

PRESS RELEASE
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GDP growth to dip to a six-quarter low of 6.0% in Q1 FY2025 from 7.8% in Q4: ICRA

ICRA has projected the year-on-year (YoY) expansion of the GDP to moderate to a six-quarter low of 6.0% in Q1 FY2025 from 7.8% in Q4 FY2024, amidst a contraction in Government capital expenditure and a dip in urban consumer confidence. Further, the growth in the gross value added (GVA) is estimated to ease to 5.7% in Q1 FY2025 from 6.3% in Q4 FY2024, driven by the industrial (to +6.4% from +8.4%) sector, along with a mild easing in the expansion in services (to +6.5% from +6.7%) and a slight pick-up in the agricultural GVA growth (to +1.0% from +0.6%).

Further, the gap between the GDP and the GVA growth is likely to moderate to ~30 basis points (bps) in Q1 FY2025 from 148 bps in the previous quarter. This is on account of an expected lower expansion in the net indirect taxes in Q1 owing to a turnaround in the subsidy outgo of the Government of India (GoI; +3.6% in Q1; -24.2% in Q4 FY2024).

Aditi Nayar, Chief Economist, Head-Research & Outreach, ICRA said: *"Q1 FY2025 saw a temporary lull in activity in some sectors related to the Parliamentary elections and sluggish Government capex, both for the Centre and the states. Further, urban consumer confidence reported a surprising downtick in the May 2024 (and July 2024) rounds of the Central Bank's Consumer Confidence Survey, while the lingering impact of last year's unfavourable monsoon and an uneven start to the 2024 monsoon prevented a broader improvement in rural sentiment. Lower volume growth combined with diminishing gains from commodity prices weighed upon the profitability of some of the industrial sectors. The heat wave also affected footfalls in various services sectors, even as it provided a significant boost to electricity demand. On balance, we foresee a transient moderation in India's GVA and GDP growth in Q1 FY2025 to 5.7% and 6.0%, respectively."*

"For the full-year FY2025, ICRA expects a back-ended pick-up in economic activity to boost the GDP and GVA growth to 6.8% and 6.5%, respectively. In particular, there is considerable headroom for the GoI's capital expenditure, which needs to expand by 39% in YoY terms in July-March FY2025 to meet the Budget Estimate for the full year. This is expected to catapult GDP growth back above 7% in H2 FY2025," added **Nayar**.

ICRA estimates the industrial GVA growth to record a moderation to 6.4% in Q1 FY2025 from 8.4% in Q4 FY2024, led by manufacturing (to +7.0% from +8.9%) and construction (to +4.0% from +8.7%). In contrast, electricity (to +11.0% from +7.7%), and mining and quarrying (to +6.5% from +4.3%) are projected to record an uptick in growth.

India witnessed a transient lull in the investment activity in Q1 FY2025. For instance, the capital expenditure of the GoI and 22 state governments (capital outlay and net lending for states except Arunachal Pradesh, Assam, Goa, Gujarat, Manipur, and Sikkim) recorded a YoY contraction of 35% and 23%, respectively, in Q1 FY2025. Additionally, the value of new project announcements plunged from Rs. 12.8 trillion in Q4 FY2024 to Rs. 1.2 trillion in Q1 FY2025 - this was the lowest cost in any quarter in two decades (Rs. 0.4 trillion in Q1 FY2005). Further, the value of completed projects stood at a meagre Rs. 0.5 trillion in Q1 FY2025, the lowest level since Q2 FY2008 (Rs. 0.39 trillion, barring the Covid quarters).

The profit margins of manufacturing companies eased in Q1 FY2025 vis-à-vis Q4 FY2024, amid an uptick in global commodity prices and the narrower deflation in input costs as reflected in the WPI-industrial raw materials (-0.3% in Q1 FY2025 vs. -2.5% in Q4 FY2024). This, along with the lower growth in manufacturing IIP volumes (to +3.8% from +4.8%), suggests that the YoY growth in manufacturing GVA is likely to have slowed in Q1 FY2025.

ICRA estimates the YoY expansion in the services GVA to ease slightly to 6.5% in Q1 FY2025 from 6.7% in Q4 FY2024, amidst a decidedly mixed trend in the high frequency indicators. The performance of half of the 14 indicators tracked by ICRA saw a deterioration in Q1 FY2025 relative to Q4 FY2024, which can partly be attributed to the heatwave conditions that dampened mobility/travel. These include air cargo traffic, rail freight, consumption of petrol and diesel, GST e-way bills, domestic airlines' passenger traffic, and CP volumes.

In contrast, seven indicators improved on a YoY basis in Q1 FY2025, largely related to public spending, transport, communication and exports. These include non-interest revenue spending of the GoI and aforesaid 22 state governments, CV sales (aided by a favourable base), service sector exports, ATF consumption, ports cargo traffic and telephone subscribers.

Amidst a decline in the output of most rabi and summer crops and a deficient rainfall seen in June 2024, ICRA expects the GVA growth of agriculture, forestry and fishing to print at 1.0% in Q1 FY2025.

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