

Economics Group

Special Commentary

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Indian Economy Gaining Momentum

Economic news out of India this week was broadly better than expected. That reinforced our view that with some of the structural reforms already implemented, India’s economy should be a top performer over the next few years. After implementing some measures that slowed the pace of GDP growth in recent years, India’s economy remains on track as one of the fastest-growing economies in the world. Economic indicators out of India have generally been better than expected in recent weeks and months, and that theme remained more or less intact this week as well.

The second half of 2017 was marked by a rising rate of inflation in India, which stoked concerns that the Reserve Bank of India (RBI) might eventually need to raise its repo rate (Figure 1). Since the start of the current year, some of that pressure has eased as inflation has come off the boil. In January, the year-over-year rate of CPI inflation slowed for the first time in six months coming in at just over 5 percent, and we learned this week that in February it slowed further to just 4.4 percent (Figure 2). That was even more of a slowing than the 4.7 percent rate that had been expected and it takes some pressure off the RBI to raise rates at the upcoming April meeting.

With some of the structural reforms already implemented, India’s economy should be a top performer over the next few years.

Figure 1

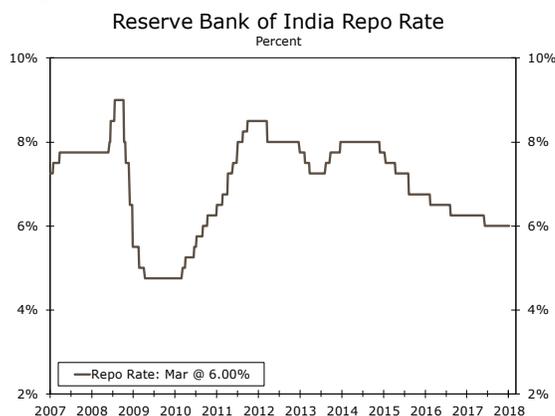
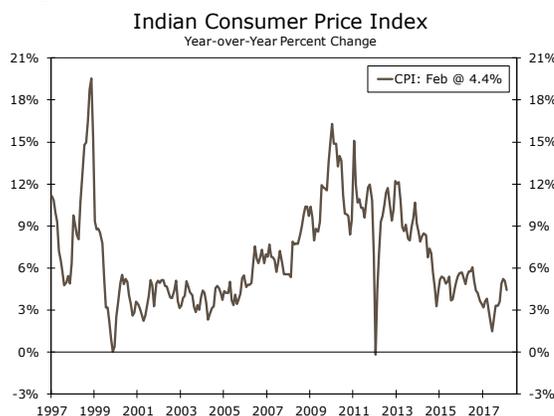


Figure 2



Source: IHS Markit and Wells Fargo Securities

We also learned this week that year-over-year growth rate of industrial production in India quickened to 7.5 percent in January, which was more than the 6.4 percent that had been expected (Figure 3). All major categories were positive when compared to where they were a year ago.

The improvement in industrial production is consistent with our real GDP forecast for the Indian economy of 6.7 percent in 2018 before picking up to 7.4 percent in 2019. In each of the next two years, the numbers we have for India’s economy are the fastest of any of the economies we cover, but it is not without its challenges.

To be sure, there are some pretty substantial hurdles that have already been cleared. The “demonetization” or removal of larger denomination currencies late in 2016 led to some retrenchment in consumer spending that weighed down growth in the first half of 2017.

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Together we’ll go far



Figure 3

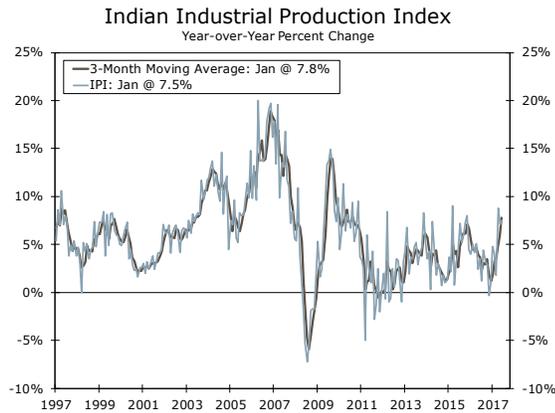
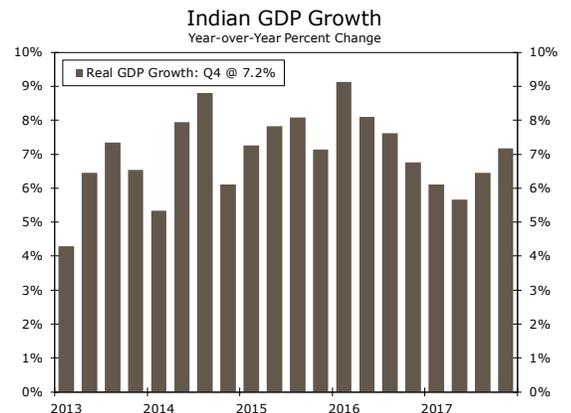


Figure 4



Source: Bloomberg LP, CEIC and Wells Fargo Securities

The Indian economy grew faster than expected in Q4, lifting the year-over-year growth rate to 7.2 percent.

The comprehensive rollout of a five-tiered goods and services tax (GST) was introduced in July 2017 to replace the pre-existing and somewhat confusing system, which overlapped multiple different taxes at different levels of the government. Both the demonetization and GST were seen as necessary reforms, which weigh on growth in the short-run but help longer term.

The Indian economy grew faster than expected in Q4, lifting the year-over-year growth rate to 7.2 percent (Figure 4). Not all the news at the time was good, however. We observed in a report earlier this month that after the GDP report printed, export growth slowed sharply and consumer spending slowed in the quarter as well. Exports grew 9.1 percent year over year through January, and we learned this week that the figure for February was 4.5 percent. That, combined with a modest narrowing in the trade deficit, suggest some improvement in trade dynamics for the first quarter of 2018. India has gotten through some growing pains and has more structural reform to do, but data this week show the economy remains on the right track and is gaining momentum.

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