



## India's GDP Growth Slows to 6.7% in Q1FY25; Lowest in Five Quarters

BWR Economic Brief

September 2024

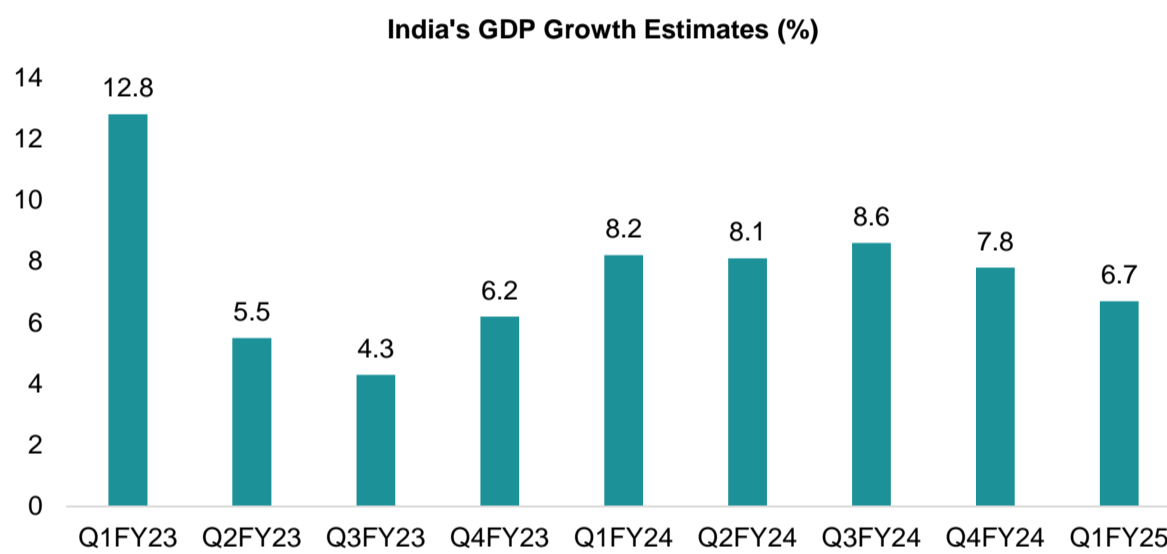
## India's Q1 FY25 GDP Growth at 6.7%; marks 15-month low and decline from 8.2% in previous quarter

- India's Gross Domestic Product (GDP) growth in Q1 FY25 dropped to 6.7%, the lowest in five quarters, and below the Reserve Bank of India's estimate of 7.1% for the same period. This marks a significant decline from 8.2% GDP growth recorded in Q1 FY24 and 7.8% in Q4 FY24
- The Reserve Bank of India (RBI) has forecasted an annual GDP growth of 7.2% for FY25, with quarterly estimates of 7.1% for Q1, 7.2% for Q2, 7.3% for Q3, and 7.2% for Q4.

This moderation in GDP growth is attributed to various key factors including:

- **Lower government spending**, possibly due to parliamentary election-related activities and adverse effects of weather conditions like heatwaves
- Weak performance in the **agriculture** sector and deceleration in the **services sector**
- Softer **manufacturing sector** growth: The manufacturing sector's growth has slowed, contributing to the overall GDP decline, despite previous resilience, as recent data indicates it has not maintained its momentum
- Base effect from last year's higher growth

### Quarterly Real GDP Growth Estimates



- **Lower Government Spending:** The government's parliamentary elections led to a 0.24% decrease in government final consumption expenditure, significantly impacting overall economic activity
- **Sector Performance:** Despite a slowdown, certain sectors showed resilience, with manufacturing growing by 7% while services sector declined to 7.2% from 10.7% growth in Q1FY14
- Moreover, the agriculture sector experienced a notable decline, with growth dropping to 2.0% in Q1FY25 from 3.7% in Q1FY24, indicating broader issues within the primary sector
- The primary sector witnessed a downturn with growth declining to 2.7% in Q1FY25 from 4.2% in Q1FY24
- Further, growth in **trade, hotels, transport, and communications sector** dropped to 5.7% in Q1FY25, significantly lower than the 9.7% recorded in Q1FY24.
- Despite these challenges, there are positive signs in other sectors. **The secondary sector**, comprising of manufacturing and electricity, witnessed a robust 8.4% growth in Q1FY25, a significant increase from the previous fiscal year's 5.9% growth.
- The **construction sector** too significantly contributed to the strong performance of the secondary sector, growing at a rate of 10.5% in Q1FY25 as against 8.6% growth in Q1FY24
- **Private consumption** is exhibiting signs of revival, which could potentially support future growth. Private consumption grew 7.4% in Q1FY25, the highest in seven quarters, indicating demand recovery, especially in rural areas, due to easing inflation and improved agricultural conditions.

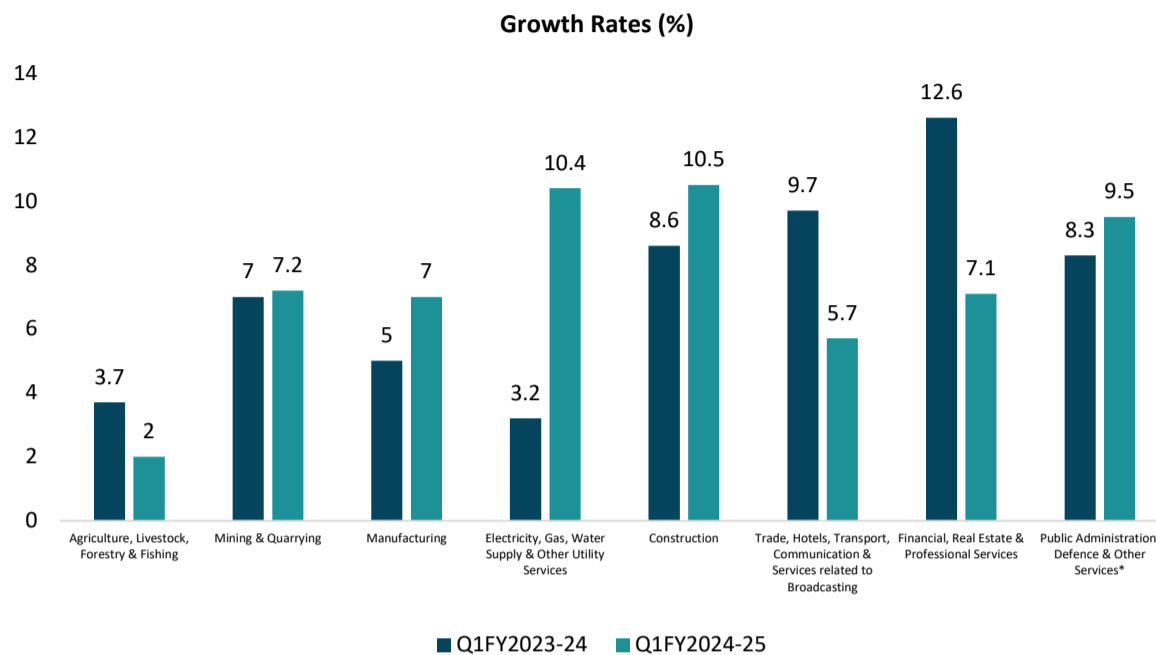
### BWR ANALYSIS AND VIEW

While the growth in Q1FY25 reflects challenges, overall economic outlook for the entire FY25 remain optimistic in the wake of increased government spending and a favourable monsoon season, which could boost rural consumption and investment.

India remains one of the fastest-growing major economies globally, despite underperforming RBI's expectations, largely due to resilient private consumption and investment

- The **Private Final Consumption Expenditure (PFCE)**, a measure of household consumption, increased to 60.4% of GDP in Q1FY25 from 58.9% of GDP in Q1FY24, reflecting a correction in consumption growth, especially in rural sectors like two-wheeler sales

### Sector-wise growth rates (%) of Real GVA for Q1 FY2023-24 and 2024-25



### Despite the slowdown in economic growth, the economy showed some promising signs:

- Private consumption sector showed signs of resurgence
- Investment remaining steady despite a moderate decrease in government capex
  - Investment demand remained resilient despite GDP slowdown, with Gross Fixed Capital Formation (GFCF) increasing by 7.5%, driven by increased capital expenditure from private sector and households, especially in the housing sector
  - The share of GFCF in GDP decreased to 31.3% in Q1FY25 as against 31.4% in Q1FY24, indicating a stable investment environment. Private investment's share rose to 34.8%, indicating capacity expansion for job creation

#### Government Capital Expenditure Decline

- In contrast, government capital expenditure declined 33.3% YoY to ₹3.8 trillion in Q1FY25, largely due to election-related spending and a strategic pause in public sector investment
- This contraction in capital expenditure is expected to be the election cycle and adverse weather conditions, including heatwaves, negatively impacting economic activity
- **Manufacturing, and construction** sectors held steady
- **Services sector** showed a deceleration as it grew at 7.2% in Q1FY25, down from 10.7% in Q1FY24
- Data showed despite a contraction in government consumption due to election-related activities and a subdued agricultural growth, value-added activity increased, indicating potential for further growth
- Importantly, **private consumption** showed signs of revival, and investment remained steady despite a slowdown in government capex
- Despite this slowdown in GDP growth, India remains the fastest-growing major economy, with China's GDP growth of 4.7%. Real GDP growth increased by 6.8% in Q1 2024-25
  - India's previous low GDP growth rate of 6.2% was recorded in the October-December quarter of 2022
- The **Secondary Sector**, including Construction, Electricity, Gas, Water Supply & Other Utility Services, and Manufacturing, experienced significant growth in Q1 FY 2024-25, with a growth rate of 8.4%, up from the 5.9% rate in Q1 FY 2023-24
- The data shows a positive outlook with increased private consumption and modest investment activity, potentially prompting the Reserve Bank of India to hold interest rates for the remainder of the year

### Other Highlights:

- Despite a slowdown in GDP growth, nominal GDP growth accelerated to 9.7% in Q1 FY 2024-25, up from 8.5% growth rate in Q1 FY 2023-24
- Nominal GDP experienced a 9.7% growth rate in Q1 of FY 2024-25, compared to an 8.5% growth rate in Q1 of FY 2023-24
- Real GVA increased by 6.8% in Q1 FY 2024-25, driven by significant growth in the Secondary Sector (8.4%), including Construction (10.5%), Electricity, Gas, Water Supply & Other Utility Services (10.4%), and Manufacturing (7.0%)
- Private Final Consumption Expenditure (PFCE) and Gross Fixed Capital Formation (GFCF) experienced growth rates of 7.4% and 7.5% in Q1 of FY 2024-25, respectively
- The real GDP and nominal GDP in Q1 2024-25 are estimated to be ₹43.64 lakh crore and ₹77.31 lakh crore respectively, with a growth rate of 6.7% and 9.7% respectively

### Quarterly Estimates of Expenditure Components of GDP for Q1 (April-June) 2024-25 (at Current Prices)

Expenditure Components	April-June (Q1) (in Rs Crore)				
	2022-23	2023-24	2024-25	Share in GDP (%)	
				2023-24	2024-25
Private Final Consumption Expenditure (PFCE)	38,44,545	41,54,971	46,68,411	58.9	60.4
Government Final Consumption Expenditure (GFCE)	7,34,534	7,54,304	7,84,897	10.7	10.2
Gross Fixed Capital Formation (GFCF)	20,40,363	20,40,363	24,17,495	31.4	31.3
Changes in Stocks (CIS)	68,385	68,868	74,900	1.0	1.0
Valuables	50,516	44,488	44,338	0.6	0.6
Exports	15,28,756	15,18,443	16,62,787	21.5	21.5
Imports	17,71,718	16,92,336	18,46,356	24.0	23.9
Discrepancies	4,183	-15,579	-75,492	-0.2	-1.0
GDP	64,99,562	70,49,594	77,30,979	100	100
GDP (Percentage change over previous year)		<b>8.5</b>	<b>9.7</b>		

\* Views are personal

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