

**March 1, 2018**

**India Macro**

- India economic growth sobers with Real GDP expanding 7.2% YoY from a tepid 6.5% in Q2 and 5.7% in Q1. Real GVA registres a growth improves to 6.7% YoY from 6.2% in Q2 and 5.6% in Q1. The growth matrix has moved higher from a comparable 6.8% in Q3FY17 and better than the Bloomberg Consensus for 7% but lower to our own estimates for 7.3% GDP growth and 7.2% on GVA front.
- For the period under review volatility in GST collections/refunds comparaded to Q3FY17 (being demonetization period) which had a low base led to wider gap of 0.5% between the GVA and the GDP. Segmentwise Real GVA growth reflects
  - Agriculture GVA growth stood at 4.1% YoY in Q3FY18 vs 2.7% in Q2
  - Industries GVA Growth stood at 6.8% YoY in Q3 vs 7% in Q2
  - Services GVA Growth accelerated to 7.6% in Q3 YoY from 6.6% in Q2.
- The internals of ~51 bps increase in Q3FY18 Real GVA growth to 6.71% YoY from 6.20% in Q2FY17 would explain changes in contribution and the evolving growth trajectory:
  - The contributon from Agriculture, forestry & fishing GVA increased by 0.48% to 0.70% in Q3FY17;
  - The contribution from Industrial GVA (comprising of "Mining", "Manufacturing" and "Electricity, Gas. Water Supply & Other Utility Services") saw a decline of 0.09% to 1.52% in Q3 from 1.61% in Q2 of this fiscal.
  - Finally the Services GVA contribution improved 0.1% to 4.39% YoY from the previous quarter. Services GVA comprises of GVA from "Construction", "Trade, Hotels, Transport, communication and Services related to Broadcasting", "Financials, Real Estate & Professional Services" and "Public administration, defence and Other Services"
- We were negatively surprised with moderation in manufacturing GVA and contraction in Mining segment. Pickup in Construction growth, also seen to be the fastest quarterly growth trajectory in this series (2011-12 base) was the most encouraging development.
- The 2nd Advanced Estimates (AE) for Crop Production released earlier this weak pointed to increase in food grain production by 0.7% which led to a surprisingly better growth from Agriculture GVA as against First AE when the food grain production was estimated to be -2.8% from the previous year. Contribution from agriculture GVA widens to 0.8% in Q3FY18 an increase of 0.5% from Q2 explaining the shift in GVA growth to 6.7% in Q3 from 6.2% in Q2. The second advanced estimates for major crop production however needs to be read with caution as hailstorms in parts of MP, UP and Maharashtra has destroyed crops which may get reflected into third advanced estimates.
- Pickup in Construction growth, also seen to be the fastest quarterly growth trajectory in this series (2011-12 base) was the most encouraging development contributing to 0.5% of the GVA for the Q3FY18 an increase of 0.3% from Q2.

**GVA at Basic Prices (constant 2011-12 prices)**

Item	Rates of Growth (YoY) in %									
	2016-17				2017-18			April to Dec		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	2016-17	2017-18	
Agriculture	4.3	5.5	7.5	7.1	2.7	2.7	4.1	6.0	3.3	
Mining& Quarrying	10.5	9.1	12.1	18.8	1.8	7.1	-0.1	10.6	2.6	
Manufacturing	9.9	7.7	8.1	6.1	-1.8	6.9	8.1	8.6	4.3	
Electricity, gas, water supply & other Utility Services	12.4	7.1	9.5	8.1	7.1	7.7	6.1	9.6	7.0	
Construction	3.0	3.8	2.8	-3.9	1.5	2.8	6.8	3.2	3.7	
Trade, hotels, transport, communication and services related to broadcasting	8.9	7.2	7.5	5.5	8.4	9.3	9.0	7.9	8.9	
Financial, real estate & professionalservices	10.5	8.3	2.8	1.0	8.9	6.4	6.7	7.5	7.3	
Public administration, defence and other services.	7.7	8.0	10.6	16.4	13.2	5.6	7.2	8.8	8.4	
<b>GVA at Basic Prices</b>	<b>8.3</b>	<b>7.2</b>	<b>6.9</b>	<b>6.0</b>	<b>5.6</b>	<b>6.2</b>	<b>6.7</b>	<b>7.5</b>	<b>6.2</b>	

Source: CSO, Sunidhi Research

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**Expenditures GDP at Market Prices (constant 2011-12 prices)**

Item	Rates of Growth (%)								
	2016-17				2017-18			April to Dec	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	2016-17	2017-18
1. Private Final Consumption Expenditure (PFCE)	8.3	7.5	9.3	4.2	6.6	6.6	5.6	8.4	6.2
2. Government Final Consumption Expenditure	8.3	8.2	12.3	22.5	17.1	2.9	6.1	9.5	8.4
3. Gross Fixed Capital Formation (GFCF)	15.9	10.5	8.7	6.0	1.6	6.9	12.0	11.7	6.8
4. Change in Stocks	-60.5	-61.2	-61.1	-61.8	-2.8	5.8	7.0	-60.9	3.3
5. Valuables	-10.5	-18.8	-17.0	-9.0	125.5	56.5	40.8	-15.7	73.7
6. Exports	3.6	2.4	6.7	7.0	5.9	6.5	2.5	4.2	4.9
7. Less Imports	0.1	-0.4	10.1	6.6	16.0	5.4	8.7	3.2	9.9
8. Discrepancies	-44.8	20.4	30.2	68.0	25.2	-25.3	-36.6	-30.1	8.6
<b>GDP at market prices</b>	<b>8.1</b>	<b>7.6</b>	<b>6.8</b>	<b>6.1</b>	<b>5.7</b>	<b>6.5</b>	<b>7.2</b>	<b>7.5</b>	<b>6.4</b>

Source: CSO, Sunidhi Research

**Expenditure GDP growth at 7.2%**

- Expenditure GDP (constant 2011-12 prices) grows 7.2% YoY in Q3FY18 the most since Q2 FY17 led by GFCF and GFCE.
- The reflection of strong pickup in construction activities was also mirrored into Gross Fixed Capital Formation improving to 32.4% of GDP in Q3 FY18 the highest share since Q1 FY17 when it stood at 32.5%. The growth in GFCF of 11.9% YoY was encouraging and is seen be the bright spot in the entire GDP report.
- Private Final Consumption Expenditure (PFCE) makes another dent with growth moderating to 5.6% YoY in Q3 FY18 from 6.6% in Q1 and Q2. While, Government Final Consumption Expenditure pace increased to 6.1% in Q3 FY18 from 2.9% in Q2FY18 the Total Final Consumption Expenditure growth easing to 5.7% As a percent of GDP TFCE stood at 69% in Q3FY18 vs a comparable 70% in Q3FY17.

**Paring our growth estimates****..... for FY18**

- The Second Advanced Estimates pegs Q4FY18 nominal GDP growth at 8.2% and with GDP deflator ~ 1% is suggesting a 7.1% Real GDP Growth in Q4FY18 as against the GDP Deflator of 4.4% implicit for Q3FY18.
- In view of the evolving data release, we pare our GDP Estimates to register a growth of 6.4% from our earlier estimates at 6.7% where Q4 is expected to show a truncated growth of ~6.1% from 7.2% in Q3FY18 given the variation in tax collection for the final three months vis-à-vis corresponding period of last year.
- We also revise lower our GVA estimates for Q4 FY18 to 6.6% from our earlier estimates of 7.2% and now expect FY18 annual GVA growth of 6.3% from our earlier estimates at 6.6%.

**.....for FY19**

- Further for FY19, we trim down our FY19 GDP and GVA growth forecast to 7% from our earlier estimates for a 7.2% growth. Rising borrowing costs, steadily rising crude oil prices has led us to pare the Real GDP growth forecast with upside risk to the Inflation trajectory.
- We are working with annual CPI Inflation of ~4.6% for FY19 vs ~3.6% in FY18 and WPI Inflation is seen hardening to 3.4% in FY19 from ~3% in FY18.

**Final Thoughts**

- India's growth moderation to ~6.5% for FY18 from 7.1% in FY17 is seen to be taking a turn for the upside with FY19 growth pegged at 7%.
- While the Growth is seen gradually nudging higher, we still believe these are early days for the monetary policy tightening as an extended pause is warranted for the growth internals to stabilize.



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