Q3FY25 GDP growth revives to 6.2%; FY25 seen at 6.5%

According to latest data India's real GDP growth revived to 6.2% in Q3 FY25 from a 20 bps upwardly revised growth of 5.6% in Q2FY25, attributable to growth revival in agriculture and services sectors and a rebound in private consumption and government capex on the demand side.

Meanwhile FY 25 growth is estimated at 6.5%, marginally higher than 6.4% in the first advance estimate. There have been significantly large revisions to growth numbers in the past two financial years with FY24 GDP growth revised to 9.2% from the previous print of 8.2% while growth for FY23 was revised upwards from 7% to 7.6%. The magnitude of revisions pose a challenge to decision making and forecasting though the momentum of growth continues.

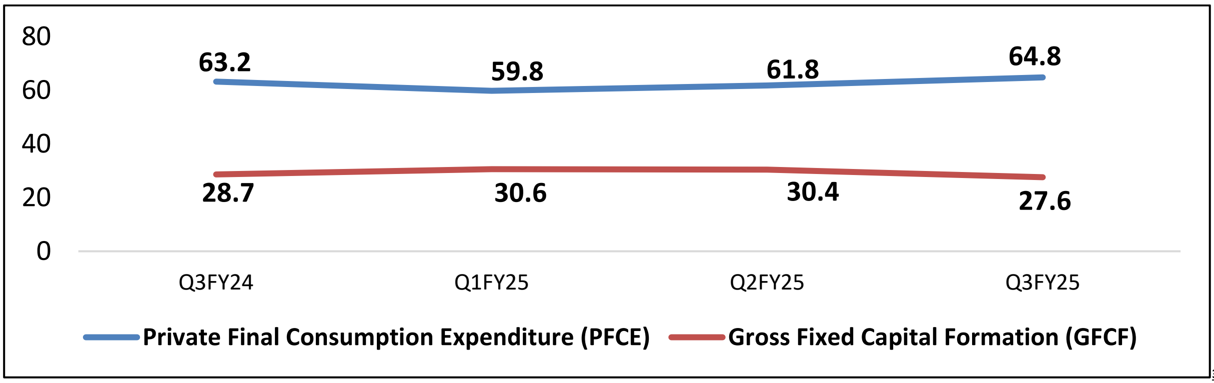
On the expenditure front, Private consumption increased by 6.9% y/y in Q3 compared to 5.9% in Q2FY25. The sequential increase in private consumption during Q2-Q3 has been sharp at 12.4% while the trend during Q1-Q2 was that of a contraction. The sharp consumption rebound in Q3 was due to an uptick in rural demand driven by good monsoon progress and robust agricultural production.
Government capex also increased to 8.3% y/y in Q3FY25 bucking the trend in the first two quarters on account of election related slowdown in economic activity. Private investment growth, proxied by gross fixed capital formation, slowed marginally to 5.7% in Q3FY25 compared to 5.8% in the previous quarter. Major reasons for slow private investments is muted corporate earnings.

Table 1: Expenditure components of GDP

	Q1 FY25	Q2 FY25	Q3 FY25	Q4FY25 (Est.)	FY25 (Proj.)
GDP	6.5	5.6	6.2	7.7	6.5
Private Consumption Expenditure *(Private Spending)*	7.7	5.9	6.9	7.4	6.8
Government capex	-0.5	3.8	8.3	2.8	3.6
Gross fixed capital formation *(private Investment)*	6.7	5.8	5.7	5.8	6.0

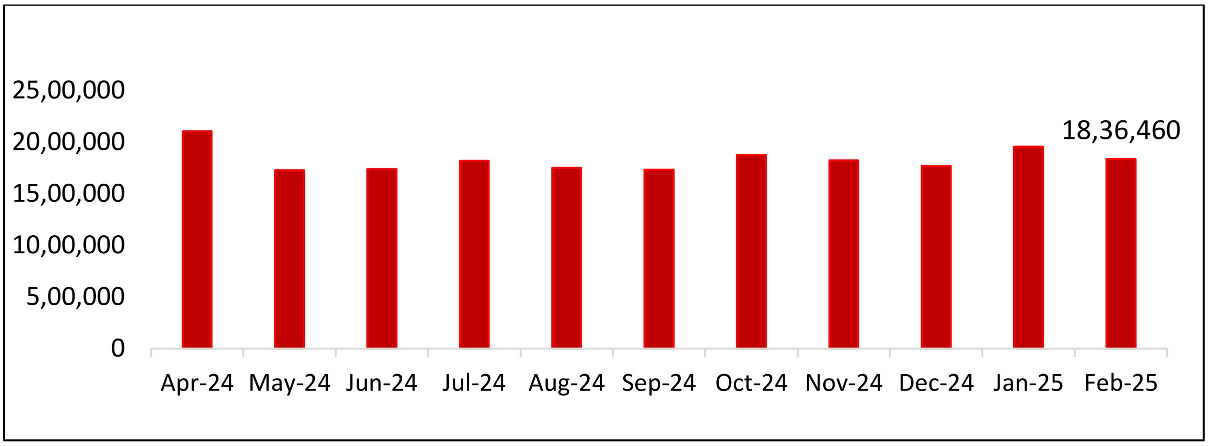
If fourth quarter metrics are derived based on full year growth estimates, a significant uptick is seen except for government capex which shows a muted trend. The uptick in consumption expected in Q4 could indeed come true if GST collections are an indication. Gross GST collections for January and February were Rs 1.84 Lakh Crore and Rs 1.96 lakh crore respectively. Government capex, however, is seen slowing down in fourth quarter as this has been the collateral damage of fiscal consolidation efforts.

Fig 1: Private consumption and Private Capex to GDP



It is evident that the ratio of consumption to GDP is on an increasing trend while private investment to GDP proxied by gross fixed capital formation, has been declining steadily evidencing muted private capex growth. Consumption growth has been buoyed by factors like improving rural demand, softening inflation, wedding season and improved rabi harvest. This trend is expected to continue in Q4 also as rabi harvest is expected to be good.

Fig 2: GST (Total)-Rs million



As the above chart shows, GST collections during Q3 (oct-dec) was higher than Q1 and Q2 while Jan and Feb 25 show higher GST collections compared to Q3. March should show better collections than February, being the month end. Moreover, Q4 is generally a period of better economic activity. These trends in GST support continuing consumption momentum in the fourth quarter.

On the sectoral front, Industry grew by 4.5% in the third quarter compared to 3.8% y in Q2. The muted industry performance is attributable to manufacturing growth slowing down to 3.5% with its weight of 60% in the industrial output acting as a drag. Utilities and construction segments posted better growth rates though construction segment growth in third quarter was lower than that in the second quarter.

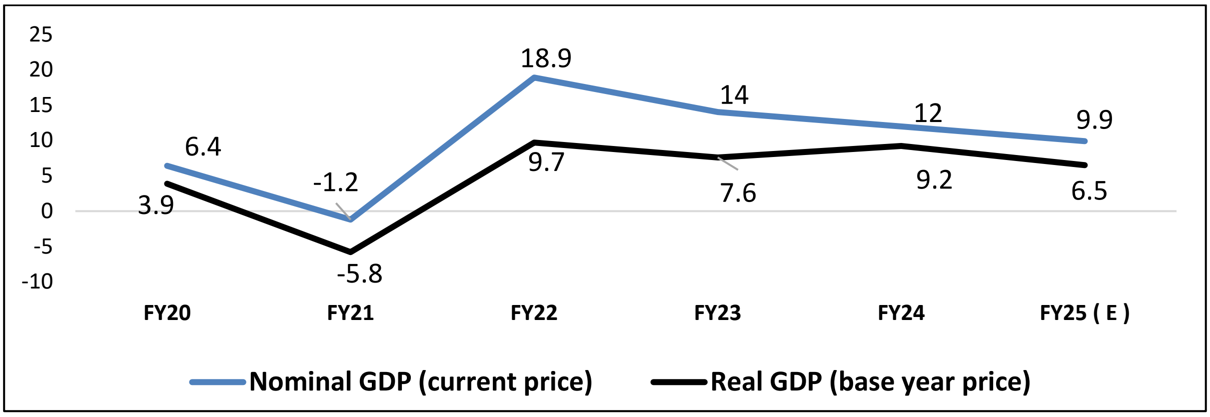
Services sector recorded a growth of 7.4% in Q3FY25 compared to 7.2% in the previous quarter.

Agricultural sector has been a major growth driver with its growth picking up to 5.6% in Q3 from 4.1% in the previous quarter, supported by above average rainfall, improved crop productivity due to use of technology and higher MSP incentivizing more output. The 4.6% agriculture output growth estimate for FY25 is not only 190 bps higher than FY24 but also exceeds the last decadal CAGR of 4.02%

Table 2: Sectoral composition of GDP Sectoral

(y/y growth, %)	FY24	Q1 FY25	Q2 FY25	Q3 FY25	FY25 ESTIMATE
GVA(gross value added)	**8.6**	**6.5**	**5.8**	**6.2**	**6.4**
Agri & allied	**2.7**	**1.7**	**4.1**	**5.6**	**4.6**
Industry	**11.4**	**8.4**	**3.8**	**4.5**	**5.8**
Mining	3.2	6.8	-0.3	1.4	**2.8**
Manufacturing	12.3	7.5	2.1	3.5	**4.3**
Utility	8.6	10.2	3	5.1	**6**
Construction	10.4	10.1	8.7	7	**8.6**
Services	**9**	**6.8**	**7.2**	**7.4**	**7.3**
Tourism, Transport & Comm	7.5	5.4	6.1	6.7	**6.4**
Financial, real estate, others	10.3	6.6	7.2	7.2	**7.2**
Public admin	8.8	9	8.8	8.8	**8.8**

Fig 2: Nominal and real GDP growth rates



The nominal GDP growth has averaged 12% in the past three years while real GDP growth averages 7.8%. Nominal GDP growth shows a decline due to softening inflationary trends. Major indicators like tax revenues, bank deposits and bank credit growth are seen to follow trends in nominal GDP growth.

Major takeaways

- The revisions to GDP growth during previous quarters happen due to better availability of data at a later stage especially with regard to unlisted companies as they publish their quarterly results quite late. However, the revisions have been large this time.
- A GDP growth estimate of 6.5% in FY25 on top of a high base of 9.2% is a robust growth scenario. The average real GDP growth for the past three years based on the data is 7.8% which is close to the ambitious growth target of 8% for a developed country status by 2047.
- These numbers suggest that Q4 FY25 GDP growth will be 7.6%.
- Manufacturing sector is seen growing below its historical trend rate of growth of 5% despite many sectors being brought under the ambit of the production linked incentive scheme.
- Revival in rural demand is expected to pick up further if the current rate of growth in the agriculture sector continues. Construction sector growth augurs well for cement industry.
- GDP growth for FY26 would depend on external factors, assuming current momentum in the domestic growth rate is maintained. However, India is engaged in bilateral trade deals with United States and European Union which could cushion the impact of global headwinds to a great extent and help us post 7% growth rate.
- As growth for FY25 is below MPC estimate of 6.6% a rate cut in April 2025 may be expected if inflation does not surprise on the upside.

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