# India GDP

By NAB Group Economics

7 June 2016

## Summary & Overview

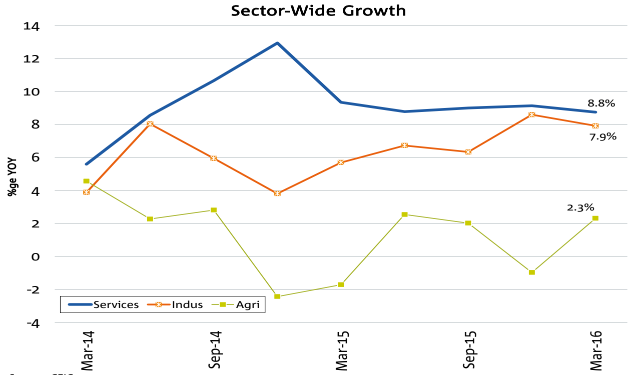
- The Indian economy expanded by 7.9% over the year to March quarter 2016. India is now the world's fastest growing major economy.
- This was a consumption-led story, with consumption contributing 4.9%, or 62% to the overall outcome.
- Services (primarily financial, trade, professional and business services) was the best performing industry sector.
- The high statistical discrepancy does raise some concerns about the quality of the data release.
- Industrial production is forecast to accelerate to around 5% by the second half of the year; it is currently flat.
- Equity markets have recently reached a 2016 high, assisted by strong growth in corporate profits.
- NAB Economics is forecasting 7.7% growth in 2016 and 2017.
- A further 25bp cut is expected in the Repo rate in the December quarter, bringing it down to 6.25% by end-2016

## GDP Outcome: March quarter, 2016

The Indian economy expanded by 7.9% in the final (March 2016) quarter of the 2015-16 financial year; India is now the fastest-growing major economy. GVA (Gross Value added at basic prices) – a measure keenly observed by policy makers and analysts – recorded a less exuberant 7.4% outcome

Nominal GDP rose by 10.4%, the fastest since December, 2014, with the GDP deflator expanding by 2.2%. The latter is consistent with a recent (modest) uptick in retail prices.

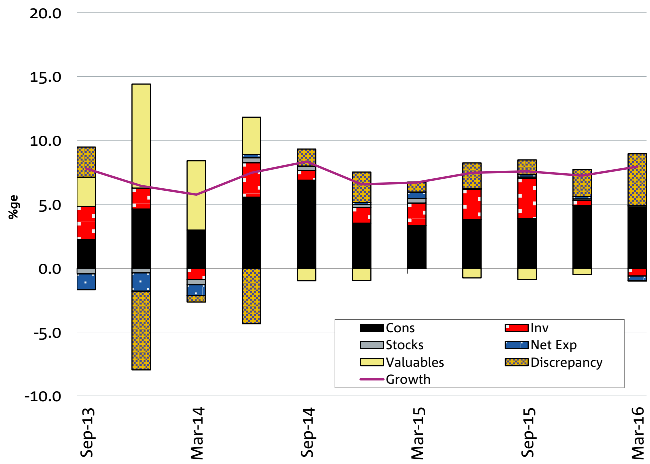
Sector-Wide Growth




Source: CEIC

By sector, services retain the mantle as the best performing, expanding by 8.8%, driven largely by the trade, hotels and transport segment (9.9%). Finance, real estate and professional services also expanded strongly, 9.1%. Public administration and defence was somewhat lower at 6.4%. The Industry grew by 7.9%, a slight deceleration from December quarter's results (8.6%). Within industry, manufacturing (9.3%), electricity& gas (9.3%) and mining (8.6%) were the standout segments; construction, on the other hand, still maintained its modest 4.5% expansion, similar to the December quarter. The agricultural sector recorded a 2.3% outcome, a welcome return to growth, following last quarter's contraction.

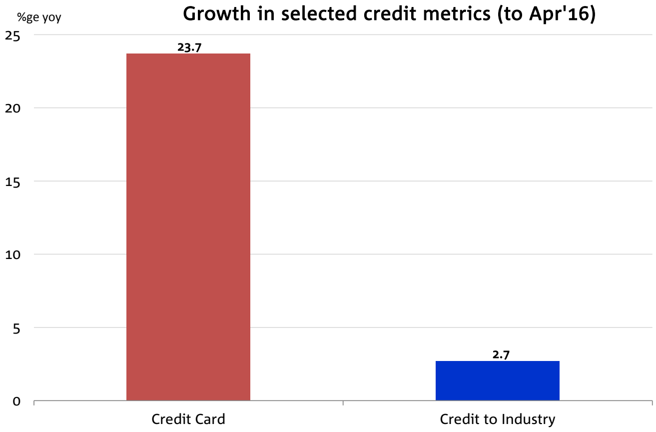
Real GDP: Contribution to Growth



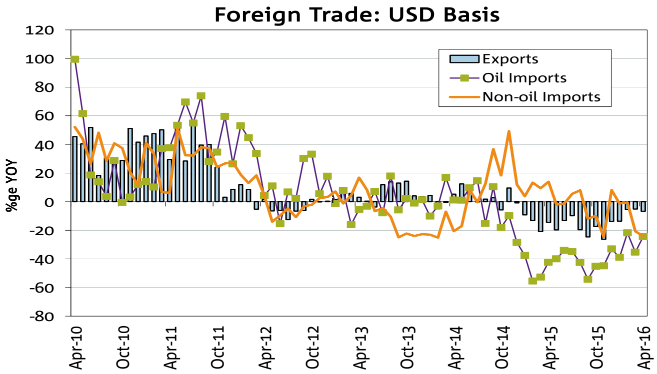

Source: CEIC

By expenditure, one can clearly see a consumption-driven story, with consumption contributing 4.8% to growth this sector. This dovetails with other indicators such as motor vehicle sales, which increased by 14.5% yoy to April 2016. The negative contribution from investment (-0.6%) is disappointing, and reflects weak investment intentions, and feeble business confidence. The high statistical discrepancy (4%) does, however, raise some concerns about aspects of the data.

Growth in selected credit metrics (to Apr'16)




Another way to look at the divergence between consumption and investment is to look at recent trends in credit growth. According to the RBI, growth in the outstanding value of credit card debt rose by 23.7% over the year to April, 2016. By contrast, credit growth to industry rose by a meagre 2.7%.

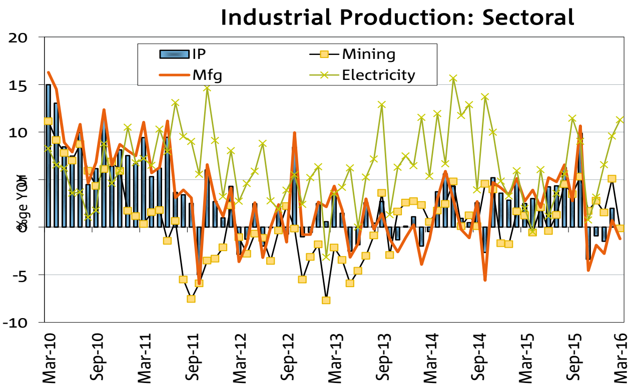



Source: CEIC

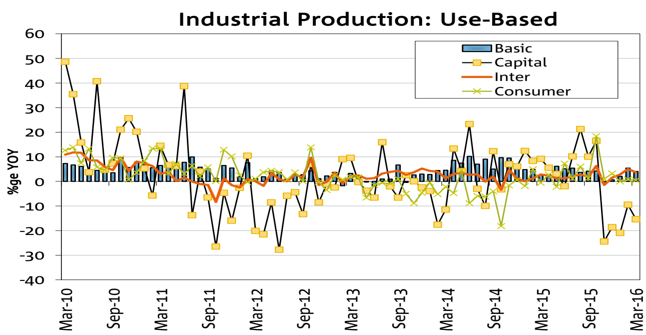
The negative net exports contribution can also been seen in the merchandise trade data. Exports have fallen continuously since the end of 2014. However, imports too have also been weak, particularly in the case of oil, which has helped contained the trade deficit.

## Partial Indicators

Whilst the Industry component of GDP has been strong, industrial production has been tepid. Industrial production was largely flat over the year to March, rising by a very modest 0.2% over the year to the March quarter, 2016.

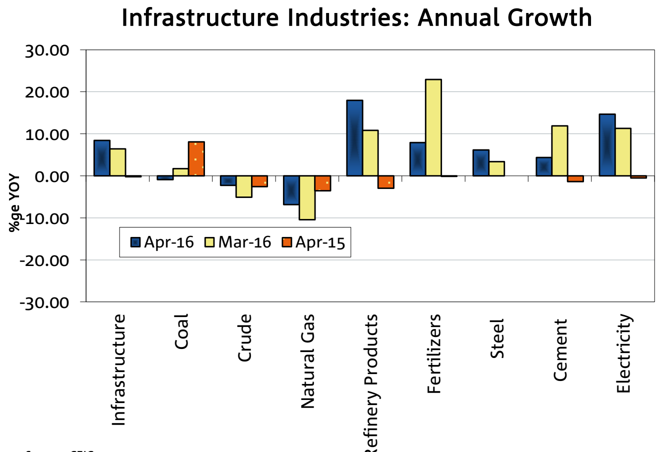



Source: CEIC



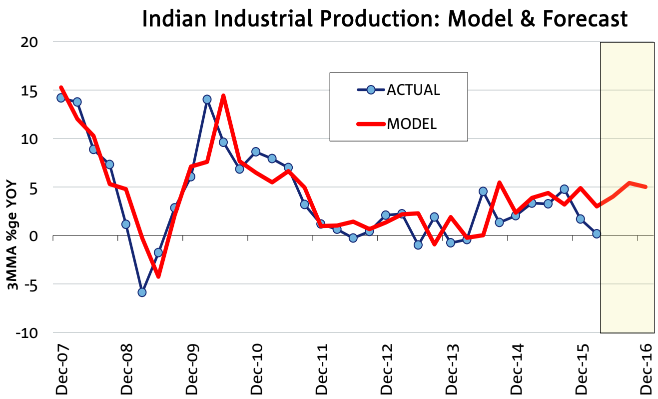

Source: CEIC

By sector, manufacturing contracted, mining was basically flat, and electricity was the standout. In terms of use, the weakness in capital spending is in line with the GDP estimates, and the strong growth in consumer durables (8.7% yoy to March 2016) is an encouraging feature. However, the wide discrepancy between the GDP and Industrial production data is a concern, although mitigated somewhat by the fact that GDP is a value-added measure, and the Industrial production is a volume-based measure. According to *SMERA* – a ratings agency specialising in SMEs – the weak industrial production numbers reflect moderate levels of capacity utilisation.




Source: CEIC

Recent data suggests an expected improvement in near term industrial production, based on recent outcomes of the infrastructure industries. Sectors such as electricity, cement, refinery products and fertilizers have revealed strong growth over the past couple of months.

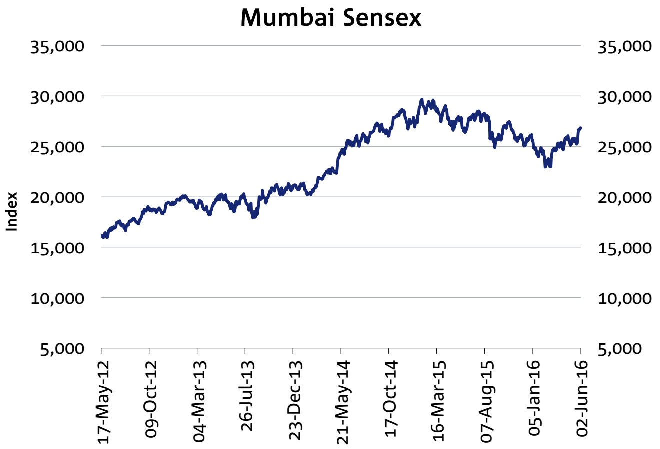



Source: NAB Economics/CEIC

Modelling by NAB Economics indicates that industrial production activity will pick up to around 5% during the second half of 2016. This modelling adopts a 'leading indicator' approach using OECD data. Admittedly, the model has over-estimated near-term activity, but this partly reflects discrepancies between the Industrial production and GDP data discussed earlier.

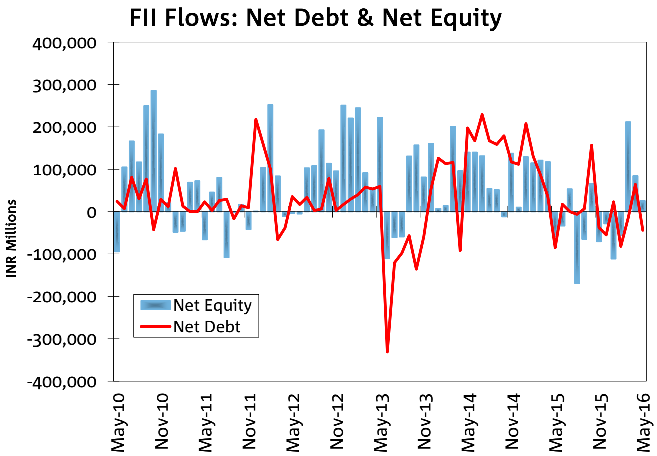
## Financial markets

Indian equity markets, as measured by the benchmark SENSEX index, rose to a 2016 high of 26,840 index points. It has increased by 5.5% over the past month, and by 2.8% over the year to date. The latter was impacted by negative Emerging market sentiment in February. An analysis of corporate profitability by the *Business Standard* publication revealed that the combined net profit of 2,000 companies – excluding those in the financial and energy sectors – was up 21% yoy to the March quarter, 2016, the quickest pace over the past 6 quarters. This was driven by a combination of revenue growth and lower input costs, primarily raw materials and energy. Solid government spending is expected to support corporate profitability in the near term, although the recent rise in crude prices to around USD50/bl (WTI) could negate some of these benefits.



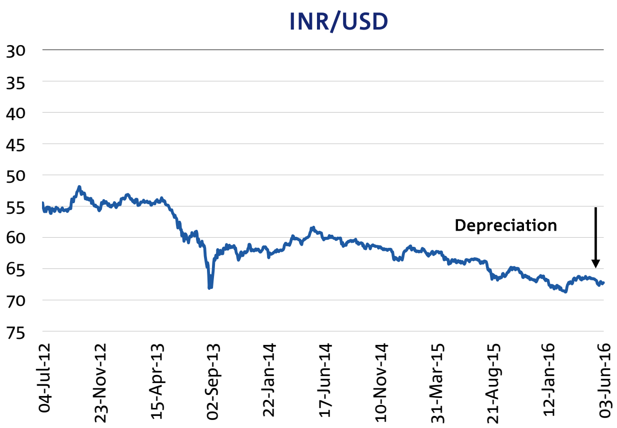

Source: Bloomberg

Indian equities continued to be sought after by Foreign Institutional investors (FII's). However, they seem to be less enthusiastic about Indian debt securities. This trend has continued into June, based on preliminary data from SEBI.



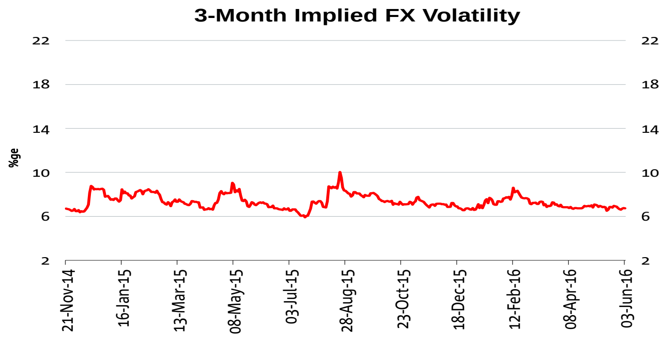

Source: DX

The Indian rupee was last trading around 67.30/USD. Since falling below 68/USD in February, the INR has traded in a steady band between INR66-67.50.




Source: Bloomberg

As with recent trends in the exchange rate, India' foreign exchange (FX) volatility has remained stable around 6.7%. That said, FX volatility nudged up slightly in June, 2016 due to speculation surrounding RBI Governor Rajan's tenure beyond September this year.




Source: Bloomberg

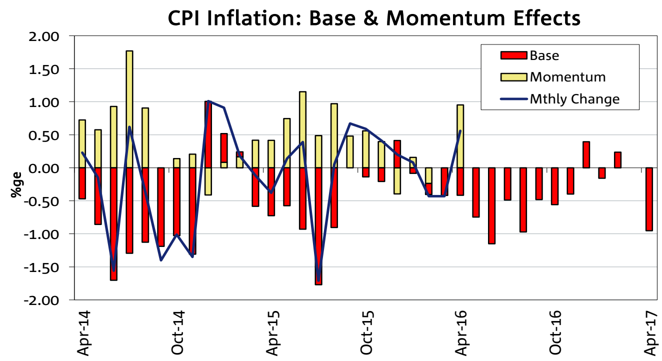
# Outlook

**Looking ahead, NAB Economics is forecasting GDP to increase by 7.7% in 2016 and 2017.** There are both supportive and constricting factors impacting on the forecast.

Expectations of stronger infrastructure spending, improvements in the business environment such as the recently passed Bankruptcy code, and expectations for a favourable monsoon season should be supportive of growth. With regard to the latter, the IMD (Indian Meteorological Department) is forecasting rainfall at 106% of the long term average. This should help contain food prices, and thereby inflationary pressures, providing scope for an easing monetary policy bias.

Conversely, stressed assets in bank balance sheets (particular for Public sector banks) and tepid global economic conditions will act as headwinds.

On interest rates, the RBI held the policy repo rate at 6.5% at its June 7th meeting. However, Governor Rajan indicated 'the stance of policy remains accommodative'. NAB Economics is forecasting one more 25bp cut in the December quarter (perhaps in the October meeting), lowering the Repo rate down to 6.25%. Inflation 'base effects' also suggest supportive price outcomes around that period.




Source:NAB Economics

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