delivering double-digit growth in Air Fresheners
Varun Beverages Ltd.	15	22	Consolidated sales volume grew by 15.4% to 220 million cases in Q3 CY2023 from 190 million cases in Q3 CY2022 led by double digit growth in both Indian (14.8% growth) & International (17.5% growth) markets; volume growth in India bounced back strongly after the unseasonal rains in Q2 CY2023
Dabur India Ltd.	3	7	Home care growth is 15.1%. Robust double-digit growth for Odonil and Odomos; growth in Digestive 18.1% in Q2FY24, robust double digit growth in Hajmola franchise; Dabur Chyawanprash saw muted growth as season was delayed

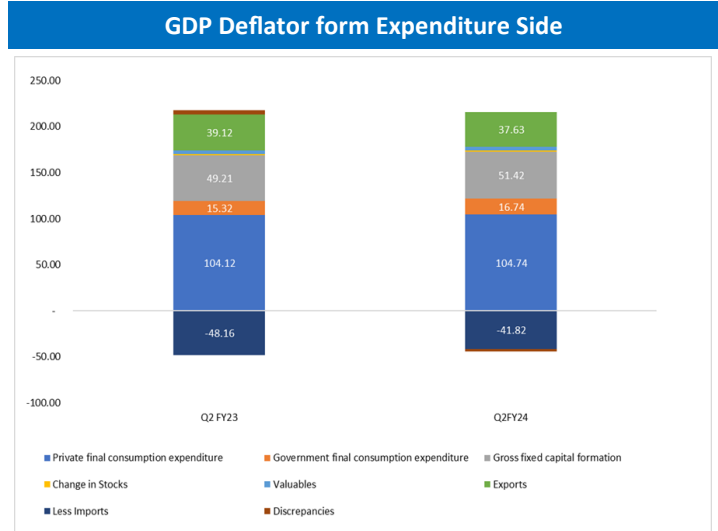
Source: Company reports; SBI Research

EXPENDITURE SIDE GDP

- ◆ The drivers of demand have held up in the Q2 FY24 with nominal private consumption registering a growth of 8.3%. However, the Q2 GDP growth from the demand side is from government consumption and gross fixed capital formation both shown tandem acceleration in the Q2.
- ◆ In real terms, the government consumption and gross fixed capital formation grew by 12.4% and 11% respectively in Q2. The private consumption on the other hand was lower at 3.1% in comparison to Q1 growth rate.
- ◆ In terms of share of the expenditure heads gross fixed capital formation recording both sequential improvement and vis-à-vis last Q2FY23. The share in Q2 FY24 is now 35.3%.
- ◆ On the external sector exports have recovered registering a growth of 4.3%. India’s merchandise exports at US\$ 33.6 billion in October 2023 registered a growth of 6.2% (y-o-y) reversing the contraction in September. More than two-thirds of the export basket (22 out of 30 major commodities) registered y-o-y growth. Drugs and pharmaceuticals, engineering goods, electronic goods, cotton yarn and iron ore were the key drivers of export growth. On expenditure side, nominal exports increased by 3.5% in Q2, compared to -0.5% in Q1.

GDP DEFLATOR FROM DEMAND SIDE

- ◆ The decomposition of the GDP deflator from the expenditure side shows the main driver of GDP deflator is the gross fixed capital formation, stocks and government expenditure. The anomalous behaviour in the is in part due to sharp contraction in international prices and its pass through on the input side. The imported WPI inflation was -3.7% which is in line with higher-than-expected GVA in in manufacturing.



Source: SBI Research

MEMOIR ON FORECASTING GDP FOR FY24

- ◆ There is a general downside bias while forecasting, possibly due to three main reasons, (i) conservative by nature, (ii) downsize forecasting behaviour by peer group, (iii) downsize forecasting by baseline institutions such as IMF, World Bank, RBI. We as a institution, still believe in strong India growth story with FY24 growth not less than 7% which may still go higher. We do believe, Q3FY24 and Q4FY24 growth won't be below trend given the strong momentum of Indian Economy. However, surprising it may be, but Indian growth story is not going to slow down in synchronization with other major world economies, given the huge untapped potential of the Indian economy, along with rising ambitions of Indians.

RURAL ECONOMY DYNAMICS

- ◆ Growth in agri and allied sector has remained muted over the last 2 years. Weighted contribution of agriculture in overall GDP growth came at a mere 0.1% compared to 0.5% in Q1FY24 and 0.3% in Q2 FY23. Its share in GDP has been declining in recent quarters, from 18.8% in Q3 FY23 to 13.6% in Q1 FY24 and further to 11.4% in Q2 FY24. Weaker monsoon has led to lower-than-normal kharif crops output this year. Delayed harvesting of kharif in turn affected the rabi crop sowing. However, the deficit in acreage has reduced. The total sowing area under the rabi crops till 24 Nov’24 is now down by 5.3% compared to the year ago period. Higher inflation also impacted rural demand in Q2 FY24.
- ◆ Looking ahead, high frequency indicators of rural demand are showing mixed trends. Two-wheeler sales which were muted in Q2 have picked up in Oct’23, registering 20% yoy growth. This would have got further boost in Nov’23 owing to the festive season. Even diesel consumption increased in Oct’23. Work demanded under MGNREGA which increased till Oct’23 has started declining in Nov’23. However, tractor sales and fertilizer sales contracted in Oct’23. Agri exports which increased to \$52.5 bn in FY23 (6% yoy) have moderated in H1 FY24 to \$23.3 bn (-11.8% yoy). Rural wages (data available till Jul’23) also shows stagnant wage growth at around 6-6.5% in the last three months. Additionally, as the impact of below normal and uneven monsoon is more in the third quarter, one should be watchful of the agri sector growth in the quarter ending Dec’23.
- ◆ **Another interesting trend witnessed in the rural economy is the transformation in the agri sector. Share of allied activities in agriculture is increasing (34.6% in FY12 to 40.0% in FY16 to 46.1% in FY22). We believe that allied activities in the agricultural sector are acting as a countercyclical buffer to farmers’ incomes. Amidst this transformation, banks have also started financing the entire agri value chain from entry level crop production. Agri loans by banks have increased by 15.4% yoy in FY23 from around 10% each in the past two years. In FY24, it has on an average increased by 17% till Oct’23.**

Progress of Area Coverage Under Rabi Crops as on 24 Nov’23

Crops	Area Covered (Ha mn)		
	2023	2022	% YoY
Total Rabi Crops	34.2	36.1	-5.3
Wheat	14.2	14.9	-4.8
Coarse Cereals	2.3	2.5	-9.8
Jowar	1.4	1.5	-7.0
Bajra	0.0	0.0	-45.5
Ragi	0.0	0.0	19.4
Maize	0.5	0.6	-17.8
Barley	0.4	0.4	-9.7
Pulses	9.5	10.4	-8.5
Gram whole	6.6	7.5	-11.8
Masur/Lentil	1.3	1.2	5.9
Urdbean	0.2	0.2	-20.3
Moongbean	0.0	0.0	-34.8
Oilseeds	8.2	8.3	-0.6
Rapeseed and Mustard	7.8	7.8	0.1
Groundnut	0.2	0.2	-13.0
Sunflower	0.0	0.0	-71.8

Source: Department of Agriculture and farmers welfare, CEIC, SBI Research

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