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ExplainSpeaking | How to read Q3 growth data

Numbers suggest that while India's economy grew faster in the past three years than previously reported, it is rapidly losing its growth momentum. It is likely to slow down from 9.1% in FY22 to under 6% in FY24.

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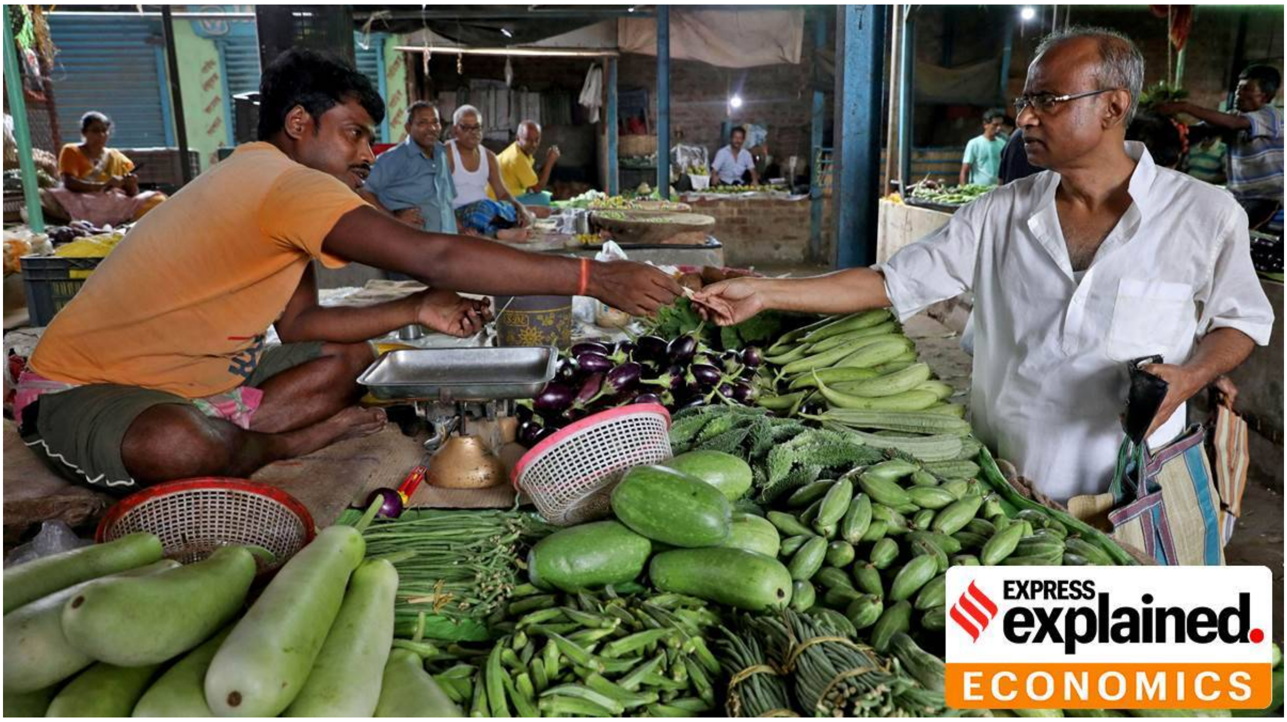

A retired school headmaster buys vegetables from a vendor at a market on the outskirts of Kolkata. (Reuters Photo/File)

The Ministry of Statistics and Programme Implementation (MoSPI) Tuesday **released economic growth data** — Gross Domestic Product (GDP) and Gross Value Added (GVA) — for the third quarter (Q3 or October to December) of the current financial year (2022-23 or FY23), as well as the so-called Second Advance Estimates (SAEs) for the full year.

What are GDP and GVA?

Both GDP and GVA measure India's economic growth.

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The GDP does this by adding up who spent how much; it thus captures the "demand" in the economy.

The GVA calculates the same national income from the supply side. It adds up the value added (in money terms) by the different sectors of the economy.

EXPLAINED

A tough quarter

The economy will have to grow at least 5.1 per cent in the last quarter (January-March 2023) for achieving the full year growth target of 7 per cent. This may be difficult since interest rates are rising, suppressing demand.

Under GDP, there are four main heads:

🔷 Private Final Consumption Expenditure (PFCE) or the money spent by people on goods and services for personal consumption; this is the biggest contributor of GDP, accounting for almost 55%-60%

🔷 Government Final Consumption Expenditure (GFCE) or the money spent by

🔹 Gross Fixed Capital Formation (GFCF) or the money spent by private firms and governments towards building productive capacities (investments); this is accounts for 30%-32% of GDP

🔹 Net of exports and imports; this is typically a negative impulse to GDP because imports are more than exports, implying money going out of the country.

GDP and GVA are related as follows: GDP = GVA +Taxes levied by governments on products (excise duties, sales tax, service tax, import and export duties) – subsidies provided by government on products (food, petroleum and fertiliser subsidies)

Typically, the absolute level of GDP is more than the absolute level of GVA because taxes received are more than subsidies spent by the government.

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What data has been released?

For any financial year, say 2019-20, the GDP estimates go through several rounds of revisions. Each year in January, MoSPI releases the First Advance Estimates for that financial year. In February end, after incorporating the Q3 data, come the Second Advance Estimates. By May-end come the Provisional Estimates (PEs) after incorporating the Q4 (Jan to March) data.

Then with each passing year, the PEs are revised to give the First Revised Estimates, the Second Revised Estimates and the Third Revised Estimates before settling on the “Actuals”. Each revision benefits from more data, making the GDP estimates more accurate and robust.

On Tuesday, apart from the Q3 and SAEs for FY23, the MoSPI also released the scheduled revisions to the economic growth rate for three preceding financial years — FY20 (pre-Covid), FY21 (the Covid year), and FY22.

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What does the data for Q3 show?

This is below the expected level.

Q3 DRIVERS OF GDP GROWTH

GDP, its main components	Q3 growth rate
People's personal consumption expenditure (PFCE)	2.1%
Govt's consumption expenditure (GFCE)	-1.0%
Expenditure towards Govt, private firm investments (GFCF)	8.3%
Net Exports (Exports minus Imports)*	6.7%
Total GDP	**4.4%**

**Negative in impact since Imports more than Exports*

Table 1: Drivers of GDP growth

economy. At one level this is heartening news. Increase in investments typically augurs well for sustaining an economy's growth momentum.

However, economists such as Pranjul Bhandari of HSBC have characterised the growth in investments as "fragile". "It is true that central government capex has picked up (for instance the post-monsoon rise in road construction), but on the other hand, state capex has been weak," she states in a research note.

The biggest worry has been on the personal consumption front. A slowdown in private consumption, the biggest engine of GDP growth, can eventually disincentivise investments.

The contraction of government's expenditures is likely the result of the government trying to meet fiscal deficit parameters.

On the GVA front (see Table 2), the biggest story is the contraction in manufacturing. This is the second consecutive quarter when manufacturing, which is often viewed as a source of creating jobs, has contracted. But robust growth in the construction sector as well as services (both financial and non-financial) are a relief.

GVA: SECTORAL HEALTH IN Q3

Sectors of economy	Gross value added in Q3
Agriculture, Forestry & Fishing	3.7%
Mining and Quarrying	3.7%
Manufacturing	-1.1%
Utilities (Gas, water, etc.)	8.2%
Construction	8.4%
Non-financial services	9.7%
Financial services, real estate etc.	5.8%
Public administration *	2%
Total GVA	**4.6%**

* *Includes Education, Health, Recreation, and other personal services*

Table 2: Sectoral health in Q3

For the full-year, the economy is still expected to grow by 7% — same as the First Advance Estimates predicted in January. However, not only has the economy grown slower than expected in Q3, even Q1 GDP growth has been revised down— suggesting India is rapidly losing its growth momentum. As such, achieving the 7% for the full year appears difficult. HSBC's Bhandari, for instance, expected a growth rate of 6.8% for FY23.

What about the revised estimates for the past years?

In contrast to the deceleration in growth in FY23, the government has revised up the GDP growth numbers for each of the past three years (see Table 3). As such, GDP grew by 3.9% in FY20 as against 3.7%; it fell by just 5.8% in FY21 instead of 6.6% as previously reported and it grew by 9.1% in FY22 as against a growth of 8.7% reported earlier.

GDP GROWTH OVER THE YEARS

FY	Real GDP	Growth rate	Per capita growth
FY13	₹92 cr	5.5%	4.2%
FY14	₹98 cr	6.4%	5%
FY15	₹105 cr	7.4%	6.1%
FY16	₹114 cr	8.0%	6.6%
FY17	₹123 cr	8.3%	6.9%
FY18	₹132 cr	6.8%	5.6%
FY19	₹140 cr	6.5%	5.4%
FY20	₹145 cr	3.9%	2.8%
FY21	₹137 cr	-5.8%	-6.8%
FY22	₹149 cr	9.1%	8%
FY23	₹160 cr	7.0%	5.9%

Table 3: GDP growth over the years

In other words, while India's economy may be slowing now, it grew at a faster pace than previously reported.

India's economy was fast losing momentum before Covid-19 led to a contraction. Coming out of the Covid pandemic, India's economy has reclaimed the mantle of the fastest-growing major economy in the world. However, data suggests that India is losing this momentum, whereby it is likely to slow down from 9.1% in FY22 to under 7% in FY23 and further decelerate to well under 6% in the coming financial year.

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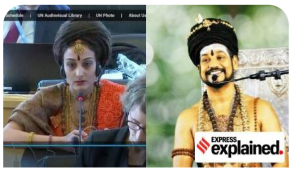

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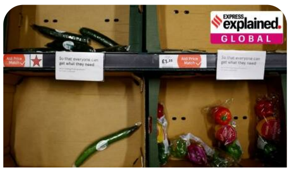

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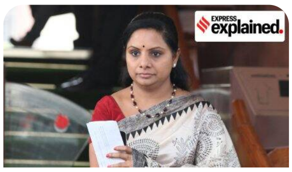

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"Based on today's numbers and our study of other activity indicators, we believe that overall growth momentum is softening, as pent-up demand from the lockdown period fades, exports weaken, and tighter fiscal and monetary policy rate take their toll. We expect GDP growth to slow from 6.8% in FY23 to 5.5% in FY24," states Bhandari.

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