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Q1FY20 GDP AT 25 QUARTERS LOW;CONSUMPTION GROWTH SIGNIFICANTLY SLOWER THAN ANTICIPATED, FY20 GROWTH AT 6.1%

Issue No. 37, FY20
Date: 30 August 2019

Amidst all announcements made during the past few days, GDP numbers have shown us the inevitable. The economy currently passing through a rough patch expanded by only 5%, a 25 quarters low. The numbers are significantly lower than the minimum and maximum market consensus estimates (5.4% and 6.4%). What is alarming is the collapse in nominal GDP from 12.6% in Q1 FY19 to 8% in Q1 FY20. Our analysis shows that it is more of a growth decline (real GDP has come down from 8% in Q1 FY19 to 5% in Q1 FY20 and deflator has come down from 4.3% in Q1 FY19 to 2.8% in Q1 FY20). Significant deceleration in growth of GDP of 'Financial, Real Estate and Professional Services' within Services sector from 9.5% in Q4 to 5.9% in Q1 indicates that current problem is of inadequate demand propelled by a low wage growth (professional services constitute 75% of the 'Financial, Real Estate and Professional Services').

The consumption (PFCE) slowdown is more entrenched **and has declined by Rs 1.5 lakh crore in Q1 FY20 compared to Q4 FY19**. PFCE is now more than half from 7.2% in Q4 FY19 to 3.1% in Q1 FY20, weakest since Q3 FY15 (2.0%). We are not sure whether we have reached nadir of consumption growth because our leading indicators show an acceleration of only 24% in Q2 (Jul'19) as against 35% acceleration in Q1 FY20 when the GDP growth was 5%

Though Reserve Bank of India has taken proactive steps and has already cut interest rates by 110 basis points this year to the lowest in nine years to boost loans and revive investment, now it is time for some structural changes to take place and some booster pills. The high inflation and high interest rates of the 1970s generated a revolution in macroeconomic thinking, policy and institutions. The low inflation, low interest rates and stagnation of the last decade has been longer and more serious and deserves at least an equal response. We believe that fiscal policy needs to be a major focus, given that we are in an era of low and negative interest rates for the last decade.

The Government has made series of announcements in the monetary and financial space within a week's span including today. The measures include eased foreign investment rules, concessions on vehicle purchases and encouragement to banks to make loans cheaper to spur growth from a five-year low. The long awaited PSB consolidation also brings all the merger related speculations to rest.

Considering the present macro environment, it will be difficult to achieve the 7% growth target in this fiscal. We are now estimating **GDP growth at 6.1% in FY20 with downward bias.**

GDP GROWTH PLUNGED TO 5.0%

- GDP numbers released today are below the market expectations. As against the markets minimum and maximum estimate of 5.4% and 6.4%, the GDP for Q1 FY20 has registered a growth of only 5%, which is way below the year before level of 8.0%. The Gross Value Added (GVA) at Basic Prices has declined due to a virtually flattish growth in manufacturing as against a growth of 12.1% in Q1 FY19. This movement in Q1 numbers is more of a growth decline than deflator decline, as the real GDP has come down by 294 bps in this quarter vis-à-vis Q1FY19, while deflator has moved from 4.3% to 2.8% (149 bps). Interestingly, the deflator data shows that the demand is stagnating in the segment.
- Agriculture and Allied Activities grew at 2.0% in Q1 FY20, compared to last year growth of 5.1%. The low number is owing to the high base of the previous year and the impact of the floods and natural calamities and uneven distribution of rainfall. Agri prices after languishing for some time, have shown an uptick as evident from the Agri Deflator which is at 5.7% in Q1FY20 vis-à-vis 1.6% in Q1FY19.
- The growth in the Industry segment has gone down to 2.7% in Q1 FY20 as against the growth of 9.8% in Q1 FY19. The contributing factors to this decline are manufacturing and construction, wherein the growth has moderated to 2.7% and 5.7% respectively from a high of 9.8% and 9.6% registered in Q1 FY19. The industry growth is seeing a sought of reversal of trends In Q1 19, as it was the construction and the manufacturing which had pulled up the growth in Q1 FY19. The growth in Industry has registered a decline due to slowdown in the Automobile segment, Capital goods, Government capex, cement etc. The construction activity has seen a slowdown as the new launches are on a decline (seen a contraction of 47%) due to the builders interest in off-loading the existing inventory first.
- In Q1FY20, the services GDP declined to 6.9%, compared to 8.4% in Q4FY19, mainly due to decline in 'Financial, Real Estate and Professional Services', which growth at 5.9%. Despite slowdown of sales in automobiles sector, the sub-sector 'Trade, Hotels, Transport, Communication and Broadcasting' growth increased to 7.1% growth in Q4FY19. Further, 'Public Administration, Defence and Other Services' has declined to 8.5% in Q1, from 10.7% in Q4FY19.

GVA at Basic Price by Economic Activity (%)

Sectors	FY19				FY20
	Q1	Q2	Q3	Q4	Q1
Agriculture	**5.1**	**4.9**	**2.8**	**-0.1**	**2.0**
Industry	**9.8**	**6.7**	**7.0**	**4.2**	**2.7**
Mining & quarrying	**0.4**	-2.2	1.8	4.2	**2.7**
Manufacturing	**12.1**	6.9	6.4	3.1	**0.6**
Electricity, gas, water supply & other utility services	**6.7**	8.7	8.3	4.3	**8.6**
Construction	**9.6**	8.5	9.7	7.1	**5.7**
Services	**7.1**	**7.3**	**7.2**	**8.4**	**6.9**
Trade, hotels, transport, communication & services related to broadcasting	**7.8**	6.9	6.9	6.0	**7.1**
Financial, real estate & professional service	**6.5**	7.0	7.2	9.5	**5.9**
Public administration, defence and Other Services	**7.5**	8.6	7.5	10.7	**8.5**
Total GVA at Basic Price	**7.7**	**6.9**	**6.3**	**5.7**	**4.9**
GDP	**8.0**	**7.0**	**6.6**	**5.8**	**5.0**

Growth in Sectoral Deflator(%)

Sectors	FY19				FY20
	Q1	Q2	Q3	Q4	Q1
Agriculture	**1.6**	**-0.7**	**-0.7**	**3.9**	**5.7**
Industry	**5.4**	**6.2**	**5.6**	**3.1**	**2.0**
Mining & quarrying	**18.3**	24.7	18.0	5.3	**2.7**
Manufacturing	**3.8**	4.4	4.2	2.5	**1.4**
Electricity, gas, water supply & other utility services	**5.5**	7.4	6.8	4.4	**0.0**
Construction	**4.7**	5.0	4.5	3.0	**2.7**
Services	**5.2**	**5.5**	**4.9**	**3.9**	**2.6**
Trade, hotels, transport, communication & services related to broadcasting	**4.9**	5.3	4.8	3.1	**3.4**
Financial, real estate & professional service	**5.2**	5.6	5.0	3.5	**0.5**
Public administration, defence and Other Services	**5.7**	5.2	4.8	5.1	**5.1**
Total GVA at Basic Price	**4.6**	**4.8**	**3.8**	**3.6**	**2.9**
GDP	**4.3**	**4.7**	**4.1**	**3.4**	**2.8**

Source: CSO

CONSUMPTION SLOWDOWN MORE ENTRENCHED

- The economic slowdown is not just restricted to Indian economy, but has rather spread like contagion from our western and eastern counterparts. What started as US-China Trade war has moved to Europe and south east nations are also not untouched. The falling vehicle sales internationally and the overall industry slowdown is resulting in moderation of Global GDP growth to 3.2% in 2019 compared to the 3.8% in 2017.
- In India also the private final consumption expenditure has slumped to 3.1% in Q1 FY20., the weakest level since Q3 FY15 when it grew by a mere 2%. At current price as well, PFCE has moved down to 6.2%.
- The increase in change in stock (in current prices) from Rs 34,485 crore in Q1 FY17 Rs 47,805 in Q1 FY20 is also indicating the accretion of stocks and hence reflecting consumption slowdown.
- Unconfirmed sources indicate that there is a loss of 3.5 lakh formal jobs from car manufacturers to component manufacturers. Assuming a minimum salary of ₹15,000 per month, this translates into ₹6,300 crore loss in consumption expenditure. With loss in informal jobs also, the consumption loss would translate to around Rs 15000 crore.

GROWTH IN DISCREPANCIES

- Growth in discrepancies is one of major issues that needs urgent attention. The value of discrepancies (at current prices) that has increased from Rs 31,383 crore in Q1 FY17 to Rs 1,12,433 to in Q1 FY20 raised the questions regarding accounting practices.

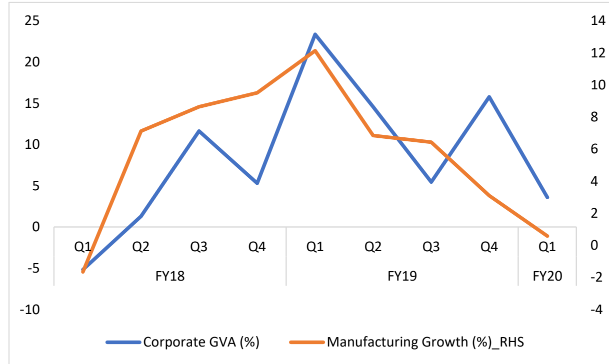
MONETARY POLICY NOT ENOUGH IN CURRENT CIRCUMSTANCES

- The contemporary issue for macroeconomists is to focus on assuring adequate aggregate demand. We believe it is incorrect for central bankers to suggest that they have this challenge under control - or that with their current toolkit they will be able to get it under control. Fiscal policy needs to be a major focus, especially given what low or negative interest rates mean for the sustainability of deficits.
- The high inflation and high interest rates of the 1970s generated a revolution in macroeconomic thinking, policy and institutions. The low inflation, low interest rates and stagnation of the last decade has been longer and more serious and deserves at least an equal response.

GDP GROWTH FOR FY20 WILL 6.1% WITH DOWNWARD BIAS

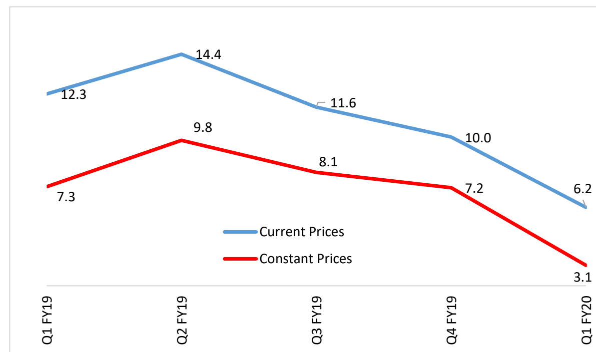
- GDP growth has slowed down from 5.8% in Q4FY19 to 5.0% in Q1FY20 on account of low automobile sales, deceleration in air traffic movements, flattening of core sector growth and declining Government capex. Considering the present macro environment, it will be difficult to achieve the 7% growth target in this fiscal. Our preliminary estimate suggests that GDP growth may come close to 6.1% with down We are now estimating GDP growth at 6.1% in FY20 with downward bias.
- On a different note, Government of India has currently scope for providing consumption boost. For example, based on fiscal deficit numbers, in PMKY, Government will save Rs 30,000 crores. If we add Rs 52000 crore surplus transfer from RBI, the Government further would have adequate cushion for make up for any revenue loss.

Corporate GVA and Manufacturing GVA (% YoY)



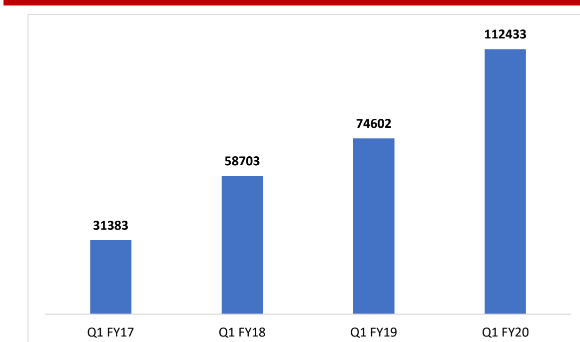
Source: SBI Research

Decline in PFCF (% YoY)



Source: SBI Research

Increase in Discrepancies (% YoY)



Source: SBI Research

Mapping of Leading Indicators and GDP Growth			
Year	Quarter	% of indicators showing acceleration	GDP growth (%)
FY18	Q1	58	6.0
	Q2	70	6.8
	Q3	67	7.7
	Q4	70	8.1
FY19	Q1	70	8.0
	Q2	64	7.0
	Q3	61	6.6
	Q4	45	5.8
FY20	Q1	35	5.0
	Q2 (Jul)	24	

Source: SBI Research

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