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Slowdown in India? What Slowdown?

Societe Generale's Kunal Kumar Kundu says revised GDP data raises questions about economic strength.

By
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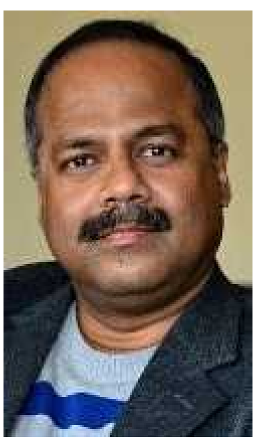
Just when everyone had started to believe that the Indian economy was finally coming out of a fairly prolonged slowdown, recently released revised GDP data (revision of base year as well as expansion of coverage of the manufacturing sector) by the Central Statistical Organisation (CSO) has suggested that there was no slowdown in the first place. As per the newly released data, India's real GDP (previously known as GDP at market price or expenditure-side GDP) grew by 6.9% year-on-year in FY14 as against 5% growth on the basis of old data. Real Gross Value Added or GVA (previously known as GDP at factor cost or income-side GDP) grew by 6.6% yoy in FY14, 190 basis points higher than the data calculated as per the old norm, which came in at 4.7%.

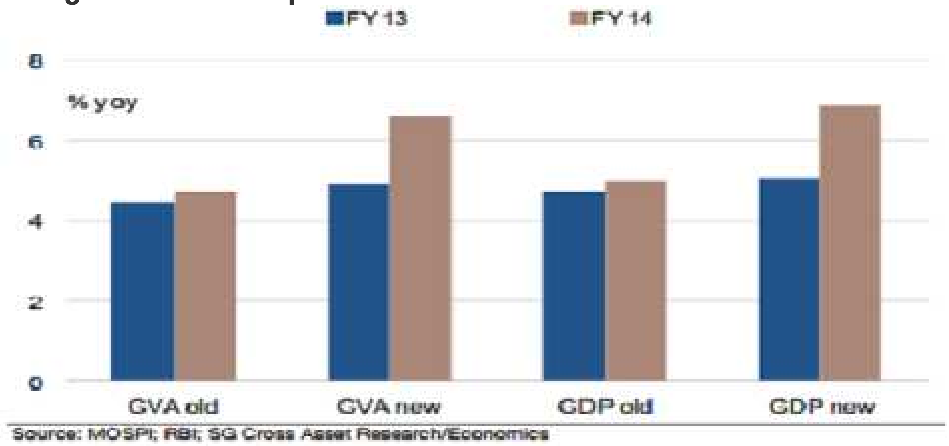
The revised data also revealed that India's mining activity, rather than contracting in FY14, actually expanded, and the manufacturing sector has grown at a much faster rate, thereby increasing the overall share of industry in GDP quite sharply.



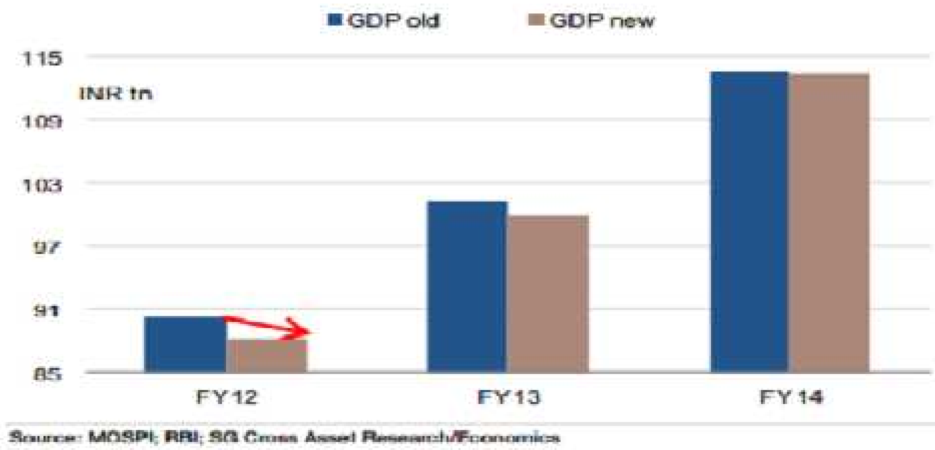
However, the revised growth numbers appear suspect if one considers other indicators like falling business sentiment during the period, stalled infrastructure and other investment projects and rising NPA even while the economy was growing at near 7% rate.

On Friday 30 January, India's CSO released the new series of national accounts, revising the base year from 2004-05 to 2011-12. The base year of national accounts was last revised in January 2010. This change is in keeping with the recommendation of the National Statistical Commission of changing the base year of National Accounts Statistics every five years. This is also important in view of the fast-changing economic structure that needs to be reflected in the estimation of national accounts. That apart, it has also expanded the coverage of the manufacturing sector and included under-represented and informal sectors in arriving at the growth figure. More importantly, income side GDP or GDP at factor cost will cease to be India’s official GDP. This will now be known as GVA or Gross Value Added. As is the international practice, expenditure side GDP or GDP at market price will henceforth be referred to as India’s GDP.

GDP growth revised up



Revised GDP lower in absolute terms



A slowdown that never was

So far, the newly available data set is annual and for three years only, i.e. FY12 (the base year), FY13 and FY14. While lack of history and granularity (no quarterly data) does not, as yet, make it amenable for a deeper analysis, the crux of revised GDP data is that India’s GDP growth never went below 5%, as against the unrevised data that reported two continuous years of sub-5% growth.

As per the new data, India’s real GDP expanded by as much as 6.9% in FY14. This, on top of 5.1% growth, indicates that the Indian economy did not face the slowdown that everybody was talking about.

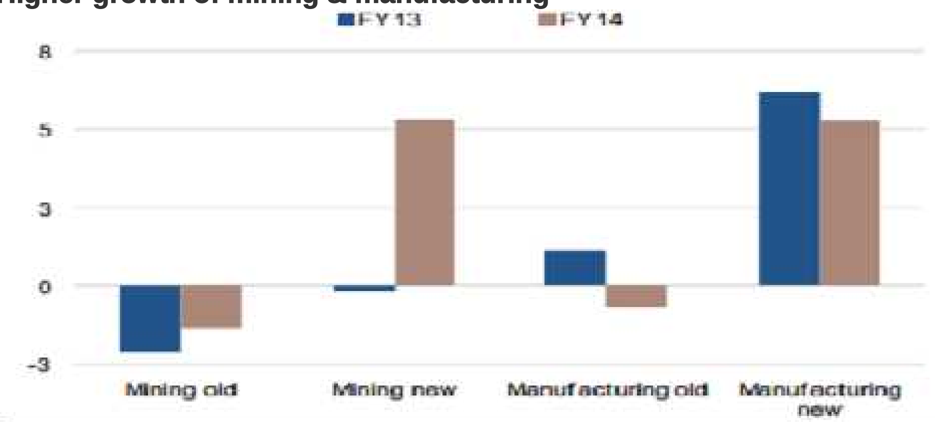
Interestingly, the high growth numbers are the result of lower absolute GDP in the earlier years. Since the price levels for FY12 were higher than the price levels of FY05, the value of FY12 real

GDP as per the new series (FY12 prices) was lower by nearly 2%, as compared to the value of FY12 real GDP in FY05 prices. However, as the size of the economy grows because of expanded coverage, the GDP differential narrows to 1% by FY13 and virtually matches up by FY14. This explains the sharp rise in the real GDP growth rate in FY14.

India, manufacturing growth

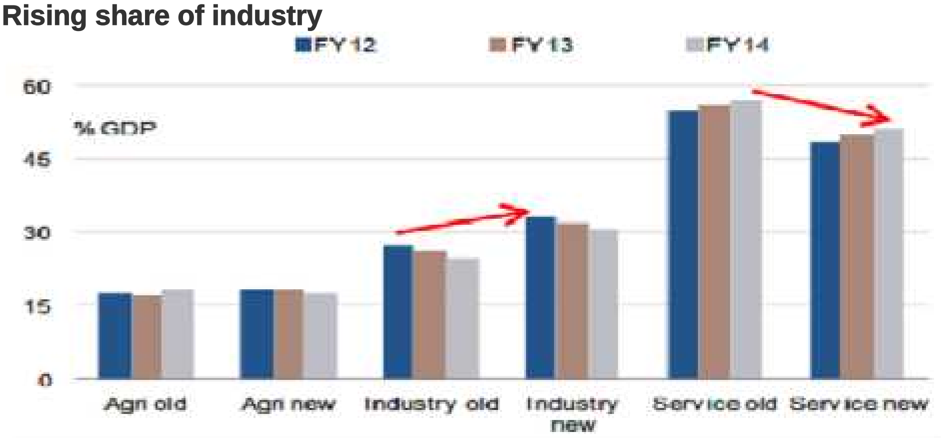
The most important takeaway, though, of the new data series is that the manufacturing sector in India has been growing at a fairly respectable clip and the contraction in India's mining was less pronounced in FY13 while FY14 actually saw a healthy expansion. As a result, the share of industry in India's GVA is now higher (30.7% now versus 24.8% earlier) than was previously understood and, as a result, the share of services is about 51% of GDP as against 57% share enjoyed by it as per the old data.

Higher growth of mining & manufacturing



Source: MOSPI; RBI; SG Cross Asset Research/Economics

Rising share of industry

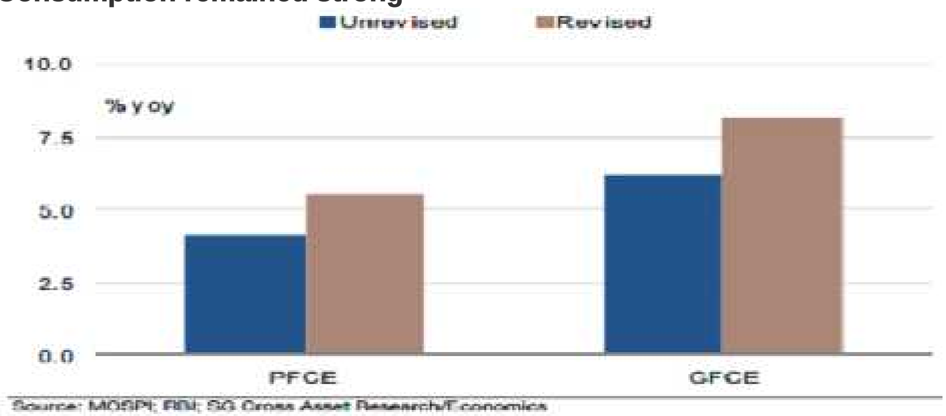


Source: MOSPI; RBI; SG Cross Asset Research/Economics

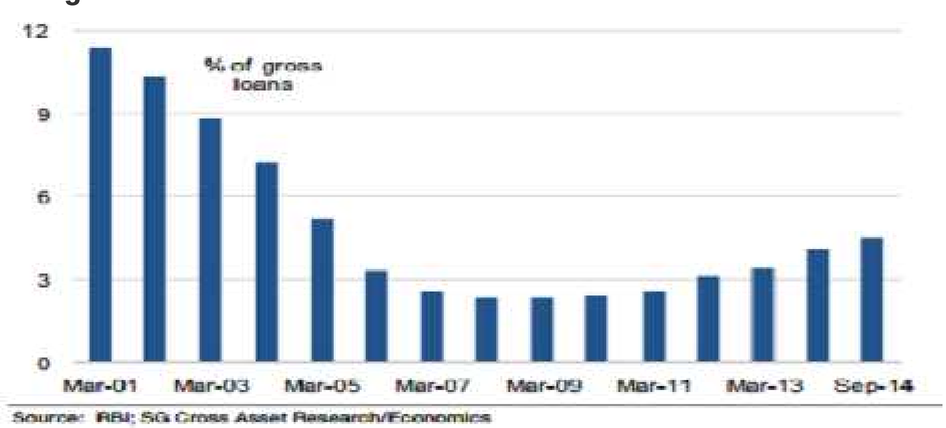
Questions, however, remain

A wider representation of the unorganized sector in India's GDP calculation is a much needed move and is more representative of the nature and dynamics of the Indian economy. However, the revised growth numbers leave room for doubt. Even on the face of persistently high inflation, the revised data shows that India's domestic private consumption actually showed a major uptick in FY14 as did government expenditure. Yet we have the perverse situation of falling business confidence, stalled projects, anemic IIP, a weak corporate bottom line and high and rising NPA (non-performing assets). Banking sector NPA now threatens to hit 5% of gross advances by FY15. The last time India's NPA crossed 5% was exactly one decade ago. The higher levels of NPA then and years back were a result of three continuous years of sub-5% GDP growth between FY01 and FY03. Indian commercial banks are now sitting on restructured loans of INR2.72 trillion as of December 2014. About 35-40% of such loans have the potential to become non-performing. The infrastructure sector continues to be the biggest contributor to the NPA and multiple stalled projects do not help either. It is difficult to believe that the current level of NPA comes against the backdrop of an economy growing at a near 7% rate and driven by a strong manufacturing sector.

Consumption remained strong



Rising NPA



To get an answer we need to wait for more clarity to emerge from CSO rather than the patchy data that is currently available.

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