

GDP growth slows to 6.3% in Q2 of 2022-23

GDP and Components (Y-o-Y Growth in %)

	Total	PFCE	GFCE	GCF	GFCF	Exports of goods and services	Imports of goods and services
Q2 2021-22	8.4	10.5	8.9	26.8	14.6	20.7	41.0
Q3 2021-22	5.4	7.4	3.0	8.4	2.1	23.1	33.6
Q4 2021-22	4.1	1.8	4.8	5.2	5.2	16.9	18.0
Q1 2022-23	13.5	25.9	1.3	19.3	20.2	14.7	37.2
Q2 2022-23	6.3	9.7	-4.4	5.9	10.4	11.5	25.4

Source: MoSPI, CMIE

❖ Latest GDP estimates for the second quarter of 2022-23 reported moderation across sectors. GDP growth for Q2 2022-23 was reported at 6.3 percent on a y-o-y basis, vis-à-vis 13.5 percent growth registered in Q1 of the same year. This GDP growth figure is a tad lower than the projection of 6.5 percent put out in FICCI's latest Economic Outlook Survey (October 2022). The GVA growth has been modest as well at 5.6 percent y-o-y in Q2 of 2022-23 vis-à-vis 12.8 percent growth in Q1 of 2022-23.

❖ According to economic activity wise classification, the agriculture sector reported a marginal improvement in growth numbers vis-à-vis the previous quarter. GVA of the agriculture sector grew at 4.6 percent in Q2 2022-23 on a y-o-y basis compared to 4.5 percent in Q1 2022-23. On the other hand, the industrial sector witnessed a contraction by 0.8 percent in Q2 2022-23- with the sectors of mining and manufacturing contracting by 2.8 percent and 4.3 percent y-o-y, respectively. The muted performance of the manufacturing sector reflects the impact of high input prices, normalizing base and subdued demand. Moreover, at 5.6 percent and 6.6 percent, the electricity and construction sectors also witnessed a moderation in y-o-y growth rates respectively in Q2 FY23, after posting double digit growth in Q1 2022-23.

❖ The services sector, on the other hand, cushioned the economy's growth to some extent by registering a y-o-y expansion of 9.3 percent in Q2 2022-23. This growth, however, was lower compared to 17.7 percent growth recorded in Q1 2022-23. A revival in the trade and tourism sector, which grew at 14.7 percent y-o-y, has been supporting the performance of the services sector.

GVA and Components (Y-o-Y Growth in %)

	Q2 2021-22	Q3 2021-22	Q4 2021-22	Q1 2022-23	Q2 2022-23
GVA	8.3	4.7	3.9	12.8	5.6
Agriculture, forestry and fishing	3.2	2.5	4.1	4.5	4.6
Industry	7.0	0.4	1.3	8.6	-0.8
Mining and quarrying	14.5	9.2	6.8	6.5	-2.8
Manufacturing	5.6	0.3	-0.2	4.8	-4.3
Electricity, gas, water supply and other utility services	8.5	3.7	4.5	14.7	5.6
Construction	8.1	-2.8	2.0	16.8	6.6
Services	10.2	8.1	5.5	17.7	9.3
Trade, hotels, transport, communication and broadcasting services	9.6	6.3	5.3	25.7	14.7
Financial services, real estate and professional services	6.1	4.2	4.3	9.2	7.2
Public administration, defence and other services	19.5	16.7	7.7	26.3	6.5

Source: MoSPI, CMIE

❖ Likewise, on the expenditure side, a significant slowdown was noted across all segments when compared to the previous quarter, which was in consonance with broad expectations. Government expenditure (GFCE), in fact, noted a contraction by almost 4.4 percent in Q2 of 2022-23 vis-à-vis the same quarter in the previous financial year. Government consumption expenditure is exhibiting a moderating trend since Q2 FY22.

❖ Consumption too noted a moderation in the second quarter. Private consumption expenditure (PFCE) grew at 9.7 percent on a y-o-y basis in Q2 2022-23 compared to a robust 25.9 percent growth registered in Q1 2022-23. This was despite an early onset of the festive season in late September. Elevated price pressures, rising interest rates and sluggish trade growth has impeded consumption demand in the economy.

❖ Capital formation also moderated substantially with GCF growing at 5.9 percent and fixed capital formation (GFCF) growing by 10.4 percent y-o-y, respectively in Q2 2022-23. The corresponding numbers in the same quarter in the last financial year were 19.3 percent and 20.2 percent, respectively.

Comments

The second quarter GDP numbers are aligned with the expectation. A broad-based slowdown is visible across sectors, however the contraction in manufacturing comes as a disappointment. Nonetheless, GDP growth in the second quarter has been buoyed to some extent by robust recovery in the services sector.

The economy is likely to continue facing headwinds on account of global factors, inflationary pressures and synchronous rate hikes by the Central banks. A delay in recovery is possible, nonetheless India should be able to hold steady amid the ongoing turbulence.

The government's steadfastness in maintaining stability, supporting growth and continuing reforms has been encouraging. And continued support at this juncture will remain critical. Demand, which remains a key driver of our growth, has been signaling stress amid rising prices. A consistent push to government capital expenditure will be an important enabler and will aid private investments as well.