ISAS Brief

No. 406 – 15 February 2016
Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
http://southasiandiaspora.org

India's GDP Growth: Confusion Amidst Cheers

India's latest GDP numbers project 7.6% growth for its economy in 2015-16. But there continues to be confusion over the quality of India's economic performance as the statistically robust GDP estimates are at variance with some other economic indicators. The paper, while reflecting on the variations and sources of GDP growth, argues private consumption cannot sustain high growth without pick-up in investment and broad-based turnaround in manufacturing.

Amitendu Palit[1]

India' latest GDP (Gross Domestic Product) growth numbers released on 8 February 2016 by the Central Statistics Office (CSO) report a projected growth rate of 7.6% in GDP for the year 2015-16. The CSO expects 7.6% to be the eventual growth rate for 2015-16 in spite of the 3rd quarter (October-December 2015) producing a lower growth of 7.3% compared with the 1st (April-June 2015) and 2nd (July-September 2015) quarters that yielded 7.6% and 7.7% GDP growth respectively.

[1] Dr Amitendu Palit is Senior Research Fellow and Research Lead (Trade and Economic Policy) at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at isasap@nus.edu.sg. The author, not ISAS, is liable for the facts cited and opinions expressed in this paper.

If India eventually achieves a growth of 7.6% in 2015-16 as predicted by the CSO, it will better than the growth rate of 7.2% recorded in 2014-15. The performance would vindicate India's recognition as the fastest growing major economy in the world right now.

Sources of Growth

A comparison of the performances of various sectors and expenditure patterns (Table 1a and 1b) reveals the sources of growth influencing GDP from both supply and demand-sides. These estimates, however, are for the first nine months of 2014-15 and 2015-16.

Tables 1a & 1b: Sector-wise Growth and Share of Expenditure

Table 1a: Sector-wise Growth (%) April-December 2014-15 &2015-16 (Constant Prices)		
	2014-15	2015-16
Agriculture, forestry & fishing	0.3	0.6
Mining & Quarrying	11.1	6.9
Manufacturing	5.1	9.5
Electricity, gas, water supply & Other utility services	9.3	5.8
Construction	5.1	3.7
Trade, hotels, transport, communication & broadcasting services	8.6	9.6
Financial, real estate & professional services	11.1	10.3
Public administration, defence & other services	13.0	6.9
Table 1b: Expenditures in GDP (%) April-December 2014-15 &2015-16 (Constant Prices)		
Private Final Consumption Expenditure	55.7	55.0
Government Final Consumption Expenditure	11.3	10.9
Gross Fixed Capital Formation	32.3	31.6
GDP(% change; constant prices)	7.2	7.6

Source: Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation, Government of India, 8 February 2016 (http://mospi.nic.in/Mospi_New/upload/nad_PR_8feb16.pdf)

Supply-Side

Services continue to remain the major drivers of GDP growth in India. Compared with 2014-15, 'financial, real estate and professional services' and 'trade, hotels, transport and communication' show higher growth in 2015-16 and have contributed significantly to GDP growth (Table 1a). At the same time, the CSO's estimates for the current year reflect a strong recovery in growth of manufacturing (9.5%) compared with the previous year (5.1%). ‘Mining & Quarrying’ and ‘electricity, gas, water supply & other utility services’ have also contributed to the GDP growth in the current year, though they were bigger contributors last year. Agriculture has shown only a modest improvement over the previous year and continues to remain subdued (Table 1a).

Demand-Side

Private final consumption expenditure remains the largest contributor to economic growth in India as is evident from its high share in GDP during both 2014-15 and 2015-16. Government expenditure shows a marginal decline compared with the previous year, which might be due to expenditure compression by the Government for meeting budgeted fiscal deficit targets. On the other hand, gross fixed capital formation, the commonest measure of investment in the economy, shows a marginal decline in the current year.

Confusion Prevails

Surprisingly, the GDP numbers have failed to produce as much optimism among experts and investors as they were expected to. Major global financial institutions like the Deutsche Bank and Nomura, while not contradicting the numbers, have expressed doubts over the continuation of the growth momentum[2]. These doubts are arising from the discrepancy between the robust economic outlook depicted by the GDP numbers and the more sober scenario gleaned from other economic parameters like industrial production, investment, and real estate and capital markets.

Considerable confusion remains over the performance of Indian manufacturing. The CSO’s advance estimates project a growth of 9.5% in manufacturing for the year 2015-16 (Table 1a). However, the projection appears to be at variance with the latest estimates for the Index of Industrial Production (IIP) for the first eight months of 2015-16. The latter estimates indicate

[2] ‘India’s growth well below trend : Deutsche Bank’, Economic Times, 10 February 2016 (http://economictimes.indiatimes.com/news/economy/policy/indias-growth-well-below-trend-deutsche-bank/articleshow/50932452.cms) and b) ‘Indian economic recovery losing steam’, Economic Times, 7 February 2016 (http://economictimes.indiatimes.com/news/economy/indicators/indian-economic-recovery-losing-steam-nomura/articleshow/50886542.cms)

a manufacturing sector growth of only 3.9% during April-November 2015-16.[3] If the CSO's GDP projections are correct, then the manufacturing sector growth has to be exceptionally robust during the remaining four months of 2015-16 for the IIP to get to an annual growth of 9% plus, or close to 9.5% as expected by the CSO. This appears unlikely given the subdued performance of most industries during the current year, except consumer durables[4], and the continuing decline in Indian manufacturing exports.

As mentioned earlier, apart from manufacturing, which according to the CSO's advance estimates has been a major contributor to GDP growth on the supply-side, 'financial, real estate and professional services' are also significant contributors. More than seventy percent of the output for this sector is contributed by real estate and professional services. There is almost complete consensus among analysts over the depressed state of property and real estate markets in India for quite some months now. Indeed, as the CSO's own estimates reveal, construction has grown at a low and slower rate of 3.7% during 2015-16 compared with 5.1% in 2014-15 (Table 1a) confirming the lack of momentum in real estate. It is not clear how in spite of the lacklustre situation in real estate market, the 'financial, real estate and professional services' sector is recording as high a growth as it has.

Confusion also remains over the recovery in domestic investment. As a share of GDP, gross domestic capital formation shows a decline in the current year (Table 1b). This is clearly not what one would expect in a year when the economy is growing at 7.6%. Indeed, the demand for lower interest rates and an easier monetary policy continues to remain vocal with most analysts and industries agreeing on their necessity for recharging investments.

Prognosis

A closer look at the GDP growth numbers put out by the CSO reflect variations between the quality of economic health revealed by statistics vis-à-vis the conditions on ground. But then, how is the economy actually doing?

---

[3] Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation, Government of India, 12 January 2016 (http://mospi.nic.in/Mospi_New/upload/iip_12jan16.pdf)
[4] Ibid.

While the real economic scenario might not be as rosy as the statistics indicate, it is clear that there are some strong drivers of economic activity that continue to provide momentum to the economy. Foremost among these is private consumption. Household disposable incomes have benefitted from low inflation and are getting reflected in higher purchases of consumer durables boosting consumption. Greater consumption has also been aided by reluctance of households to invest in capital markets due to the prevailing volatility. Low offtake of real estate projects and the fact that significant household savings are already stuck in these projects are resulting in limited flow of household funds to real estate. Surplus savings of households therefore are mostly finding their way into consumption.

Private consumption might remain the core driver of economic activity on the demand-side in the foreseeable future. However, it alone cannot sustain a high rate of economic growth unless investment revives and manufacturing growth becomes broad-based. Till these are reflected in appropriate economic indicators, doubts over whether India's GDP numbers reflect the real story will continue to linger.

. . . . .