



GROSS DOMESTIC PRODUCT

Q2 FY2023 GDP growth pegged at 6.3%, similar to our forecast; external slowdown poses chief risk to H2 FY2023 growth

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HIGHLIGHTS



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YoY growth in GDP in Q2 FY2023 (+6.3%) printed broadly in line with our forecast (+6.5%)

Industrial GVA was dragged down by the contraction in mining and manufacturing in Q2 FY2023

While the sequential momentum of high frequency indicators remained healthy in Oct 2022, the YoY growth eased owing to early onset of festive season

We will review our GDP growth forecast of 7.2% for FY2023 after high frequency data for November 2022 becomes available; deepening of external slowdown poses key downside risk

With a normalising base effect related to the waning of Covid 2.0, India's GDP growth halved to 6.3% in Q2 FY2023 from 13.5% in Q1 FY2023 in year-on-year (YoY) terms, printing similar to our forecast (+6.5%). However, relative to the respective pre-Covid quarters, the pace of growth doubled to 7.6% in Q2 FY2023 from 3.8% in Q1 FY2023, which we believe provides a more meaningful gauge of the underlying momentum of economic activity. The YoY GDP growth in Q2 FY2023 was boosted by the performance of private final consumption expenditure (PFCE: +9.7%) and gross fixed capital formation (GFCF: +10.4%), whereas government final consumption expenditure (GFCE: -4.4%) displayed a contraction, and net exports exerted a deeper drag. The GVA growth of 5.6% in Q2 FY2023 trailed our forecast (+6.3%) by a wide margin. While the services sector (+9.3%) expectedly stood out as the clear driver of the GVA growth in Q2 FY2023, the 4.6% growth in agriculture, forestry and fishing seems somewhat optimistic, based on the decidedly mixed YoY trend revealed by the first advance estimates (AE) of the kharif crop, that were followed by unseasonal heavy rainfall towards the end of the monsoon season. With the Q2 FY2023 GDP growth only mildly below our forecast, our current full year growth estimate for FY2023 of 7.2% entails a modest rise of 5.0% in H2 FY2023, to which a deepening of the external slowdown poses the key downside risk.

- **YoY GDP growth eased to 6.3% in Q2 FY2023:** As per the initial data published by the NSO, India's real GDP growth eased to 6.3% in Q2 FY2023 (ICRA's exp.: +6.5%) from 13.5% in Q1 FY2023, led by a normalising base. While the YoY performance of PFCE (+9.7%) and GFCF (+10.4%) boosted growth in Q2 FY2023, the contraction in GFCE (-4.4%) and a widening in net exports exerted a drag on GDP. Encouragingly, the real GDP exceeded the pre-Covid levels of Q2 FY2020 by 7.6% in Q2 FY2023, twice as high as the previous quarter.
- **GVA growth pegged at 5.6% YoY in Q2 FY2023:** The GVA growth moderated to 5.6% in Q2 FY2023 from 12.7% in Q1 FY2023, trailing our forecast (+6.3%) by a wide margin. This was mainly led by an unexpected contraction in manufacturing (-4.3%), that seems to reflect the impact of high input prices on margins in certain sectors, while the services sector stood out as the clear driver of growth in Q2 FY2023. GVA growth in agriculture, forestry and fishing has been estimated at 4.6% in Q2 FY2023, which seems optimistic based on the decidedly mixed 1st AE of kharif crop production. Notably, GVA exceeded the pre-Covid levels by 7.6% in Q2 FY2023.
- **GDP growth forecast for FY2023 maintained at 7.2%:** While the sequential momentum of several high frequency indicators was healthy in Oct 2022, the YoY growth eased due to the early onset of festive season, as seen in the muted 0.1% rise in the core sector output in Oct 2022. We will review our forecasts once the high frequency data for the full month of Nov 2022 is available, as the average trends for Oct-Nov would provide a better gauge to assess the growth momentum in the ongoing quarter given the shift in the festive calendar in 2022 vs. 2021. With the Q2 FY2023 GDP growth only mildly below our forecast, our current full year growth estimate for FY2023 of 7.2% entails a modest rise of 5.0% in H2 FY2023, to which a deepening of the external slowdown poses the key downside risk.
- **Quantum of rate hike may be abridged to 35 bps in Dec 2022 policy:** The Q2 FY2023 GDP growth turned out to be in line with the MPC's forecast for that quarter. With the CPI inflation likely to have softened further in Nov 2022 from 6.8% in Oct 2022, we foresee a smaller rate hike of 35 bps in the Dec 2022 policy review, vis-à-vis 50 bps in the last three reviews. The MPC's decision is likely to be non-unanimous, which may lend itself to a neutral tone regarding the pace and timing of future rate hikes.

Overview

YoY economic performance in Q2 FY2023: The YoY expansion in GDP (at constant 2011-12 prices) in Q2 FY2023 moderated to 6.3% from 13.5% in Q1 FY2023, led by a normalising base. The print was slightly lower than our estimate of 6.5%, albeit in line with the MPC's forecast of 6.3% for that quarter. On the expenditure side, the pace of expansion in PFCE and GFCF moderated to 9.7% and 10.4%, respectively, in Q2 FY2023, from 25.9% and 20.1%, respectively, in Q1 FY2023, even as it remained healthy. Additionally, GFCE declined by 4.4% YoY in Q2 FY2023 (+1.3% in Q1 FY2023) on account of the modest de-growth in the Centre's non-interest revenue expenditure in that quarter, while net exports nearly doubled relative to the year-ago period, exerting a sizeable drag on the GDP growth.

The YoY expansion in GVA (at basic prices) eased to 5.6% in Q2 FY2023 from 12.7% in Q1 FY2023, and was lower than our expectation of 6.3%, driven by an unexpected contraction in the manufacturing sector (refer Annexures A, B and C). The performance of the services sector was quite healthy (+9.3% in Q2 FY2023, albeit lower than +17.6% in Q1 FY2023) amidst a continued recovery in demand for contact-intensive services and consumer preferences for the consumption of services over goods; this sector accounted for 5.3 percentage points (pp) of the 5.6% GVA growth in Q2 FY2023. The industrial sector recorded a contraction of 0.8% in Q2 FY2023 (+8.6% in Q1 FY2023), led by a 4.3% decline in the manufacturing GVA (+4.8%). Surprisingly, the YoY expansion in agriculture, forestry and fishing printed at 4.6% in Q2 FY2023 (+4.5% in Q1 FY2023), in contrast with the sharp decline in the kharif output of rice (-6.1%) and oilseeds (-1.3%) indicated by the 1st AE of crop production for FY2023, relative to the 4th AE for FY2022. Excluding agri, GVA growth stood at a slightly higher 5.8% in Q2 FY2023 (+14.3% in Q1 FY2023).

Exhibit 1: Growth of GDP and GVA and their components (at constant 2011-12 prices)

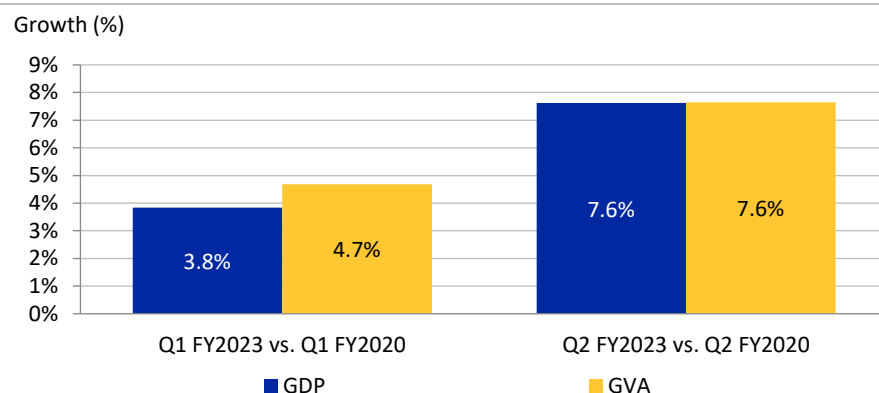
YoY (%)	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	Q2 FY2023	FY2021 RE	FY2022 PE
Private Final Consumption Exp.	10.5%	7.4%	1.8%	25.9%	9.7%	-6.0%	7.9%
Government Final Consumption Exp.	8.9%	3.0%	4.8%	1.3%	-4.4%	3.6%	2.6%
Exports	20.7%	23.1%	16.9%	14.7%	11.5%	-9.2%	24.3%
Imports	41.0%	33.6%	18.0%	37.2%	25.4%	-13.8%	35.5%
Gross Fixed Capital Formation	14.6%	2.1%	5.1%	20.1%	10.4%	-10.4%	15.8%
GDP	8.4%	5.4%	4.1%	13.5%	6.3%	-6.6%	8.7%
	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	Q2 FY2023	FY2021 RE	FY2022 PE
Agriculture, Forestry & Fishing	3.2%	2.5%	4.1%	4.5%	4.6%	3.3%	3.0%
Industry	7.0%	0.3%	1.3%	8.6%	-0.8%	-3.3%	10.3%
Services	10.2%	8.1%	5.5%	17.6%	9.3%	-7.8%	8.4%
GVA at Basic Prices	8.3%	4.7%	3.9%	12.7%	5.6%	-4.8%	8.1%
GVA ex-Agri	9.1%	5.2%	3.8%	14.3%	5.8%	-6.2%	9.1%

RE: Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

Within the services sector, the YoY growth of trade, hotels, transport and communication and services related to broadcasting (THTCS; to +14.7% from +25.7%) and public administration, defence and other services (PADOS; to +6.5% from +26.3%) fell sharply in Q2 FY2023, reflecting the base effect, while that of financial, real estate and professional services (FRP; to +7.2% from +9.2%) eased slightly in that quarter, relative to Q1 FY2023.

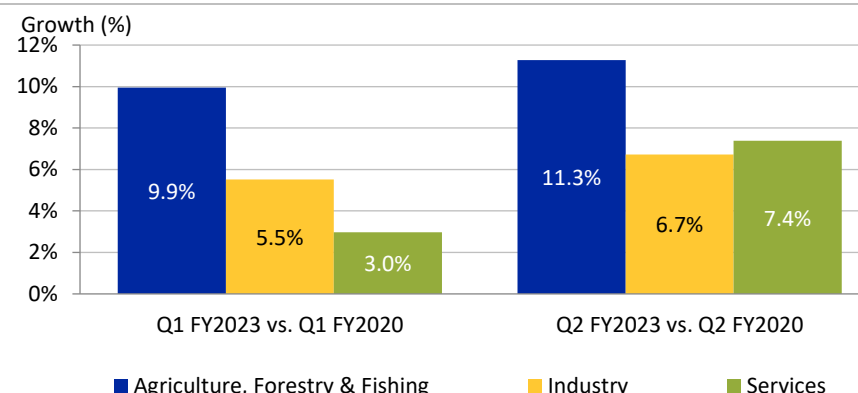
Net indirect taxes (taxes on products minus subsidies on products) expanded by 15.2% YoY in Q2 FY2023, and as a result, GDP (+6.3%) recorded a higher YoY growth relative to GVA (+5.6%), similar to the trend in Q1 FY2023.

Exhibit 2: Performance of GDP and GVA (at constant 2011-12 prices) in Q1 FY2023 and Q2 FY2023, relative to Q1 FY2020 and Q2 FY2020 (pre-Covid), respectively



Source: NSO; CEIC; ICRA Research

Exhibit 3: Sectoral performance in Q1 FY2023 and Q2 FY2023, relative to Q1 FY2020 and Q2 FY2020 (pre-Covid), respectively



Source: NSO; CEIC; ICRA Research

Performance relative to pre-Covid levels: Encouragingly, the expansion in the GDP and GVA at basic prices in Q2 FY2023, relative to the respective pre-Covid quarter recorded a significant improvement, to 7.6% each, in Q2 FY2023 from 3.8% and 4.7%, respectively, in Q1 FY2023 (refer Exhibit 2), reflecting the widening economic recovery. The rise in the absolute level of real GDP in Q2 FY2023 above the pre-Covid level of Q2 FY2020 was led by PFCE (+11.2%), GFCF (+20.8%), and exports (+25.9%), even as GFCE (-19.7%) trailed the same.

Encouragingly, relative to the pre-Covid levels of Q2 FY2020, industrial GVA was 6.7% higher in Q2 FY2023 (refer Exhibit 3), driven by electricity, gas, water supply and other utility services (+10.9%), construction (+7.6%), manufacturing (+6.3%) and mining and quarrying (+2.5%). Moreover, relative to Q2 FY2020, the GVA for services was 7.4% higher in Q2 FY2023, led by PADOS (+14.3%), FRP (+7.8%) as well as THTCS (+2.1%), which had been adversely impacted by the pandemic.

Performance of Nominal GDP in Q2 FY2023: In nominal terms, both the GDP and GVA expanded by 16.2% each on a YoY basis in Q2 FY2023, lower than the levels seen in Q1 FY2023 (+26.7% and +26.5%, respectively; refer Exhibit 4). The GDP and GVA deflator declined to 9.9% and 10.6%, respectively, in Q2 FY2023 from 13.2% and 13.8%, respectively, in Q1 FY2023. This partly reflects the softening in the CPI and WPI inflation during Q2 FY2023, relative to Q1 FY2023, with the latter partly reflecting a moderation in global commodity price pressures.

Exhibit 4: Trends in GDP and GVA deflator

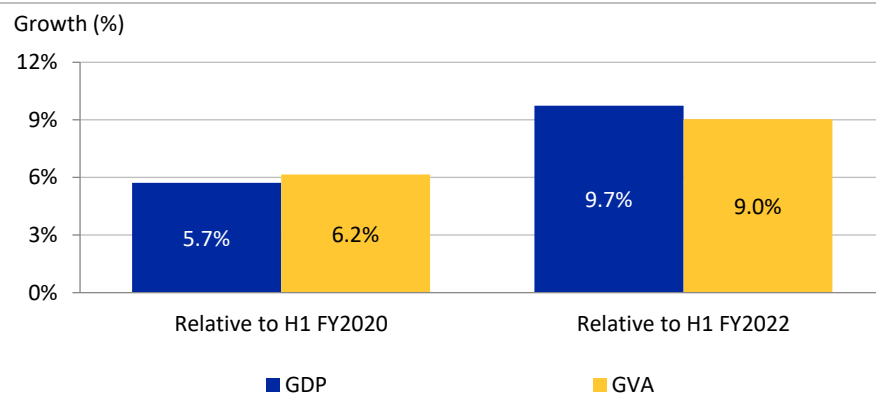
GDP	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	Q2 FY2023	GVA at Basic Prices	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	Q2 FY2023
Constant	8.4%	5.4%	4.1%	13.5%	6.3%	Constant	8.3%	4.7%	3.9%	12.7%	5.6%
Current	19.0%	15.7%	14.9%	26.7%	16.2%	Current	17.9%	15.6%	15.2%	26.5%	16.2%
Deflator	10.6%	10.3%	10.8%	13.2%	9.9%	Deflator	9.6%	10.9%	11.3%	13.8%	10.6%

Source: NSO; CEIC; ICRA Research

Real GDP and GVA rose by 9.7% and 9.0%, respectively, during H1 FY2023: India's GDP (at constant 2011-12 prices) and GVA at basic prices recorded a growth of 9.7% and 9.0%, respectively, in H1 FY2023, lower than the growth recorded in H1 FY2022 (+13.7% and +12.8%, respectively; refer Exhibit 5). The growth seen in GDP in H1 FY2023 was largely driven by PFCE (+17.2%) and GFCF (+15.0%). Moreover, the GDP exceeded the pre-Covid level of H1 FY2020 by 5.7% in H1 FY2023, led by GFCF (+13.5%) and PFCE (+10.5%), even as GFCE (-5.8%) lagged during this period. Given the growth of 9.7% in GDP in H1 FY2023, the Indian economy would need to grow by 4.6% YoY in H2 FY2023, to meet the MPC's FY2023 projection of 7.0%. Likewise, GDP would need to expand by a slightly higher 5.0% in H2 FY2023, in order to meet ICRA's projection of 7.2% for FY2023, the key downside to which is posed by a weak outlook for the external sector.

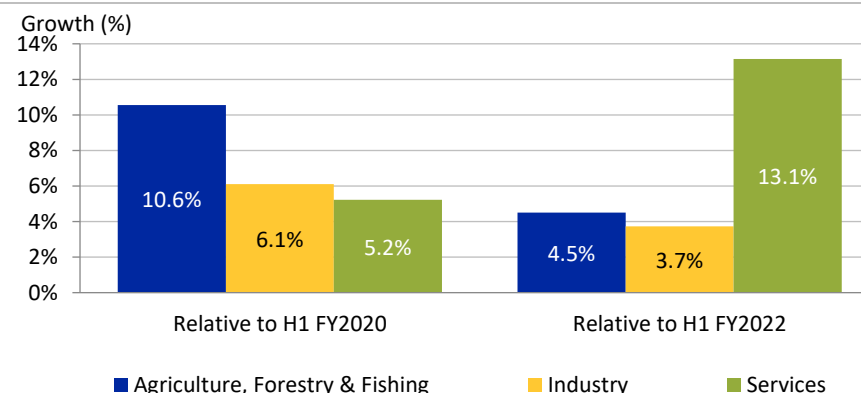
The 9.0% growth in GVA in H1 FY2023 was led by services (+13.1%), followed by agriculture, forestry and fishing (+4.5%) and industry (+3.7%; driven by construction and electricity, gas, water supply and other utility services). Moreover, the GVA exceeded the H1 FY2020 levels by 6.2% in H1 FY2023, led by agriculture (+10.6%), industry (+6.1%) and services (+5.2%; refer Exhibit 6).

Exhibit 5: Performance of GDP and GVA in H1 FY2023, relative to H1 FY2022 and H1 FY2020 (pre-Covid)



Source: NSO; CEIC; ICRA Research

Exhibit 6: Sectoral performance in H1 FY2023, relative to H1 FY2022 and H1 FY2020 (pre-Covid)



Source: NSO; CEIC; ICRA Research

OUTLOOK

The area sown under the rabi crops for FY2023 has risen by 7.2% YoY as on Nov 25, 2022, led by rapeseed and mustard (+14.4%), wheat (+10.5%), and rice (+9.7%, on a small base). While the excess rainfall during Sep-Oct 2022 may pose downside risks to the kharif output, the healthy reservoir levels and early pick-up in sowing has brightened the prospects for rabi crops. Paddy procurement by the Government in the current kharif marketing season has increased by ~9% YoY to 30.6 million tonnes till Nov 28, 2022, auguring well for farm cash flows and sentiments. We are cautiously optimistic that the rural farm demand will improve somewhat in H2 FY2023, following the generation of farm cash flows from the kharif harvest.

The contact-intensive segment of the services sector displayed a robust recovery in H1 FY2023, benefitting from the pent-up demand for leisure travel, resumption of corporate travel, and rising confidence levels amongst households. The demand for such services is likely to remain upbeat in the near term with the onset of wedding and holiday seasons, auguring well for associated sectors such as transport/mobility, hotels, and restaurants. Moreover, the other services segment of PADOS, which includes education, healthcare, recreation, and other personal services are likely to see sustained demand in the remainder of this fiscal, amidst a low base and a reopening across these segments.

The output volumes of some industrial sectors such as infra/construction are likely to pick-up sequentially in H2 FY2023 after the end of monsoon season, amidst expectations of a pick-up in capex by the Centre and the states. Further, the manufacturing output is likely to be supported by festive demand for goods in Q3 FY2023, notwithstanding the slowdown in merchandise exports. Consequently, the unadjusted CU of the manufacturing sector is expected to rise to ~75-76% in Q3 FY2023 from 72.4% in Q1 FY2023. However, the sustenance of demand for goods post the festive season is uncertain given the continued preference towards the consumption of services, and this would guide the trend for private capex announcements going forward. With multiple states holding investor meets in Q3 FY2023, the new project announcements are expected to spike in this quarter, although the intent to invest may not be immediate.

The Gol's capex is budgeted to rise by a sharp 26.6% to Rs. 7.5 trillion in FY2023 BE over the FY2022 Prov., largely on account of the increase in the size of the "special assistance to states for capital investment" (to Rs. 1.0 trillion in FY2023 BE from sub-Rs. 0.2 trillion in the previous two years). After a muted trend in H1 FY2023, the amount released has jumped in October 2022. A further step up on this account in the remainder of H2 FY2023 would be key for the Centre to meet its budgeted capex target for the fiscal.

While the combined capital outlay of 24 state governments is budgeted to expand by 35.5% to Rs. 6.6 trillion in FY2023, the YoY growth was muted in H1 FY2023 (+2.1%). The ample fiscal space available with the states should result in a faster execution of capex projects in H2 FY2023; this would play an important role in supporting investment demand and overall economic activity during this period¹.

While the sequential momentum of several high frequency indicators was healthy in Oct 2022, the YoY growth eased due to the early onset of festive season, as seen in the muted 0.1% rise in the core sector in Oct 2022. We will review our forecasts once the high frequency data for the full month of Nov 2022 is available, as the average trends for Oct-Nov would provide a better gauge to assess the growth momentum in the ongoing quarter given the shift in the festive calendar in 2022. With the Q2 FY2023 GDP growth only mildly below our forecast, our current full year growth estimate for FY2023 of 7.2% entails a modest rise of 5.0% in H2 FY2023, to which a deepening of the external slowdown poses the key downside risk.

¹ Refer to ICRA's [publication](#), Massive YoY growth of 57% needed in H2 FY2023 capital outlay for 18 state governments to meet their FY2023 BE target, published in November 2022.

GVA AT BASIC PRICES

GVA growth eased to 5.6% YoY in Q2 FY2023: The YoY expansion in GVA (at basic prices) moderated to 5.6% in Q2 FY2023 (+8.3% in Q2 FY2022) from 12.7% in Q1 FY2023 (+18.1% in Q1 FY2022), owing to a normalising base, while trailing our forecast (+6.3%). The deterioration in the YoY performance of GVA in Q2 FY2023 was broad-based across all the sub-sectors, as discussed below (refer Exhibit 7).

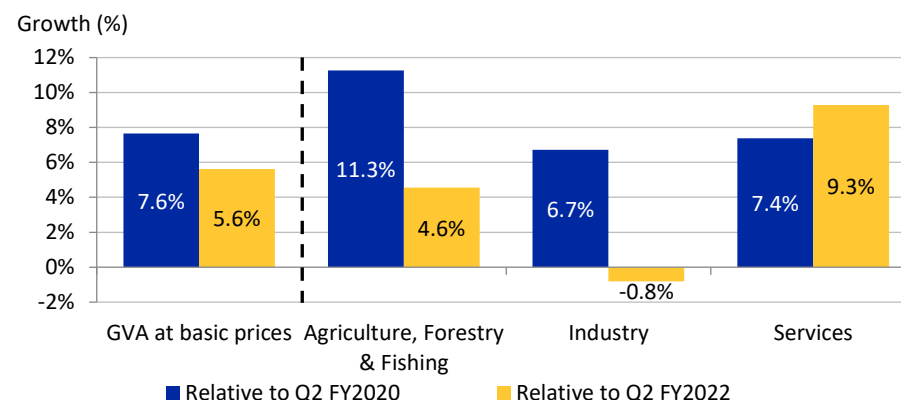
Services was the fastest growing sector in Q2 FY2023: The GVA of the services sector witnessed a healthy YoY expansion of 9.3% in Q2 FY2023 (+10.2% in Q2 FY2022; in line with ICRA's exp.), although it eased from 17.6% recorded in Q1 FY2023 (+10.5% in Q1 FY2022; refer Exhibit 8). This moderation in Q2 FY2023 was driven by PADOS (to +6.5% in Q2 FY2023 from +26.3% in Q1 FY2023), THTCS (to +14.7% from +25.7%), and FRP (to +7.2% from +9.2%). Overall, services accounted for a significant 5.3 pp of the 5.6% GVA growth in Q2 FY2023, led by FRP (+1.9%) and THTCS (+2.5%).

The YoY expansion in the GVA of THTCS recorded a base-effect led moderation to 14.7% in Q2 FY2023 (+9.6% in Q2 FY2022) from 25.7% in Q1 FY2023 (+34.3% in Q1 FY2022), while remaining healthy, led by the recovery in travel-related services since the onset of FY2023, benefitting from pent-up demand related to corporate travel and increasing confidence for availing leisure services amidst a wide vaccination coverage.

The GVA growth of PADOS eased to a five-quarter low 6.5% in Q2 FY2023 (+19.4% in Q2 FY2022) from 26.3% in Q1 FY2023 (+6.2% in Q1 FY2022), partly reflecting the fading of the favourable base. Additionally, the GoI's non-interest revenue expenditure contracted by 1.4% in Q2 FY2023 (+3.5% in Q1 FY2023), even as the combined revex of the 24 state governments for which data is available (all states except Arunachal Pradesh, Assam, Goa, and Manipur), posted a considerable YoY growth of 16.7% in that quarter.

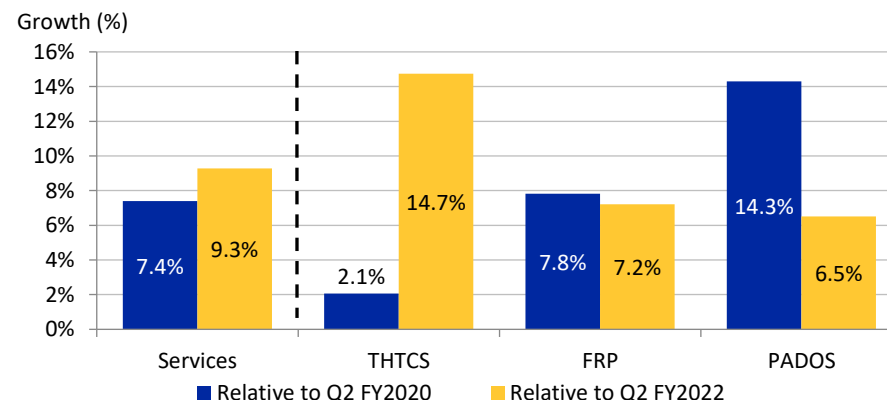
While the YoY growth in the FRP GVA remained healthy, it eased to 7.2% in Q2 FY2023 (+6.1% in Q2 FY2022) from 9.2% in Q1 FY2023 (+2.3% in Q1 FY2022). This can be attributed to the robust growth in the non-food bank credit (+16.9%), and a healthy growth in CP volumes (+8.1%) during this quarter, even as growth in the volumes of corporate bonds saw a slight moderation.

Exhibit 7: Performance of GVA and its Components in Q2 FY2023 relative to Q2 FY2022 and Q2 FY2020 (pre-Covid)



Source: NSO; CEIC; ICRA Research

Exhibit 8: Performance of Services and its Components in Q2 FY2023 relative to Q2 FY2022 and Q2 FY2020 (pre-Covid)



Source: NSO; CEIC; ICRA Research

Industry slipped into a YoY contraction of 0.8% in Q2 FY2023: Industrial GVA slipped into a YoY decline of 0.8% in Q2 FY2023 (+7.0% in Q2 FY2022) after a gap of eight quarters. This was led by the YoY contraction in manufacturing (-4.3%) and mining (-2.8%), partly offsetting the moderate growth in electricity, gas, water supply and other utility services (+5.6%) and construction (+6.6%; refer Exhibit 9). Industry exerted a drag of 0.2 pp on the GVA growth in Q2 FY2023, driven by manufacturing (-0.8pp) and mining (-0.1pp).

Notably, the manufacturing GVA slipped into an unexpected YoY contraction of 4.3% in Q2 FY2023 (nine-quarter low; +5.6% in Q2 FY2022), after expanding by 4.8% in Q1 FY2023 (+49.0% in Q1 FY2022), reflecting the impact of high input prices on margins in certain sectors and an anaemic growth in volumes as per the trends in manufacturing IIP (to +1.4% in Q2 FY2023 from +12.8% in Q1 FY2023). Base normalisation, weak external demand, and subdued domestic demand for goods amidst continued consumer preference for services also led to the deterioration in the manufacturing GVA performance in Q2 FY2023.

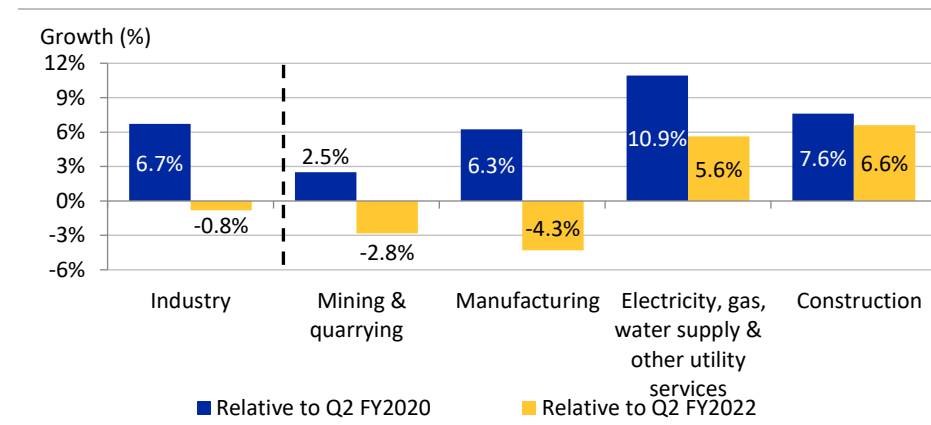
On a similar note, the GVA of mining and quarrying contracted by 2.8% in Q2 FY2023 (six-quarter low; +6.5% in Q1 FY2023; +14.5% in Q2 FY2022). As per the IIP data, the mining output dipped by 1.0% YoY in Q2 FY2023 (+9.1% in Q1 FY2023), reporting a contraction after a gap of five quarters, partly reflecting the impact of monsoon on mining activity.

Moreover, the GVA of electricity, gas, water supply and other utility services moderated to 5.6% in Q2 FY2023 (+8.5% in Q2 FY2022) from 14.7% in Q1 FY2023 (+13.8% in Q1 FY2022), partly reflecting the impact of the monthly pattern of actual monsoon rainfall.

Led by the moderation in volumes of cement (to +4.8% in Q2 FY2023 from +17.2% in Q1 FY2023) and steel (to +6.1% from +6.9%), the construction GVA dipped to 6.6% in Q2 FY2023 (+8.1% in Q2 FY2022) from 16.8% in Q1 FY2023 (+71.3% in Q1 FY2022).

Agri GVA growth stayed elevated at 4.6% in Q2 FY2023: The GVA growth in agriculture, forestry and fishing was pegged at 4.6% in Q2 FY2023, printing above 4.0% for the third consecutive quarter (+4.1% in Q4 FY2022; +4.5% in Q1 FY2023). This seems optimistic based on the decidedly mixed 1st AE of kharif crop production (refer Exhibit 10), that were followed by unseasonal heavy rainfall towards the end of the monsoon season. In addition, this sector accounted for a mild 0.6 pp of the 5.6% GVA growth in Q2 FY2023.

Exhibit 9: Performance of Industry and its Components in Q2 FY2023 relative to Q2 FY2022 and Q2 FY2020 (pre-Covid)



Source: NSO; CEIC; ICRA Research

Exhibit 10: Trends for production of kharif crops (million tonnes) as per 1st AE for FY2023

In Million Tonnes	Kharif Production		
	4 th AE FY2022	1 st AE FY2023	Growth
Rice	111.8	105.0	-6.1%
Coarse Cereals	35.9	36.6	1.8%
Pulses	8.4	8.4	0.0%
Oilseeds	23.9	23.6	-1.3%
Cotton*	31.2	34.2	9.6%
Sugarcane	431.8	465.0	7.7%

*Million bales of 170 kgs. each; Source: Ministry of Agriculture, Govt; CEIC; ICRA Research

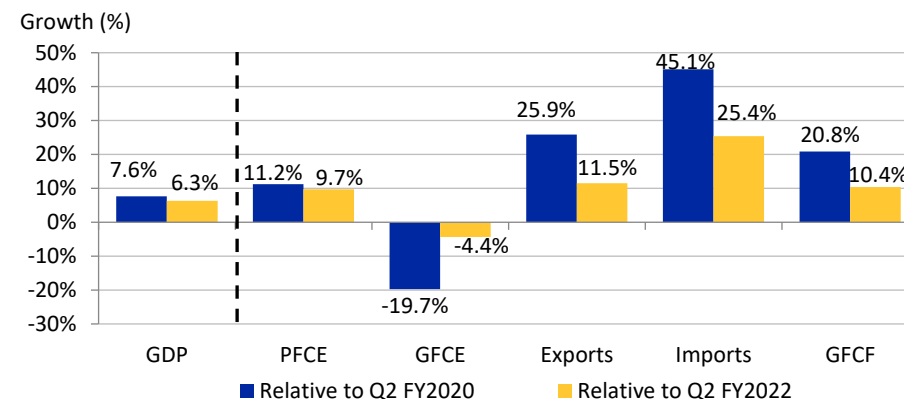
EXPENDITURE ON GDP

GDP growth halved to 6.3% in Q2 FY2023 on a normalising base: Broadly in line with our forecast, the YoY growth in India's real GDP halved to 6.3% in Q2 FY2023 (ICRA's exp: +6.5%; +8.4% in Q2 FY2022) from 13.5% in Q1 FY2023 with a waning of the base effect related to Covid 2.0. The moderation in YoY growth was led by PFCE (+9.7% in Q2 FY2023; +25.9% in Q1 FY2023) and GFCF (+10.4% in Q2 FY2023; +20.1% in Q1 FY2023), amidst a larger drag displayed by net exports in the quarter (refer Exhibit 11). Moreover, GFCE slipped into a YoY contraction in Q2 FY2023 (-4.4%), after a gap of four quarters.

PFCE grew by 9.7% YoY in Q2 FY2023, also exceeded pre-Covid levels: The YoY growth in PFCE decelerated to 9.7% in Q2 FY2023 from 25.9% in Q1 FY2023 owing to the base effect (+10.5% in Q2 FY2022; refer Exhibit 12). A slowdown in rural consumption, greater preference towards consumption of services and elevated inflation weighed on the consumer goods' segment in Q2 FY2023, with the output trailing pre-Covid volumes (-3.9% over Q2 FY2020, as per the IIP data). However, PFCE exceeded the Q2 FY2020 levels by 11.2% in Q2 FY2023, benefitting from the sustained healthy demand for contact-intensive services in the quarter, amidst a continued improvement in the consumer confidence levels of households as revealed by the RBI's survey. PFCE accounted for a sizeable 5.5 pp of the 6.3% GDP growth in Q2 FY2023, and as a percentage of GDP (at current prices) stood at 61.6% in Q2 FY2023 (61.1% in Q1 FY2023 and 59.5% in Q2 FY2022).

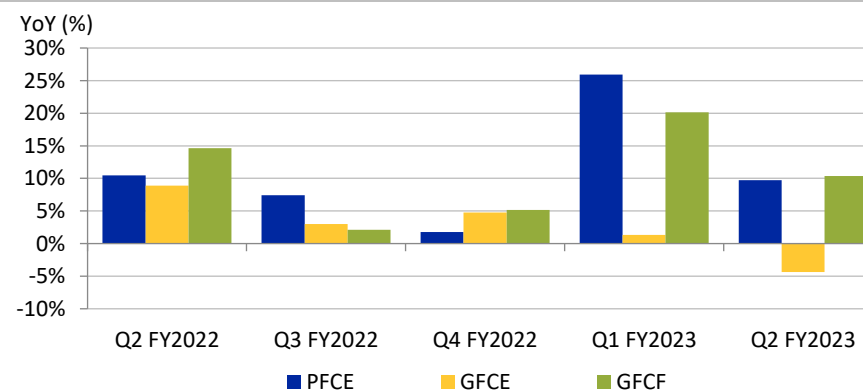
GFCF displayed a robust performance in Q2 FY2023: Even though the YoY growth in GFCF halved to 10.4% in Q2 FY2023 from 20.1% in Q1 FY2023 (+14.6% in Q2 FY2022), performance over pre-Covid levels was robust in the quarter, with an expansion of 20.8% relative to Q2 FY2020. This can be evinced by the encouraging trends revealed by investment-related indicators such as the output of capital goods (YoY: +6.8%; pre-Covid: +8.7%), infra/construction goods (+4.4%; +14.7%) and stamp duty collections (+13.5%; +56%) in Q2 FY2023. While the YoY expansion in Govt's gross capital expenditure eased to 42.4% in Q2 FY2023 from 57.0% in Q1 FY2023, it remained elevated, with the absolute level of capex in Q2 FY2023 exceeding the Q2 FY2020 levels by ~35%. Aggregate capital outlay of the aforesaid 24 state governments rose by 10.4% YoY to Rs. 1.1 trillion in Q2 FY2023; this was much higher than the capex of Rs. 0.6 trillion in Q1 FY2023,

Exhibit 11: Performance of GDP and its Components in Q2 FY2023 relative to Q2 FY2022 and Q2 FY2020 (pre-Covid)



Source: NSO; CEIC; ICRA Research

Exhibit 12: YoY trends in PFCE, GFCE and GFCF (constant 2011-12 prices)



Source: NSO; CEIC; ICRA Research

benefitting from the release of a double tranche of the monthly Central tax devolution to the states in August 2022. However, project announcements and completions were subdued in Q2 FY2023 owing to the tentativeness in the demand recovery amidst global headwinds. Moreover, GFCF accounted for 3.5 pp of the 6.3% GDP growth in Q2 FY2023. Further, GFCF as a percentage of GDP (at current prices) stood at 29.6% in Q2 FY2023 (29.2% in Q1 FY2023 and 29.4% in Q2 FY2022).

At constant 2011-12 prices, valuables contracted by 23.5% YoY in Q2 FY2023, in tune with the decline seen in the combined value of gold and silver imports in that quarter (-23.9%; source: Ministry of Commerce and Industry).

Inventories continued to accumulate in Q2 FY2023 for the sixth consecutive quarter. Inventories as a percentage of GDP (at current prices) stood at 0.8% in Q2 FY2023 (0.7% in Q1 FY2023 and 1.0% in Q2 FY2022).

GFCE contracted on a YoY basis in Q2 FY2023 after four quarters: The GFCE slipped into a YoY contraction in Q2 FY2023 (-4.4%) after a gap of four quarters (+1.3% in Q1 FY2023). This can be attributed to a weak performance of non-interest revenue expenditure by the Centre in the quarter, which displayed a decline of 1.4% on a YoY basis, and of 2.7% over Q2 FY2020 levels. In contrast, there was a healthy 16.7% YoY rise in the combined revenue expenditure of the 24 states in Q2 FY2023, for which data is available, which was also higher than the pre-Covid levels by 22.1%.

GFCE exerted a drag of 0.4 pp on the GDP growth in Q2 FY2023. Additionally, GFCE as a percentage of GDP (at current prices) dipped to 9.2% in the quarter, from 11.3% in Q1 FY2023 and 10.3% in Q2 FY2022.

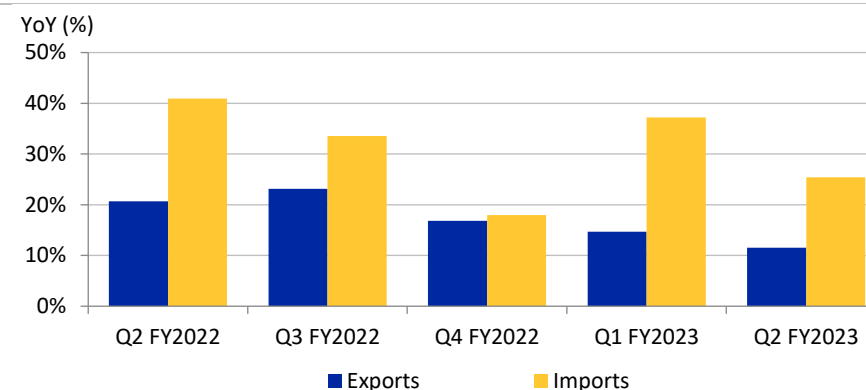
Net exports exerted a larger drag on GDP growth in Q2 FY2023: On a normalising base, the YoY growth in exports and imports, at constant prices, eased to 11.5% and 25.4%, respectively, in Q2 FY2023 from 14.7% and 37.2%, respectively, in Q1 FY2023 (refer Exhibit 13). Notably, the drag of net exports on the GDP doubled to ~Rs. 3.3 trillion from ~Rs. 1.7 trillion in Q2 FY2022. In QoQ terms, the drag widened somewhat from the Rs. 3.0 trillion

seen in Q1 FY2023, which suggests that the expected rise in the current account deficit between these two quarters will not be alarming. At current prices, the data released by the NSO indicates that the YoY expansion in exports and imports stood at 23.7% and 39.9%, respectively, in Q2 FY2023 (+32.0% and +54.8%, respectively, in Q2 FY2022).

Similarly, the data released by the Ministry of Commerce indicates that in US\$ terms, merchandise imports expanded by 29.2% YoY in Q2 FY2023 aided by buoyancy in domestic demand, whereas merchandise exports recorded a lower growth of 9.9% in the quarter², amidst a slowdown in external demand. Additionally, the data released by the RBI reveals that, in US\$ terms, both services exports and imports recorded a healthy YoY growth of 24.9% and 25.9%, respectively, in Q2 FY2023.

Discrepancies have risen in Q2 FY2023: Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components, such as PFCE, GFCE, GFCF and net exports. The discrepancies in the GDP data for Q2 FY2023 rose multi-fold to (+) Rs. 1.1 trillion (at 2011-12 prices) from (-) Rs. 67.4 billion in Q2 FY2022, indicating that the components of GDP are likely to undergo revision in the subsequent quarters.

EXHIBIT 13: YoY Growth of Exports and Imports (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

² We have implicitly calculated the Q2 FY2023 values by subtracting the Apr-Jun 2022 data from the Apr-Sep 2022 data; this is \$7.3 billion higher than the sum of the monthly numbers for Jul 2022, Aug 2022 and Sep 2022 due to revisions in the data. Based on monthly figures, the YoY growth is estimated to be much lower at 2.9% for Q2 FY2023.

ANNEXURE A

Exhibit 14: GVA at Basic Prices and its Components (YoY Growth, Constant 2011-12 Prices)

	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	Q2 FY2023	FY2021 RE	FY2022 PE
GVA at Basic Prices	8.3%	4.7%	3.9%	12.7%	5.6%	-4.8%	8.1%
Agriculture, Forestry & Fishing	3.2%	2.5%	4.1%	4.5%	4.6%	3.3%	3.0%
Industry	7.0%	0.3%	1.3%	8.6%	-0.8%	-3.3%	10.3%
Mining & Quarrying	14.5%	9.2%	6.7%	6.5%	-2.8%	-8.6%	11.5%
Manufacturing	5.6%	0.3%	-0.2%	4.8%	-4.3%	-0.6%	9.9%
Electricity, gas, water supply & other utilities	8.5%	3.7%	4.5%	14.7%	5.6%	-3.6%	7.5%
Construction	8.1%	-2.8%	2.0%	16.8%	6.6%	-7.3%	11.5%
Services	10.2%	8.1%	5.5%	17.6%	9.3%	-7.8%	8.4%
Trade, Hotels, Transport, Communication & Services related to Broadcasting	9.6%	6.3%	5.3%	25.7%	14.7%	-20.2%	11.1%
Financial, Real Estate & Professional Services	6.1%	4.2%	4.3%	9.2%	7.2%	2.2%	4.2%
Public Administration, Defence and Other Services	19.4%	16.7%	7.7%	26.3%	6.5%	-5.5%	12.6%

RE: Revised Estimates; PE: Provisional Estimates; **Source:** NSO; CEIC; ICRA Research

Exhibit 15: GDP and its Components (YoY Growth, Constant 2011-12 Prices)

	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	Q2 FY2023	FY2021 RE	FY2022 PE
GDP	8.4%	5.4%	4.1%	13.5%	6.3%	-6.6%	8.7%
PFCE	10.5%	7.4%	1.8%	25.9%	9.7%	-6.0%	7.9%
GFCE	8.9%	3.0%	4.8%	1.3%	-4.4%	3.6%	2.6%
Exports	20.7%	23.1%	16.9%	14.7%	11.5%	-9.2%	24.3%
Imports	41.0%	33.6%	18.0%	37.2%	25.4%	-13.8%	35.5%
Gross Capital Formation	26.8%	8.4%	5.2%	19.3%	5.9%	-11.4%	21.7%
GFCF	14.6%	2.1%	5.1%	20.1%	10.4%	-10.4%	15.8%
Change in Stocks	-1659.6%	-1581.7%	-1574.2%	-17.4%	-19.4%	-110.7%	-1723.9%
Valuables	171.7%	53.0%	-48.9%	49.3%	-23.5%	26.4%	41.9%
Discrepancies	-108.1%	58.4%	344.1%	-75.0%	-1749.1%	-39.8%	-9.1%

RE: Revised Estimates; PE: Provisional Estimates; **Source:** NSO; CEIC; ICRA Research

ANNEXURE B

Exhibit 16: Composition of GVA at Basic Prices (Constant 2011-12 Prices)

	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	Q2 FY2023	FY2021 RE	FY2022 PE
GVA at Basic Prices	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Agriculture, Forestry & Fishing	12.2%	18.8%	15.3%	14.3%	12.1%	16.3%	15.5%
Industry	30.7%	28.8%	32.2%	30.3%	28.8%	30.1%	30.8%
Mining & Quarrying	2.1%	2.3%	2.7%	2.5%	1.9%	2.3%	2.4%
Manufacturing	18.8%	16.8%	18.2%	17.6%	17.1%	17.9%	18.2%
Electricity, gas, water supply & other utilities	2.5%	2.1%	2.1%	2.6%	2.5%	2.3%	2.3%
Construction	7.3%	7.6%	9.1%	7.6%	7.4%	7.7%	7.9%
Services	57.1%	52.4%	52.5%	55.4%	59.1%	53.6%	53.7%
Trade, Hotels, Transport, Communication & Services related to Broadcasting	17.1%	17.9%	20.0%	16.3%	18.5%	17.1%	17.5%
Financial, Real Estate & Professional Services	26.0%	20.1%	19.2%	25.6%	26.4%	23.5%	22.7%
Public Administration, Defence and Other Services	14.1%	14.4%	13.3%	13.6%	14.2%	13.0%	13.5%

RE: Revised Estimates; PE: Provisional Estimates; **Source:** NSO; CEIC; ICRA Research

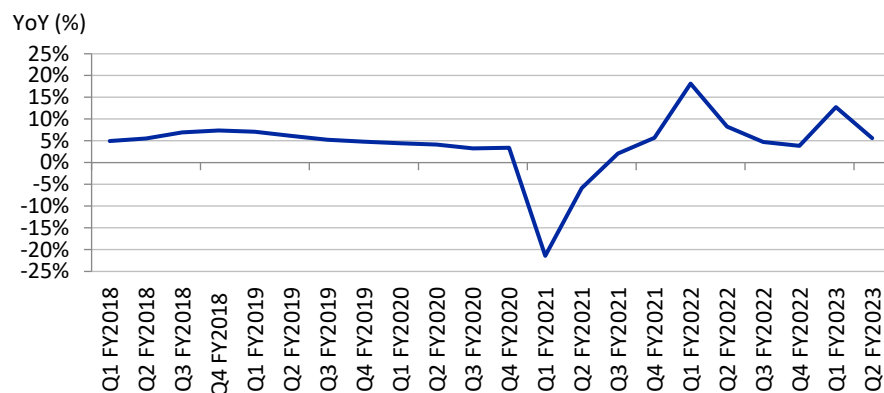
Exhibit 17: Composition of GDP and its Components (Constant 2011-12 Prices)

	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	Q2 FY2023	FY2021 RE	FY2022 PE
GDP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
PFCE	56.6%	61.0%	55.5%	59.9%	58.4%	57.3%	56.9%
GFCE	9.8%	9.3%	11.3%	11.2%	8.8%	11.3%	10.7%
Exports	22.2%	20.8%	20.8%	22.9%	23.3%	18.8%	21.5%
Imports	27.0%	26.8%	25.8%	31.0%	31.9%	21.1%	26.3%
Gross Capital Formation	38.6%	33.4%	36.1%	36.6%	38.5%	31.9%	35.7%
GFCF	33.4%	30.1%	33.6%	34.7%	34.6%	30.5%	32.5%
Change in Stocks	1.3%	1.2%	1.3%	1.0%	1.0%	-0.1%	1.3%
Valuables	4.0%	2.0%	1.3%	0.9%	2.8%	1.5%	2.0%
Discrepancies	-0.2%	2.3%	2.1%	0.3%	2.9%	1.8%	1.5%

RE: Revised Estimates; PE: Provisional Estimates; **Source:** NSO; CEIC; ICRA Research

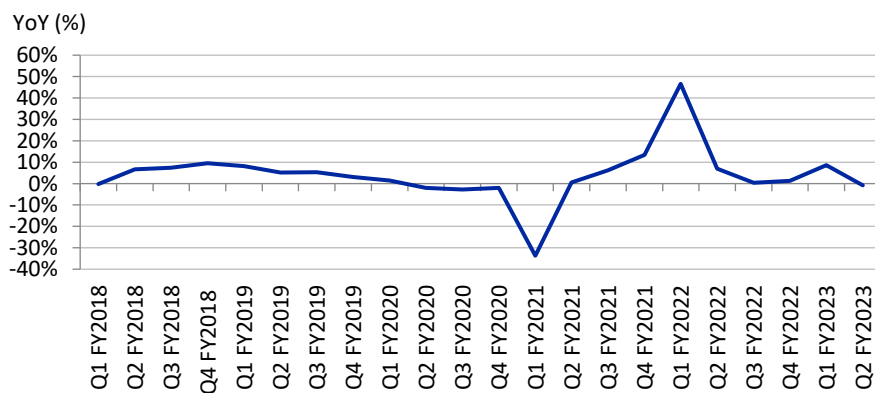
ANNEXURE C

Exhibit 18: Growth in GVA at Basic Prices (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

Exhibit 20: Growth in Industry (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

Exhibit 19: Growth in Agriculture, Forestry & Fishing (Constant 2011-12 Prices)

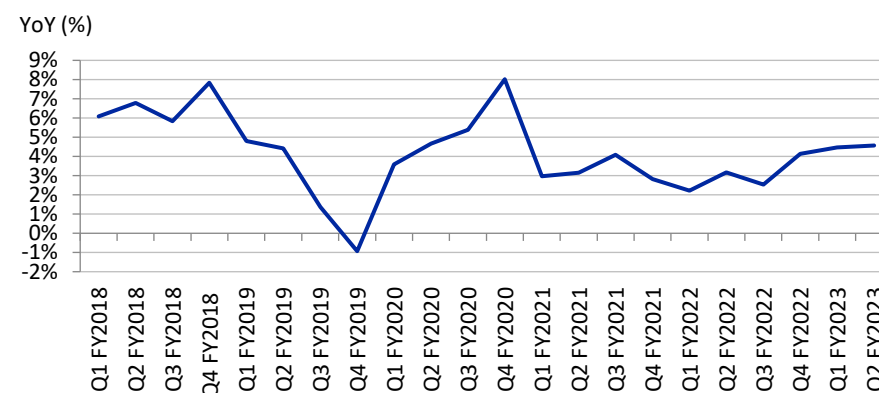


Exhibit 21: Growth in Services (Constant 2011-12 Prices)

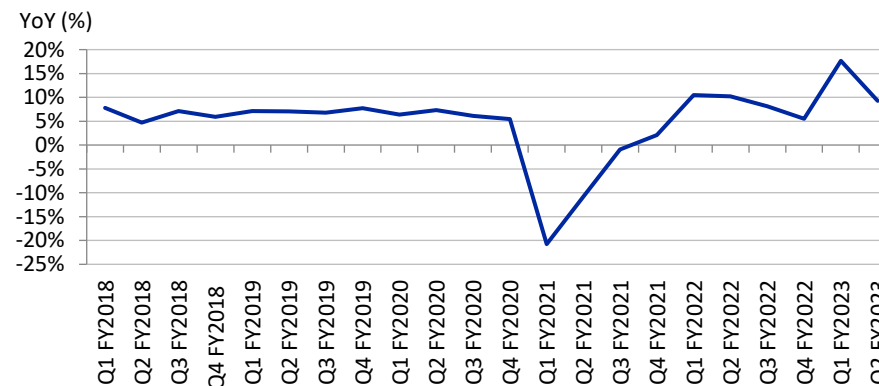
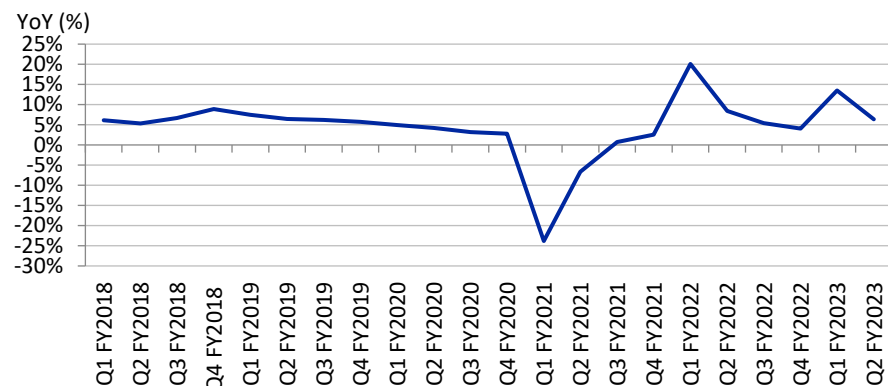
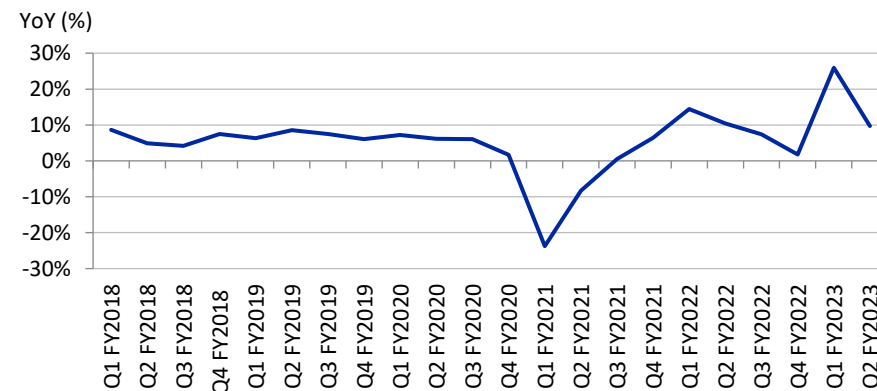
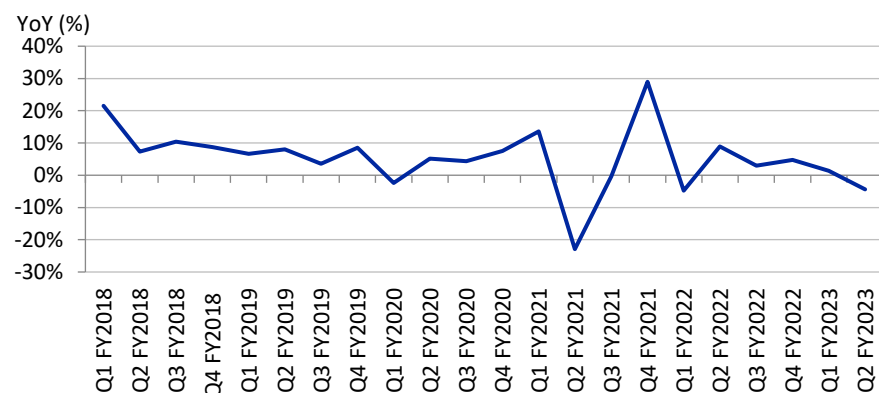
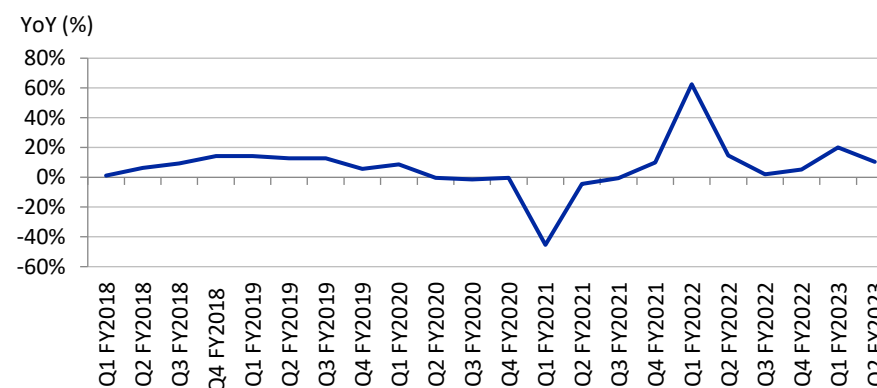


Exhibit 22: Growth in GDP (Constant 2011-12 Prices)


Source: NSO; CEIC; ICRA Research

Exhibit 23: Growth in PFCE (Constant 2011-12 Prices)

Exhibit 24: Growth in GFCE (Constant 2011-12 Prices)


Source: NSO; CEIC; ICRA Research

Exhibit 25: Growth in GFCF (Constant 2011-12 Prices)




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