

FY23 GDP AT 7.2% (SBI:7.1%):DEMAND REBALANCING FROM PRIVATE CONSUMPTION TO INVESTMENT IN FY23 WILL SPUR GROWTH IN FY24: SBI FY24 GDP FORECAST IS NOW AT 6.7% (~6.2% PREVIOUS) **Issue No. 9, FY24
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India's economy grew by 7.2% in FY23 as against the NSO's earlier estimate of 7.0% (SBI estimate: 7.1%). The better than expected growth is primarily due to 6.1% GDP growth in Q4 FY23. GVA growth for Q4 GDP was higher than the GDP growth perhaps as net indirect taxes came lower than expected, possibly because of higher subsidies in Q4FY24.

During FY23, Manufacturing was the only sector which exhibited muted growth of 1.3%, though in Q4 Manufacturing growth rate jumped by 4.5% (partly aided by a low base) and Agriculture grew by 4.0%. Mining & Quarrying and construction grew by 4.6% and 10.0%, respectively. Among services, 'Financial, Real Estate & Professional Services' grew by 7.1% and 'Trade, Hotels, Transport, Communication & Services related to Broadcasting' grew by 14.0%.

Turning to secondary indicators of growth, Scheduled commercial banks' (SCBs) credit growth remained strong at 15.5% as on May 5, 2023, albeit down from the peak of 17.8% recorded in October 2022 due to an unfavourable base effect and moderation in credit growth to the industrial sector. The sector-wise credit for April 2023 indicates that except Industry, credit to all other sectors has jumped significantly. The credit-to-GDP gap narrowed, reflecting the improved credit demand in the economy in the face of rising capacity utilisation in the manufacturing sector.

The construction sector has remained upbeat due to sustained impetus on infrastructure spending by the Government. Healthy order book position of construction sector, aided by ~11% growth in FY23 (to around Rs 7 trillion for nine construction players), reflects medium term revenue visibility in the space and improvement in rural employment.

The Monthly SBI Composite Index has continued to increase and is at 56.0 (High Growth) in May 2023, compared to 56.2 (High Growth) in April 2023. The yearly index increased to 54.7 (Moderate Growth) in April 2023 from 55.2 (Moderate Growth) in March 2023. Investment activities, driven by Government's capex push, is at all-time high. Led by private sectors new investment announcements, as per projects today, touched all time high of Rs 37 trillion in FY23 as compared to Rs 20 trillion in FY22. The construction sector remained upbeat due to sustained impetus on infrastructure spending by the Government.

Overall despite some slowdown in demand, the overall economic strength remains intact. The rebalancing of demand from private consumption to investments supported by government capex needs further support. The private investment activity looks robust and domestic monetary and credit conditions remains supportive of growth in FY24.

The GDP on the expenditure side show somewhat mixed picture. The total final consumption was at 6.4% in FY23 in real terms, dragged by rural consumption with inflation in the beginning of the year holding fort. The growth in private consumption, the largest component of demand saw a deceleration in the FY23 with growth falling to 7.5% in FY23. The government consumption registered a growth of 0.1% in real terms.

The high frequency indicators of rural demand still show lagging trends with respect to urban counterparts. **Nominal wages in rural areas (all occupations) increased at 6% yoy average growth in Q4 FY23, with wages of agricultural workers growing at even higher rate.** When we consider real wages, the rate of growth has been modest, below 0.5% yoy growth for all occupations as well as for agri workers. **FMCG companies, in the listed space, reported 14% growth in top line while bottom line grew by 28% in Q4FY23 as compared to previous year.** However, some of the companies have reported decline in rural volume due to sluggish demand.

The price movement in the total basket of goods and services as captured in deflator declined to 4.1% in Q4FY23, compared to 12.9% in Q1FY23. As WPI inflation eased since October 2022, GDP deflator inflation moderated to 6.6 % in Q3 from 10.3% in Q2. Overall in FY23, GDP deflator inflation moderated to 8.2% from 8.5% in FY22. The decomposition of GDP deflator based on components of demand show that large part of gain in deflator came from price rise in basket of goods covering private demand.

We are now factoring in a pick up in growth momentum in FY24. We are upgrading our baseline forecast from 6.2% to 6.7%. Continuing on the path of strong activity in FY23, we project real GDP growth for FY24 at 6.7% with Q1 at 7.8%, Q2 at 6.5% , Q3 at 6.3% and Q4 at 6.2%, amid broadly balanced risks.

GDP GREW BY 6.1% IN Q4 FY23; 7.2% IN FY23

- ◆ India’s economy grew by 7.2% in FY23 as against the NSO’s earlier estimate of 7.0% (SBI estimate: 7.1%). The better than expected growth is primarily due to 6.1% GDP growth in Q4 FY23 GDP (against the median estimate of 5.1%, Bloomberg). The GVA grew by 6.5% in Q4 and 7.0% in FY23. Core GVA grew by 7.6% in FY23.
- ◆ During FY23, Manufacturing is the only sector which exhibited muted growth of 1.3%. Apart from this, Agriculture grew by 4.0%. Mining & quarrying and construction grew by 4.6% and 10.0%, respectively.
- ◆ Among services, ‘Financial, Real Estate & Professional Services’ grew by 7.1% and ‘Trade, Hotels, Transport, Communication & Services related to Broadcasting’ grew by 14.0%.
- ◆ GVA growth for Q4 GDP growth is higher than the GDP growth perhaps as net indirect taxes came lower than expected, possibly because of higher subsidies in Q4FY24. As per CGA data subsidies increased to Rs 1.8 lakh crore in Q4 FY24 from Rs 1.5 lakh crore in Q3 and Rs 1.3 lakh crore in Q2.
- ◆ GDP deflator continue to decline to 4.1% in Q4FY23, compared to 12.9% in Q1FY23. As WPI inflation eased since October 2022, GDP deflator inflation moderated to 6.6 % in Q3 from 10.3% in Q2. Overall in FY23, GDP deflator inflation moderated to 8.2% from 8.5% in FY22.
- ◆ Reflecting the decline in both CPI & WPI inflation, it is expected that the GDP deflator will continue to decline in FY24 too.

GDP: EXPENDITURE SIDE

- ◆ The GDP on the expenditure side show somewhat mixed picture. Sticking to the annual figures to suppress the seasonality, all the heads under the expenditure side have registered a slowdown in growth rates. The total final consumption decelerated to 6.4% in FY23 from 10.5% in FY22 in real terms.
- ◆ The growth in per capita private final consumption accordingly decelerated to 6.4% from 10.2% the previous year.
- ◆ The private consumption, the largest component of demand saw a sharp deceleration in the FY23 with growth falling to 7.5% in FY23 from 11.5% the previous year. The government consumption has registered no growth from previous year, registering a growth of 0.1% in real terms.

Quarterly Estimates of GVA(% YoY) at Basic Prices by Sectors										
Sectors	FY22					FY23				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Agriculture	3.4	4.8	2.3	4.1	3.5	2.4	2.5	4.7	5.5	4.0
Industry	49.1	8.1	1.6	2.3	11.6	9.4	-0.5	2.3	6.3	4.4
Mining & quarrying	12.2	10.6	5.4	2.3	7.1	9.5	-0.1	4.1	4.3	4.6
Manufacturing	51.5	6.6	1.3	0.6	11.1	6.1	-3.8	-1.4	4.5	1.3
Electricity, gas, water supply & other utility services	16.3	10.8	6.0	6.7	9.9	14.9	6.0	8.2	6.9	9.0
Construction	77.0	10.8	0.2	4.9	14.8	16.0	5.7	8.3	10.4	10.0
Services	12.5	11.1	7.6	4.9	8.8	16.3	9.4	6.1	6.9	9.5
Trade, hotels, transport, communication & services related to broadcasting	41.4	13.1	9.2	5.0	13.8	25.7	15.6	9.6	9.1	14.0
Financial, real estate & professional service	2.8	7.0	4.3	4.6	4.7	8.5	7.1	5.7	7.1	7.1
Public administration, defence and Other Services	6.5	16.8	10.6	5.2	9.7	21.3	5.6	2.0	3.1	7.2
Total GVA at Basic Price	20.2	9.3	4.7	3.9	8.8	11.9	5.4	4.7	6.5	7.0
GDP	21.6	9.1	5.2	4.0	9.1	13.1	6.2	4.5	6.1	7.2

Source: NSO & SBI Research

Growth in Sectoral Deflator (YoY%)									
Sectors	FY20	FY21	FY22	FY23					
				Q1	Q2	Q3	Q4	Annual	
Agriculture	4.7	5.4	6.3	13.6	10.9	4.9	4.6	7.8	
Industry	0.4	1.2	10.5	16.1	12.2	7.6	3.9	9.4	
Mining & quarrying	-2.6	-3.1	26.8	55.2	41.3	24.7	11.5	29.9	
Manufacturing	-0.9	0.6	9.2	10.5	7.5	3.9	1.6	5.6	
Electricity, gas, water supply & other utility services	9.4	4.1	1.0	22.0	28.5	22.7	18.3	22.5	
Construction	0.3	3.4	12.6	14.3	8.5	3.3	1.3	6.1	
Services	3.4	3.2	8.5	10.7	8.8	5.6	4.0	7.1	
Trade, hotels, transport, communication & services related to broadcasting	2.5	2.8	10.6	14.7	11.4	6.2	3.1	8.0	
Financial, real estate & professional service	3.0	1.9	9.1	10.7	8.8	5.3	3.7	7.2	
Public administration, defence and Other Services	5.0	4.9	5.2	5.6	6.4	5.8	6.2	6.2	
Total GVA at Basic Price	3.0	3.3	8.3	12.5	10.1	6.0	4.0	7.9	
GDP	2.4	4.7	8.5	12.9	10.3	6.6	4.1	8.2	

Source: NSO & SBI Research

Quarterly Estimates(% YoY) of Expenditures on GDP at Basic Prices										
Sectors	FY22					FY23				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Total final consumption expenditure	13.5	13.9	10.2	5.8	10.5	16.5	6.6	1.8	2.7	6.4
Private final consumption expenditure	17.6	14.2	10.8	4.7	11.2	19.8	8.3	2.2	2.8	7.5
Government final consumption expenditure	-2.1	11.7	5.8	11.8	6.6	1.8	-4.1	-0.6	2.3	0.1
Gross fixed capital formation	61.0	12.4	1.2	4.9	14.6	20.4	9.6	8.0	8.9	11.4
Change in Stocks	974.6	655.9	618.9	613.8	687.8	7.5	-2.6	-0.1	5.9	2.7
Valuables	481.3	156.6	44.5	-51.7	34.0	58.7	-19.5	-38.0	-23.4	-18.9
Exports	46.1	25.1	27.8	22.4	29.3	19.6	12.2	11.1	11.9	13.6
Less Imports	44.8	26.6	19.7	6.7	21.8	33.6	23.1	10.7	4.9	17.1
Discrepancies	-173.6	-293.2	-388.8	-758.1	-307.4	-113.4	51.8	52.4	-2.9	-14.8
GDP	21.6	9.1	5.2	4.0	9.1	13.1	6.2	4.5	6.1	7.2

Source: NSO & SBI Research

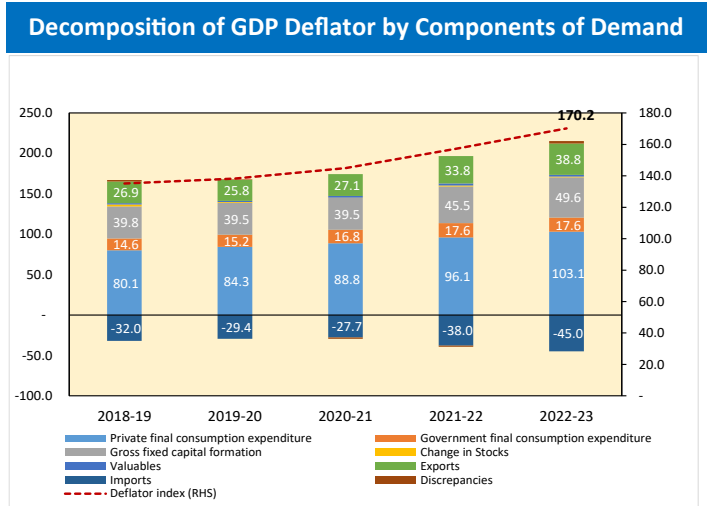
- ◆ The investment demand is the only component that has held the fort. The government capex has thus cushioned the otherwise slowdown in private consumption and current expenditure of government.
- ◆ The decomposition of GDP deflator on account of movements in components of demand show that large part of gain in deflator came from price rise in basket of goods covering private demand.

SCB'S CREDIT CONTINUE TO GROW

- ◆ Scheduled commercial banks' (SCBs) credit growth remained strong at 15.5% as on May 5, 2023, albeit down from the peak of 17.8% recorded in October 2022 due to an unfavorable base effect and moderation in credit growth to the industrial sector. The sector-wise credit for April 2023 indicates that except industry, credit to all other sectors has jumped significantly.
- ◆ On YTD basis, credit grew by Rs 2.29 lakh crore Apr-May 2023, compared to last year growth of Rs 1.49 lakh crore. Aggregate deposits grew at a robust pace of 10.4% YoY, compared to last year growth of 9.7%. On YTD basis, deposits grew by Rs 3.9 lakh crore compared to last year growth of RS 2.30 lakh crore.
- ◆ The incremental credit-deposit (C-D) ratio, which had surged to 142.% in November 2022, moderated to 112.6 as on April 21, 2023.
- ◆ The credit-to-GDP gap narrowed, reflecting the improved credit demand in the economy in the face of rising capacity utilisation in the manufacturing sector.

OUTLOOK: SBI COMPOSITE INDEX CONTINUE TO GROW

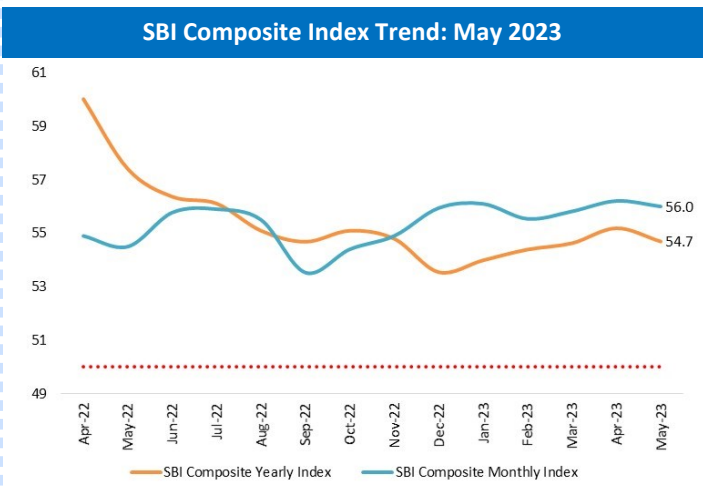
- ◆ The monthly SBI Composite Index has continued to increase and is at 56.0 (High Growth) in May 2023, compared to 56.2 (High Growth) in April 2023. The yearly index increased to 54.7 (Moderate Growth) in April 2023 from 55.2 (Moderate Growth) in March 2023.
- ◆ Against the global headwinds, Indian economy is showing strong signs of resilience. Continuing on the path of strong activity in FY23, we project real GDP growth for FY24 at 6.7% with Q1 at 7.8%, Q2 at 6.5% , Q3 at 6.3% and Q4 at 6.2%, amid broadly balanced risks.



Source: SBI Research

Sectors	Apr-22 (FY23) YTD		Apr-23 (FY24) YTD		YoY %	
	Rs bn	%	Rs bn	%	FY23 (Apr)	FY24 (Apr)
	Agri. & Allied	163	1.1	383	2.3	10.6
Industry	-72	-0.2	332	1.0	8.0	7.0
MSE (Priority)	268	1.9	105	0.7	19.7	12.5
Infrastructure	26	0.2	323	2.7	9.7	1.7
Services	6	0.0	555	1.5	11.2	21.6
NBFCs	193	1.9	143	1.1	14.7	29.2
Personal Loans	620	1.8	344	0.8	14.4	19.4
Housing (Including Priority)	208	1.2	135	0.7	13.7	14.3
Other Personal Loans	224	2.5	158	1.4	18.2	24.0
Gross Bank Credit	650	0.5	1824	1.3	10.1	15.9

Source: RBI, SBI Research



Source: SBI Research

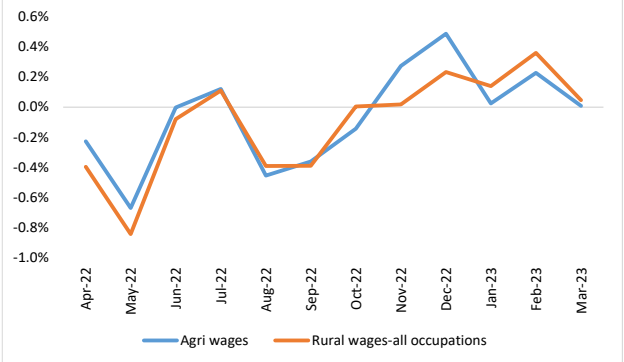
RURAL ECONOMY SHOWING MIXED SIGNALS; URBAN DOING BETTER THAN RURAL

- ◆ Nominal wages in rural areas (all occupations) increased at 6% yoy average growth in Q4 FY23, with wages of agricultural workers growing at even higher rate. When we real wages is looked at, the rate of growth has been modest, below 0.5% yoy growth for all occupations as well as for agri workers. **However, with easing of inflationary pressures there has been an uptick in the momentum in FY23.**
- ◆ Domestic two-wheeler sales moderated in Q4 FY23, however there has been an improvement in the dynamics since Feb'23. Diesel consumption has also increased in the recent months, pointing to revival in rural consumption.
- ◆ However, tractor sales has remained muted this year with their yoy growth depicting declining momentum since Jan'23. Even fertilizer sales has declined in recent months.
- ◆ Increased domestic passenger vehicle sales, GST e-way bills, cargo traffic, credit card transactions, petrol consumption all point towards improved urban demand.
- ◆ **Overall, the percentage of leading indicators showing acceleration in rural areas has been below that of urban areas since Apr'21, indicating rural demand has remained sluggish compared to urban demand.**

FMCG SECTOR DELIVERED MID DOUBLE-DIGIT GROWTH; VOLUME DECLINED IN RURAL

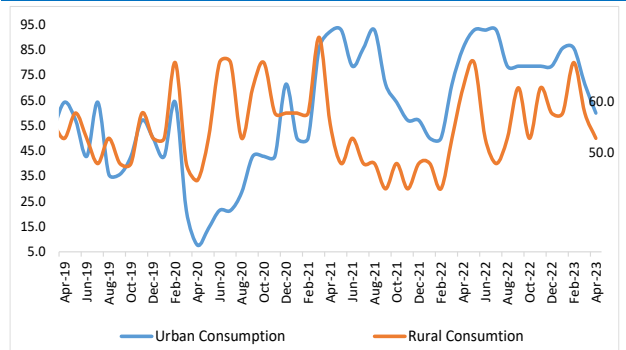
- ◆ FMCG companies, in the listed space, reported 14% growth in top line while bottom line grew by 28% in Q4FY23 as compared to previous year. However, some of the companies have reported decline in rural volume due to sluggish demand.
- ◆ For example, Hindustan Unilever Ltd. (HUL) reported 11% growth in value, while volume growth is merely 4%. Further, in personal care segment, HUL reported 12% revenue growth while volumes grew by low single digit. Company reported rural market volume decline of -3.0% yoy.
- ◆ Colgate-Palmolive (India) Ltd. reported domestic net sales growth for Q4FY23 at 5.4%. Further, Colgate reported toothpaste segment delivered high single digit growth and reported persisting sluggish demand trends in the category, especially in rural areas. Godrej Consumer Products Ltd. reported domestic revenue growth of 12% in Q4FY23 led by volume growth of 11%, while Marico Ltd. reported domestic revenue growth of 2% only.

Real wages -Rural all occupations & Agri (% yoy)



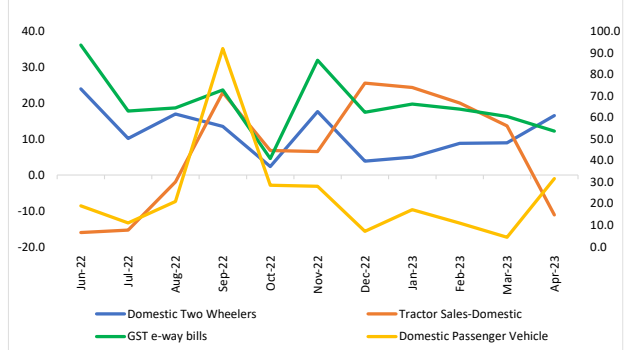
Source: SBI Research

% of leading indicators showing acceleration (yoy)



Source: SBI Research

Economic indicators (% yoy)



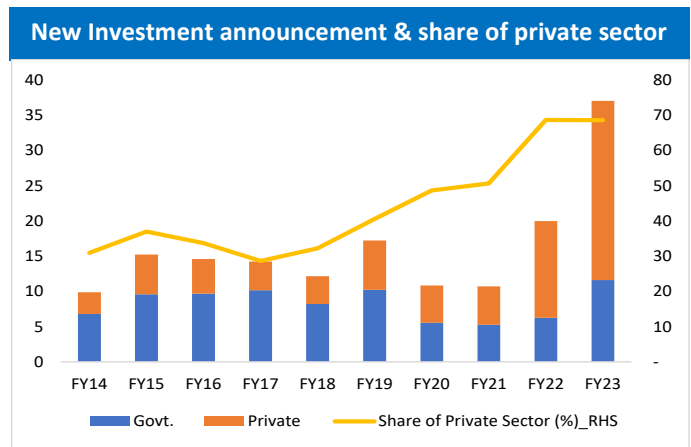
Source: SBI Research

NEW INVESTMENT ANNOUNCEMENTS ALL-TIME HIGH, PARTICIPATION FROM PRIVATE CORPORATES HAS INCREASED

- ◆ Investment activities, driven by Government’s capex push, is at all-time high. Led by private sectors new investment announcements, as per projects today, **touched all time high of Rs 37 trillion in FY23 as compared to Rs 20 trillion in FY22.** Share of private participation, in the investment announcements, has increased to around 68% from less than 50% in earlier years.
- ◆ The construction sector remained upbeat due to sustained impetus on infrastructure spending by the Government. **Healthy order book position of construction sector, aided by ~11% growth in FY23 (to around Rs 7 trillion for nine construction players), reflects medium term revenue visibility** in the space and improvement in rural employment.

DIGITAL PAYMENTS AND GDP GROWTH

- ◆ Launched in 2016, UPI has emerged as one of the most popular tools in the country for carrying out digital transactions. It has gone a long way in making digital payments a habit, and in firmly placing India on the track towards a cashless economy. In the month of April 2023, 414 banks/PPI were live on the UPI interface, with 8.9 billion financial transactions being carried out for a total value of nearly Rs 14.1 trillion. UPI is one of the main pillars of India’s digital public infrastructure and the increasing usage/popularity of UPI will impact the GDP growth through real time impact.



Source: SBI Research; Projectstoday

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