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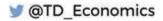
International Commentary: India's growth recovers from a disappointing second quarter

- 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.

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