India

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3Q24 GDP growth shocker likely to set RBI rate cuts in motion

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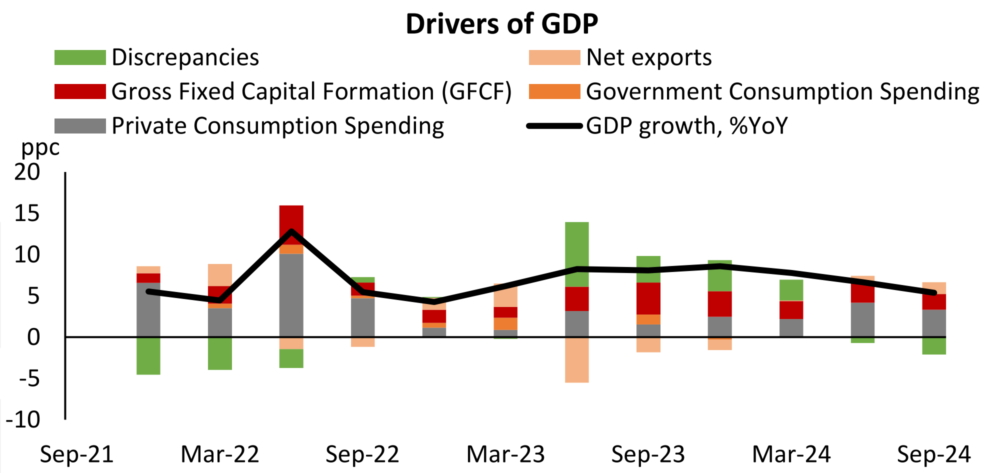
- 3Q24 GDP growth was a shock, coming in at 5.4% YoY versus 6.7% in 2Q24. The slowdown was sharper and sooner relative to our baseline.
- The details suggest weakening growth momentum across crucial drivers including private consumption and investment spending.
- The Reserve Bank of India (RBI) will be incentivised to cut sooner rather than later. We expect a 25bp cut from RBI at its 6 December meeting, followed by another 25bp cut at its 7 February meeting.

3Q24 GDP growth was a shock, coming in at 5.4% YoY versus 6.7% in 2Q24. We had forecasted GDP growth to slow to 6.2% YoY in FY25 (April 2024 until March 2025) versus 8.2% in FY24, but the slowdown came faster-than-expected in the second quarter of the fiscal year rather than second half of the fiscal year. Notwithstanding, we maintain our FY25 GDP growth forecast of 6.2%.

Specifically for the July-September quarter (referred to as 3Q24 in the remaining text), the contribution of domestic final demand dropped to 5.6 percentage points (pp) from 6.7pp in 2Q24. Private consumption growth slowed to 6.0% YoY versus 7.4% in 2Q24 and, being the largest share of GDP, was the biggest drag. Although private consumption growth has been notoriously volatile since the pandemic, the growth in 3Q24 was below the 2013-2019 average of 7.1%. While this corroborates with the broader direction of monthly activity data, i.e. a slowdown, the extent of the weakness was less clear in data such as domestic two wheelers.

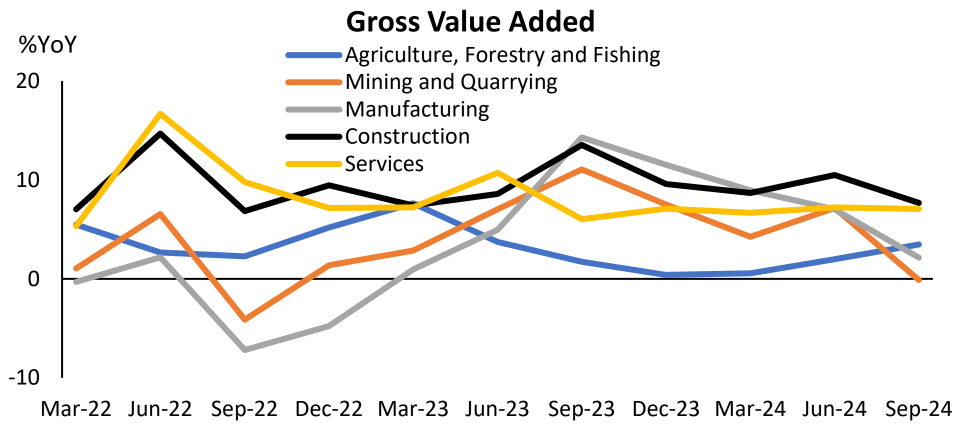


Source: CEIC; OCBC

Similarly, the slowdown in investment spending growth to 5.4% YoY versus 7.5% in 2Q24 came ahead of our forecasts of 4Q24. Changes in inventories and valuables added 0.4pp to headline GDP after shaving off 0.1pp in 2Q24. Government spending growth rose to 4.4% YoY versus -0.2% in 2Q24 but was not strong enough to offset weaker private consumption and investment spending.

Corroborating the weakness in domestic final demand, imports dropped by 2.9% YoY versus 4.4% in 2Q24. Export growth slowed sharply to 2.8% YoY versus 8.7% in 2Q23, leading a higher contribution of 1.5pp from net exports from 0.7pp in 2Q24. 'Discrepancies' shaved off 2.1pp in 3Q23 versus -0.7 in 2Q24.

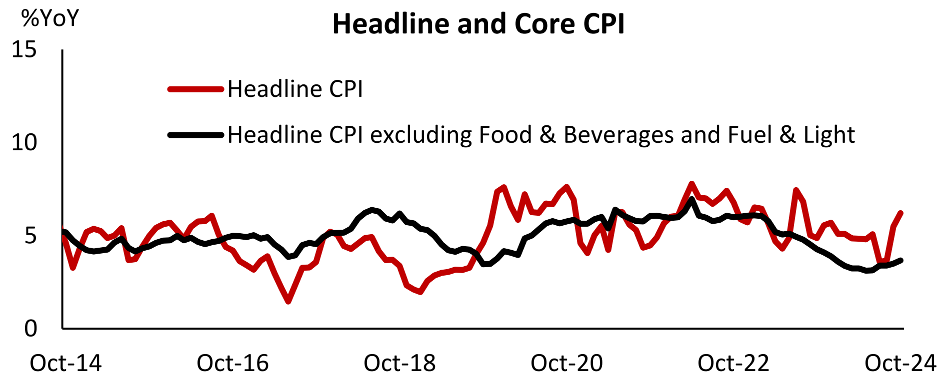
On the supply side, growth in output measured by Gross Value Added (GVA) slowed to 5.6% YoY in 3Q24 versus 6.8% in 2Q24. Although agriculture output increased by 3.5% YoY versus 2.0% in 2Q24, growth in all other key sectors slowed for the quarter. This includes growth in manufacturing (2.2% YoY versus 7.0% in 2Q24), construction (7.7% versus 10.5% in 2Q24), mining (-0.1% versus 7.2%) and services (7.1% versus 7.2%) sectors.



Source: CEIC; OCBC.

While there is some solace to be taken in the relative stability of services sector growth in 3Q24, the sharp slowdown in private consumption and investment spending on the demand side suggests that growth in the services sector could come under some pressure in the coming quarters.

For RBI, the dilemma is real but there is a strong case building for cuts to come sooner rather than later. As we argued in our 1H25 outlook (*India: Signs of slowing growth amid sticky inflation*) that while headline inflation has been volatile on account of certain component such as vegetables, vegetable oils, we expect the disinflationary momentum to remain intact in the coming months. Indeed, although headline inflation at 6.2% YoY in October was above the RBI's 2-6% target range, the averages of 4.8% in April to October 2024 (i.e., YTD FY24-25) and 4.9%YoY for Jan-October 2024, show within target inflation. Core inflation has also largely conformed to a stabilising trend.



Source: CEIC; OCBC

On the external front, the Indian economy is not without threat from additional tariffs from US President-elect Donald Trump. This was underscored by Trump's warning shot to the BRICs alliance on the usage of the USD on 30 November. Discerning threats from reality remains a challenge at this point, but the bottom-line is that Indian assets, including INR, will be subject to pressures from US protectionist threats. Therefore, there remains room for RBI, and indeed some other ASEAN central banks, to cut policy rates before the tariffs become a reality and the global inflationary consequences become more apparent.

While we expect RBI's ammunition in this round of rate cuts to be limited to a cumulative 50bps, we now believe that RBI will be more incentivised to deliver the first 25bp cut at its 6 December meeting. We expect the next 25bp cut to come at the 7 February 2025 meeting. The risk is that rate cuts are postponed into 2025.

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