

India: Growth expected to show muted fillip in FY2019

Advance estimates of GDP growth for FY2019 has been released today. The Central Statistics Office expects GDP growth to pick up to 7.2% YoY in FY2019 from 6.7% YoY in FY2018, while GVA growth is expected to clock 7.0% YoY as compared to 6.5% YoY in the last fiscal. Since GDP growth in H1 FY2019 has been ~7.6% YoY, growth is expected to slow down to ~6.8% YoY in the second half of the ongoing fiscal.

Key highlights of advance estimates for FY2019 GDP:

- **Growth of agriculture is expected to rise slightly to 3.8% YoY in FY2019 from 3.4% YoY in FY2018.** While *kharif* output estimates have been robust, *rabi* sowing has been ~3.4% lower in yearly terms till January 4, 2019, with major shortfalls in annual terms seen in acreage of coarse cereals (17%), pulses (6%) and, to a lesser extent, oilseeds (2%). Reservoir storage was at 53% of total capacity on January 3, 2019, which is similar to the 52% seen at the same time last year.
- **Industrial growth is expected to sharply improve** in FY2019 on an annual basis, aided by stellar upticks in manufacturing, electricity & utilities, and construction.
- **Manufacturing growth has been estimated to clock 8.3% YoY in FY2019, exactly in line with our expectation.** Even as corporate earnings growth was disappointing in Q2 FY2019, with companies struggling to raise prices amid weak demand, overall better performance of the private corporate sector (which has a share of over 75% in the manufacturing sector) is expected to drive this head.
- **The robust growth expected for construction** this year is already visible in the performance of this head over the first two quarters of this fiscal.
- **Services activity is estimated slightly below our expectation in FY2019,** attributable to lower impetus in both public expenditure and trade & transport segments.
- **The trade, hotels, transport & communication segment of services will see a slowdown** as widely expected amid slow GST transition. We expect increasing formalization will enable this head to show traction in FY2020.
- **The public administration and defence component is expected to see a somewhat surprisingly sharp deceleration** this fiscal. Even as the Government had frontloaded a lot of expenditure, fiscal considerations may force it to adopt more rectitude in the rest of FY2019, and this has possibly weighed on this head.
- **Private consumption expenditure growth is expected to slow,** albeit marginally, in FY2019, which is concomitant with certain rural consumption constraints, as well as falling household saving, which could be adversely impacting consumption trends. Trends in high-frequency consumption indicators (automobile sales, domestic passenger traffic, etc.) have not had a favourable start in Q3 FY2019.
- **Gross fixed capital formation is expected to return to double-digit growth** in FY2019. Private sector project announcements have risen sharply in year-on-year terms in the last two quarters, squaring with the high growth in GFCF, at a time when there was still concern about no significant capex revival. While the capex cycle is not yet fully on a decisive upswing, recent indicators portend well. These include a decent pickup in capacity utilization and robust credit growth to industry. The latter has risen from a paltry 1% YoY at the beginning of this fiscal to 4% YoY in November. But most of the investment is on the back of sturdy Govt. spending, and any meaningful private capex revival is likely only in H2 FY2020. Credit growth is happening for working capital requirements and we feel that some momentum will sustain over the next few quarters.

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We had pinned our GDP growth expectation at ~7.1-7.2% in FY2019 following the numbers for Q2 FY2019. Loss of traction in agriculture could be a long-standing issue this fiscal, leading to constrained value addition. Also, tepid farm prices may sustain over the next few months, causing rural sentiment to further weaken, and impacting consumption adversely. Industrial growth may see some uptick if construction is robust, but services will likely suffer from credit issues seen in the October-December quarter. Additionally, the base for Q3 and Q4 FY2019 is sharply unfavourable, which will make any additional traction in growth that much more arduous to achieve. We expect FY2020 to print along similar lines, and post a marginal pickup to ~7.4% YoY.

GVA growth

Growth estimates (% YoY)	FY2017	FY2018 (PE)	FY2019 (AE)
Agriculture	6.3	3.4	3.8
Industry	6.8	5.5	7.8
of which:			
<i>Mining & quarrying</i>	13.0	2.9	0.8
<i>Manufacturing</i>	7.9	5.7	8.3
<i>Electricity, gas, water supply & other utility services</i>	9.2	7.2	9.4
<i>Construction</i>	1.3	5.7	8.9
Services	7.5	7.9	7.3
of which:			
<i>Trade, hotels, transport & communication</i>	7.2	8.0	6.9
<i>Financial, real estate & professional services</i>	6.0	6.6	6.8
<i>Public administration, defence and Other Services</i>	10.7	10.0	8.9
GVA at basic prices	7.1	6.5	7.0

GDP growth

GDP (% YoY)	FY2017	FY2018 (PE)	FY2019 (AE)
PFCE	7.3	6.6	6.4
GFCE	12.2	10.9	9.2
GFCF	10.1	7.6	12.2
Change in Stocks	-61.2	4.5	5.8
Valuables	-13.9	58.8	7.5
Exports	5.0	5.6	12.1
Less Imports	4.0	12.4	14.3
GDP	7.1	6.7	7.2

Source: CSO, ICICI Bank Research

Lead indicators of economic activity:

(% YoY)	Domestic passenger traffic	Railway Freight traffic	Cargo traffic	Passenger Vehicles sales	Utility vehicle sales	Two Wheelers sales	Scooter sales	Motorcycle sales	Consumer Durables	Consumer Non-durables	Credit to Services	Personal loans
Apr-18	25.0	11.8	1.8	7.5	11.9	16.9	12.6	19.4	3.9	7.5	20.7	19.1
May-18	16.1	7.5	3.0	19.7	17.5	9.2	-1.4	15.2	6.7	-1.6	21.9	18.6
Jun-18	17.8	5.5	7.1	37.5	47.1	22.3	21.0	24.3	13.6	0.2	23.3	17.9
Jul-18	21.6	5.7	4.8	-2.7	-9.0	8.2	5.1	9.7	14.1	5.3	23.0	16.7
Aug-18	16.9	8.7	9.4	-2.5	-7.1	2.9	-0.6	6.2	5.3	6.5	26.7	18.2
Sep-18	18.0	6.5	5.1	-5.6	-8.3	4.1	-2.9	7.0	5.2	6.1	24.0	15.1
Oct-18	13.1	8.8	6.4	1.6	3.9	17.2	12.6	20.1	17.6	7.9	27.4	16.8
Nov-18	-	5.6	1.6	-3.4	-10.2	7.1	3.0	9.4	-	-	28.1	17.2

(% YoY)	IIP	Mining	Manufacturing	Electricity	Core Industries	Commercial Vehicles sales	Medium & heavy CV sales	Exports	Non-oil non-gold imports	Credit to Industry	MSME credit growth
Apr-18	4.5	3.8	4.9	2.1	4.7	76.0	169.3	4.3	-3.6	1.0	1.0
May-18	3.8	5.8	3.6	4.2	4.0	43.1	80.2	20.4	12.8	1.4	1.1
Jun-18	7.0	6.5	6.9	8.5	7.8	41.7	43.3	18.1	10.1	0.9	1.1
Jul-18	6.5	3.4	7.0	6.6	7.3	29.7	24.5	15.7	16.6	0.3	0.7
Aug-18	4.7	-0.5	5.1	7.6	4.7	29.6	28.5	19.3	12.5	1.9	3.4
Sep-18	4.5	0.1	4.6	8.2	4.3	24.1	26.0	-2.2	1.3	2.3	-0.4
Oct-18	8.1	7.0	7.9	10.8	4.8	24.8	17.8	17.9	11.7	3.7	3.5
Nov-18	-	-	-	-	3.5	5.7	-11.0	0.8	-5.8	4.0	3.1

Source: CEIC, ICICI Bank Research

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