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GDP growth accelerates to 7.4 % in July-Sept. manufacturing rebounds significantly

- TCA Sharad Raghavan

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In what should come as some relief for the government, India’s GDP grew at 7.4 per cent in the July-September 2015 quarter as compared to 7 per cent in the previous quarter, driven by a resurgence in manufacturing growth. At 9.3 per cent, the manufacturing sector grew the fastest in three years.

This news comes a day before the Reserve Bank of India (RBI) monetary policy review where it will decide on whether to further cut interest rates or keep them as they are. This stronger growth, and the extent to which the RBI has already cut rates, suggests that the RBI will keep rates unchanged this time around.

Growth in this quarter, like in the previous quarter, was driven by services, with the ‘trade, hotel, transport, communication and services related to broadcasting’ growing at 10.6 per cent and the ‘financial, insurance, real estate & professional services’ segment registering a growth rate of 9.7 per cent.

However, the manufacturing sector greatly increased its growth rate in the second quarter of this financial year, rising to 9.3 per cent compared to 7.2 per cent in the previous quarter and 7.9 per cent in the second quarter of the previous financial year.

“The acceleration in the manufacturing sector shows that the government’s policy direction is bearing fruit. The Make-in-India campaign with its objective of raising the growth rate in the manufacturing sector has begun to make an impact,” Mr. Chandrajit Banerjee, Director General, CII, said.

Significantly, the agriculture sector also registered an uptick in growth. Earlier, analysts had predicted a poor performance of the sector due to poor rainfall as a significant drag on the economy.

“Both industry and services sector continue to support growth and the performance of agriculture sector has also noted an improvement. We need to maintain this momentum and move on to a higher growth trajectory, which calls for continuous reforms,” said A. Didar Singh, Secretary General, FICCI.

While that is a good sign, the construction sector — another barometer of economic investment — saw its growth rate fall drastically to 2.6 per cent in the second quarter of this financial year compared to 6.9 per cent in the previous quarter and 8.7 per cent in the same quarter of the previous year.

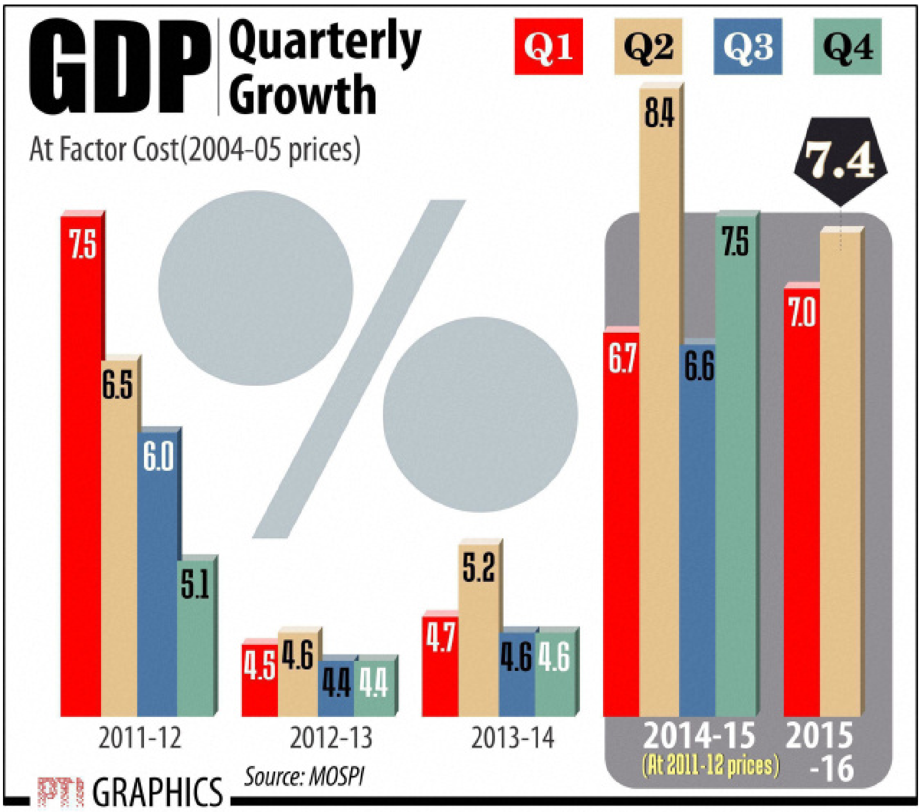
The share of private consumption expenditure in the second quarter of this financial year fell marginally — to 55.9 per cent of GDP in Q2 2015-16 from 56.2 per cent in Q2 2014-15. Similarly, the share of gross fixed capital formation, which serves as a gauge of investments, also fell marginally to 30.1 per cent of GDP from 30.3 per cent in the second quarter of the previous year.

Looking at the gross value added (GVA), the economy registered a growth rate of 7.4 per cent in the second quarter of 2015-16 as compared to 8.4 in the same quarter the previous year. The new methodology for the gross domestic product subtracts subsidies and adds taxes to the GVA to arrive at the GDP figure.

"The economy shows signs of bottoming out but the recovery remain weak and fraught with uncertainty. There is improvement in business sentiments and stabilising of political sentiments," said Bornali Bhandari, Fellow, NCAER, citing the results of a business confidence and political confidence survey conducted by NCAER for the second quarter of 2015-16.

This growth rate in the second quarter of this financial year reinforces India's position as the fastest growing major economy in the world.

Ahead of the RBI's monetary policy review on Tuesday, Mr. Singh of FICCI said that the reform focus must be maintained. "The global economy has been volatile and domestic demand is restrained. Both Government and RBI have been factoring in the aberrations and amidst this situation it is critical to keep the optimism intact," Mr. Singh added.



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