November 30, 2016

TD Economics

International Commentary: India's growth recovers from a disappointing second quarter

- India's economy expanded at a 8.3% q/q annualized pace in the third quarter, recovering strongly from disappointing 5.5% q/q pace recorded in the second quarter. On a year-on-year basis, third quarter GDP rose 7.1%, weaker than consensus expectation of 7.5%. Markets have responded somewhat positively, with the rupee appreciating slightly relative to the U.S. dollar at the time of writing.

- Private consumption growth picked up considerably from the second quarter, expanding at a 9.1% q/q annualized rate.

- Indian data is notoriously volatile, and this release is no exception. Aside from strength in private consumption growth last quarter, investment, government spending, and net trade all subtracted from growth. In fact, the statistical discrepancy category – a category intended to reconcile the expenditure with the income or industry method of estimating GDP – contributed to more than half of the third quarter estimate of real GDP growth.

- On an industry basis, services, construction, and manufacturing activity contributed to the expansion in economic activity in the third quarter. Services growth was driven largely by increased activity in finance and public administration.

Key Implications

- Prime Minister Narendra Modi's progress on structural reforms has often been lauded, but earlier this month the surprise corruption crackdown, which banned up to 86% of circulating cash, has been criticized as an unnecessary experiment at a time of rising global economic and political uncertainty. This massive reduction in liquidity is expected to drag on GDP growth in the near-term, and places a material amount of downside risk on our 2016 fiscal year forecast, which we are in the process of reevaluating.

- Today's data is water under the bridge, but serves to confirm our view that global growth has picked up largely as expected in the third quarter. Nonetheless, geopolitical events have given rise to global economic uncertainty that could reach an apex next year as Europe goes to the polls in a number of critical elections that could give a greater say to populist, anti-trade political movements. All of this to say that despite the upbeat data this morning from India, U.S., and Canada, the global economic recovery is still fragile and likely to continue to be supported by highly accommodative monetary policy and fiscal stimulus spending for the foreseeable future.

Fotios Raptis, Senior Economist
416-982-2556

@TD_Economics

DISCLAIMER
This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and

should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.