Mizuho Flash: India Growth

Economics & Strategy | Asia ex-Japan

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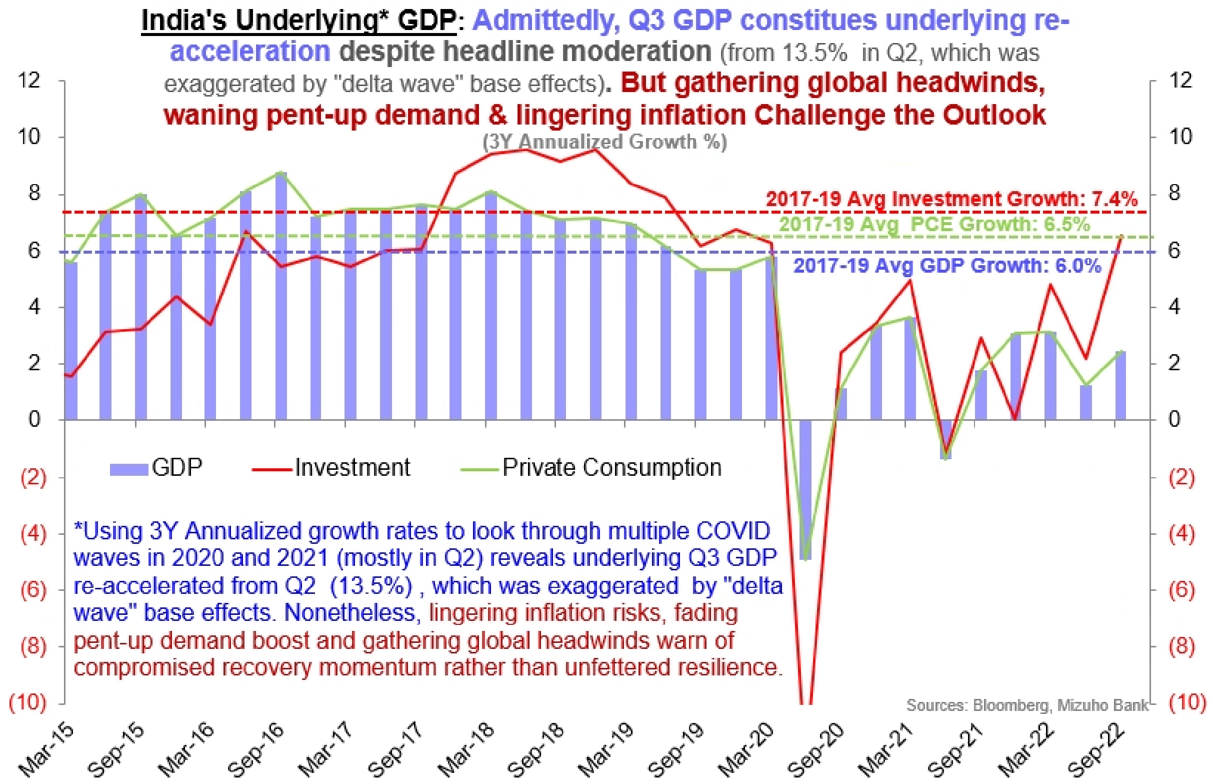
India Growth: Speed Bumps Ahead



	India's GDP Growth; % YoY					% of GDP
	GDP	Pte Consumption	Govt Spending	Investments	Stocks & Valuables	Net Exports
Q1 2020	2.8	1.7	7.5	-0.4	-43.8	-2.6
Q2 2020	-23.8	-23.7	13.6	-45.3	-97.5	0.2
Q3 2020	-6.6	-8.3	-22.9	-4.5	-30.7	-0.9
Q4 2020	0.7	0.6	-0.3	-0.6	-24.2	-3.3
Q1 2021	2.5	6.5	29.0	10.1	44.4	-4.3
Q2 2021	20.1	14.4	-4.8	62.5	3645.7	-3.0
Q3 2021	8.4	10.5	8.9	14.6	284.8	-4.8
Q4 2021	5.4	7.4	3.0	2.1	156.8	-6.0
Q1 2022	4.1	1.8	4.8	5.1	5.8	-5.0
Q2 2022	13.5	25.9	1.3	20.1	5.7	-8.1
Q3 2022	**6.3**	**9.7**	**-4.4**	**10.4**	**-22.5**	-8.6

Sources: Bloomberg, Mizuho Bank

Q3 GDP Consistent with Underlying Acceleration

To be sure, **headline moderation in Q3 growth to 6.3% YoY was not in fact a slowdown** (from 13.5% YoY in Q2, which was exaggerated by “delta wave” soft base from Q2 2021). On the contrary, **underlying growth suggests an acceleration in sequential momentum** once COVID base effects are filtered out. Moreover, the details reveal that the **underlying pick-up in investments is even more pronounced**.

But Encouraging Data is No Reason for Euphoria

This is **however a consolation about how far the recovery has come rather than unbridled cheer about linear acceleration and robust rebound trajectory in growth**. For one, underlying investment growth pace continues to lag the pre-COVID (3Y) average of 7.4%. And so, as encouraging as the details of data are, with further evidence of recovery required, it is premature for euphoria.

Especially as Warning of Speed Bumps Ahead Emerge …

In fact, a **confluence of external headwinds** and **domestic drag factors** in the offing warn of speed bumps in coming quarters, inevitably dimming India's growth outlook into 2023. For the record, we **expect that after hitting just shy of 7% for 2022**, India **2023 (FY23-24) growth will slow to 5.3% (5.6%)**. And there is a *non-negligible risk of slipping to sub-5% if worse case geo-political and macro-stability outcomes compound economic challenges, and consequent pain.*

On Gathering Global Headwinds …

The elephant in the room is the l**agged drag on global aggregate demand from the Fed's most aggressive rate hike cycle in decades**. Moreover, the **Euro-zone and UK tipping into a recession**, while Japan's economy remaining subdued only **reinforce the threat of global demand pullback**. Despite India's relative domestic demand buffer, it is not fully insulated. Crucially, the danger is that *higher rates and capital market volatility may dampen investments; key to growth multipliers.*

Lingering Inflation Drag …

What's more, ***even*** the **relative domestic demand buffer** in theory is **compromised by the onslaught of price shocks** across food and energy; pervading supply channels. Point being, lingering inflation shocks could setback consumption more than anticipated.

Waning Pent-Up Demand …

And this may **become more evident as the pent-up demand post-COVID begins to fade**/normalize at the margin. The wane in pent up demand may be **hastened by price shocks that the economy has had to endure**; **especially as fiscal buffer is whittled down by twin deficit concerns**.

& Further RBI Tightening

Finally, despite emerging headwinds to growth, the **more pressing price (and rupee) stability mandate of the RBI, sets the stage for more rate hikes** to come through. **More so, in the context of an uncompromisingly hawkish Fed**. And if we are right about *another cumulative 60bp if hikes by early-2023,* the **conspiracy of external and domestic economic drag forces are set to impose binding speed bumps before scope for less impeded economic recovery further out**

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