

Economists expect India's Q1 GDP growth at 12.5-15%

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Dilasha Seth

- Strong revival in consumption, recovery in services sector and a low base supported growth

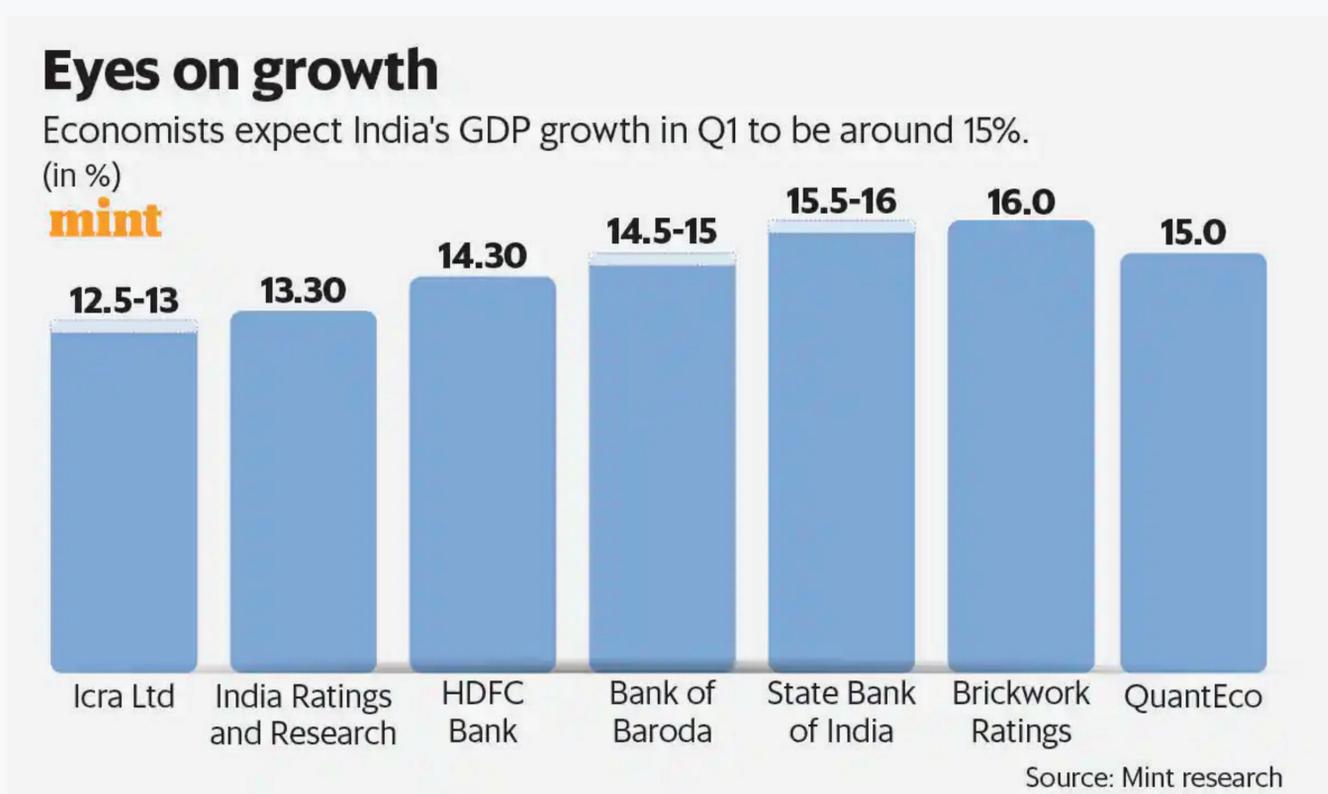
Most analysts estimate economic growth to be lower than RBI's forecast of 16.2% for June qtr. (REUTERS)

BENGALURU : The Indian economy is likely to have grown in double digits in the first quarter of the current financial year, supported by strong revival in consumption and recovery in the services sector, and a low base, according to economists.

With forecasts ranging between 12.5% and 15%, economists said private investment is yet to fully recover and rising interest rates led by monetary policy tightening may pose a challenge for additional investments in the manufacturing sector, while high inflation will keep corporate margins under pressure.

Most analysts estimated economic growth to be lower than the RBI's forecast of 16.2% for the June quarter, and 7.2% for the financial year. The official national accounts data will be issued on 31 August. "Investment growth is on the back of strong capex by the government and private sector capex growth has not recovered fully.

The first quarter of 2022-23 will get support from the base effect," said Devendra Pant, the chief economist at India Ratings and Research. Pant estimated gross domestic product (GDP) to grow by 13.3% in the first quarter of the financial year. Growth will be led by private consumption and investment, magnified by the base effect.



Pant said private final consumption expenditure, indicating demand, and gross fixed capital formation, indicating investment, is likely to grow by 15.4% and 14.3%, respectively.

Elevated global commodity prices and the rupee at a historical low hit company margins, showed June quarter results of companies. Retail inflation has been hovering around 7% for the three months ended June, well over the RBI's upper tolerance band of 6%. Wholesale price index-based inflation is in double digits, hovering at over 15%.

"We forecast GDP growth for Q1 at 12.5-13%, boosted by a low base and robust services demand. Margin pressure created by the high commodity prices, curtailed demand for discretionary goods amid high inflation and the adverse impact of the heatwave on wheat output led us to expect growth to be lower than the MPC's forecast of 16.2%," said Aditi Nayar, chief economist, ICRA.

Nayar said signals of private investment activity remain mixed in view of the geopolitical uncertainties and high commodity prices, despite high capacity utilization in Q4 FY22. India's economy grew by 4.1% in the fourth quarter of FY22 and by 8.7% in 2021-22.

M. Govinda Rao, chief economic adviser, Brickwork Ratings, who estimates the economy to expand by 7% in 2022-23, said while capacity utilization has shown a steady increase, "acceleration in manufacturing growth will have to come from additional investments. "With increasing interest rates that is likely to be a challenge," said Rao.

The RBI-led monetary policy committee hiked the key lending rate by another 50 basis points on Friday, for the third time in a row, taking the repo rate to pre-pandemic levels of 5.4%.

Madan Sabnavis, chief economist, BoB, said investment has been at "lower levels", with only infra-based sectors showing signs of traction. "While sector wise growth rates would be numerically high, the push from industry will be limited with the consumer segment not yet returning to normal." Sabnavis expects GDP growth in the June quarter to be 14.5-15%. "This growth comes over a high base growth, but would translate into 5-5.4% over the first quarter of FY20," Sabnavis said.

HDFC Bank estimates GDP growth in the fiscal first quarter at 14.3%, as shown by the pick-up in economic activity, despite global headwinds. "A broad-based improvement in high frequency indicators was seen across consumption, industry, investment and contact-intensive services sectors. That said, some slowdown was seen in exports. In addition, base effect is also at play which is keeping year-on-year number elevated in Q1," said Swati Arora, senior economist, HDFC Bank.