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RIDING THE MOMENTUM: THE HINDU EDITORIAL ON NATIONAL STATISTICAL OFFICE'S ECONOMIC DATA AND THE ECONOMY

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

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The National Statistical Office's provisional estimates of national income for the 12 months ended March and quarterly GDP estimates for the fourth quarter posit a picture of an economy that sustained momentum last year despite headwinds. Gross domestic product is estimated to have expanded by 6.1% in the January-March quarter, helping lift full-year growth to a marginally higher-than-projected 7.2% pace. Gross value added numbers for the fourth quarter point to a broad-based uptick in growth from the preceding three months, with the umbrella utility services sector (including electricity, gas and water supply) and the omnibus services category of trade, hotels, transport, communication and broadcasting being the only two of the eight GVA sectors posting decelerations in expansion. While construction led the cross-sectoral growth, expanding 10.4%, collectively the services sectors buoyed GVA, with trade, hotels and transport still posting 9.1% growth, notwithstanding the slowdown from the third quarter's 9.6% pace. The sector, which has the largest share in GVA, expanded by a healthy 13.1% sequentially as travel demand rebounded in the wake of COVID-19 fears receding. Manufacturing was also a silver lining, rebounding from the December quarter's contraction to log a 4.5% expansion. And sequentially, manufacturing GVA surged 20.4% from the third quarter reflecting the sustained expansions reported in recent months by S&P Global's survey-based purchasing managers' index.

In fact, the latest PMI reading, showing factory orders having risen in May at the fastest pace since January 2021, is a welcome augury and a buffer for an economy facing stronger headwinds this year from a global economic slowdown and increased uncertainty, including heightened financial sector risks. The NSO data also point to gross fixed capital formation, a proxy for investment activity, having regained vigour in the fourth quarter. GFCF expanded by a healthy 8.9% year-on-year, and an even more robust 20.8% sequentially, aided in large measure by the government's increased capital spending on infrastructure and other big-ticket public works. Given its overall multiplier effect and job creation potential, the improvement in investment spending bodes well for this year's outlook. To be sure, the same GDP data also underscores the fact that private consumption spending — a key bulwark of demand — is yet to regain a firm footing. Private consumption expenditure is estimated to have actually contracted 3.2% from the preceding period in the March quarter, with its share of GDP shrinking to at least an eight-quarter low of 55%. With the chance of a potentially rainfall deficit-inducing El Niño almost a certainty, the outlook for farm output and related rural spending is also now under a cloud. Policymakers must therefore ensure that fiscal and monetary measures remain growth supportive in the coming quarters.

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