

# Initial estimates reveal Q2FY25 GDP could be ~6.5%; Recovery seen in October Numbers

The Blip in Growth in Q2 might be an Impasse, tailwinds of recovery is now reinvigorated by a surge in rural demand... a proxy of better income levels...better capturing of soft data need of the hour as the shift towards Q-commerce has accentuated in urban areas, regulatory actions having a desired impact on credit profile of urban demographics...Policy mistakes promising undesirable short term fiscal bonanza like loan waivers, unscientific and universal crop price guarantees should be avoided

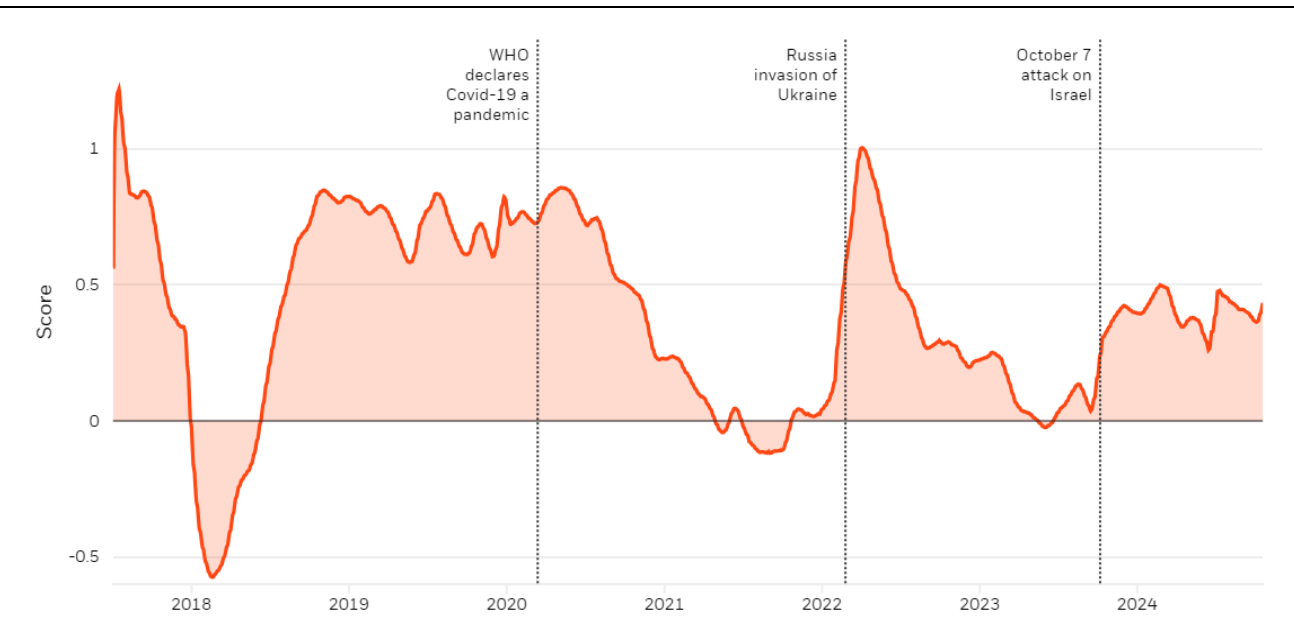
Issue # 19, FY25 06-November-2024

- ❑ The hitherto buoyant global economy appears somewhat susceptible to certain degrees of downward pressure with recent spikes in geopolitical tensions taking a toll
- ❑ Domestically, there is some incipient pressure evident on domestic economy too. Basis our analysis of 50 meaningful L.I.s (both consumption as also demand centric), a dip looks plausible across select cohorts of Agri, Industry and Services in Q2.
- ❑ **High-frequency indicators indicate that aggregate demand continued to grow (albeit with a slower momentum than in the preceding quarters and painting a somewhat mixed picture).** For instance, domestic passenger vehicle sales which is an indicator of urban demand as well as other indicators of consumption and demand as diesel consumption, electricity demand and bitumen consumption have eased. Transport and Communication indicators viz. passenger and freight traffic at airports and toll collection are showing traction.
- ❑ **We track 50 leading indicators in consumption and demand, Agri, Industry, Service and other indicators which indicate a dip in Q2FY25. The % of indicators showing acceleration declined to 69% in Q2 FY25 vs 80 % in Q2 FY24 and 78 % in Q1 FY25. Though we believe this is a temporary impasse only and the narrative might change completely in Q3FY25 onwards.**
- ❑ Majority of the states' Capex as % of BE is lower in H1FY25, while Revenue expenditure/Committed Expenditure taking precedence. The capex of the Central government should gain traction in H2, recovering from the slack imposed by General Elections.
- ❑ **As a vindication of rural consumption and demand gaining buoyancy,** domestic tractor sales showed a jump in growth in Oct'24, Domestic 2-wheeler and 3-wheeler sales are showing consistency in growth while rural agri wage growth accelerated in Aug 24.

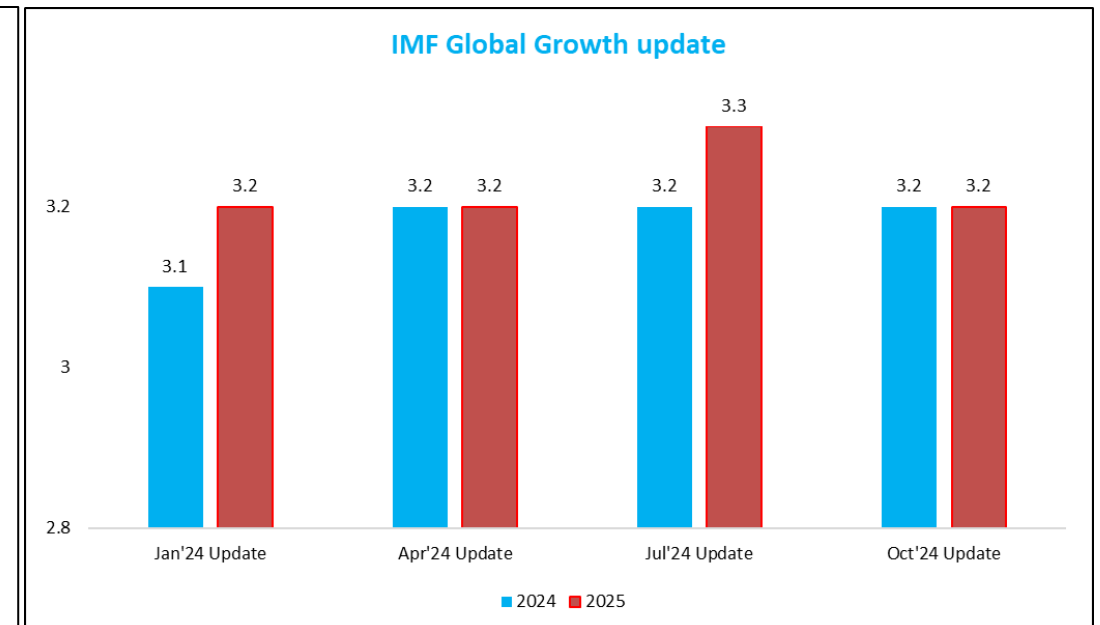
- ❑ **The recent buoyancy in rural demand/consumption**, juxtaposed against the somewhat declining urban demand/consumption, with 85% of rural indicators showing acceleration as against 73% of urban indicators (Sep'24) could be indicative of shifting contours of urban demographics, marked preferences to Q-commerce (Quick Commerce; which is not being mapped properly) outweighing consumption decisions to some extents. Also, the much-needed regulatory tightening on unsecured lending and roadblocks hindering roll over / refinancing of debt through unsecured credit is punctuating the unwarranted exuberance built up post pandemic, more in urban ecosystem.
- ❑ Also, rural consumption demand thrives on the back of robust consumer sentiments – which posits that continuous Government efforts are reaching the bottom of pyramid, thus asserting economic stability. In all months of H1-FY25, rural consumer sentiment is more than 100 and gradually converging to that of urban consumer sentiment. Higher consumer sentiment in rural areas has positive implications – as it will lead to higher consumer spending, thus supporting rural markets, job creation and income generation
- ❑ **We must refrain from policy mistakes**...For example, farm loan waivers, have been a self-inflicted *Harakiri* (as discussed in detail in SBI Research report dt. 18<sup>th</sup> July 2022), distorting the credit culture of borrowers and not even marginally serving the purpose in the medium to long term...**similarly, only MSP driven agricultural growth is more fiscally extravagant and results in extreme ground water depletion**
- ❑ Latest numbers show that SCBs deposit growth has now surpassed credit growth. In the current FY so far (till 18 Oct), ASCBs deposits grew by 11.7% YoY compared to last year growth of 13.4%, while credit grew by 11.5% YoY compared to last year growth of 20.0%. Deposit Credit differential has now turned positive, which was last seen in April 2022
- ❑ **In terms of profitability, PSBs have trumped the PVBs by a wide margin (both QoQ / YoY basis)**
- ❑ **We estimate Q2FY25 GDP growth around ~ 6.5%**, data for which will be released on 29 November and expected Q3 and Q4 growth numbers could push overall yearly GDP growth closer to 7% in FY25

- ❑ A slowdown in global growth momentum in Q3CY24 weighed down by intensifying geopolitical conflicts
- ❑ The geopolitical risk indicator has shown an upturn in October due to the ongoing tensions in the Middle East regional war risk as recent exchanges between Israel and Hezbollah have significantly increased tensions
- ❑ U.S.-China strategic tensions risk given escalating tension between China and the Philippines in the South China Sea

### Geopolitical Risk Indicator



### IMF Global Growth update



- Our initial estimates for Q2FY25 GDP growth is at ~6.5%, data for which will be released on 29 November...expected buoyancy in Q3 and Q4 growth numbers could still push overall yearly GDP growth closer to 7% in FY25

RBI's GDP Forecast					
Policy	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	FY25
Oct-23	6.6				
Dec-23	6.7	6.5	6.4		
Feb-24	7.2	6.8	7.0	6.9	7.0
Apr-24	7.1	6.9	7.0	7.0	7.0
Jun-24	7.3	7.2	7.3	7.2	7.2
Aug-24	7.1	7.2	7.3	7.2	7.2
Oct-24	6.7 (Actual)	7.0	7.4	7.4	7.2
Oct 24 Bulletin		6.8			
Memo					
SBI	6.7	6.4 to 6.5	7.2 to 7.3	7.2 to 7.3	6.9 to 7.0

Source: SBI Research, RBI

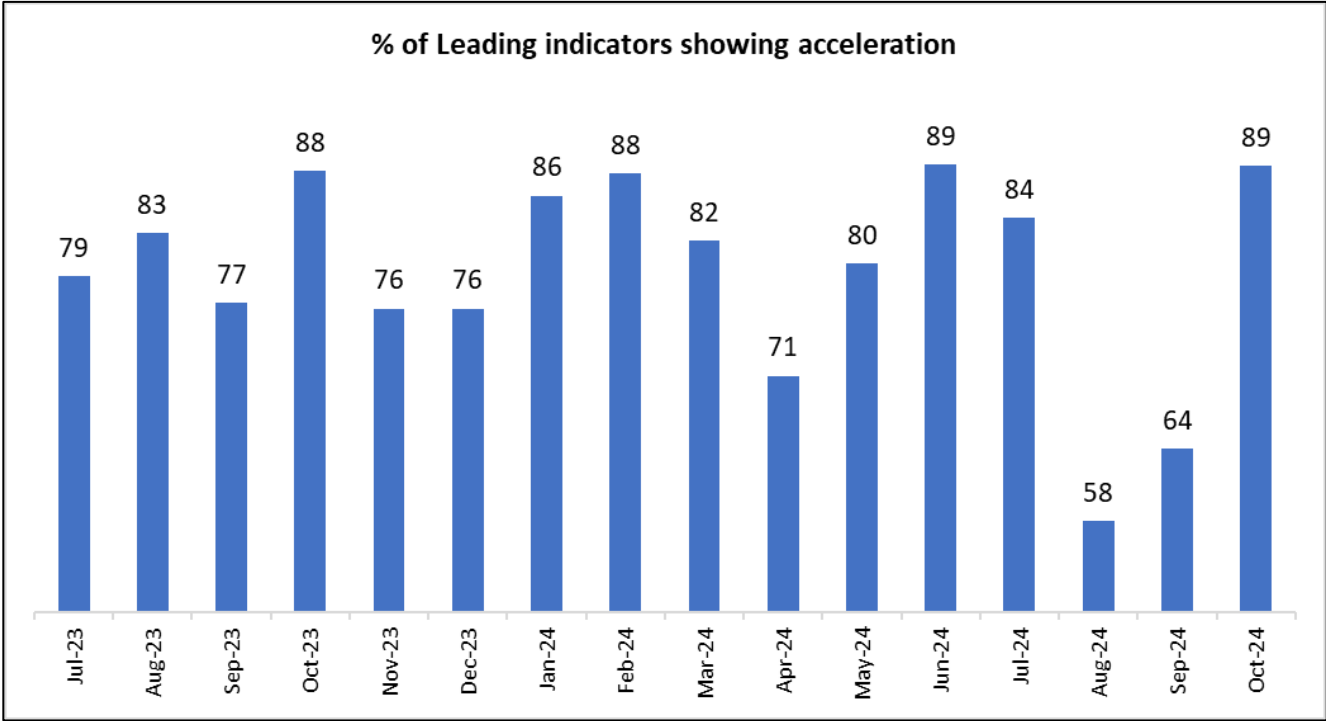
Real GDP Projections		
	SBI	RBI
Q1 FY25 (Actual)	6.7%	6.7%
Q2 FY25	~6.5%	6.8%-7.0%
Q3 FY25	7.2 to 7.3%	7.4%
Q4 FY25	7.2 to 7.3%	7.4%
<b>FY25 P</b>	<b>6.9% to 7.0%</b>	<b>7.2%</b>

Source: RBI; SBI Research

Mapping of Leading Indicators with GDP Growth			
Year	Quarter	GDP Growth (%)	% of indicators showing acceleration
			Overall
FY23	Q2 FY23	5.5	69
	Q3 FY23	4.3	73
	Q4 FY23	6.2	76
FY24	Q1 FY24	8.2	70
	Q2 FY24	8.1	80
	Q3 FY24	8.6	80
	Q4 FY24	7.8	86
FY25	Q1FY25	6.7	78
	Q2 FY25 (P)	6.5	69

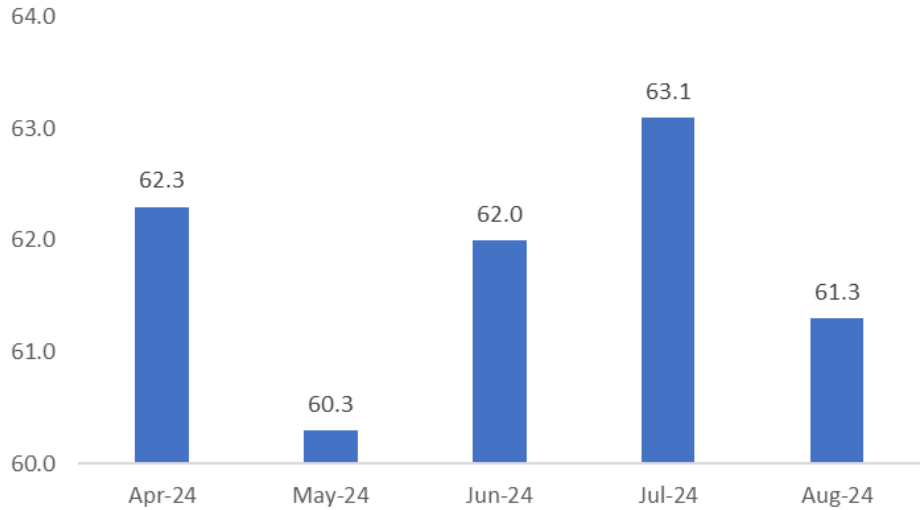
Source: SBI Research

- Leading indicators are showing mixed signals. For instance, domestic passenger vehicle sales which is an indicator of urban demand as well as other indicators of consumption and demand as diesel consumption, electricity demand and bitumen consumption have eased. Transport and communication indicators as passenger and freight traffic at airports and toll collection are showing traction, however, e-vehicle registration continues to lose steam in Aug'24 and Sep'24. Thus, growth seems to be entering a softer patch
- We track 50 leading indicators in consumption and demand, Agri, Industry, service and other indicators, which indicate a dip in Q2FY25. The % of indicators showing acceleration is declined to 69% in Q2 FY25 vs 80 % in Q2 FY24 and 78 % in Q1 FY25



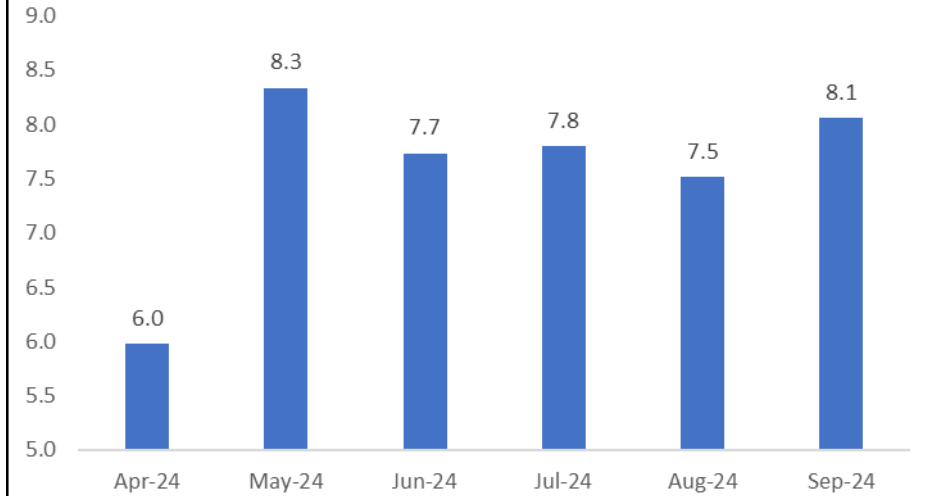
$$\% \text{ of indicators showing acceleration} = \frac{\text{No of indicators showing high and moderate growth}}{\text{Total no of indicators}}$$

### Hotel Occupancy Rate (YoY %)



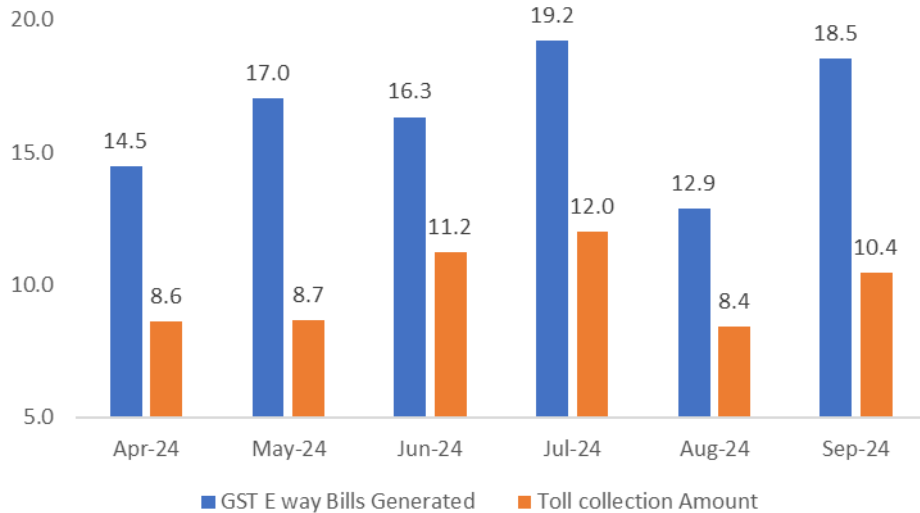
High-frequency indicators indicate that aggregate demand continued to grow, albeit with a slower momentum than in the preceding quarters

### Passenger Traffic: All Airports (YoY %)

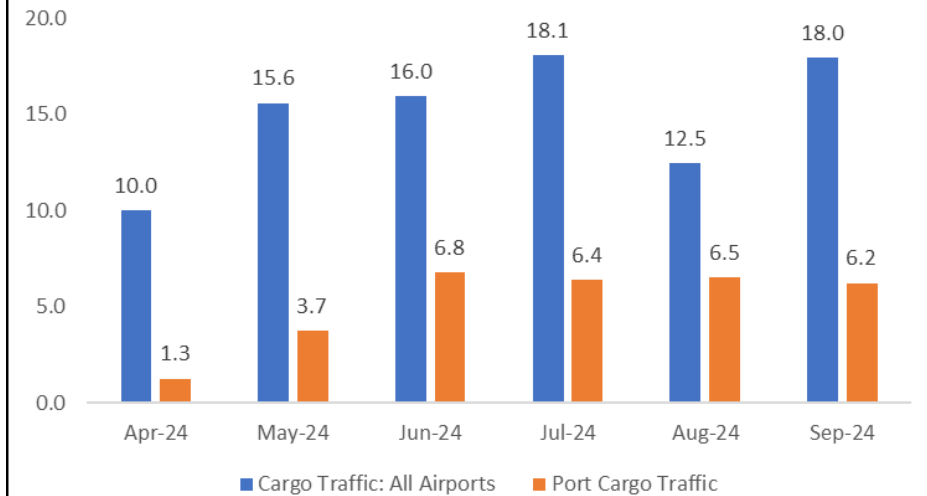


E-way bills continued to record double digit growth in September 2024

### E-Way Bills & Tolls Collected Growth (YoY %)

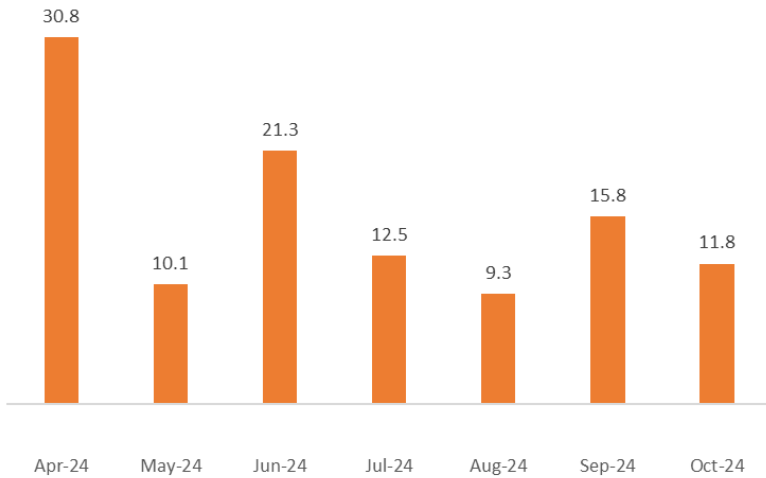


### Cargo Traffic: Airport & Port (YoY %)



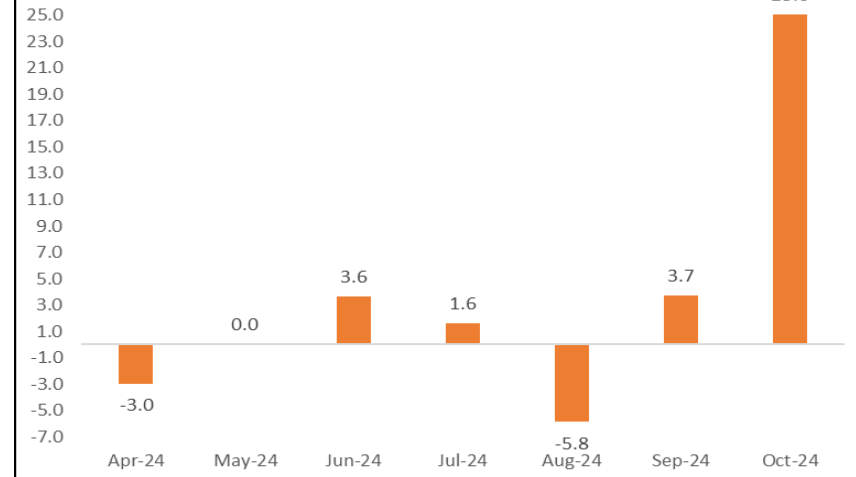
# Rural Demand is outpacing Urban Demand

### Sales of Domestic Two wheeler Growth (YoY%)



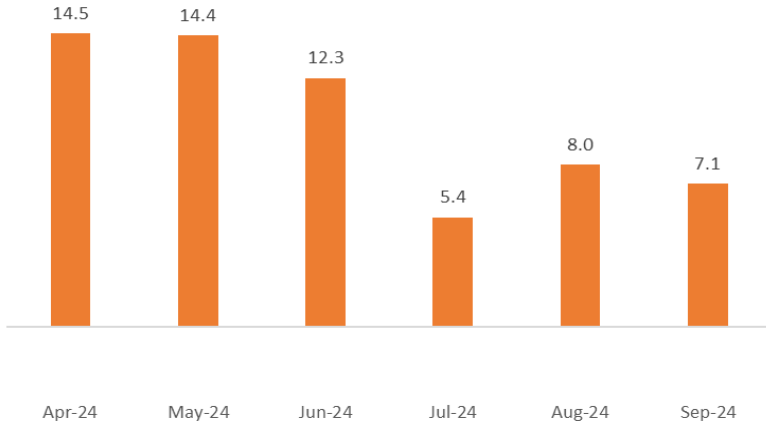
- ❑ Domestic tractor sales showing a jump in growth in Oct'24
- ❑ Domestic two wheeler and three wheeler sales are showing consistency in growth

### Domestic Tractor Sales (YoY%)

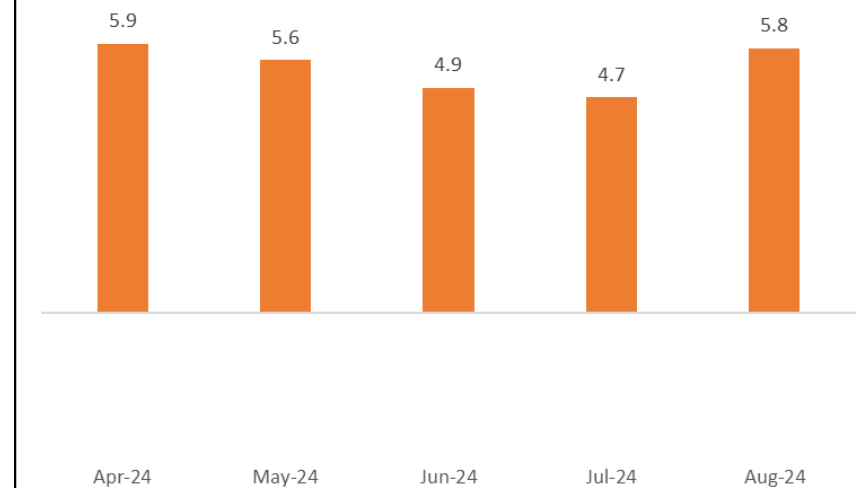


- ❑ Rural agri wage growth accelerated in Aug 24

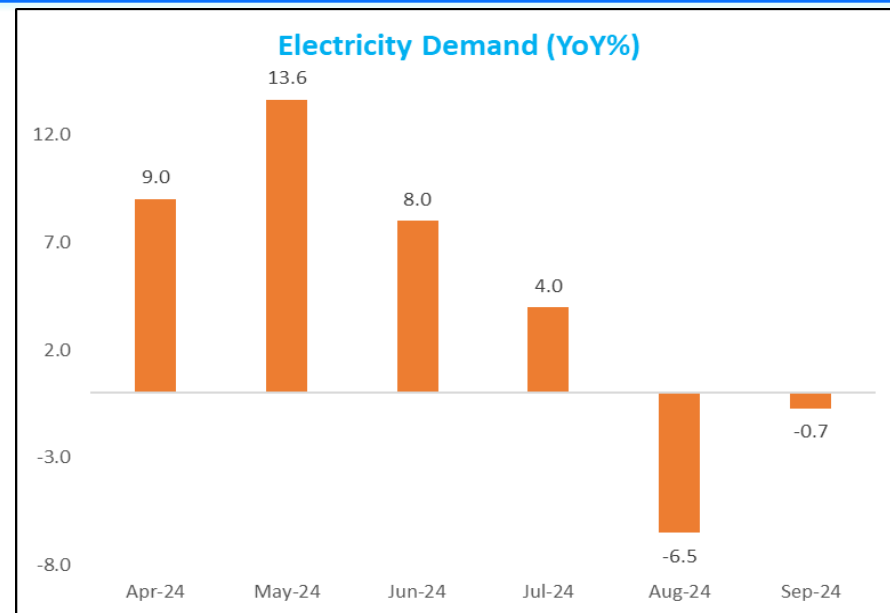
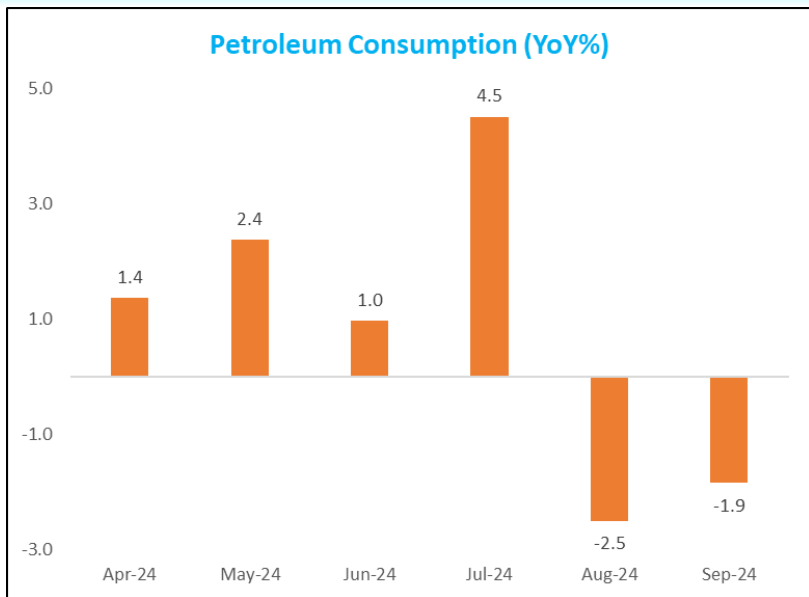
### Sales of Domestic Three wheeler Growth (YoY%)



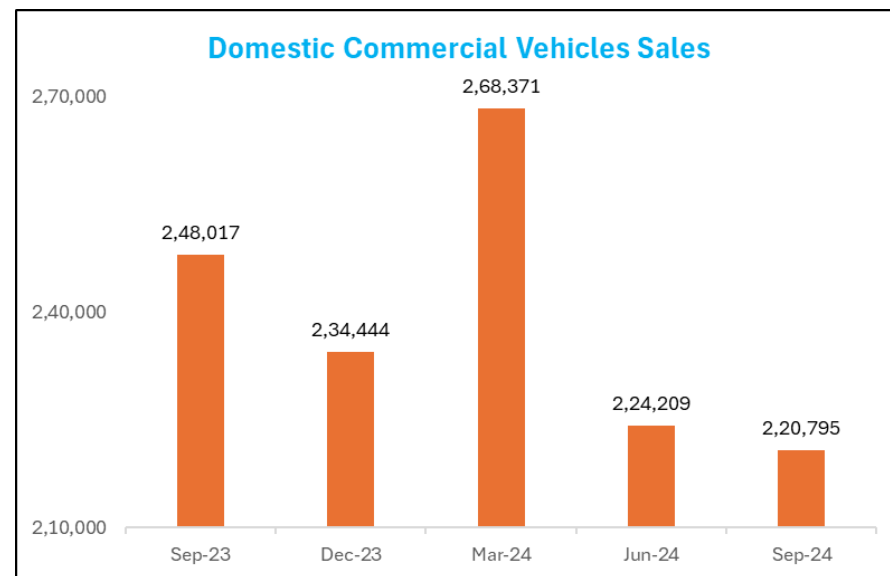
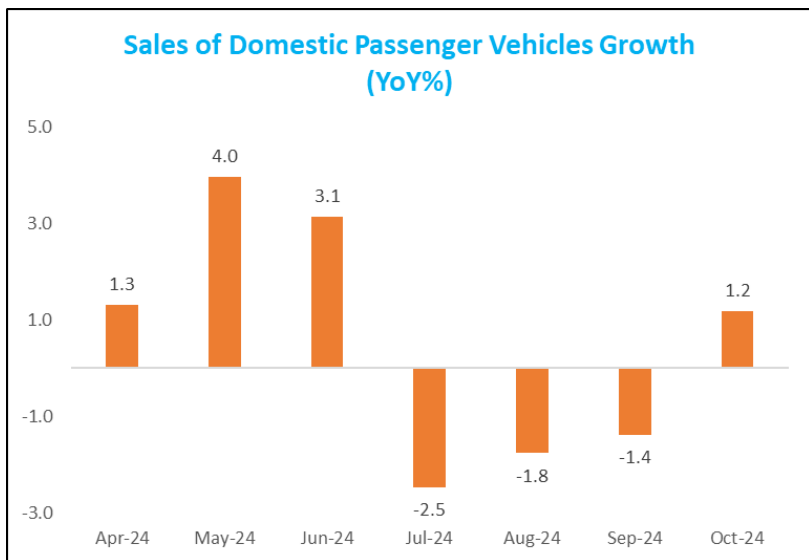
### Rural agri wage Growth (YoY%)





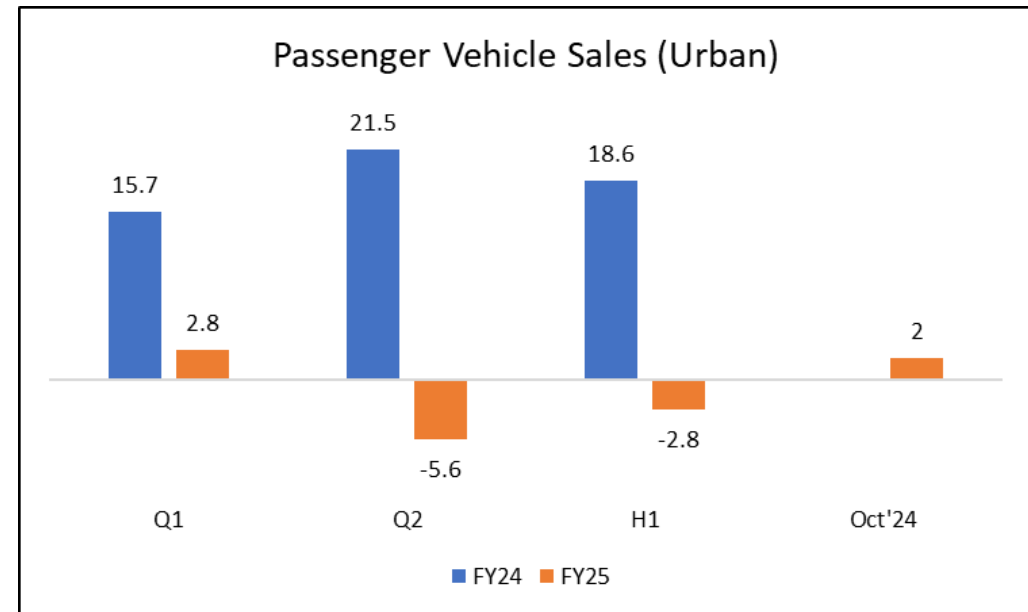
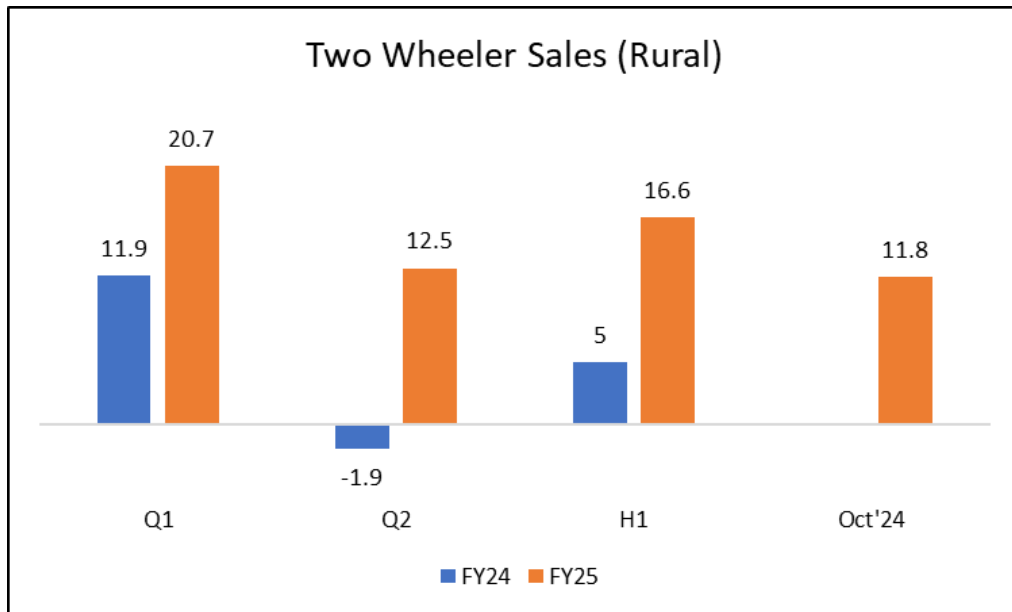


- Domestic Vehicle sales declined but showing growth in Oct'24
- Average daily petroleum consumption contracted for the second consecutive, driven by a decline in diesel consumption

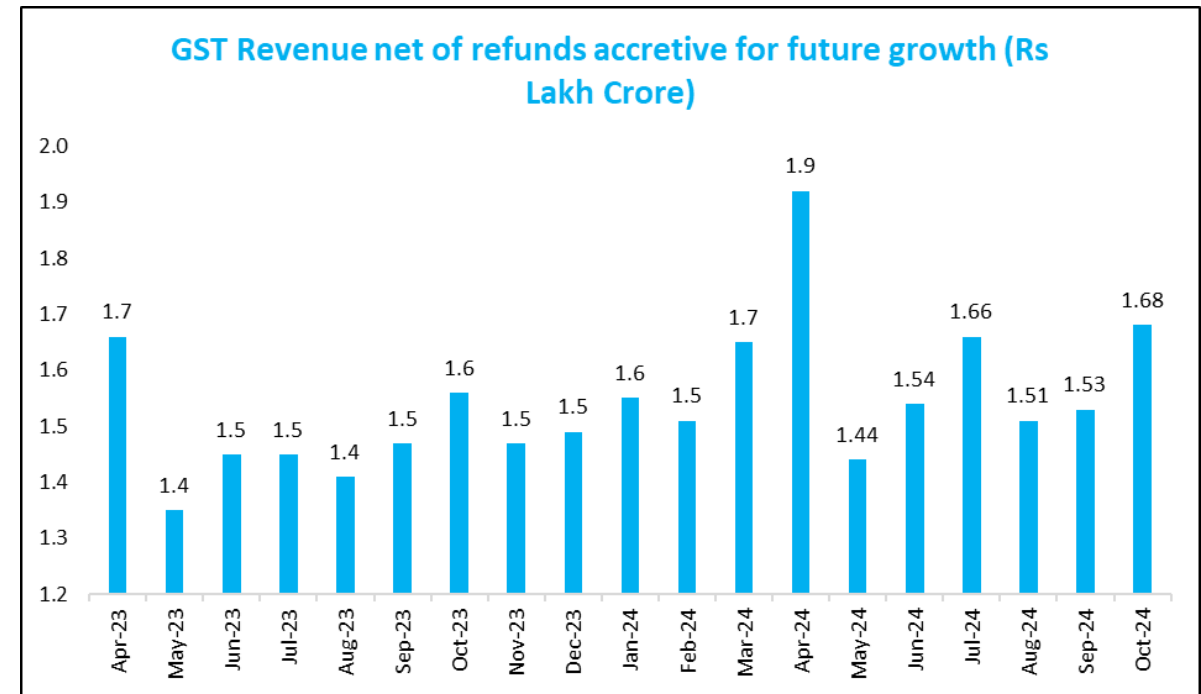
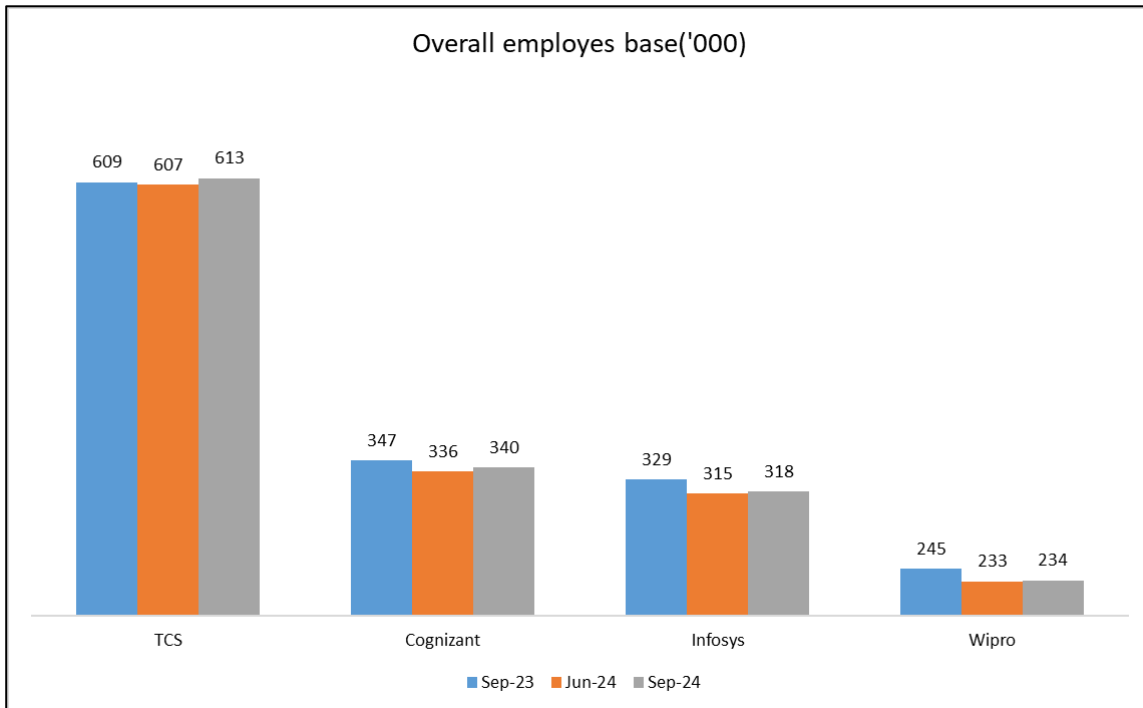


- Electricity Demand also declined

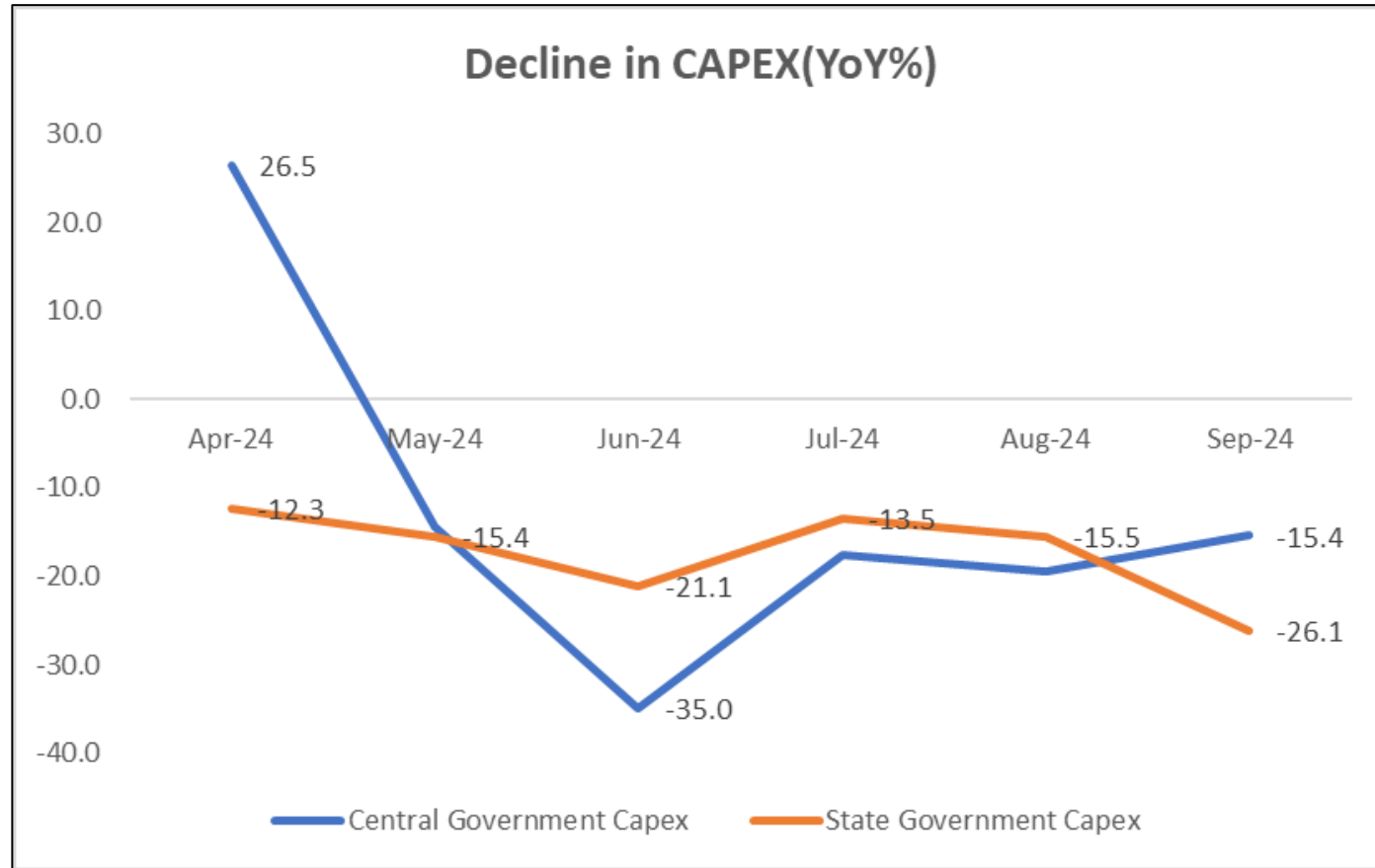
- ❑ Two-wheeler sales – a proxy for rural consumption demand – has recorded exponential growth (YoY) in FY25 as compared to FY24
- ❑ However, the auto sector is relatively sluggish in urban area – as proxied using passenger vehicle sales – in FY25 as compared to FY24
- ❑ Oct24 projections paints positive picture for next quarter – for both rural and urban economy



- All four IT companies - TCS, Cognizant, Infosys and Wipro - have shown positive employee hiring in the September quarter
- IT companies are back on the college campus for bulk hiring with employee utilisation reaching high levels



- Capital expenditure has also slowed down in current fiscal. Majority of the states Capex as % of BE is lower in H1FY25, while Committed Expenditure continue to increase as a %age of expenditure pie for most of the states

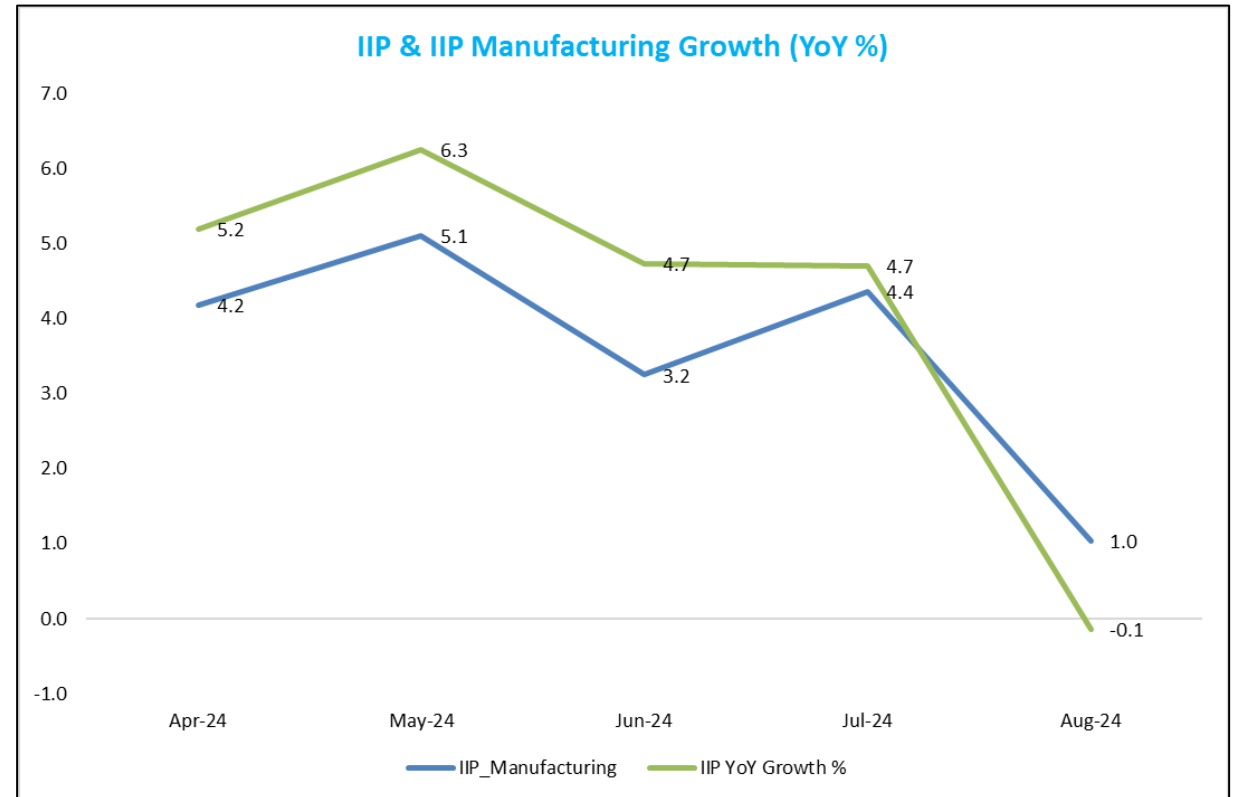
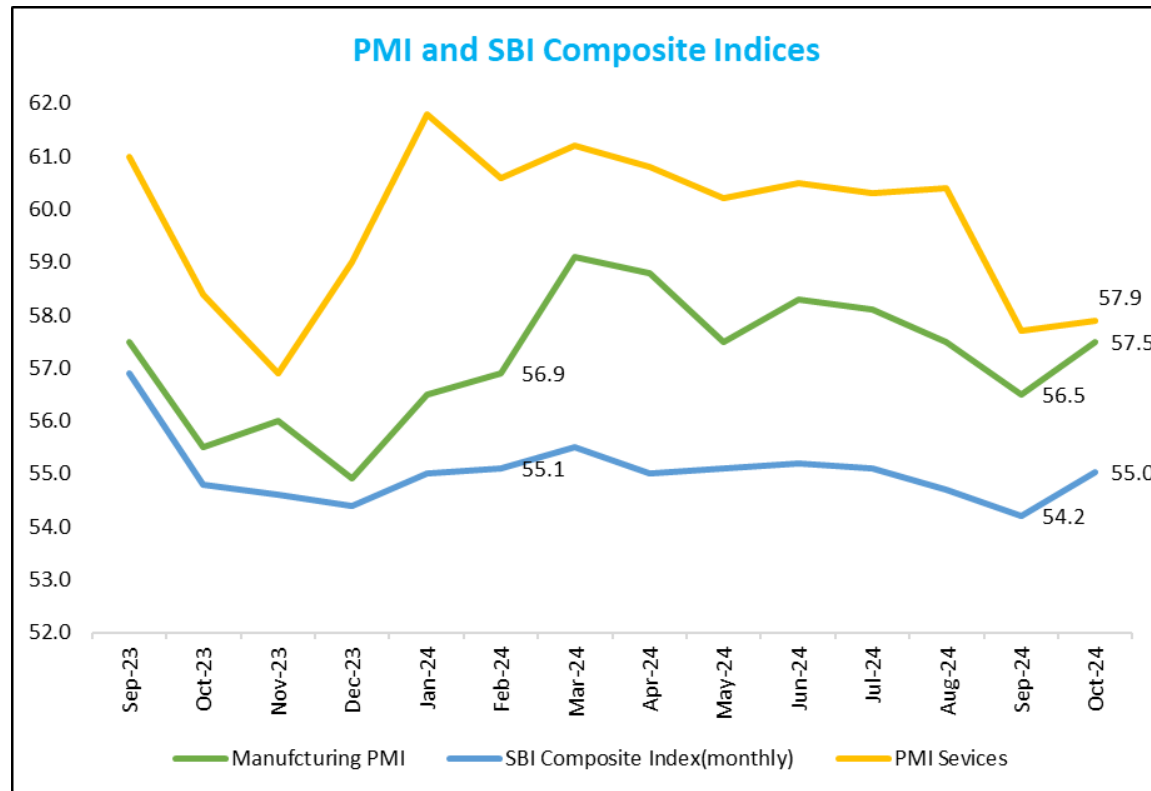


States Expenditure as % of Budgeted estimates						
State	Revenue Expenditure		Committed Expenditure		Capital Expenditure	
	H1FY25	H1FY24	H1FY25	H1FY24	H1FY25	H1FY24
Assam	40.3	32.8	46.5	43.1	28.6	21.6
Bihar	41.9	37.7	44.2	40.5	43.5	45.5
Chhattisgarh	38.2	45.3	51.0	50.3	18.5	22.7
Gujarat	32.2	38.0	34.1	40.2	23.0	29.6
Haryana	44.0	41.7	46.0	50.1	22.9	26.3
Himachal Pradesh	49.5	50.9	49.3	52.2	30.5	36.0
Karnataka	40.0	41.5	41.2	57.8	23.4	16.9
Kerala	46.3	46.0	49.3	48.5	39.0	40.9
Madhya Pradesh	41.5	44.6	46.8	46.9	44.6	53.1
Maharashtra	31.9	33.0	62.2	65.0	20.2	20.8
Punjab	47.2	46.3	47.6	47.6	37.3	14.3
Rajasthan	41.1	41.1	44.9	44.6	36.6	34.7
Tamil Nadu	43.2	42.7	43.7	48.6	34.1	40.0
Telangana	41.3	43.1	62.0	54.1	29.6	60.9
Uttar Pradesh	37.5	37.4	39.7	40.0	21.7	28.7
Uttarakhand	41.0	38.1	45.0	45.0	22.9	29.6
West Bengal	44.0	42.7	52.2	49.1	30.4	29.7

Source: SBI Research, CAG, Gujarat H1 FY25 is till Aug 24

# Slowdown in Manufacturing in Q2FY25: Recovering in October

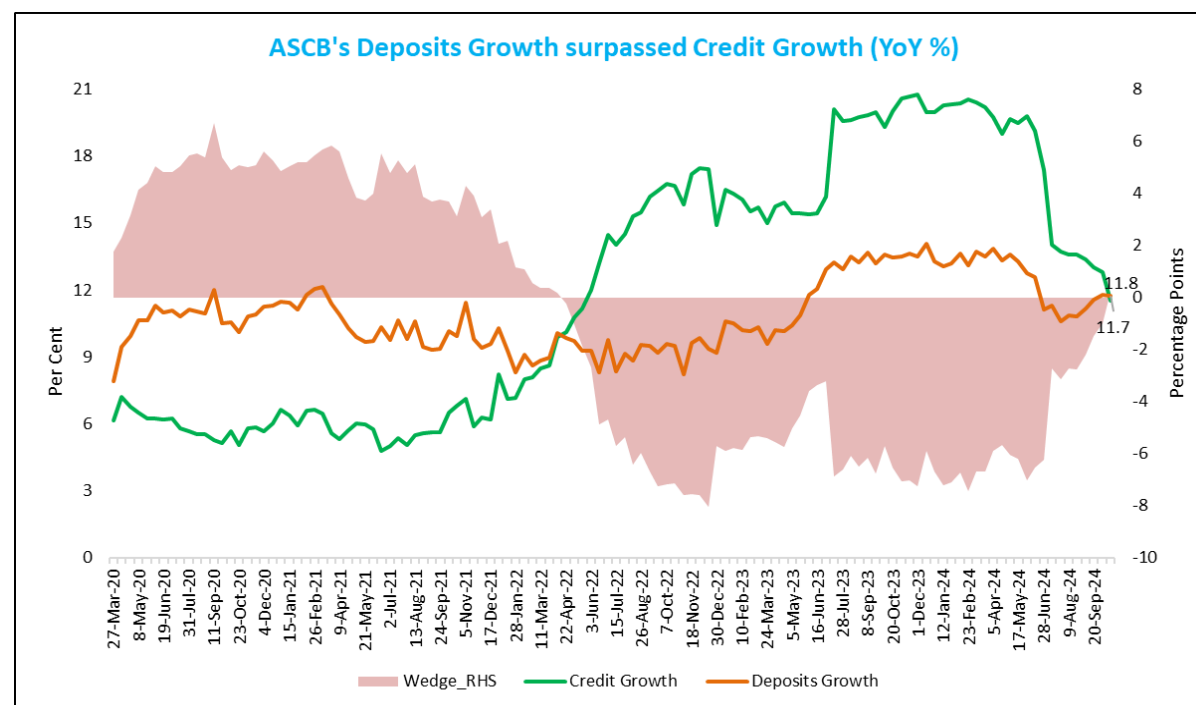
- Manufacturing and services Purchasing Managers' Index declined till September, driven by a downturn in manufacturing output
- Though, both IIP and IIP- Manufacturing are declining which is partly by high base and partly by sluggish in manufacturing growth



- Latest numbers shows that SCBs deposit growth has now surpassed credit growth. In the Current FY so far (till 18 Oct), ASCBs deposits grew by 11.7% YoY compared to last year growth of 13.4%, while credit grew by 11.5% YoY compared to last year growth of 20.0%. Deposit Credit differential has now turned positive, which was last seen in April 2022. However, for PSBs (10 out of 12), which have reported their Q2 earnings, deposit growth has lagged behind credit growth (except IOB), while for private players credit growth has slowed down
- In terms of profitability, PSBs have trumped the PVBs by a wide margin on YoY basis.**

Selected Banks Performance summary in Q2 FY25 (YoY %)						
Bank	Net Profit	Deposit	Advances	Deposits-Advances	Domestic CASA Ratio	
					Q2FY25	YoY Change in bps
ICICI Bank	14.5	15.7	15.0	0.7	40.6	-11
HDFC Bank	5.3	15.1	8.0	7.0	35.0	-300
Axis Bank	18.0	13.7	11.4	2.3	40.0	-400
Kotak Mahindra Bank	4.8	15.1	14.7	0.4	43.6	-470
IndusInd Bank	-39.6	14.7	13.2	1.5	36.0	-300
Sub Total-private banks	7.1	14.9	10.9	4.0	-	-
Punjab National Bank	145.0	11.3	12.8	-1.4	39.3	-284
Bank of Baroda	23.2	9.1	11.6	-2.5	39.8	-4
Canara Bank	11.3	9.3	9.5	-0.2	31.3	-88
Union Bank of India	34.4	9.2	9.6	-0.5	32.7	-194
Indian Overseas Bank	24.3	13.8	10.2	3.6	42.4	-121
Indian Bank	36.2	8.2	11.9	-3.7	40.5	-90
Central Bank of India	50.9	5.6	9.5	-3.9	48.9	-47
Bank of Maharashtra	44.2	15.5	18.8	-3.3	49.3	-142
UCO bank	50.0	10.6	18.0	-7.4	38.2	-4
Sub Total PSBs	39.3	9.8	11.4	-1.7	-	-

Source: SBI Research, Quarterly results of banks



# Sector-wise Credit Growth Indicates contribution of retail loans are declining

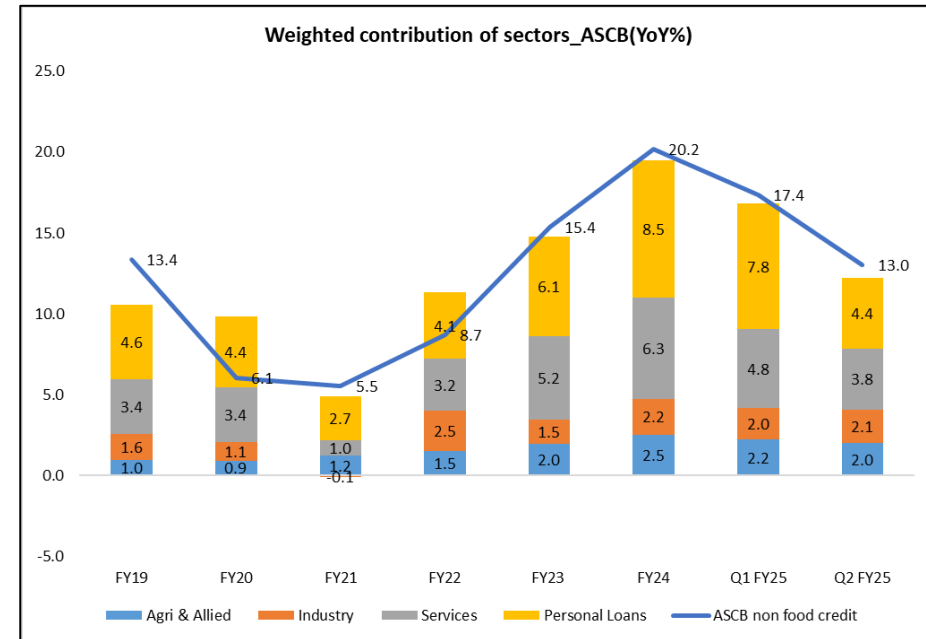
- ❑ The sector-wise credit growth for September 2024, indicate that except industry all business segment growth has been moderated
- ❑ Credit to agriculture and allied activities grew by 16.4% (last year: 16.7%); credit growth to industry improved to 9.1% (last year: 6.0%). Credit growth to services sector decelerated to 15.2% (last year: 21.6%), primarily due to lower growth in credit to NBFCs
- ❑ Personal loans growth moderated to 16.4% (last year: 18.2%), largely due to decline in growth in ‘other personal loans’, ‘vehicle loans’ and ‘credit card outstanding’. However, ‘housing’ – the largest constituent of this segment – recorded accelerated growth

Year	Agri & Allied	Industry	Services	Personal Loans
FY20	11.7%	28.6%	25.9%	26.4%
FY21	12.2%	27.0%	25.4%	27.6%
FY22	12.6%	27.1%	26.4%	29.2%
FY23	12.7%	24.8%	27.4%	30.6%
FY24	12.6%	22.4%	28.0%	32.5%
FY25 up to Q2)	12.7%	22.2%	27.7%	32.7%

Source: SBI Research, RBI

Sectors	(Apr-Sep'23)FY24 YTD		(Apr-Sep'24) FY25 YTD		YoY %	
	Rs bn	%	Rs bn	%	FY24 (Sep)	FY25 (Sep)
	<b>Agri. &amp; Allied</b>	<b>1361</b>	<b>7.9</b>	<b>960</b>	<b>4.6</b>	<b>16.7</b>
<b>Industry</b>	<b>1233</b>	<b>3.7</b>	<b>1488</b>	<b>4.1</b>	<b>6.5</b>	<b>8.9</b>
MSE (Priority)	<b>1758</b>	<b>10.7</b>	<b>837</b>	<b>4.2</b>	<b>18.1</b>	<b>13.1</b>
Infrastructure	<b>500</b>	<b>4.1</b>	<b>-42</b>	<b>-0.3</b>	<b>3.0</b>	<b>2.1</b>
<b>Services</b>	<b>4473</b>	<b>12.0</b>	<b>1447</b>	<b>3.2</b>	<b>25.4</b>	<b>13.7</b>
NBFCs	<b>541</b>	<b>4.0</b>	<b>-190</b>	<b>-1.2</b>	<b>21.9</b>	<b>9.5</b>
<b>Personal Loans</b>	<b>7517</b>	<b>18.0</b>	<b>2654</b>	<b>5.0</b>	<b>30.0</b>	<b>13.4</b>
Housing (Including Priority)	<b>5360</b>	<b>26.9</b>	<b>1268</b>	<b>4.7</b>	<b>36.2</b>	<b>12.6</b>
Other Personal Loans	<b>1327</b>	<b>11.6</b>	<b>401</b>	<b>2.9</b>	<b>26.3</b>	<b>11.4</b>
<b>Gross Bank Credit</b>	<b>14761</b>	<b>10.8</b>	<b>6932</b>	<b>4.2</b>	<b>20.0</b>	<b>13.0</b>

Source: RBI, SBI Research



- In a bid to women voters in the elections, all the parties have announced similar to the women-centric schemes, which give direct cash transfer ranging from Rs 1000-2000 per month. The total cost of 8 states amounts Rs 2.11 lakh crore, which varies 3-11% of the states revenue receipts.. Could boost consumption and spending

Scheme	Description	State	Allocation (Rs crores)	Revenue receipts	% of Revenue Receipts
Gruha Lakshmi	Provision of Rs.2000/- per month to the female head of the family	Karnataka	28,608	2,63,178	11%
Mukhyamantri Ladli Behna Yojana	Provision of Rs 1250 to all eligible women to promote self reliance	Madhya Pradesh	18,984	2,63,344	7%
Mahtari Vandan Yojana	To provide married women with annual assistance of Rs 12,000	Chattisgarh	3,000	1,25,900	2%
Namo Shri Scheme	Pregnant women belonging to specified categories (such as SC, ST, and BPL) will be provided a one-time financial assistance of Rs 12,000.	Gujarat	12,000	2,29,653	5%
Mukhya Mantri Mazhi Ladki Bahin Yojana	Provision of Rs 1,500 per month to eligible women aged between 21 and 60 years.	Maharashtra	46,000	4,99,463	9%
Mukhyamantri Mahila Samman Yojana	Rs 1,000 per month will be provided to every adult woman excluding those paying income tax, covered under existing pension schemes, and government employees.	Delhi	2,000	64,142	3%
Lakshmir Bhandar	Provision of a one-time grant of Rs. 1000 to women from economically weaker sections of society.	West Bengal	14,400	2,36,251	6%
Subhadra Yojana	Provision of Rs 50000 over 5 years to all eligible women aged 21-60yrs	Odisha	10,000	2,11,000	4%





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