

India Q3FY22 GDP: Growth decelerates to 5.4%, industry and investments disappoint

- **GDP growth for Q3 came in at 5.4%. GDP and GVA growth for FY22 has been revised lower to 8.9% and 8.3% (9.2% and 8.9% earlier).**
- **Deceleration in Q3 growth was led by investments at 2% vs 14.6% in Q2. Consumption too decelerated to 6.5% in Q3 from 10.1% in Q2.**
- **Industry growth decelerated to 0.2% (7% in Q2) led by sharp dip in manufacturing to 0.2%. Construction surprised negatively at -2.8%.**
- **Services sector growth was buoyant at 8.2% led by govt spending**
- **With growth lower than our estimate of 6% in Q3, we revise our FY22 GDP estimate to 9.1% (9.2% earlier). Downside risk remain due to geopolitical tensions.**

Key highlights:

Agriculture growth decelerated. Agri growth for Q3 is estimated at 2.6% compared with 3.6% in H1FY22. For FY22, agri growth is now estimated at 3.3% vs. 3.9% earlier, in-line with 3.2% increase seen over Apr-Dec FY22. Growth prospects are bright given the prediction of normal monsoon in 2022.

Industrial activity expanded by 0.2% in Q3 compared with 7% increase seen in Q2. The deceleration is driven by manufacturing and construction. Manufacturing output expanded by 0.2% in Q3, lower than 1.2% increase seen in manufacturing output as reported under index of industrial production. Construction sector output contracted by 2.8% in Q3 vs a growth of 8.2% in the previous quarter. This is lower than our estimates since steel and cement output had increased by 1.6% and 8.3% respectively in Q3FY22. For FY22, industry growth is now expected at 10.3% compared with 11.8% earlier.

Services sector expanded by 8.2% in Q3 led by public administration and defense which reported an increase of 16.8% in Q3 (19.5% in Q2). Higher government spending explains this. However, growth in financial services and real estate sub-segment also decelerated to 4.6% compared with 6.2% in Q2. The contact intensive trade, hotels, transport, storage and communication segment grew by 6.1% in Q3 compared with a growth of 9.5% in Q2. For FY22, services sector is now estimated to grow by 8.6% compared with 8.2% earlier.

Exports drive growth upwards from demand side. Exports increased by 20.9% in Q3 after an increase of 20.5% in Q2. However, investment demand decelerated to 2% in Q3 after an increase of 14.6% in Q2. This can be explained by lower production of capital goods in Q3. Private consumption demand expanded by 7% in Q3 against 10.2% increase seen in Q2. For FY22, GDP growth is now estimated at 8.9% vs. 9.2% earlier.

Q3FY22 growth is at 5.4% versus our estimate of 6%. With this, we now peg our GDP growth forecast for FY22 at 9.1% (earlier estimate of 9.2%) with a downward bias on the back of geo-political tensions. CSO estimate is 8.9% implying Q4 growth of 4.8%. The downside emanates from higher oil and commodity prices which will be a drag on output and competitiveness. Global demand for Indian exports may also be lower as demand falls in Europe. Over the medium-term, we remain constructive on India's growth led by manufacturing sector—PLI led investments and gradual increase in capacity utilization. Start-up ecosystem should continue to be a growth driver as well. Real estate sector is witnessing an improvement and IT exports will continue to scale up. Higher vaccination coverage will support growth in contact intensive services. We expect growth at 8.2% in FY23.

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GVA growth

Gross Value Added at constant prices (% YoY)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
GVA	-21.4	-5.9	2.1	5.3	18.4	8.4	4.7
Agriculture	3.0	3.2	4.1	3.4	3.5	3.7	2.6
Industry	-33.7	0.6	6.3	13.5	46.6	7.0	0.2
<i>Mining</i>	-17.8	-7.9	-5.3	-4.2	17.6	14.2	8.8
<i>Manufacturing</i>	-31.5	5.2	8.4	14.8	49.0	5.6	0.2
<i>Electricity & utilities</i>	-14.8	-3.2	1.5	3.3	13.8	8.5	3.7
<i>Construction</i>	-49.4	-6.6	6.6	19.7	71.4	8.2	-2.8
Services	-20.8	-10.8	-0.9	1.2	10.5	10.2	8.2
<i>Trade, transport, hotel & communication</i>	-49.9	-18.8	-10.1	-3.9	34.3	9.5	6.1
<i>Financial & real estate</i>	-1.1	-5.2	10.3	8.1	2.3	6.2	4.6
<i>Public admin & defence</i>	-11.4	-10.2	-2.9	-0.2	6.3	19.5	16.8

Source: CEIC, ICICI Bank Research, * March-21 growth has been imputed from the FRE for FY21

GDP growth

Quarterly Growth estimates at constant prices (% YoY)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
GDP	-23.8	-6.6	0.7	2.2	20.3	8.5	5.4
Final consumption	-17.8	-10.8	0.4	8.3	10.1	10.1	6.5
PFCE	-23.7	-8.3	0.6	5.7	14.2	10.2	7.0
GFCE	13.6	-22.9	-0.3	24.1	-4.4	9.3	3.4
GFCF	-45.3	-4.5	-0.6	8.0	62.5	14.6	2.0
Exports	-25.5	-6.4	-8.6	3.3	40.4	20.5	20.9
Imports	-41.1	-17.9	-5.2	12.0	60.7	40.7	32.6

PFCE: Private final consumption expenditure, GFCE: Government final consumption expenditure, GFCF: Gross fixed capital formation

Source: CSO, ICICI Bank Research, * March-21 growth has been imputed from the FRE for FY21

GVA growth

Gross Value Added at constant prices (% of GVA)	FY19	FY20	FY21	FY22 FAE	FY22 SAE
GVA	5.8	3.8	-4.8	8.6	8.3
Agriculture	2.1	5.5	3.3	3.9	3.3
Industry	5.3	-1.4	-3.3	11.8	10.3
<i>Mining</i>	-0.8	-1.5	-8.6	14.3	12.6
<i>Manufacturing</i>	5.4	-2.9	-0.6	12.5	10.5
<i>Electricity & utilities</i>	7.9	2.2	-3.6	8.5	7.8
<i>Construction</i>	6.5	1.2	-7.3	10.7	10.0
Services	7.2	6.3	-7.8	8.2	8.6
<i>Trade, transport, hotel & communication</i>	7.2	5.9	-20.2	11.9	11.6
<i>Financial & real estate</i>	7.0	6.7	2.2	4.0	4.3
<i>Public admin & defence</i>	7.5	6.3	-5.5	10.7	12.5

Source: CEIC, ICICI Bank Research

GDP growth

Yearly Growth estimates at constant prices (% of GDP)	FY19	FY20	FY21	FY22 FAE	FY22 SAE
GDP	6.5	3.7	-6.6	9.2	8.9
Final consumption	7.0	4.9	-4.5	7.0	7.2
PFCE	7.1	5.2	-6.0	6.9	7.6
GFCE	6.7	3.4	3.6	7.6	4.8
GFCF	11.2	1.6	-10.4	15.0	14.6
Exports	11.9	-3.4	-9.2	16.5	21.1
Imports	8.8	-0.8	-13.8	29.4	29.9

PFCE: Private final consumption expenditure, GFCE: Government final consumption expenditure, GFCF: Gross fixed capital formation
Source: CSO, ICICI Bank Research

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