Q4FY20 GDP data points to a protracted slowdown; revising FY21E to -6.0%

India's fourth quarter GDP (Q4FY20) growth slipped to a 11-year low of 3.1%, illustrating the nature of the national lockdown, even as it was ahead of our and market expectations. Growth was dragged down by lower consumption as well as investment demand. Government spending remained the only saviour for yet another quarter despite strained fiscal balances. Moreover, the share of discrepancies in Q4FY20 was a tad higher than the average March quarter share over the last nine years but contributed 82% to the GDP growth. Adjusting for Government consumption and discrepancies, GDP in Q4FY20 contracted by 0.8%. While the nationwide lockdown owing to COVID-19 outbreak is partly to be blamed for the sharp drop in growth last quarter, significant downward revisions **to previous quarters' data (9MFY20 GDP growth downgraded by 60bps) points to a pervasi**ve slowdown in the economy even before the Coronavirus outbreak forced the nation into a lock-down. GDP growth in FY20 at 4.2% is now the lowest in last 11 years. By economic activity, GVA growth in Q4FY20/FY20 came in at 3.0%/3.9%, supported by Agriculture, while growth in Industry and Services sectors fell to the lowest in the series.

Amidst an extended lock-down for more than two months now and counting and expectations of a gradual easing of restrictions at best given rising number of COVID-19 cases, the impact on Indian economy is expected to be much more severe than envisaged earlier, particularly in the wake of limited fiscal spend. An anticipated recovery period has now extended substantially as consumption behaviour is expected to change drastically even post the lockdown amid job uncertainty, leading to higher savings. The severity of macroeconomic shock caused by the lockdown is reflected in a sharper-than-expected drop in several high frequency indicators such as merchandise trade performance, manufacturing and Services PMI (Purchasing Managers' Index), auto sales, fuel consumption, amongst others. We therefore downgrade our FY21 GDP growth estimate to -6.0% vs. +0.8% earlier, led by a meaningful contraction in consumption as well as investment activity. Nominal GDP would see a contraction in FY21 for the first time in the last six decades, thereby having severe implications for the fiscal math. Risks to our estimates, however, remain on the downside.

GDP growth in Q4/FY20 fell to a 11-year low of 3.1%/4.2%.

- Q4FY20/FY20 GDP growth fall to 11-year lows: Fourth quarter GDP growth fell to a 11-year low of 3.1%, even as it was higher than our and market expectations. While investments continued to remain a drag, with COVID-10-imposed restrictions further adding to the woes, consumption growth also moderated significantly to over five-year lows. This, along with downward revisions to previous quarters' data, led to FY20 GDP growth falling to 11-year low of 4.2%. The Gross Value Added (GVA) growth in Q4FY20/FY20 also declined to a decadal low of 3.0%/3.9%, largely led by contraction in industrial sector growth for yet another quarter and significant moderation in Services sector growth, even as Agri sector growth surprised positively. Nominal GDP growth fell to 48-year low of 7.2% in FY20, thereby having implications for the fiscal math.

Government spending has been the only saviour; excluding Government spending and discrepancies, GDP contracted by 0.8% YoY in Q4FY20.

- Government spending the only saviour: The Q4FY20 GDP growth was severely dragged down by lacklustre investment, with GFCF (Gross Fixed Capital Formation) contracting by 6.5% in Q4FY20—the steepest decline in last 11 years, marking the third consecutive quarter of an YoY contraction. The impact of muted demand environment, weak business confidence, low capacity utilisation and tight financial conditions prevalent before got accentuated with the COVID-19 outbreak and attendant containment measures. Private consumption, however, grew at a modest 2.7% YoY in Q4FY20—the lowest in five years. Government spending remained the only saviour for yet another quarter despite strained fiscal balances, contributing ~40% to GDP growth in Q4FY20 but with a much lower share of 10%. Notably, the share of discrepancies in Q4FY20 was a tad higher than the average March quarter share over the last nine years but contributed 82% to the GDP growth during the quarter. Excluding Government consumption and discrepancies, GDP growth in Q4FY20 worked out to be -0.8% YoY.

- Sector-wise, Agri/Government services come to the rescue: Among the sectors, Agriculture and Government services emerged as the only silver linings. Agriculture sector grew at a two-year high of 5.9% and is expected to fare relatively much better in FY21, supported by a normal monsoon and elevated reservoir levels. Industrial sector contracted by 0.6% YoY in Q4FY20—the second and the steepest fall in the last eight years (new series), led by manufacturing and construction, reflecting the weakened consumption and investment demand post the lockdown announcement. Services growth also moderated significantly to 4.4% led by trade, hotels & transport and financial & business services, even as Government services growth remained robust at 10.1% for third quarter in a row. Excluding Agri/ Government Services, GVA growth would work out to be much lower 1.1%/2.8% in Q4FY20/FY20.

Excluding Government services/Agri, GVA growth in Q4/FY20 came in at a much lower 1.1%/2.8%.

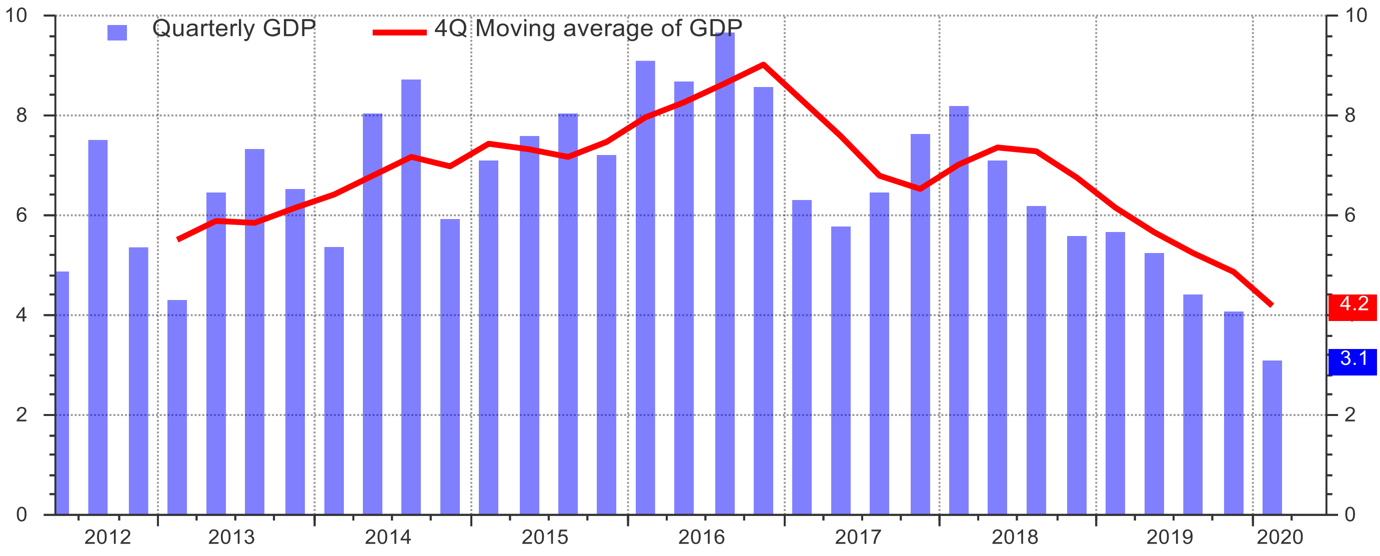
- Direction/magnitude of quarterly revisions disturbing: While revisions to earlier data have been routine with National Accounts data, particularly in the new series (Base year 2011-12), what surprises and bothers this time is the direction and magnitude of the revisions. While growth numbers were revised higher in February 2020, the revisions for the same quarters have been on the lower side this time. Nevertheless, the revised data points to a significant, pervasive slowdown in the economy even before the Coronavirus outbreak forced the nation into a lock-down of 60 days and counting. A lower growth trajectory than anticipated earlier has implications on the impact of the lockdown (worse than expected), and on the extent of recovery (should take longer than expected, but with a sharper base effect-led initial recovery in FY22).

- FY21 GDP growth estimate revised lower to -6.0%: Amidst an extended lock-down for more than two months now and counting and expectations of a gradual easing of restrictions at best given rising number of COVID-19 cases, the impact on Indian economy is expected to be much more severe than envisaged earlier, particularly in the wake of limited fiscal spend announced by the Government. An anticipated recovery period has now extended substantially as consumption behaviour is expected to change drastically even post the lockdown amid job uncertainty, leading to higher savings. The severity of macroeconomic shock caused by the lockdown is reflected in a sharper-than-expected drop in several high frequency indicators such as merchandise trade performance, manufacturing and services PMI, auto sales, fuel consumption, amongst others. We therefore downgrade our FY21 GDP growth estimate to -6.0% vs. +0.8% earlier, led by a meaningful contraction in consumption as well as investment activity. Nominal GDP would see a contraction in FY21 for the first time in the last six decades, thereby having severe implications for the fiscal math. Risks to our growth estimates, however, continue to remain on the downside.

We have revised our GDP growth forecast from 0.8% (estimated in April; read details here) to -6.0%, thanks to an extended lockdown and sharper-than-expected drop in high frequency indicators.

Figure 1: India quarterly GDP growth falls to a 11-year low (%)

GDP growth at 3.1% in Q4FY20 is the weakest in last 11 years. Adjusted for seasonal effects, the 4QMA growth is firmly trending lower to 4.2% now.



Source: Refinitiv Datastream, NSE

Figure 2: Quarterly growth trend (2011-12=100) (%YoY)

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Gross Domestic Product (GDP)	7.1	6.2	5.6	5.7	5.2	4.4	4.1	3.1
Private Consumption (PFCE)	6.7	8.8	7.0	6.2	5.5	6.4	6.6	2.7
Government Consumption (GFCE)	8.5	10.8	7.0	14.4	6.2	14.2	13.4	13.6
Gross Capital Formation (GCF)	10.8	11.4	11.5	5.0	5.3	-2.9	-4.3	-5.8
Gross Fixed Capital Formation (GFCF)	12.9	11.5	11.4	4.4	4.6	-3.9	-5.2	-6.5
Net trade	-10.8	65.6	-18.7	-58.5	-4.1	-46.0	-57.5	14.9
Exports	9.5	12.5	15.8	11.6	3.2	-2.2	-6.1	-8.5
Imports	5.9	18.7	10.0	0.8	2.1	-9.4	-12.4	-7.0
Gross Value Added (GVA)	6.9	6.1	5.6	5.6	4.8	4.3	3.5	3.0
Agriculture	3.8	2.5	2.0	1.6	3.0	3.5	3.6	5.9
Industry	7.5	4.8	5.0	2.6	4.2	0.5	-0.3	-0.6
Mining and Quarrying	-7.3	-7.0	-4.4	-4.8	4.7	-1.1	2.2	5.2
Manufacturing	10.7	5.6	5.2	2.1	3.0	-0.6	-0.8	-1.4
Electricity	7.9	9.9	9.5	5.5	8.8	3.9	-0.7	4.5
Construction	6.4	5.2	6.6	6.0	5.2	2.6	0.0	-2.2
Services	7.4	7.4	7.4	8.7	5.5	6.5	5.7	4.4
Trade, Hotels, Transport, Storage, Comm.	8.5	7.8	7.8	6.9	3.5	4.1	4.3	2.6
Fin. Svcs, Real Estate & Business Svcs.	6.0	6.5	6.5	8.7	6.0	6.0	3.3	2.4
Community, Social & Personal Svcs.	8.8	8.9	8.1	11.6	7.7	10.9	10.9	10.1

Source: CSO, NSE

Figure 3: Annual real GDP growth trend (% YoY)

	FY16	FY17	FY18	FY19	FY20
Gross Domestic Product (GDP)	8.0	8.3	7.0	6.1	4.2
Private Consumption (PFCE)	7.9	8.1	7.0	7.2	5.3
Government Consumption (GFCE)	7.5	6.1	11.8	10.1	11.8
Gross Capital Formation (GCF)	4.7	3.7	10.0	9.5	-2.0
Gross Fixed Capital Formation (GFCF)	6.5	8.5	7.2	9.8	-2.8
Net trade of goods & services	-9.1	-5.7	257.7	-11.8	-29.2
Exports of goods & services	-5.6	5.0	4.6	12.3	-3.6
Imports of goods & services	-5.9	4.4	17.4	8.6	-6.8
Gross Value Added (GVA)	8.0	8.0	6.6	6.0	3.9
Agriculture	0.6	6.8	5.9	2.4	4.0
Industry	9.6	7.7	6.3	4.9	0.9
Mining and Quarrying	10.1	9.8	4.9	-5.8	3.1
Manufacturing	13.1	7.9	6.6	5.7	0.0
Electricity	4.7	10.0	11.2	8.2	4.1
Construction	3.6	5.9	5.0	6.1	1.3
Services	9.4	8.5	6.9	7.7	5.5
Trade, Hotels, Transport, Storage, Comm.	10.2	7.7	7.6	7.7	3.6
Fin. Svcs, Real Estate & Business Svcs.	10.7	8.6	4.7	6.8	4.6
Community, Social & Personal Svcs.	6.1	9.3	9.9	9.4	10.0

Source: CSO, NSE

Figure 4: Share in GDP (%)

	FY16	FY17	FY18	FY19	FY20
Gross Domestic Product (GDP)	100.0	100.0	100.0	100.0	100.0
Private Consumption (PFCE)	56.1	56.1	56.0	56.6	57.2
Government Consumption (GFCE)	10.0	9.8	10.2	10.6	11.3
Gross Capital Formation (GCF)	34.5	33.0	33.9	35.0	32.9
Gross Fixed Capital Formation (GFCF)	30.7	30.8	30.8	31.9	29.8
Net trade of goods & services	-1.2	-1.1	-3.6	-3.0	-2.0
Exports of goods & services	20.8	20.2	19.7	20.9	19.3
Imports of goods & services	22.1	21.3	23.4	23.9	21.4
Discrepancies	0.7	2.3	3.5	0.9	0.6
Gross Value Added (GVA)	100.0	100.0	100.0	100.0	100.0
Agriculture	15.4	15.2	15.1	14.6	14.6
Industry	31.6	31.5	31.4	31.1	30.2
Mining and Quarrying	3.0	3.1	3.0	2.7	2.7
Manufacturing	18.1	18.1	18.1	18.1	17.4
Electricity	2.1	2.2	2.3	2.3	2.3
Construction	8.2	8.1	8.0	8.0	7.8
Services	53.0	53.3	53.4	54.3	55.2
Trade, Hotels, Transport, Storage, Comm.	19.0	18.9	19.1	19.4	19.4
Fin. Svcs, Real Estate & Business Svcs.	21.9	22.0	21.6	21.8	21.9
Community, Social & Personal Svcs.	12.2	12.3	12.7	13.1	13.9

Source: CSO, NSE

Data revisions and implications: Revisions to national income data have been routine with national accounts data, particularly in the new series (Base year 2011-12). In fact, the last significant revision dated January 7th, 2020 had revisions going back every year to FY17 as better data became available. These ranged from updated production and prices of crops, ASI (Annual Survey of Industries) results, to updated information on local bodies and autonomous institutions. Most such revisions are not substantial in nature.

Quarterly revisions: The interesting difference this time around is with the direction and magnitude of the revisions. Consider the tables below on quarterly figures of GDP and GVA at both 2011-12 and current prices. Growth in Q1 and Q2FY20 reflected the severe slowdown in the economy, with Q1 growth dropping to 5.0%, followed by 4.5% in Q2. One may recall the slowdown also being reflected across various other indicators, like bank credit, capital raising, corporate earnings and flow of funds to the commercial sector.

GDP estimates for the first three quarters of FY20 have been revised downwards this time, completely contrasting with upward revisions seen for the same quarters in the February release.

The revisions on February 28th showed a slightly different picture, with growth being revised upwards for Q1 and Q2 of FY20 (by 60bps), but maintaining the trend of a gradual slowdown, with 3QFY20 growth estimated at 4.7%. What we see now with the Q4FY20 data release is a further revision to FY20 quarters, downwards this time, to levels even lower in general than the first estimates available in Nov'19. While Q1 is revised upwards marginally, there are meaningful downgrades for both Q2 and Q3 (-70bps and –60bps), followed by a 3.1% growth estimate for 4Q. Growth for FY20 is thus expected to be 4.2%, down 80bps from the earlier estimate of 5.0%, and 190 bps down from FY19's 6.1% (Which was also reduced from 6.3% earlier).

The revisions are relatively marginally smaller for the more easily estimated nominal data, but the change in direction between the November, February and May data is evident, as shown below. In nominal terms, FY20 growth has been revised lower from 7.7% to 7.2%.

Implications: The revised data points to a significant, pervasive slowdown in the economy even before the COVID-19 outbreak forced the nation into a lock-down of 60 days and counting. A lower growth trajectory than anticipated earlier has implications on the impact of the lockdown (worse than expected), and the recovery ahead (should take longer than expected, but with a sharper base effect-led initial recovery in FY22).

Figure 5: Revision in Quarterly Gross Domestic Product Estimates for FY20 (%YoY, 2011-12=100)

Quarter of FY20	Q1	Q2	Q3	Q4
November 30th, 2019	5.0	4.5		
Feb 28th, 2020	5.6	5.1	4.7	
May 29th, 2020	5.2	4.4	4.1	3.1

Source: CSO, NSE

Figure 6: Revision in Quarterly Gross Value Added Estimates for FY20 (%YoY, 2011-12=100)

Quarter of FY20	Q1	Q2	Q3	Q4
November 30th, 2019	4.9	4.3		
Feb 28th, 2020	5.4	4.8	4.5	
May 29th, 2020	4.8	4.3	3.5	3.0

Source: CSO, NSE

Figure 7: Revision in Quarterly Growth Domestic Product Estimates for FY20 (%YoY, Current Prices)

Quarter of FY20	Q1	Q2	Q3	Q4
November 30th, 2019	8.0	6.1		
Feb 28th, 2020	8.3	6.4	7.7	
May 29th, 2020	8.1	5.9	7.4	7.5

Source: CSO, NSE

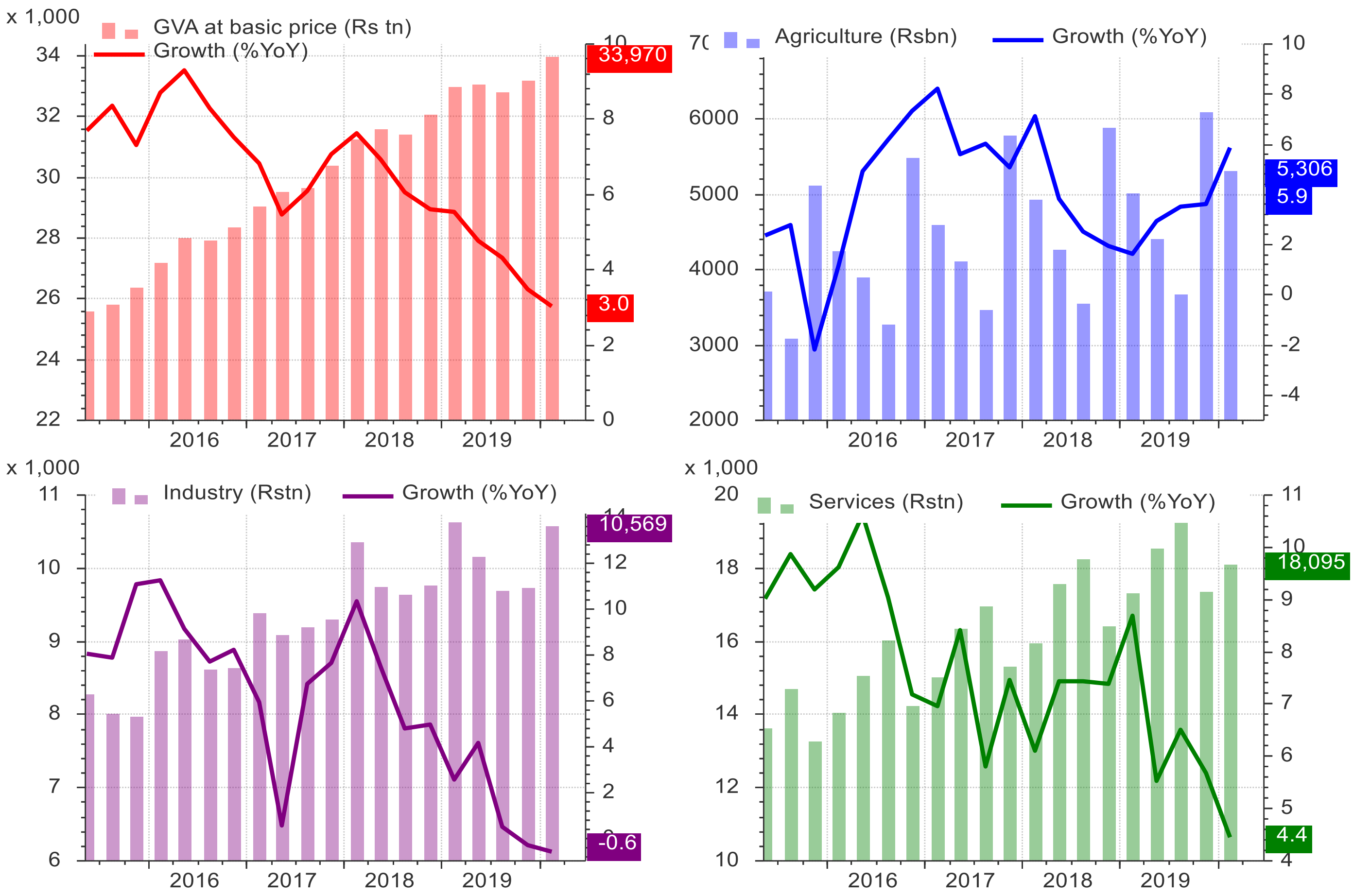
Figure 8: Revision in Quarterly Gross Value Added Estimates for FY20 (%YoY, Current Prices)

Quarter of FY20	Q1	Q2	Q3	Q4
November 30th, 2019	7.9	6.3		
Feb 28th, 2020	8.6	6.6	7.8	
May 29th, 2020	8.0	6.2	7.0	6.8

Source: CSO, NSE

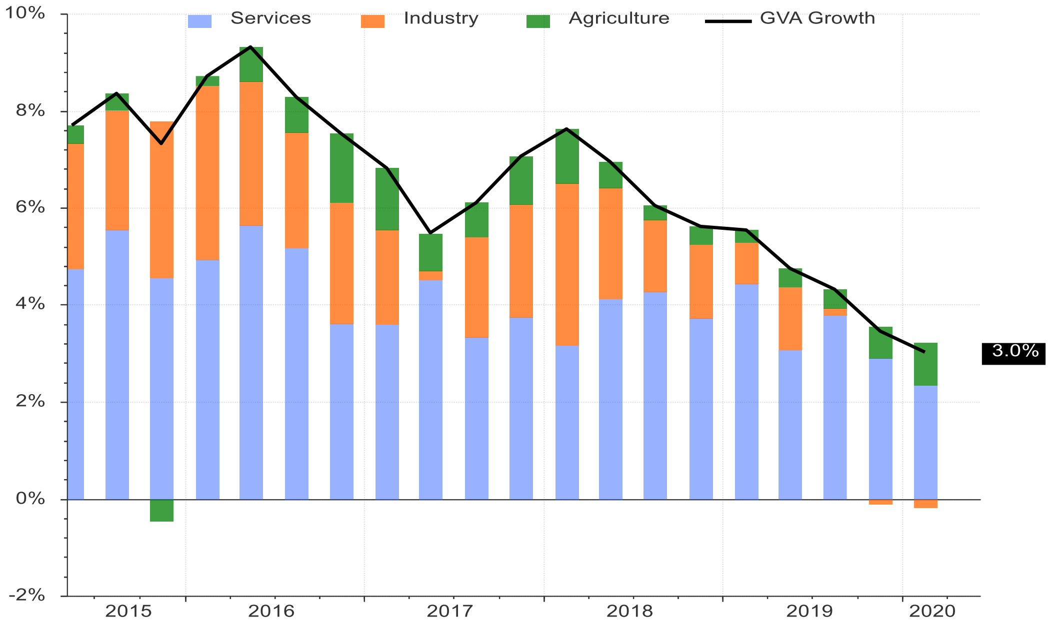
Figure 9: Gross value added (GVA) across sectors:

Across sectors, Agriculture and Government services emerged as the only silver linings. Agriculture sector grew at a two-year high of 5.9% in Q4FY20. Industrial sector contracted by 0.6% YoY in Q4FY20—the second and the steepest fall in the last eight years (new series), led by manufacturing and construction, reflecting the weakened consumption and investment demand post the lockdown announcement. Services growth also moderated significantly to 4.4% led by trade, hotels & transport and financial & business services, even as Government services growth remained robust at 10.1% for third quarter in a row.



Source: Refinitiv Datastream, NSE

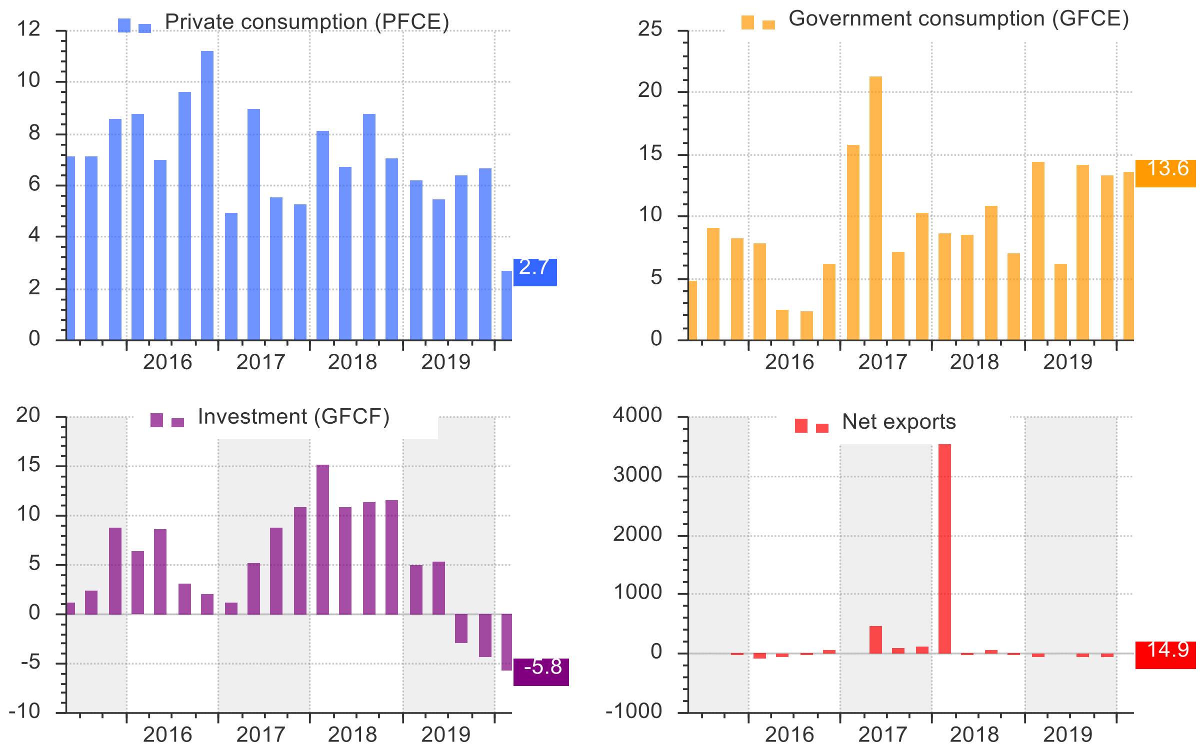
Figure 10: India GVA sector share of growth (%)



Source: Refinitiv Datastream, NSE

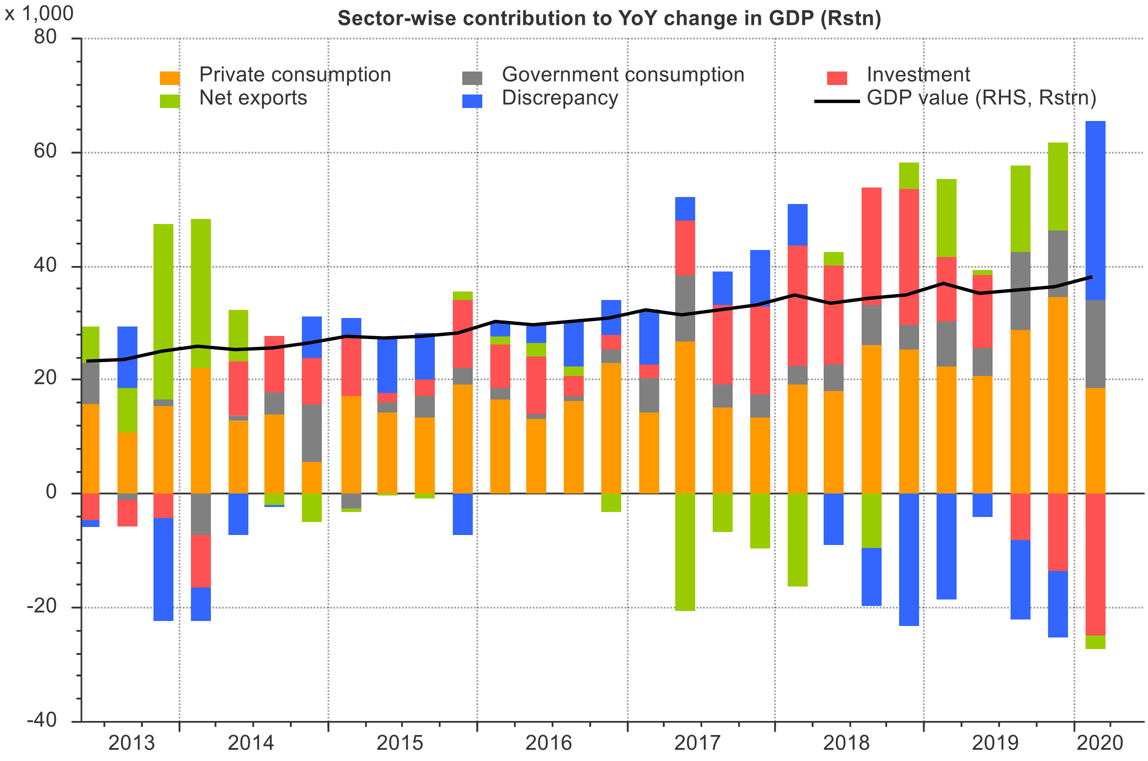
Figure 11: Quarterly GDP growth by sectors (%YoY)

Consumption—the mainstay of Indian economy—witnessed a significant moderation in the March quarter. has seen some improvement in the December quarter. While growth in private consumption fell to five-year low of 2.7% in Q4FY20, Government consumption growth remained robust for yet another quarter at 13.6%. Investments (Gross Fixed Capital Formation) grew at a 11-year low of -6.5% in Q4FY20, marking the 3rd consecutive quarter of an YoY contraction.



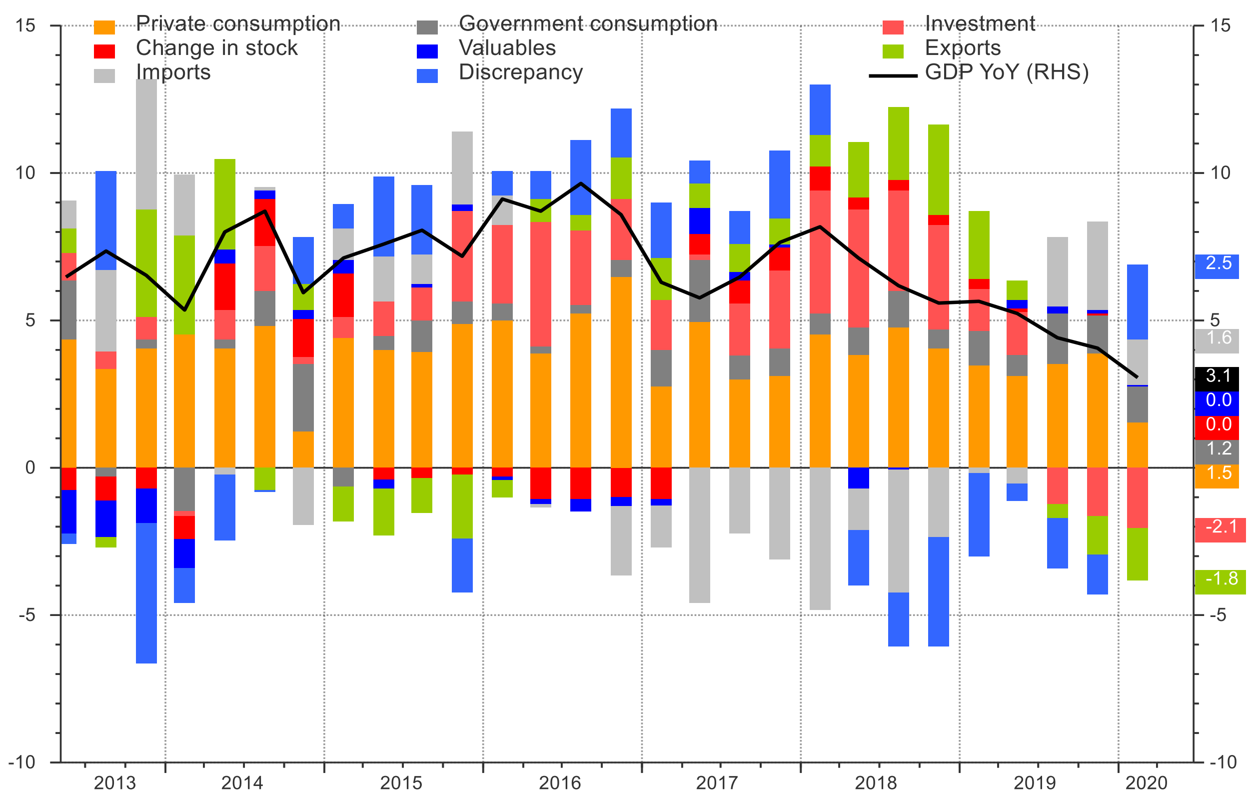
Source: Refinitiv Datastream, NSE

Figure 12: Sector-wise contribution to YoY change in quarterly GDP (Rstrn)



Source: Refinitiv Datastream, NSE

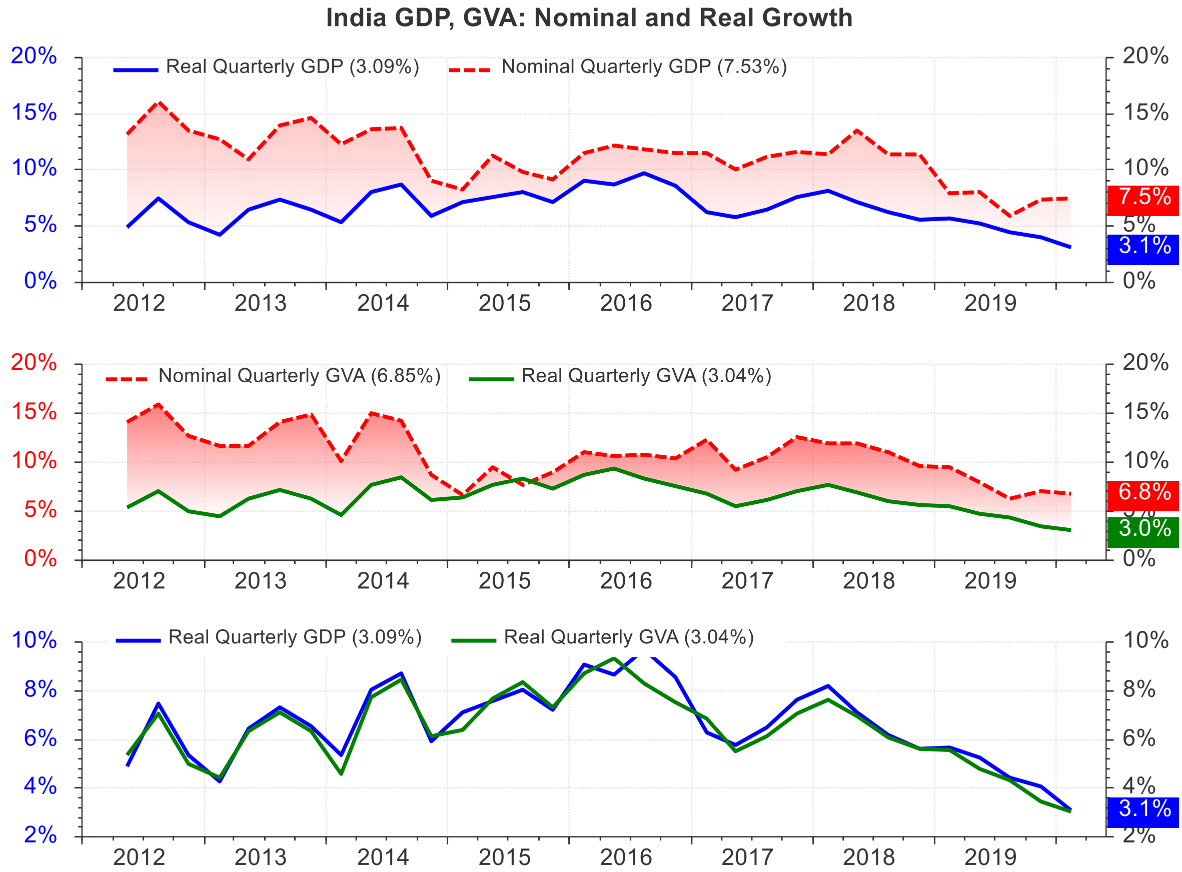
Figure 13: India GDP sector share of growth (%)



Source: Refinitiv Datastream, NSE

Figure 14: Nominal vs. real GDP and GVA growth

Gap between real and nominal GDP growth widened further in Q4FY20, thanks to a spike in inflation over the last few months.

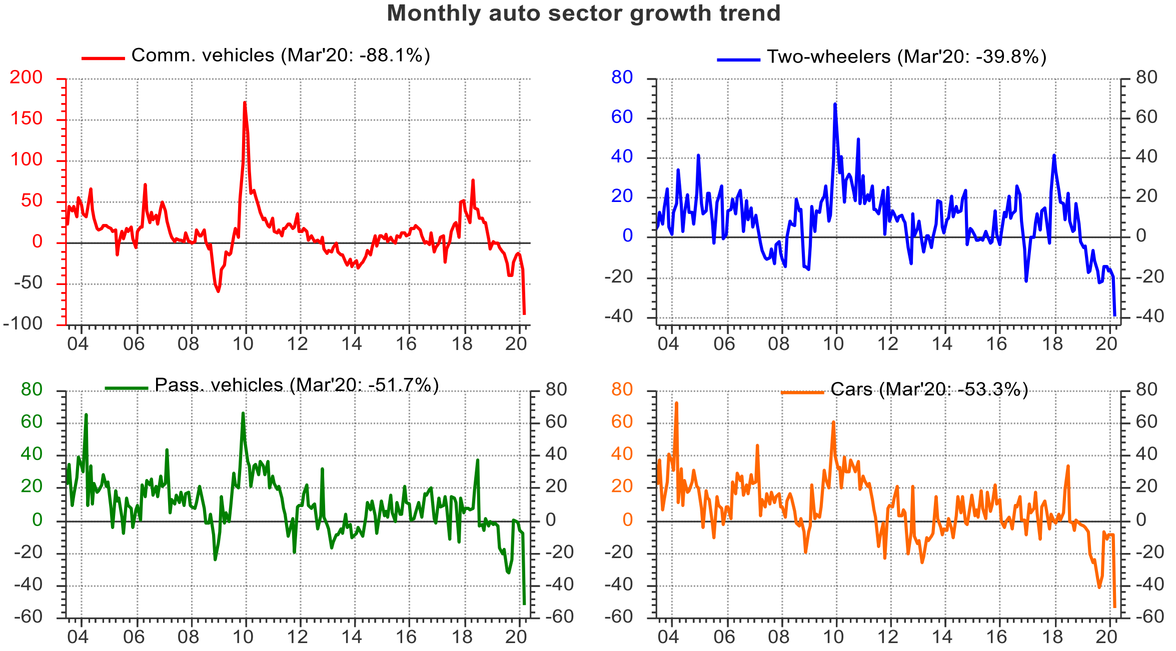


Source: Refinitiv Datastream, NSE

Impact of COVID-19 and attendant lockdown measures to be severe than envisaged earlier**…**: Amidst an extended lock-down for more than two months now and counting and expectations of a gradual easing of restrictions at best given rising number of COVID-19 cases (India now has the 7th highest number of cases in the world), the impact on Indian economy is expected to be much more severe than envisaged earlier, particularly in the wake of limited fiscal spend announced by the Government, reflecting strained finances. An anticipated recovery period has now extended substantially as consumption behaviour is expected to change drastically even post the lockdown amid job uncertainty, leading to higher savings.

…as reflected in several high frequency indicators**…**: The severity of macroeconomic shock caused by the lockdown is reflected in a sharper-than-expected drop in several high frequency indicators: a) Monthly auto sales: Passenger vehicle sales declined by ~52% YoY in March, with commercial vehicle sales witnessing a decline of 88%. b) Merchandise trade: Exports declined by 60% YoY in April, while imports fell by 59% YoY, with non-oil, non-gold imports falling by 52%. c) Fuel consumption: Petrol/diesel consumption declined by more than 50% in April. d) Industrial production contracted by 16.6% YoY in March—the steepest decline ever. e) Manufacturing and Services PMI: PMI is a good forward-looking indicator of economic performance. While Manufacturing PMI fell deep into the contraction zone to 27.4 (a reading below 50 indicates contraction), Services sector got hit much harder, with the Services PMI falling to a mere 5.4 in April.

Figure 15: Auto sales growth trend



Source: Refinitiv Datastream, NSE.

Figure 16: Non-oil non-gold imports trend

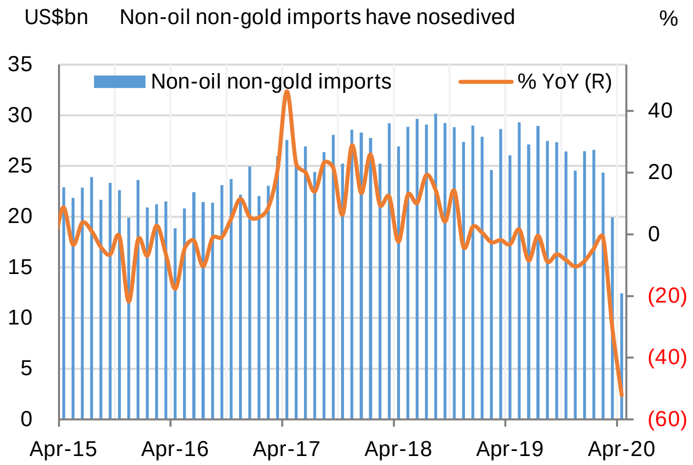
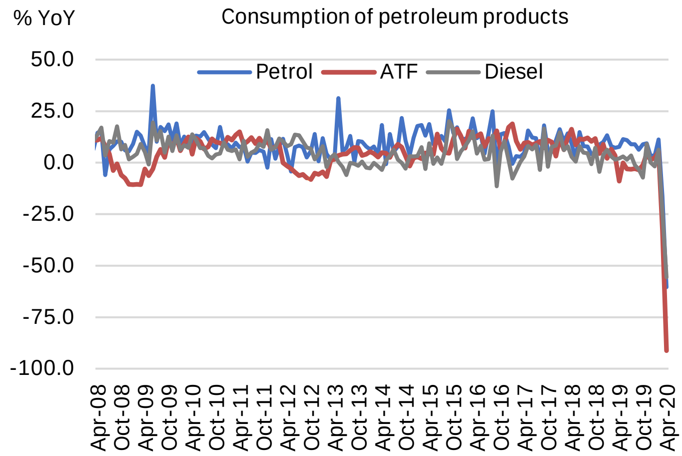


Figure 17: Fuel consumption trend



Source: CMIE Economic Outlook, NSE.

Figure 18: Industrial production trend

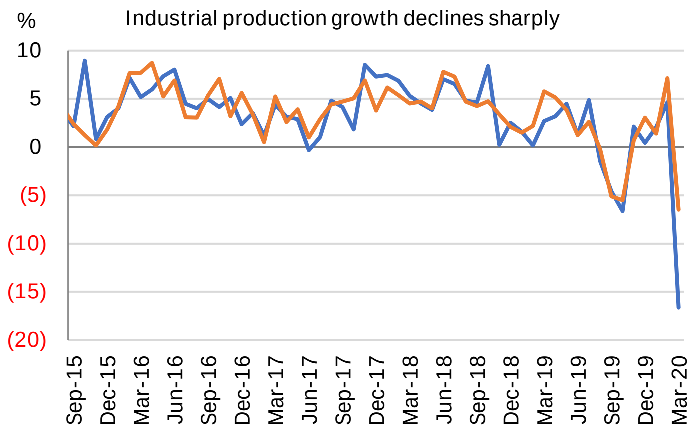
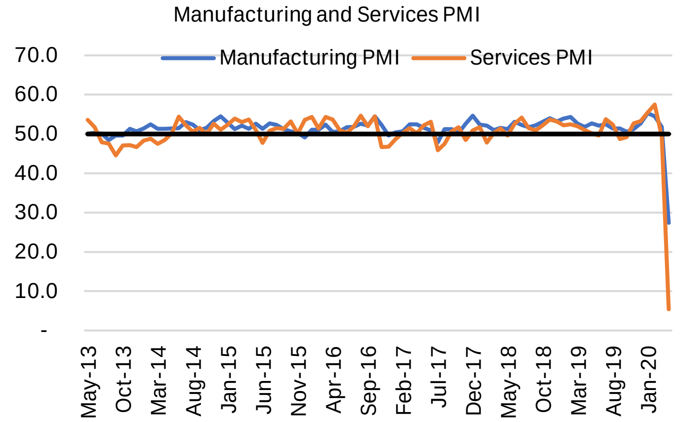


Figure 19: Manufacturing and Services PMI



Source: CMIE Economic Outlook, NSE.

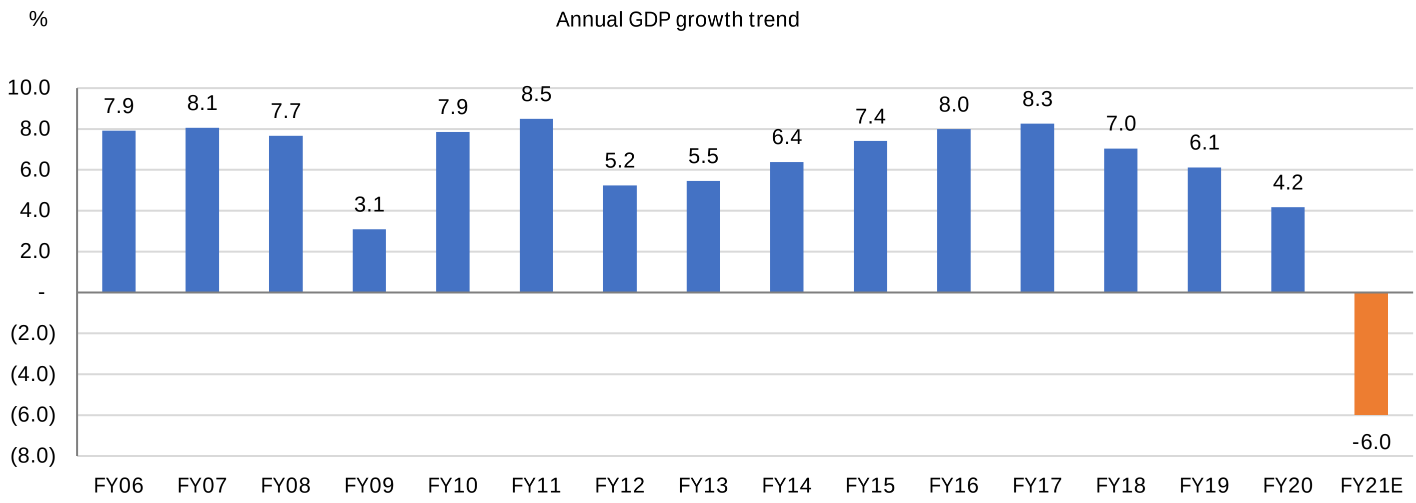
...leading to downward revision to FY21 GDP estimate to -6.0%: Our earlier estimate of +0.8% for FY21 GDP growth was based on a 40-day lockdown, with gradual easing of restrictions and relatively faster pace of recovery. However, rising number of COVID-19 cases forced the Government to extend the lockdown by another month and more in red districts and containment zones, albeit with some relaxations. Considering this and sharper-than-expected macroeconomic impact of the lockdown as highlighted above, we downgrade our FY21 GDP growth estimate to -6.0%, led by a meaningful contraction in consumption as well as investment activity. Nominal GDP would see a contraction in FY21 for the first time in the last six decades, thereby having severe implications for the fiscal math. Risks to our growth estimates, however, continue to remain on the downside.

Figure 20: Revision in GDP growth estimates

			FY21	
	FY19	FY20	Old	New
Gross Domestic Product (GDP)	6.1	4.2	0.8	-6.0
Private Consumption (PFCE)	7.2	5.3	1.0	-6.0
Government Consumption (GFCE)	10.1	11.8	13.0	13.1
Gross Capital Formation (GCF)	9.5	-2.0	-5.3	-12.1
Gross Fixed Capital Formation (GFCF)	9.8	-2.8	-6.4	-13.7
Net trade of goods & services	-11.8	-29.2	-27.2	-11.6
Exports of goods & services	12.3	-3.6	-9.7	-14.9
Imports of goods & services	8.6	-6.8	-11.2	-14.5
Gross Value Added (GVA)	6.0	3.9	0.8	-6.0
Agriculture	2.4	4.0	3.9	2.8
Industry	4.9	0.9	-3.8	-13.5
Services	7.7	5.5	2.4	-4.2

Source: CSO, NSE

Figure 21: Annual GDP growth trend: FY21 GDP growth estimate revised downwards from 0.8% to -6%



Source: CSO, CMIE Economic Outlook, NSE

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