Macroeconomics | First cut

Return to trend

January 7, 2025

First advance estimate of GDP for this fiscal surprises on the downside

Key takeaways

- The National Statistical Office's (NSO) first advance estimate (FAE) for this fiscal projects India's real gross domestic product (GDP) growth at 6.4%[1], significantly slower than the 8.2% last fiscal
- Weak investments amid reduced government capital expenditure (capex) are the primary reason for the deceleration. However, private consumption is expected to rise significantly after last fiscal's weak show
- Based on the FAE, GDP growth should pick up in the second half, registering a 6.8% rise compared with 6.0% in the first half. Consumption is expected to improve in the second half, but not investment
- Even as real GDP moderated this fiscal, nominal GDP has inched up to 9.7% from 9.6% previous year. Rising GDP deflator (3.2% vs 1.3% in fiscal 2024) is behind the uptick in nominal GDP. WPI inflation has picked up considerably this fiscal (2.1 % in April-November vs -1.3% in the corresponding period last fiscal). This, in turn, has driven the uptick in the GDP deflator this fiscal
- However, nominal GDP estimate is lower than 10.5% estimated in the Union Budget 2024-25
- The FAE is based on data for the three quarters of the year and can undergo a change if the fourth quarter surprises.

Supply-side calculations

- The NSO estimates gross value added (GVA) to have grown 6.4% this fiscal compared with 7.2% last fiscal. The abnormal gap between GDP and GVA growth last fiscal is getting normalised. Last year GDP had grown at 8.2% which GVA growth was 7.2%[2].
- Industry is expected to decelerate substantially (6.2% vs 9.5% last fiscal); services is seen slowing slightly (7.2% vs 7.6%). In contrast, agriculture should improve substantially (3.8% vs 1.4%)
- **Agriculture**: A growth boost (3.8% vs 1.4%) is expected because of a healthy kharif output on account of the above-normal monsoon. The FAE estimates kharif output to be 5.7% higher on-year. Rabi sowing was up 0.5% on-year as per the latest available data, as water reservoir levels remain healthy due to the good rains this fiscal
- **Industry**: Industry is estimated to moderate substantially (6.2% vs 9.5%). Within industry, manufacturing is expected to clock the slowest growth this fiscal (5.3% vs 9.9%), weighed down by slowing government capex and rising input costs. Construction — the most labour-intensive sector — is expected to slow amid lower government capex this year (8.6% vs 9.9%). Utilities, too, are seen moderating (6.8% vs 7.5%)
- **Services:** This category is estimated to have seen a mild moderation in growth (7.2% vs 7.6%). Within services, financial, real estate and professional services are expected to decelerate (7.3% vs 8.4%) on the back of elevated interest rates. Trade, hotels, transport, communication and services related to broadcasting — another labour-intensive sector, particularly in urban areas — are estimated to slow (5.8%

[1] Based on April-November data. An updated number is likely in May 2025
[2] For further details on the post-pandemic divergence between GDP and GVA and its subsequent normalization this fiscal, please refer to our Insight *"Why growth is moving to trend: After the pandemic swings"* available here

vs 6.4%) with the gradual fading of post-pandemic pent-up demand. However, growth in public administration, defence and other services is estimated to have grown (9.1% vs 7.8%)

- **First half vs second:** GVA growth is estimated to pick up sin the second half of the fiscal for agriculture and allied (4.9% in the second half vs 2.7% in the first half) and industry (6.4% vs 6.0%). The former will be buoyed by a healthy rabi harvest, while the latter will benefit from improving domestic demand and exports. Services growth is also expected to pick up slightly led by professional services exports (7.3% vs 7.1%). On the other hand, construction is expected to slow (8.1% vs 9.1%), on the back of lower investment growth

Demand-side drivers

- On the demand-side, private consumption is expected to emerge as the primary driver of growth (7.3% on-year this fiscal vs 4.0% last fiscal), spurred by a recovery in rural demand because of better agricultural prospects. As a result, private consumption's share in GDP is estimated at 56.3% this fiscal, compared with pre-pandemic decadal average of 56.1%, a normalisation after the drop witnessed last fiscal
- Investments, as measured by gross fixed capital formation, are estimated to moderate (6.4% vs 9.0%) because of weaker government capex and an insufficient pick-up in private investment
- Government consumption expenditure is also expected to be higher this year (4.1% vs 2.5%)
- Net exports (exports minus imports) are estimated to be a lesser drag this fiscal compared with the previous. Exports growth is estimated to improve this fiscal (5.9% vs 2.6%) while imports are expected to contract (-1.3% vs 10.9%)
- First half vs second: Private consumption is estimated to grow better in the second half (7.9% in the second half vs 6.7% in the first) as inflation eases, rural demand improves, and the festival and wedding season acts as a tailwind. Government consumption expenditure is also expected to increase considerably (6.1% vs 2.1%). Investment growth is not expected to pick up (6.3% vs 6.5%). Exports are expected to rise (6.0% vs 5.8%), while imports are expected to contract in the second half (-3.4% vs 0.8%)

Our view

Fiscal consolidation, elevated interest rates and prolonged high food inflation weighed down the economy this year. Investments faltered given lower government capex and subdued private investments.

Consumption improved on a low base, as it had grown less than half the pace of GDP growth last fiscal. Growth became more balanced as rural likely fared better than urban. However, demand was constrained by tighter credit conditions and high food inflation, particularly in the urban areas.

That said, the FAE indicates quicker growth in the second half. Agricultural growth is likely to hasten as higher reservoir levels also bode well for rabi output. This should provide a fillip to farm incomes and rural consumption.

Higher agriculture production is likely to ease the pressure on food inflation in the remainder of this fiscal, which will boost discretionary consumption. The festival and wedding season is likely to buoy consumption in the second half. However, investment's contribution is not expected to increase as private investment remains sluggish.

Going forward, we expect GDP growth to improve to 6.7% next fiscal in our base case scenario. The Reserve Bank of India's (RBI) rate cuts, lower crude oil prices and a normal monsoon are expected to support growth. While government capex will remain supportive, continued fiscal consolidation implies that investment prospects hinge on a sustained revival in private capex.

Geopolitics will continue to be the key monitorable next fiscal, given the likely wide-ranging changes the Donald Trump administration is expected to bring about. Exports will have to navigate heightened uncertainties given the likelihood of the US tariffs.

Analytical contacts

Dharmakirti Joshi
Chief Economist, CRISIL Limited
dharmakirti.joshi@crisil.com

Pankhuri Tandon
Senior Economist
pankhuri.tandon@crisil.com

Bhavi Shah
Economic Analyst
bhavi.shah@crisil.com

Media contacts

Ramkumar Uppara
Media Relations
CRISIL Limited
M: +91 98201 77907
ramkumar.uppara@crisil.com

Roma Gurnani
Media Relations
CRISIL Limited
M: +91 70662 92142
roma.gurnani@ext-crisil.com

Sanjay Lawrence
Media Relations
CRISIL Limited
M: +91 89833 21061
sanjay.lawrence@crisil.com

About CRISIL Market Intelligence & Analytics

CRISIL Market Intelligence & Analytics, a division of CRISIL, provides independent research, consulting, risk solutions, and data & analytics. Our informed insights and opinions on the economy, industry, capital markets and companies drive impactful decisions for clients across diverse sectors and geographies.

Our strong benchmarking capabilities, granular grasp of sectors, proprietary analytical frameworks and risk management solutions backed by deep understanding of technology integration, make us the partner of choice for public & private organisations, multi-lateral agencies, investors and governments for over three decades.

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong, UAE and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

CRISIL Privacy Notice

CRISIL respects your privacy. We may use your personal information, such as your name, location, contact number and email id to fulfil your request, service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.