India economy update: June 2024

India Q4 GDP: GDP growth higher than estimates, GVA in-line

- Q4 GDP is again higher than estimate at 7.8% YoY led by lower subsidy payout, while GVA is in-line at 6.3% YoY. FY24 growth now at 8.2% YoY with GVA at 7.2% YoY.
- Consumption demand was stable at 4% YoY. Bigger change was seen in exports which increased by 8.1% YoY with investment demand rising by 6.5% YoY. Real investment to GDP at 33.5% in FY24
- Agricultural output did a tad better than Q3. Industrial activity expanded by 8.4% YoY led by manufacturing and services activity increased by 6.7% YoY led by financial and real estate as well as public admin
- Both near-term and medium-term outlook is bright given a normal monsoon, investment upcycle, rising tax to GDP ratio, digital push, buoyant real estate demand, credit growth and clean balance sheets. Buoyant equity markets imply enough capital is available for growth
- We expect GDP growth at 6.8% over FY25-26 with upside bias. Government's fiscal position is comfortable with faster than projected fiscal consolidation and record RBI dividend which gives room for accelerating capex while consolidating the fisc. Inflation is heading lower. India is a goldilocks economy with external sector too in comfortable position

Table 1: FY24 growth revised higher to 8.2% YoY from 7.6% YoY earlier

Growth estimates (% YoY)	FY21	FY22	FY23	FY24 (SAE)	FY24	FY25	FY26
Agriculture	4.0	4.6	4.7	0.7	1.4	3.6	3.6
Industry	-0.4	12.2	2.1	9.0	9.5	6.4	6.5
Services	-8.4	9.2	10.0	7.5	7.6	7.6	7.4
GVA	-4.1	9.4	6.7	6.9	7.2	6.6	6.6
GDP	-5.8	9.7	7.0	7.6	8.2	6.8	6.8

Source: CEIC, ICICI Bank Research; Note: SAE: second advance estimates

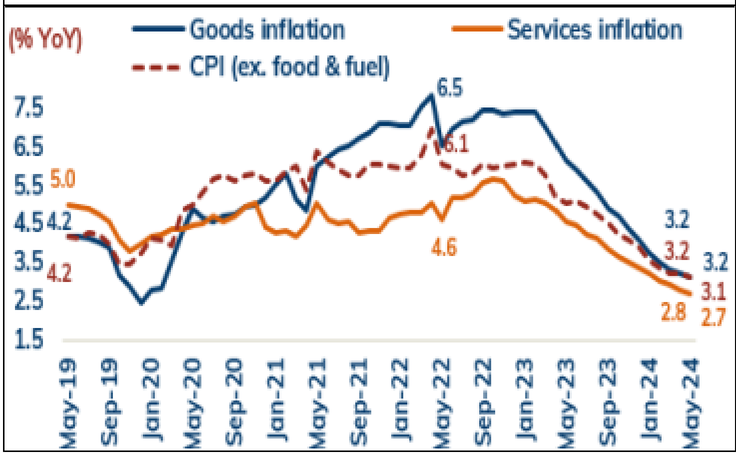
Industrial production: Power and mining driving growth

- Industrial production grew 5% YoY in April 2024, down from 5.4% YoY last month. Both power sector and mining witnessed an acceleration. Power demand is elevated even in May and June which bodes well for near-term outlook
- Manufacturing grew by 3.9% YoY down from 5.8% last month. This pulled down headline growth. Within manufacturing, durables has seen a pick-up along with infra and construction
- However, consumer FMCG reported weak volume growth along with capital goods. Outlook for both is better given prospects of a normal monsoon and rising capacity utilization
- India's industrial outlook is robust on the back of an expected pick-up in domestic rural demand and better prospects of exports. Along with robust construction activity, this bodes well for outlook

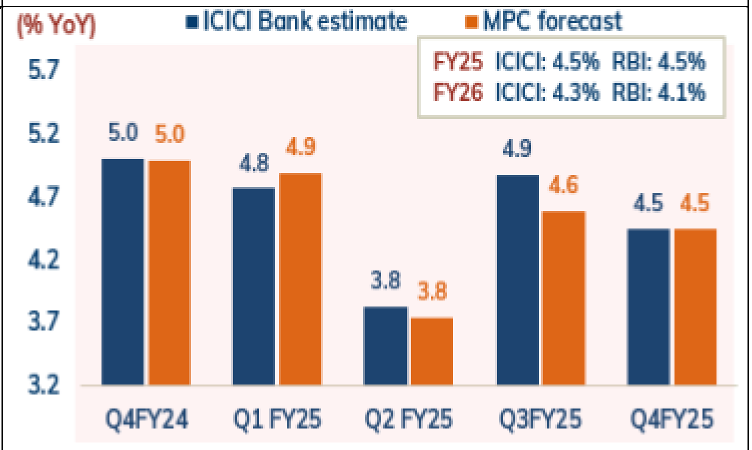
Retail inflation: Surprises positively

- CPI inflation softened to 4.75% YoY vs. 4.83% in April. Food inflation was steady at 7.9% YoY (same as last month). But core inflation softened further to 3.1% YoY (series low)
- Elevated sequential food inflation (0.7% MoM) is driven by uptick in veggies, pulses, and sugar and edible oils. At the same time, cereals and fruits saw some deceleration
- Core inflation fell to a new low of 3.1% YoY (3.2% in April) led by both goods and services. Core inflation should increase gradually given rising global commodity prices and impending telecom tariff hikes
- While food inflation has remained elevated, the steady decline in core has kept the inflation contained in the first two months of this fiscal year. Notwithstanding the uptick visible in veggies (summer uptick due to heatwaves), we believe the food inflation should ease this year. An evenly distributed and steady progress of monsoon should aid. In case of core, the inflation seems to have bottomed out with both goods and services inflation sharply lower at 3.2% YoY (4.9% in FY24) and 2.7% YoY (3.8% in FY24). Thus, we see core inflation picking up in coming months with domestic consumption demand improving, and global commodity and metal prices rising. As of now, we are seeing inflation easing to 4.5% in FY25 (RBI: 4.5%).
- Does this change MPCs decision making? 4-2 vote should continue. For a consensus to emerge, trajectory of monsoon and fiscal deficit is important which should be known by August. But global monetary cycle is still uncertain till such time US Fed embarks on a rate cut making case difficult for EM central banks to move ahead of the Fed. Our base case is change in stance in October as of now given domestic and global developments. A dovish Fed can tilt the balance in favour.

Goods and services inflation continue to ease



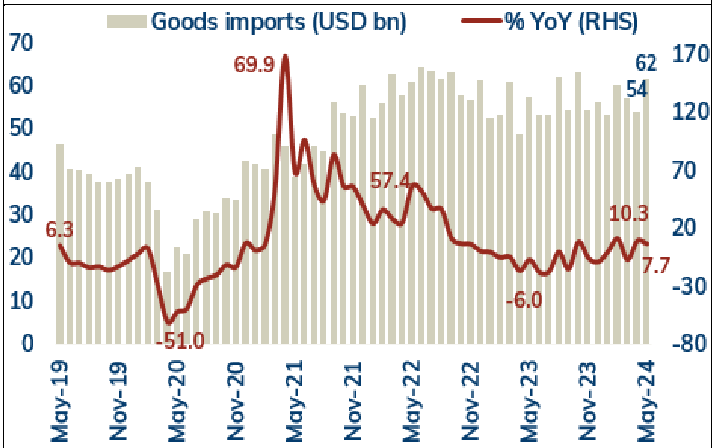
CPI seen at 4.5% in FY25 (RBI: 4.5%)



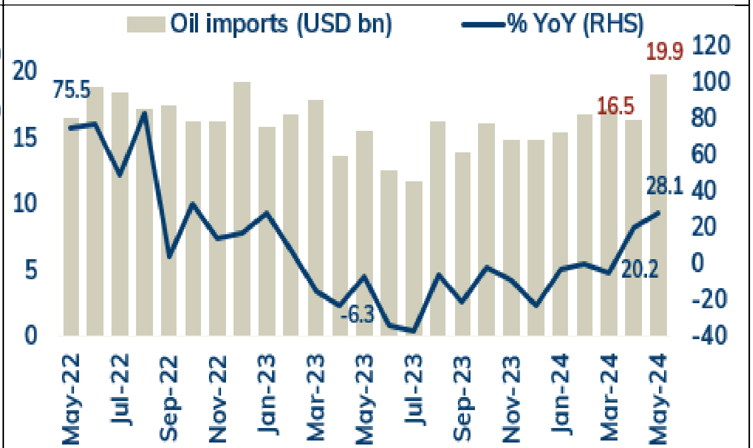
India trade: Trade deficit widens with higher oil

- Merchandise exports picked up sharply by +9.1% YoY and +9.0% MoM at USD 38.1bn in May. Both oil (+15.7% YoY) and non-oil exports (+7.8% YoY) drove the increase. Services exports rose by +11.7% YoY at USD 30.2bn in May but remain marginally lower on MoM basis (- 0.6%).
- Imports rose by +7.7% YoY at USD 61.9bn led by higher oil (+28.1% YoY) and non-oil-non-gold imports (+1.1% YoY), while gold imports fell by 9.8% YoY at USD 3.3bn. Service imports rose by +8.8% YoY and +3.9% MoM at USD 17.3bn in May.
- Overall goods and services imports rose by +7.9% YoY and +12% MoM at USD 79.2bn in May. During FYTD25, overall goods and services imports were higher by 9.9% YoY at USD 150bn. Trade deficit widened to a 7-month high of USD 23.8bn in May from USD 19.1bn in April led by higher oil imports at USD 19.9bn in May from USD 16.5bn in April. Recent dip in oil prices is positive for oil imports
- India's exports are gaining traction with recovery in global trade. Imports too should pick-up on account of improving rural demand and normal monsoon. Thus, we see trade deficit at USD 255bn in FY25 (CAD at 0.8% of GDP)

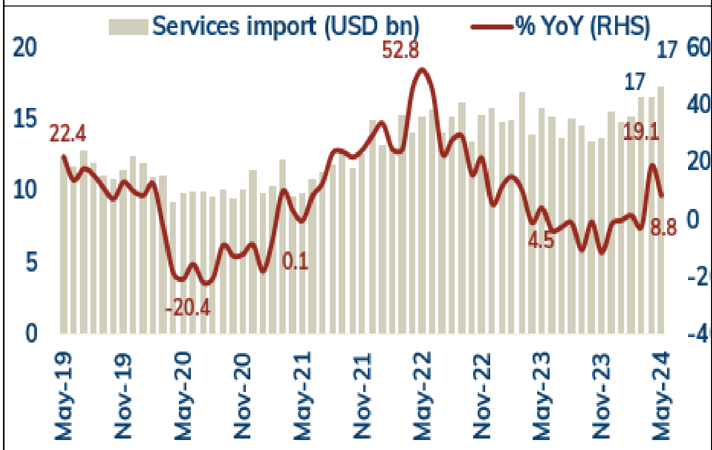
Goods imports rose by +7.7% YoY at USD 61.9bn



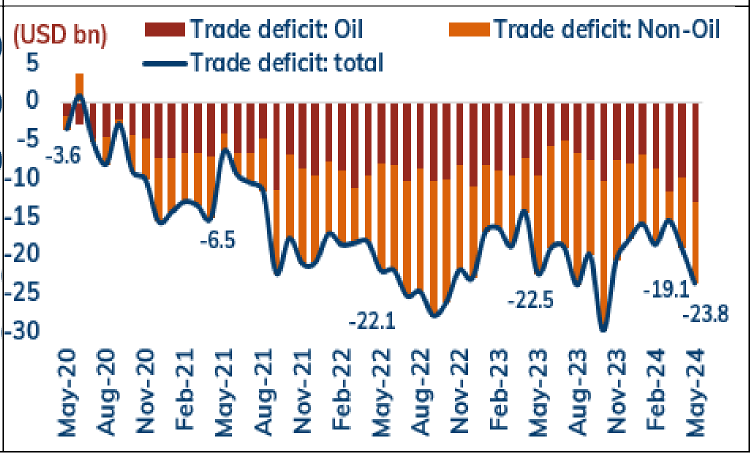
Oil imports rose by +28.1% YoY at USD 19.9bn



Services imports rose by 8.8% YoY at USD 17.3bn



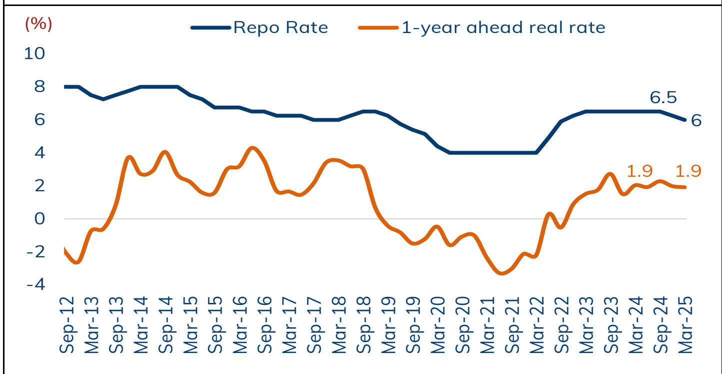
Trade deficit widened to 7-month high (USD 23.8bn)



MPC keeps status-quo on rate and stance, optimistic on growth

- With a 4-2 vote, MPC kept repo rate unchanged and retained stance at 'withdrawal of accommodation'. Now two instead of one external member voted for a cut and change in stance
- Liquidity conditions have tightened since end-April with a build-up of government cash balances and FPI outflows
- Unless global data surprises otherwise, two external members are likely to vote for a cut and change in stance in next policy as well. By then other members would also know the monsoon and fiscal trajectory. This makes a case for change in stance to be considered even in next policy
- However, in case global and domestic developments are not in favour, MPC would consider change in stance in October or December. A shallow rate cut cycle should follow after change in stance, with upward revision to growth (7.2% in FY25) implying MPC is in no hurry to cut rates

Real rates are comfortably above the 1% mark



Interest rate differential between the MPC and the FOMC stands at 1%