Business Standard

Economic growth slows to 5.4% in Dec quarter

Manufacturing, construction hit; full-year forecast revised lower to 8.9%

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New Delhi, 28 February

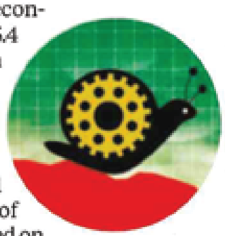


ILLUSTRATION: BINAY SINHA

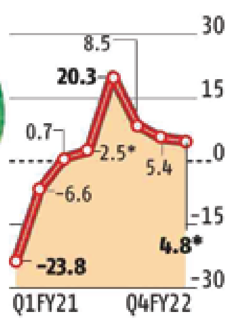
The Indian economy grew at 5.4 per cent in the third quarter of FY22, according to the National Statistical Office's (NSO's) second advance estimates of GDP for 2021-22, released on Monday. This is below the expectations of most economists.

The statistics office pared the overall growth forecast for FY22 to 8.9 per cent from 9.2 per cent estimated in January.

However, experts say the adverse impact of the third wave of the pandemic on contact-intensive services sectors in the fourth quarter and the spike in commodity prices owing to Russia-Ukraine war may put further downward pressure on GDP growth in FY22. The data released by the statistics office showed during the December quarter, while the services sector grew at a robust 8.2 per cent, manufacturing remained almost static, hit by the effect of semiconductor shortages, while the construction sector, which is labour-intensive, contracted 2.8 per cent, signalling that economic revival is yet to be on a strong footing. Turn to Page 4

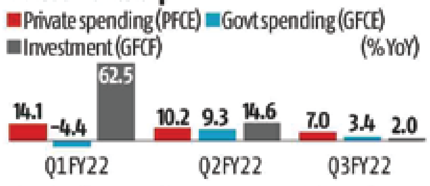
LOSING MOMENTUM

GDP growth % YoY



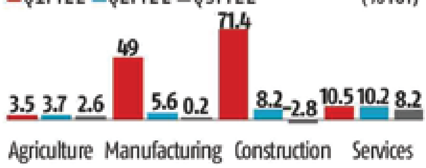
Note: *Q4 data has not been released yet. The chart shows imputed value from available data Source: MoSPI

Investments dip



PFCE: Private final consumption expenditure
GFCE: Government final consumption expenditure
GFCF: Gross fixed capital formation

Sectoral performance



Economic growth...

Govinda Rao, chief economic adviser at Brickwork Ratings, said to achieve 8.9 per cent growth, Q4 GDP had to grow 4.8 per cent.

"This looks challenging, given the fact that the third wave of the pandemic has caused considerable restrictions. In addition, the ongoing geopolitical tensions, persistent supply bottlenecks, coal, power, and semiconductor shortages too have been pronounced. The third wave largely impacted economic activities in the fourth quarter (Q4). We expect fiscal growth may undergo (downward) revisions," he added.

Rumki Majumdar, economist, Deloitte India, said supply constraints and subdued demand weighed on the growth rebound in Q3. "New uncertainties because of geopolitical conflicts could impact the growth outlook. The biggest worry would be inflation because of skyrocketing oil prices. This could undermine the stability of growth. Rising inflation and falling stock market indices may weigh on consumer sentiment and their purchasing power. A possible policy rate hike by the RBI could impact the credit growth cycle, which had been improving lately," she added.

Retail oil price revisions are expected to resume early March after the Assembly elections are over. The price revision is likely to happen in a gradual way though the extent could also depend on whether the government opts for another round of excise duty reduction. Conservative revenue budgeting for FY23 provides the space to forgo some excise duty on petroleum products if the government wants to prioritise the objective of keeping inflation under check. The Reserve Bank of India had estimated that a 10 per cent increase in prices of the India crude basket could increase the consumer price index by 20 basis points.

On the demand side, while private consumption remained surprisingly robust in the third quarter, signs of an investment revival in the second quarter petered out while weak government expenditure further dragged down growth. However, there are signs that government expenditure may significantly pick up in the March quarter.

The data released by the Controller General of Accounts showed in January revenue spending grew by a sharp 30 per cent even as capital spending was 6 per cent lower than in January 2021.

The second advance estimates estimate the size of private consumption expenditure in FY22 to be 1.2 per cent bigger than the size in FY20. As a result, the size of all demand side drivers of GDP in FY22 is bigger than their corresponding size in FY20.

Nayar said the most encouraging piece of the disaggregated GDP data is the 7 per cent expansion in private consumption in Q3 FY22. This, coupled with the mild rise in current consumer confidence in January 2022 despite the onset of the third wave of the pandemic, bodes well for the outlook for demand and capacity utilisation.