

**PREDICTING GDP GROWTH POST PANDEMIC IS STILL A FORECASTING NIGHTMARE WITH DIVERGENT TRENDS EMERGING IN COLLECTIVE GOVERNMENT & INDIVIDUAL CONSUMPTION EXP & BETTER AGRI GROWTH ON THE BACK OF SMART FARMING : INDIA FIRMLY ON COURSE TO ACHIEVE 7% GDP GROWTH IN FY23**Issue No. 46, FY23  
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Q2 GDP numbers released today asserted the momentum Indian economy has gained post the pandemic, notwithstanding the tumultuous times of global uncertainties as domestic economy grew by 6.3% in Q2 FY23 on the back of buoyant growth in services sector while GVA grew by 5.6%. However, manufacturing and mining sectors declined by 4.3% and 2.8%, respectively. On a positive cue, agriculture, the most consistent sector since pandemic, grew by 4.6% in Q2 while Construction activity grew by 6.6%. Our assessment (based on new launches and sales) indicates that it will remain buoyant in the Q3 too. Services sector grew by 9.3%, bolstered by more than 14% growth recorded in 'Trade, Hotels, Transport, Communication & services related to Broadcasting'.

**'Trade, Hotels, Transport, Communication & Services related to broadcasting' are the only sectors still 7% lower than the pre-pandemic level (i.e. H1 FY20). Despite expanding by 14.7%, it is still Rs 89,000 crore less than the H1 FY20 levels. Overall, H1 FY23 GDP is 6% higher than the FY20 levels.**

**The curious case in the data is the Government Consumption which expanded by 3.6% on the expenditure side but the Public Administration, Defence & Other Services has expanded by 12.8%.** We believe, Public Administration and Defence includes other services such as Education (private tuition/coaching centres), Health (Nursing Homes / Personal Care services) and other services such as Social and Personal services have recovered significantly from pandemic blues. It is also possible that State Governments and particularly Local Bodies were in lockdown mode in Q1FY21 that impacted this number, are now spending more. The pandemic had significantly impacted expenditure pattern under individual consumption expenditure components like health and education and it is now mean reverting. **These types of anomalies are making it difficult to predict the GDP growth on a consistent basis.**

In contrast, Government GVA is sum of intermediate consumption; compensation of employees; consumption of fixed capital; and other taxes, less subsidies, on production. **It seems that post pandemic, there is a downward adjustment in intermediate consumption by Government that includes reduction in contingent expenditure such as office supplies, rent, rates and taxes, fuel & light, printing, travel expenses, telephone & telegraph charges, and purchase of other commodities and services for current operations. Another way to look at this is the sudden shift in expenditure priority of the Government between the individual consumption expenditure by Government (Health, Education etc.) and collective consumption expenditure by Government (Judiciary, Defence, Law and order etc).**

**The other positive surprise is the growth in Agriculture that has grown at a very healthy rate of 4.6%. It seems that the unseasonal rains did not have any material impact on areas sown that has expanded at a healthy rate. Our informal interaction with farmers across states suggests that farmers have become smarter and have adjusted to the new realities in rainfalls and are also using the information on weather judiciously by resorting to planting crops of longer duration.**

Real GDP growth has improved by 3.6% qoq in Q2 FY23. However, the seasonally adjusted real GDP growth series shows dip in economic momentum, with decline in growth at -1.0% qoq in Q2 FY23 compared to 6.0% qoq in Q2 FY22 and 4.0% qoq in Q1 FY23. Nominal GDP growth came at 16.2% yoy in Q2 FY23 compared to 19% in Q2 FY22 and 26.7% in Q1 FY23, driven mainly by private final consumption expenditure. The expenditure side GDP has both mix of predictable trends and share of surprises. On the predictable side, the private consumption has growth by 9.7% in real terms as the pent-up demand in tourism ensured a healthy growth in private demand. This also corroborates with strong growth in Trade, Hotels, Transport, Communication & Services related to Broadcasting. However, there are segments of private demand which may have contracted particularly in manufacturing. Thus, recovery in private demand is patchy and not broad based.

States have been slow in capital expenditure. The data for H1 FY23 shows that various states including Haryana, Punjab, Rajasthan, Telangana and Uttarakhand have spent much lower amount of their BE when compared to H1 FY22.

**On the whole, an analysis of weighted contribution of agriculture, manufacturing and services for the pre pandemic period shows that the weighted contribution of agriculture sector is around 50 basis points, Manufacturing at 190 basis points and Services at 420 basis points. All this adds up to give GDP growth at 6.7% before pandemic that might be construed as the potential growth rate of India. At 6.3%, India is close to emulating the number and is well on course to achieve 7% growth in FY23.**

**GDP EXPANDS BY 6.3% IN Q2 FY23**

- ◆ India’s economy grew by 6.3% in Q2 FY23 on the back of buoyant growth in services sector. The GVA grew by 5.6%. Manufacturing and mining sector declined by 4.3% and 2.8%, respectively.
- ◆ Agriculture, the most consistent sector since pandemic, grew by 4.6% in Q2. **Construction activity grew by 6.6%. Our assessment (based on new launches and sale) indicate that it will remain buoyant in the Q3 also.**
- ◆ Services sector grew by 9.3% due to more than 14% growth in ‘Trade, hotels, transport, communication & services related to broadcasting’.
- ◆ In Q2FY23, the ‘Financial, Real Estate & Professional Services’ has increased by 7.2%, compared to 9.2% in Q1FY23 and 6.1% in Q2FY22. Despite higher credit growth, this sub-segment’s growth is lower as ‘Real estate & Professional Services’ contributes around 70% to this sector. However, credit growth has linkage to the growth of other sectors. So, the bumper credit growth that is still continuing may push up the GDP growth further.

**TRADE, HOTEL, TRANSPORT STILL NEED TO SURPASS THE PRE-PANDEMIC LEVEL**

- ◆ The ‘Trade, Hotels, Transport, Communication & Services related to broadcasting’ is the only sector still 7% lower than the pre-pandemic level (i.e. H1 FY20). Despite expanding by 14.7% it is still Rs 89,000 crore less than the H1 FY20 levels. Overall, H1 FY23 GDP is 6% higher than the FY20 levels.

**PUBLIC ADMINISTRATION, DEFENCE & OTHER SERVICES**

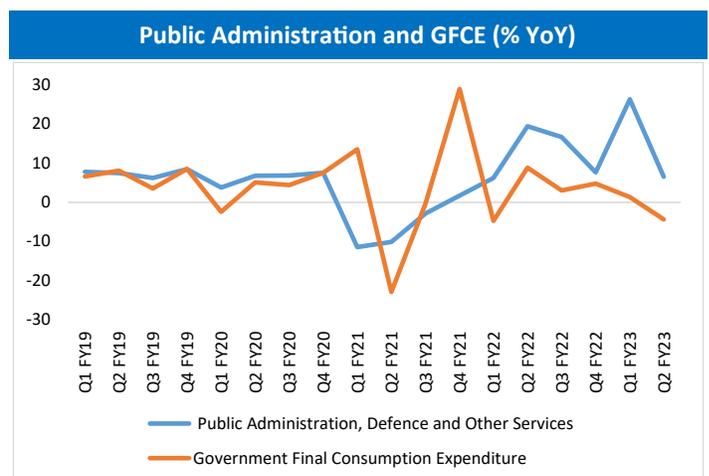
- ◆ Public Administration, Defence & Other Services grew by 6.5% in real terms and 12.8% in nominal terms in Q2 FY23 as compared to 26.3% (real) and 32.4% (nominal) growth in Q1. We believe, Public Administration and Defence includes other services such as Education (private tuition/coaching centres), Health (Nursing Homes / Personal Care services) and other services such as Social and Personal services has recovered significantly from pandemic blues.
- ◆ In contrast, Government GVA is sum of intermediate consumption; compensation of employees; consumption of fixed capital; and other taxes, less subsidies, on production. It seems that post pandemic, there is an adjustment in intermediate consumption by Government that includes reduction in contingent expenditure.

GVA and GDP at Constant Price by Economic Activity (YoY%)							
Sectors	FY22					FY23	
	Q1	Q2	Q3	Q4	Annual	Q1	Q2
Agriculture	2.2	3.2	2.5	4.1	3.0	4.5	4.6
Industry	46.6	7.0	0.3	1.3	10.3	8.6	-0.8
Mining & quarrying	18.0	14.5	9.2	6.7	11.5	6.5	-2.8
Manufacturing	49.0	5.6	0.3	-0.2	9.9	4.8	-4.3
Electricity, gas, water supply & other utility services	13.8	8.5	3.7	4.5	7.5	14.7	5.6
Construction	71.3	8.1	-2.8	2.0	11.5	16.8	6.6
Services	10.5	10.2	8.1	5.5	8.4	17.6	9.3
Trade, hotels, transport, communication & services related to broadcasting	34.3	9.6	6.3	5.3	11.1	25.7	14.7
Financial, real estate & professional service	2.3	6.1	4.2	4.3	4.2	9.2	7.2
Public administration, defence and Other Services	6.2	19.4	16.7	7.7	12.6	26.3	6.5
<b>Total GVA at Basic Price</b>	<b>18.1</b>	<b>8.3</b>	<b>4.7</b>	<b>3.9</b>	<b>8.1</b>	<b>12.7</b>	<b>5.6</b>
<b>GDP</b>	<b>20.1</b>	<b>8.4</b>	<b>5.4</b>	<b>4.1</b>	<b>8.7</b>	<b>13.5</b>	<b>6.3</b>

Source: NSO & SBI Research

GDP Constant Prices: Loss Recovered		
Sectors	H1 FY23/ H1 FY19	H1 FY23/ H1 FY20
Agriculture, forestry & fishing	115%	111%
Mining & quarrying	101%	103%
Manufacturing	105%	107%
Electricity, gas, water supply & other utility services	116%	111%
Construction	106%	104%
Trade, hotels, transport, communication & services related to broadcasting	99%	93%
Financing, insurance, real estate & bus. Services	118%	109%
Public administration, defence and Other Services	123%	116%
Total GVA at Basic Price	111%	106%
GDP	111%	106%

Source: NSO & SBI Research



Source: SBI Research

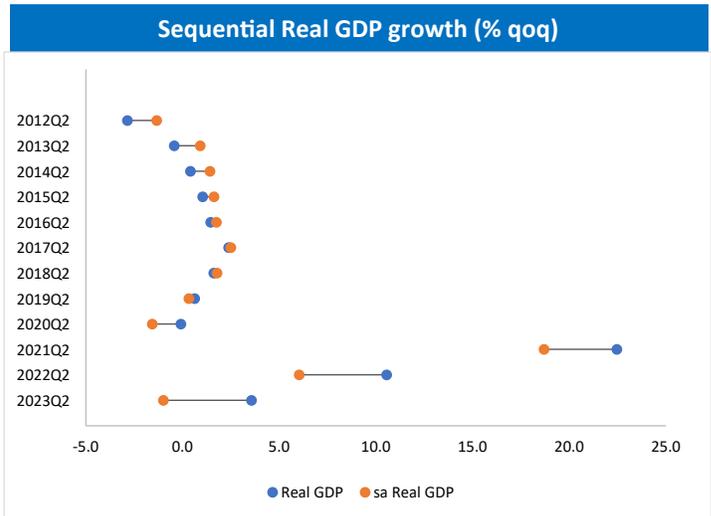
- ◆ Another way to look at this is the sudden shift in expenditure priority of the Government between the individual consumption expenditure by Government (Health, Education etc.) and collective consumption expenditure by Government (Judiciary, Defence, Law and order etc).

**SEASONALLY ADJUSTED SERIES SHOWS DECLINING SEQUENTIAL MOMENTUM**

- ◆ Real GDP growth has improved by 3.6% qoq in Q2 FY23. However, the seasonally adjusted real GDP growth series shows dip in economic momentum, with decline in growth at -1.0% qoq in Q2 FY23 compared to 6.0% qoq in Q2 FY22 and 4.0% qoq in Q1 FY23. Notably, SA qoq growth has been negative in Q2s of only 3 years (FY12, FY20 and FY23) since FY13. Moreover, sa real qoq growth has been significantly lower than the real qoq growth in Q2s since FY21. **This clearly shows the significant distortions in the GDP data post COVID.**
- ◆ Meanwhile, since FY13 core GVA in Q2s has been lower than the core GVA in Q1s of only 3 fiscal years (FY17, FY19 and FY20) before the pandemic. This has become the trend post pandemic with Q2 core GVA being lower than Q1 core GVA in FY22 as well as FY23. This further corroborates the vagaries in the GDP data post pandemic.

**NOMINAL GDP GROWTH AT 16.2%**

- ◆ Nominal GDP growth came at 16.2% yoy in Q2 FY23 compared to 19% in Q2 FY22 and 26.7% in Q1 FY23, driven mainly by private final consumption expenditure. Its weighted contribution came at 12.0% in Q2 FY23, thereby revealing its relative importance in GDP growth.
- ◆ The gap between the nominal GDP growth and the real GDP growth has moderated to 10% yoy in Q2 FY23 from 13% yoy in the previous quarter.
- ◆ The growth in GDP deflator has declined to 9.3% in Q2 FY23 compared to 11.6% yoy in Q1 FY23. For agriculture it has declined to 10.0% yoy compared to 12.4% yoy in Q1 FY23, indicating moderation in food prices. For industry growth in deflator has declined mainly on account of mining & quarrying. However, electricity, gas, water supply & other utility services has witnessed an increase in GDP deflator in Q2 FY23 compared to Q1 FY23. Meanwhile for services, GDP deflator declined in case of all but public administration, defence and other services.



Source: SBI Research

Sectors	Growth in Sectoral Deflator(%)						
	FY22					FY23	
	Q1	Q2	Q3	Q4	Annual	Q1	Q2
Agriculture	5.9	3.6	6.9	10.7	7.0	12.4	10.0
Industry	12.8	14.3	16.9	14.7	14.4	15.6	12.3
Mining & quarrying	41.6	35.7	50.3	40.4	41.5	49.8	38.8
Manufacturing	10.9	11.8	12.3	10.5	11.0	10.3	7.3
Electricity, gas, water supply & other utility services	-2.0	3.2	12.5	16.1	7.5	18.1	28.3
Construction	17.9	19.8	19.8	14.7	17.2	13.6	8.0
Services	6.9	7.9	8.9	8.7	8.1	10.7	8.8
Trade, hotels, transport, communication & services related to broadcasting	9.4	9.6	12.2	12.1	10.8	15.7	12.0
Financial, real estate & professional service	7.9	7.6	8.0	7.4	7.7	10.5	8.8
Public administration, defence and Other Services	4.6	5.1	5.3	5.7	5.1	4.8	5.9
<b>Total GVA at Basic Price</b>	<b>7.0</b>	<b>8.8</b>	<b>10.4</b>	<b>10.9</b>	<b>9.4</b>	<b>12.2</b>	<b>10.0</b>
<b>GDP</b>	<b>10.2</b>	<b>9.8</b>	<b>9.8</b>	<b>10.4</b>	<b>10.0</b>	<b>11.6</b>	<b>9.3</b>

Source: NSO & SBI Research

**EXPENDITURE SIDE GDP**

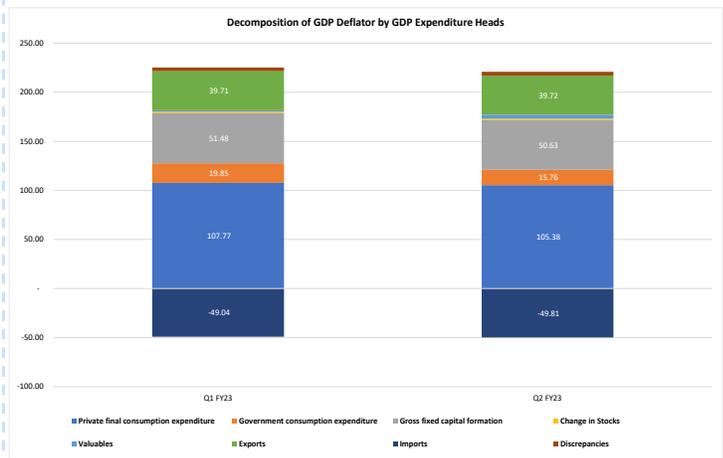
- ◆ The expenditure side GDP has been both a mix of predictable trends and share of surprises. On the predictable side the private consumption has growth by 9.7% in real terms as the pent-up demand in in tourism ensured a healthy growth in private demand. This also corroborates with strong growth in Trade, Hotels, Transport, Communication & Services related to Broadcasting. However, there are segments of private demand which may have contracted particularly in manufacturing. Thus, recovery in private demand is patchy and not broad based.
- ◆ On the surprises side, the government expenditure has slowed down considerably in fact contracting by 4.4%. This was not on expected lines and has taken a chunk of the GDP growth in Q2. The average cash balances with RBI were in the range of Rs 3.3 lakh crore in Q2 which up from Rs 2.4 lakh crore in Q1.
- ◆ The investment demand has picked up on the back of government capital expenditure. The capital formation has maintained a healthy growth of 10.4% while the inventory decumulated indicating sluggish new production.
- ◆ On the EXIM-side, both exports and imports have increased but imports increasing faster than exports. The impact of the higher energy price in turning the term of trade in adverse direction dragging the exports. **A decomposition of GDP deflator by expenditure heads shows higher reading on import deflator but and constant reading on export deflator.**

**SLOW PACE OF STATE CAPITAL EXPENDITURE**

- ◆ States have been slow in capital expenditure. The data for H1 FY23 shows that various states including Haryana, Punjab, Rajasthan, Telangana and Uttarakhand have spent much lower amount of their BE when compared to H1 FY22. Haryana has only spent 15% of its FY23 BE in H1 FY23 compared to 40% of BE in H1 FY22. Even Rajasthan is way behind its schedule as it has spent only 24% of BE in H1 FY23 compared to 45.3% during the same period last year. However, certain other states like Gujarat, Himachal Pradesh, Tamil Nadu has performed well in terms of capex in H1 FY23 when compared to the same period in FY22.

GDP by Expenditure Side at Constant Price (YoY%)							
Expenditures of GDP	FY22					FY23	
	Q1	Q2	Q3	Q4	Annual	Q1	Q2
Total final consumption expenditure	10.2	10.2	6.8	2.3	7.0	21.3	7.7
Private final consumption expenditure	14.4	10.5	7.4	1.8	7.9	25.9	9.7
Government final consumption expenditure	-4.8	8.9	3.0	4.8	2.6	1.3	-4.4
Gross fixed capital formation	62.5	14.6	2.1	5.1	15.8	20.1	10.4
Change in Stocks	2301.0	1659.6	1581.7	1574.2	1723.9	-17.4	-19.4
Valuables	515.6	171.7	53.0	-48.9	41.9	49.3	-23.5
Exports	40.8	20.7	23.1	16.9	24.3	14.7	11.5
Less Imports	61.1	41.0	33.6	18.0	35.5	37.2	25.4
Discrepancies	-37.6	-108.1	58.4	344.1	-9.1	-75.0	1749.1
<b>GDP At Market Price</b>	<b>20.1</b>	<b>8.4</b>	<b>5.4</b>	<b>4.1</b>	<b>8.7</b>	<b>13.5</b>	<b>6.3</b>

Source: NSO & SBI Research



% of CapEx to BE		
States	H1 FY23	H1 FY22
Andhra Pradesh	22.3	21.5
Bihar	25.6	24.1
Chhattisgarh	26.6	31.7
Gujarat	39.8	33.1
Haryana	15.0	40.0
Himachal Pradesh	38.4	28.2
Jharkhand	20.3	16.9
Karnataka	33.3	33.7
Kerala	43.4	48.9
Madhya Pradesh	39.1	46.2
Maharashtra	18.2	15.7
Odisha	19.4	22.5
Punjab	17.3	23.4
Rajasthan	24.0	45.3
Tamil Nadu	38.3	26.4
Telangana	26.5	51.9
Uttar Pradesh	18.5	20.9
Uttarakhand	19.7	31.3
West Bengal	29.4	15.9

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