HSBC Global Research

1 March 2024

India GDP

Free to View - Economics

You need to calm down

India

- At 8.4% y-o-y, the December quarter GDP growth print came in much higher than expected; GVA, on the other hand, grew 6.5%, in line with expectations
- We believe a fall in the subsidy bill explains the large difference between GDP and GVA growth; the latter is likely a better indicator of growth momentum
- India's growth prospects remain strong, and PMIs in the first two months of 2024 have come in stronger than in the December quarter

Pranjul Bhandari
Chief Economist, India and Indonesia
The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch

Aayushi Chaudhary
Economist, India, Indonesia & Sri Lanka
HSBC Securities and Capital Markets (India) Private Limited

Facts

– The October to December quarter GDP growth came in at 8.4% y-o-y, much higher than market expectations of 6.6%. GVA came in at 6.5% y-o-y.

– The CSO's revised second advanced estimate for FY24 of 7.6% implies a softer GDP growth of 5.9% in the quarter ending March.

– Nominal GDP grew 10.1% y-o-y (versus 9.6% in the previous quarter) led by a small deflator growth rate of 1.6% y-o-y.

Look carefully

Some big growth numbers have been announced. Real GDP grew 8.4% y-o-y in the quarter ending December, much higher than market expectation of 6.6%. Not just that, growth in the previous two quarters (1HFY24) have been revised up to 8.1% (from 7.7% previously). All of this indicates that India is growing at an incredible pace.

We think these numbers need to be looked at carefully. A closer examination reveals the following:

One, GVA, which adds up production (across agriculture, industry, and services) did not show the same exuberance as GDP. GVA growth for the quarter came in line with our expectation of 6.5%; and in fact, was slightly lower than the growth in the previous quarter (7.7% y-o-y). In the past, we have found GVA to be a better indicator of growth than GDP, correlating better with high frequency activity data.

Two, the upward revisions in the previous two quarters (of 42bp in 1HFY24) could simply be a result of downward revision for the same quarters a year ago (51bp 1HFY23), i.e. led purely by base effects. Worth noting that all quarters from FY22 onwards were revised in today's release.

Three, GDP growth outpaced GVA growth by a substantial margin which could be led by policy changes. We know that:

GDP – GVA = Net indirect taxes (NIT)

NIT = Indirect taxes – subsidies

We find that NIT grew 32% y-o-y in the December quarter explaining the divergence between GDP and GVA. But what led the strong growth? Two possible explanations:

This is a Free to View version of a report with the same title published on 1-March-2024. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

One, base effects. NIT fell by 2.6% in the same quarter last year. Two, subsidies fell sharply in the quarter. Indeed, we find a 25% y-o-y fall in the central government's food subsidy bill, a 69% fall in the fertiliser subsidy bill, and a 5% fall in the petroleum subsidy bill in the December quarter.

In details

On the GVA side: In terms of percentage point contribution to growth, agriculture was much weaker than in the previous quarter (see chart 2). Understandable, given El Niño led weak rains. Manufacturing and construction were softer, though still remain the strongest driver of growth. Trade services was stronger than before, finally catching up with other services components. Overall, core GVA (GVA excluding agriculture, community, social, and personal services) was softer than in the previous quarter.

On the GDP side: Domestic demand was weaker than in the previous quarter. Even though private consumption was better, government spending slowed in the quarter (as also reflected in the just-released fiscal data). Investment contributed most to growth, led to a large extent by public capex, even though it softened a shade compared to the previous quarter (see chart 3). Net exports were stronger than before, led primarily by a fall in import growth.

In conclusion

We prefer to look at GVA growth over GDP growth as a measure of actual growth dynamics on the ground. There was some softening in momentum in the December quarter. But data over January and February suggest that the growth momentum has bounced back up. As such, India remains an oasis of strong growth and macro stability in a volatile global backdrop.

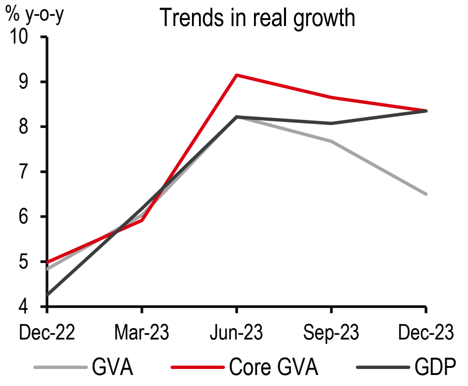
Table 1: Real GDP growth by supply and demand components

% y-o-y	Mar-23	Jun-23	Sep-23	Dec-23
GDP by Expenditure and Income	**6.2**	**8.2**	**8.1**	**8.4**
Government Consumption	14.0	-0.1	13.8	-3.2
Private Consumption	1.5	5.3	2.4	3.5
Gross Fixed Capital Formation	3.8	8.5	11.6	10.6
Exports	12.4	-6.5	5.3	3.4
Imports	-0.4	15.3	11.9	8.3
Net Indirect Taxes	**7.7**	**8.0**	**12.8**	**32.0**
Gross Value Added	**6.0**	**8.2**	**7.7**	**6.5**
Agriculture, Forestry and Fishing	7.6	3.5	1.6	-0.8
Industry	3.4	6.0	13.6	10.4
Manufacturing	0.9	5.0	14.4	11.6
Construction	7.4	8.5	13.5	9.5
Services	7.2	10.7	6.0	7.0
Trade, transport & communication	7.0	9.7	4.5	6.7
Financial, real estate and professional services	9.2	12.6	6.2	7.0
Public administration and other services	4.7	8.2	7.7	7.5

Note: **Green** denotes increase, **grey** denotes decrease and white denotes no change relative to the previous reading respectively

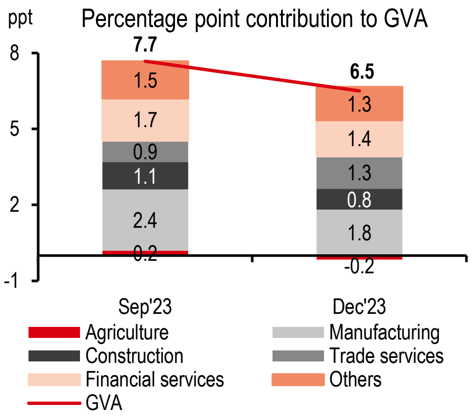
Source: CEIC, HSBC

Chart 1: GVA and core GVA growth came in softer



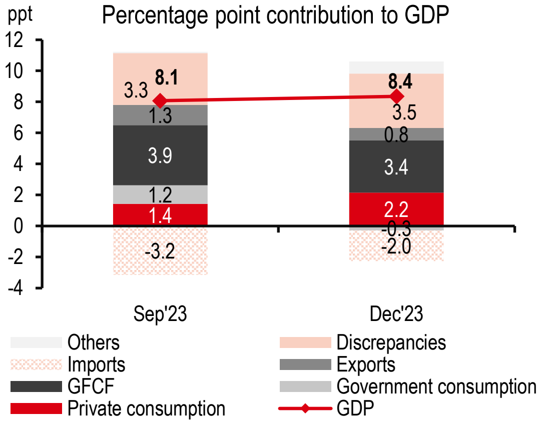
Source: CEIC, PIB, HSBC. Note: Core GVA= GVA excluding agriculture, community, social and personal services

Chart 2: Manufacturing remained the strongest driver of GVA growth



Source: CEIC, PIB, HSBC

Chart 3: Investment contributed most to GDP growth



Source: CEIC, PIB, HSBC

Disclosure appendix

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Pranjul Bhandari and Aayushi Chaudhary

This document has been issued by the Research Department of HSBC.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at *www.hsbcnet.com/research*.

Additional disclosures

1. This report is dated as at 01 March 2024.
2. All market data included in this report are dated as at close 01 March 2024, unless a different date and/or a specific time of day is indicated in the report.
3. HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
4. You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

Issuer of report
The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch which has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. Neither The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch nor any member of its group companies ("HSBC") make any guarantee, representation or warranty nor accept any responsibility or liability as to the accuracy or completeness of this document and is not responsible for errors of transmission of factual or analytical data, nor is HSBC liable for damages arising out of any person's reliance on this information. The information and opinions contained within the report are based upon publicly available information at the time of publication, represent the present judgment of HSBC and are subject to change without notice.

This document is not and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment or other investment products mentioned in it and/or to participate in any trading strategy. It does not constitute a prospectus or other offering document. Information in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on it, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

The decision and responsibility on whether or not to purchase, subscribe or sell (as applicable) must be taken by the investor. In no event will any member of the HSBC group be liable to the recipient for any direct or indirect or any other damages of any kind arising from or in connection with reliance on any information and materials herein.

Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors.

This document is for information purposes only and may not be redistributed or passed on, directly or indirectly, to any other person, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. By accepting this report, you agree to be bound by the foregoing instructions. If this report is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document.

HSBC and/or its officers, directors and employees may have positions in any securities in companies mentioned in this document. HSBC may act as market maker or may have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell or buy securities and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented on the supervisory board or any other committee of those companies.

From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch is regulated by the Monetary Authority of Singapore.