

Q1FY21 GDP sees the worst-ever contraction; Our FY21E of -6% faces downside risks

India's first quarter GDP (Q1FY21) growth slipped to -23.9%—the first contraction in four decades, the worst ever and the steepest amongst key developed and emerging economies—confirming the stringency and impact of the national lockdown. This plunge was led by a sharp contraction in private consumption (-26.7% YoY) and investment demand (-47.1% YoY), partly offset by an expectedly higher government consumption (16.4% YoY) and a trade surplus. By economic activity, Gross Value Added (GVA) contracted by 22.8% YoY, primarily led by a sharp fall in manufacturing, construction and trade, hotels & transport. This was expected as non-essential activity had come to a complete stand-still for a large part of the quarter. Essential sectors including agriculture (good *rabi* harvest), utilities (higher household power demand partly compensating for the sharp drop in demand by commercial/industrial establishments), financial, real estate & business services (financial services were fully operational during the quarter) and community, social & personal services (higher government spending) performed somewhat better.

The national accounts data in Q1 is based on high-frequency indicators including IIP and CPI which have suffered from data collection issues during the lock-down period. Moreover, performance of the corporate sector has been used as a proxy for the informal sector—the impact of lock-down on the latter has been far more severe. The Q1 figures, therefore, face over-estimation bias, and are expected to see meaningful downward revisions. That said, the recovery post Q1 has been slower-than-anticipated as rising number of cases have led to states implementing localised lockdowns. This is reflected in several high frequency indicators including PMI, auto sales, GST collections, Google mobility trends, amongst others. An unrelenting rise in COVID-19 cases has diminished hopes of a credible economic recovery any time soon. The Government's hands are also tight in terms of providing any meaningful fiscal support given strained finances (the **Centre's fiscal deficit reached 103% of the annual budgeted target** in the first four months). Our FY21 GDP growth estimate of -6%, therefore, faces significant downside risks.

- Q1FY21 GDP sees the worst contraction on record: The first quarter's national accounts data confirms the great extent to which a stringent nation-wide lockdown had hurt India's economic activity. The Indian economy contracted for the first time in four decades by a huge 23.9% YoY in Q1 FY21—the worst contraction on record and much higher than most other developed and emerging economies. The sequential contraction is steeper at 29.3% QoQ despite a weak March. This plunge was largely led by a sharp fall in private consumption and investment demand, partly offset by an expectedly higher Government consumption and a trade surplus. The GVA in Q1FY21 shrank by 22.8%, largely led by contraction in manufacturing, construction, and trade, hotels & transport. Nominal GDP contracted by 22.6% YoY, thereby having implications on the Government's finances and debt sustainability.
- Government consumption fails to render a meaningful support: The worst-ever GDP contraction in Q1 has been primarily due to lacklustre investment activity, as a collapsed consumption demand—that got accentuated due to direct as well as indirect impact of COVID-19 outbreak—and high uncertainty led to the private sector deferring their capex plans and preserving cash notwithstanding low interest rates. The Gross Fixed Capital Formation (GFCF)—a reflection of investment demand in the economy—fell by a huge 47.1% YoY in Q1FY21, marking the fourth consecutive quarter of an YoY contraction. Private consumption also contracted by 26.7% YoY/31.2% QoQ in Q1FY21, thanks to a collapse in demand for non-essential items during the quarter. Government spending remained the only saviour for yet another quarter, and much more so, with Government Final Consumption Expenditure (GFCE) rising by 16.4% YoY—the steepest growth in the last four years. That said, the growth was much lower than the post-GFC and post-demonetisation surge in Government consumption—reflecting strained fiscal balances. The contribution of trade balance to GDP turned positive in Q1FY21—the first time in 16

A steep decline in investment and private consumption led to GDP recording its worst contraction ever of 23.9% YoY in Q1FY21.

Government spending remained the only saviour for yet another quarter but growth in Q1 was much lower than the post-GFC and post-demonetisation levels—a consequence of limited fiscal headroom.

years (since the data is available). Excluding Government consumption and trade balance, GDP in Q1FY21 contracted by 34.2% YoY.

- Sector-wise, manufacturing, construction and trade pull down GVA: Among the sectors, construction saw the steepest contraction, falling by 50.3% YoY. This was followed by trade, hotels, transport & communication which recorded a drop of 47% YoY as non-essential travel and trade was halted for most part of the last quarter. Manufacturing plunged by 39.3% YoY as factories, particularly in non-essential sectors, were forced to shut down, with manufacturing of only essential commodities/products permitted during the quarter. Mining sector contracted by 23.3% YoY, partly due to lack of labour availability after reverse migration of migrant labourers. Agriculture emerged as the only silver lining in this gloom and doom, growing by 3.4% YoY, thanks to good *rabi* season harvest that more than compensated for weak production in allied sectors. Other essential sectors including utilities (higher household power demand partly compensating for the sharp drop in demand by commercial/industrial establishments), financial, real estate & business services (financial services were fully operational during the quarter) and community, social & personal services (higher Central Government spending partly offset by lower spending by states) performed somewhat better, declining by relatively lower 5-10% YoY in Q1FY21. Excluding Agriculture, the contraction in GVA in Q1FY21 would work out at 26.8%.
- Q1FY21 GDP data susceptible to downward revisions: The national accounts data in Q1 is based on high-frequency indicators including IIP and CPI which have suffered from massive data collection issues during the lock-down period. Moreover, performance of the listed corporate sector has been used as a proxy for the informal sector—the impact of lock-down on the latter has been far more severe. The Q1 figures, therefore, face over-estimation bias, and are expected to see meaningful downward revisions.
- Our FY21 GDP estimate of -6% faces downside risks amid a slower-than-anticipated economic recovery: The recovery post Q1 has been slower-than-anticipated as rising number of cases have led to states implementing localised lockdowns—something that our estimates had not factored in. The impact of this is reflected in several high frequency indicators including PMI, auto sales, GST collections, Google mobility trends, E-way bills amongst others. While some of these indicators (PMI, Google mobility trends, GST collections) have plateaued in July/August following a meaningful recovery in June, uptick in others (auto sales, E-way bills) has been very gradual. An unrelenting rise in COVID-19 cases in the country is likely to keep private aggregate demand muted for a prolonged period, thereby diminishing hopes of a credible recovery any time soon. Moreover, with the biggest revenue source for the Government—taxes—literally drying up in the wake of a huge contraction in nominal GDP, the Government's hands are also tight in terms of providing any meaningful fiscal support to the economy. The Centre's fiscal deficit has already crossed the annual budgeted target in the first four months. A benign interest rate environment, while helping corporates reduce their funding costs, is also unlikely to result in a revival of the investment cycle any time soon. In the wake of a gradual and protracted recovery process ahead, risks to our FY21 GDP growth estimate of -6% are skewed to the downside. Faster development and roll-out of a vaccine is crucial for a credible economic recovery.

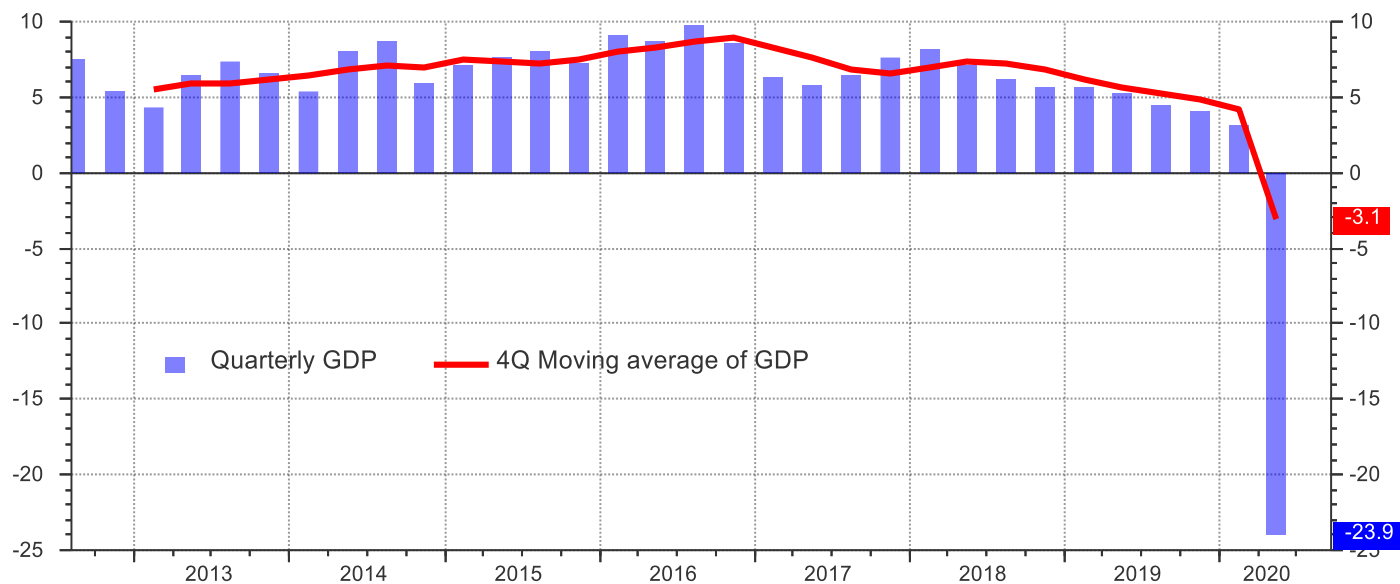
Q1FY21 GVA fell by 22.8% YoY led by a steep contraction in manufacturing, construction and trade.

Agri sector emerged as the only silver lining, recording a growth of 3.4% YoY.

A slower-than-anticipated economic recovery post Q1 poses downside risks to our FY21 GDP growth estimate of -6%.

Figure 1: India sees the worst contraction on record in Q1 FY21

India's first quarter GDP (Q1FY21) growth slipped to -23.9%—the first contraction in four decades and the worst ever—confirming the stringency and impact of the national lockdown.



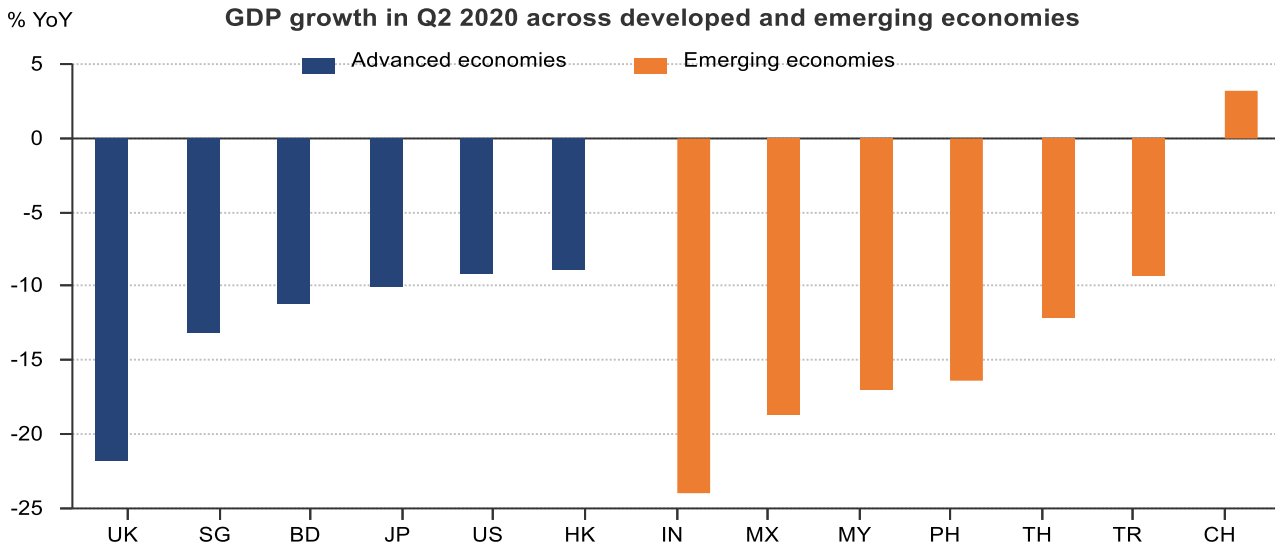
Source: Refinitiv Datastream, NSE

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

	FY19				FY20				FY21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Gross Domestic Product (GDP)	7.1	6.2	5.6	5.7	5.2	4.4	4.1	3.1	-23.9
Private Consumption (PFCE)	6.7	8.8	7.0	6.2	5.5	6.4	6.6	2.7	-26.7
Government Consumption (GFCE)	8.5	10.8	7.0	14.4	6.2	14.2	13.4	13.6	16.4
Gross Capital Formation (GCF)	10.8	11.4	11.5	5.0	5.3	-2.9	-4.3	-5.8	-47.5
Gross Fixed Capital Formation (GFCF)	12.9	11.5	11.4	4.4	4.6	-3.9	-5.2	-6.5	-47.1
Net trade	-10.8	65.6	-18.7	-58.5	-4.1	-46.0	-57.5	14.9	-164.5
Exports	9.5	12.5	15.8	11.6	3.2	-2.2	-6.1	-8.5	-19.8
Imports	5.9	18.7	10.0	0.8	2.1	-9.4	-12.4	-7.0	-40.4
Gross Value Added (GVA)	6.9	6.1	5.6	5.6	4.8	4.3	3.5	3.0	-22.8
Agriculture	3.8	2.5	2.0	1.6	3.0	3.5	3.6	5.9	3.4
Industry	7.5	4.8	5.0	2.6	4.2	0.5	-0.3	-0.6	-38.1
Mining and Quarrying	-7.3	-7.0	-4.4	-4.8	4.7	-1.1	2.2	5.2	-23.3
Manufacturing	10.7	5.6	5.2	2.1	3.0	-0.6	-0.8	-1.4	-39.3
Electricity	7.9	9.9	9.5	5.5	8.8	3.9	-0.7	4.5	-7.0
Construction	6.4	5.2	6.6	6.0	5.2	2.6	0.0	-2.2	-50.3
Services	7.4	7.4	7.4	8.7	5.5	6.5	5.7	4.4	-20.6
Trade, Hotels, Transport, Storage, Comm.	8.5	7.8	7.8	6.9	3.5	4.1	4.3	2.6	-47.0
Fin. Svcs, Real Estate & Business Svcs.	6.0	6.5	6.5	8.7	6.0	6.0	3.3	2.4	-5.3
Community, Social & Personal Svcs.	8.8	8.9	8.1	11.6	7.7	10.9	10.9	10.1	-10.3

Source: CSO, NSE

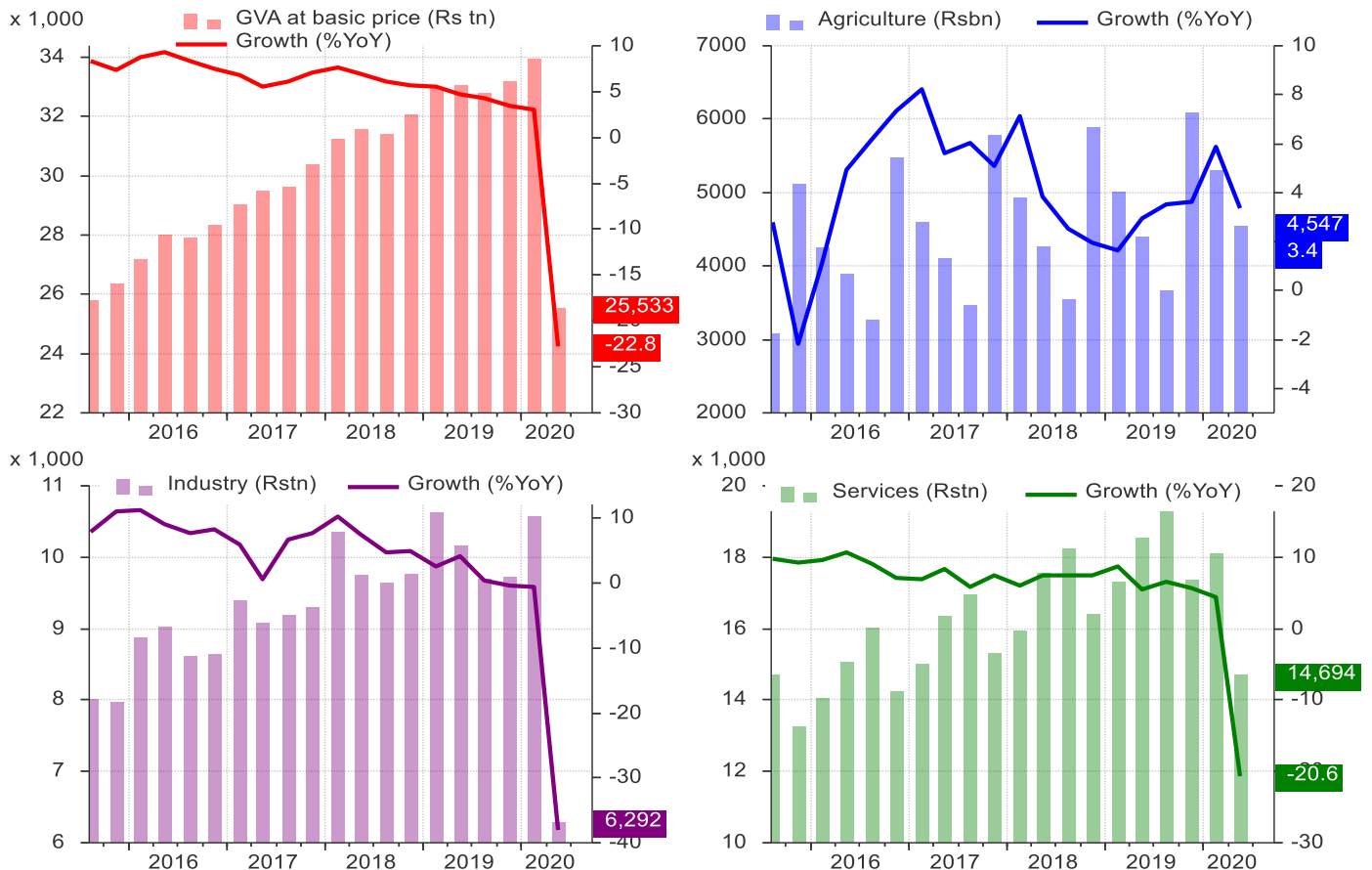
Figure 3: India has seen the worst contraction as compared to other developed and emerging economies
% YoY



Source: Refinitiv Datastream, NSE.

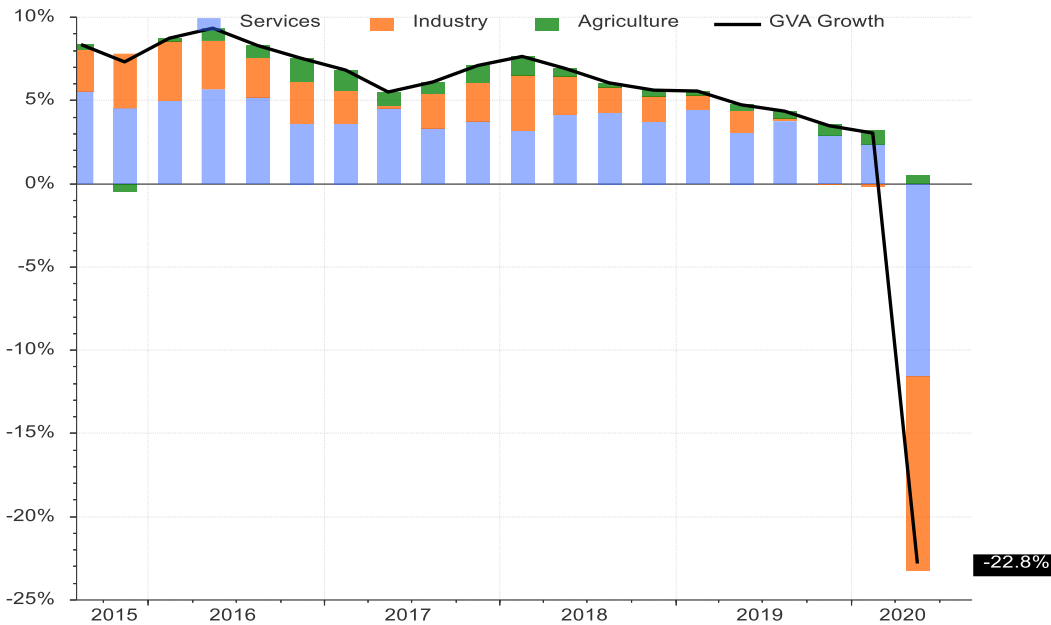
Figure 4: Gross value added (GVA) across sectors:

Among the sectors, construction saw the steepest contraction, falling by 50.3% YoY, followed by trade, hotels, transport & communication at -47% YoY and manufacturing at 39.3% YoY. Mining sector contracted by 23.3% YoY, partly due to lack of labour availability after reverse migration of migrant labourers. Agriculture emerged as the only silver lining in this gloom and doom, growing by 3.4% YoY, excluding which the contraction in GVA in Q1FY21 would work out at 26.8%.



Source: Refinitiv Datastream, NSE

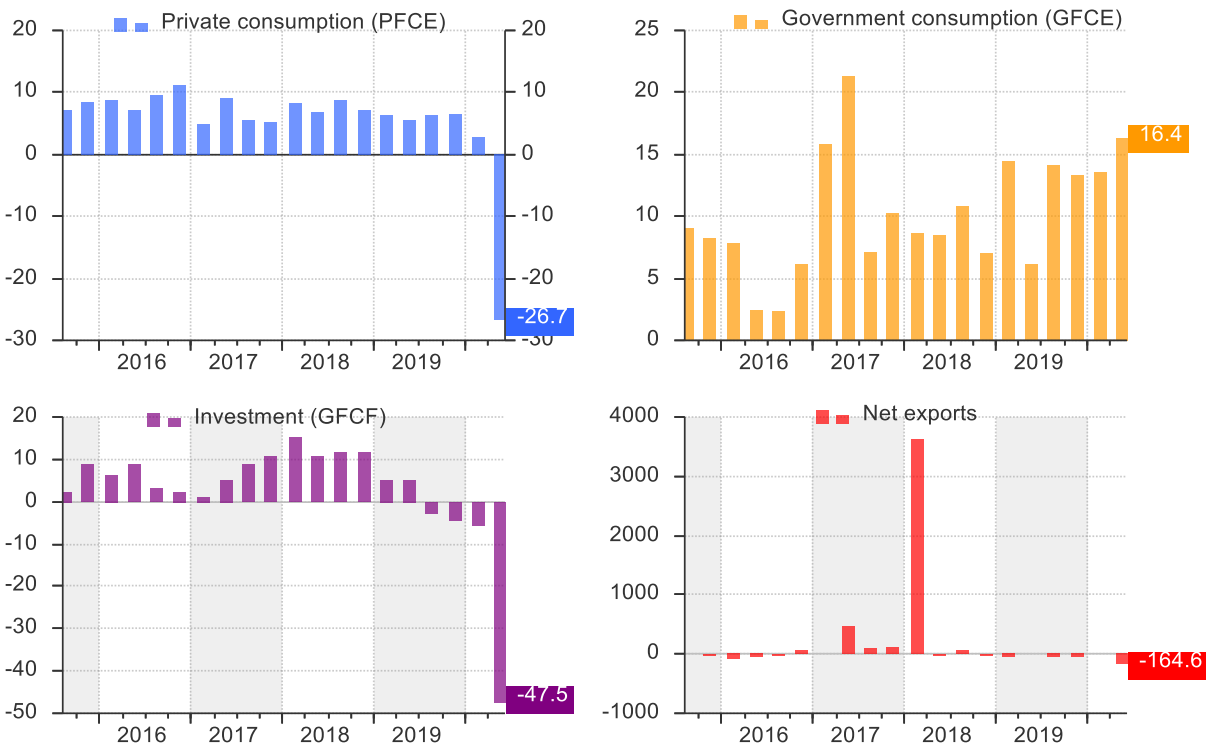
Figure 5: India GVA sector share of growth (%)



Source: Refinitiv Datastream, NSE

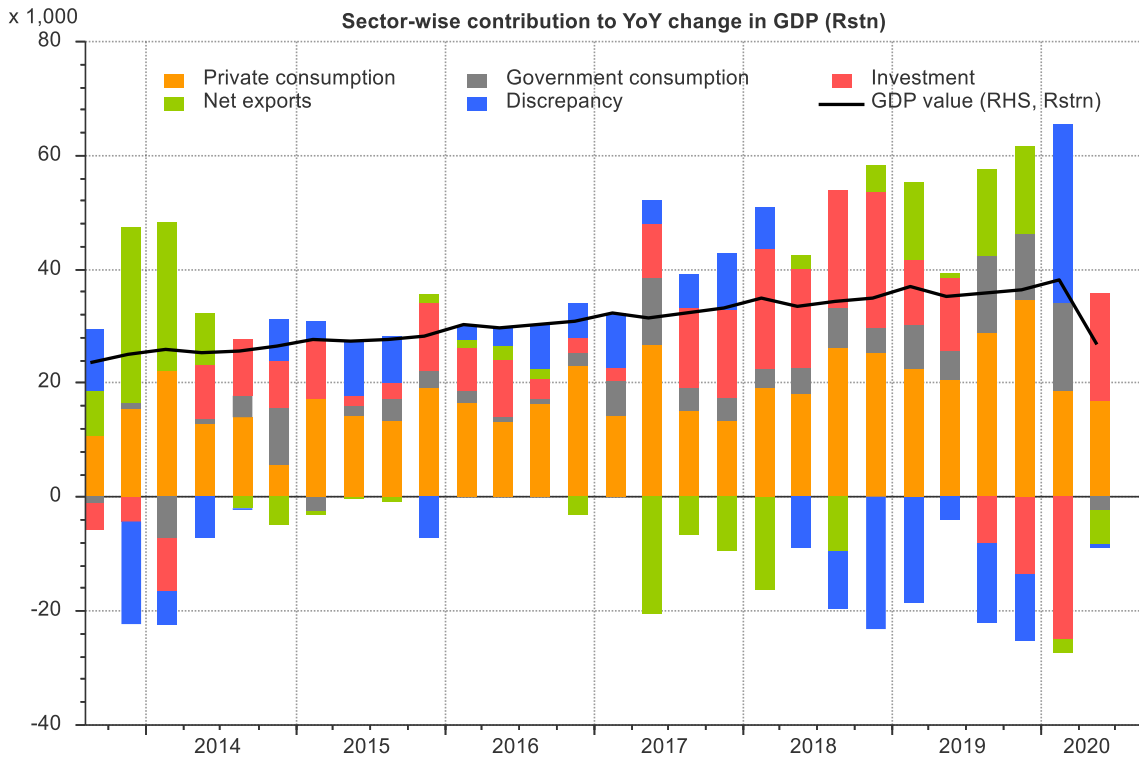
Figure 6: Quarterly GDP growth by sectors (%YoY)

The Gross Fixed Capital Formation (GFCF)—a reflection of investment demand in the economy—fell by a huge 47.1% YoY in Q1FY21, marking the fourth consecutive quarter of an YoY contraction. Private consumption also contracted by 26.7% YoY/31.2% QoQ in Q1FY21, thanks to a collapse in demand for non-essential items during the quarter. Government spending remained the only saviour for yet another quarter, and much more so, with Government Final Consumption Expenditure (GFCE) rising by 16.4% YoY—the steepest growth in the last four years, albeit smaller than that seen in the post-GFC and post-demonetisation periods.



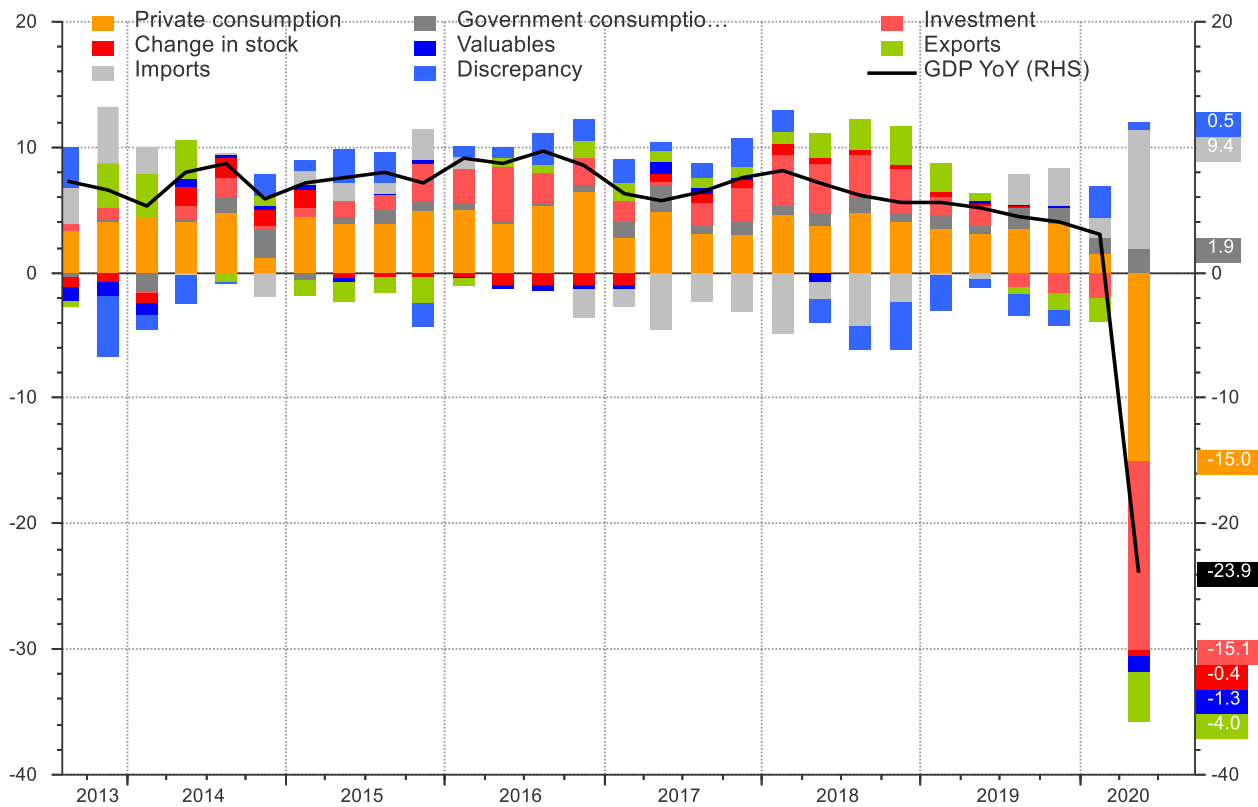
Source: Refinitiv Datastream, NSE

Figure 7: Sector-wise contribution to YoY change in quarterly GDP (Rstrn)



Source: Refinitiv Datastream, NSE

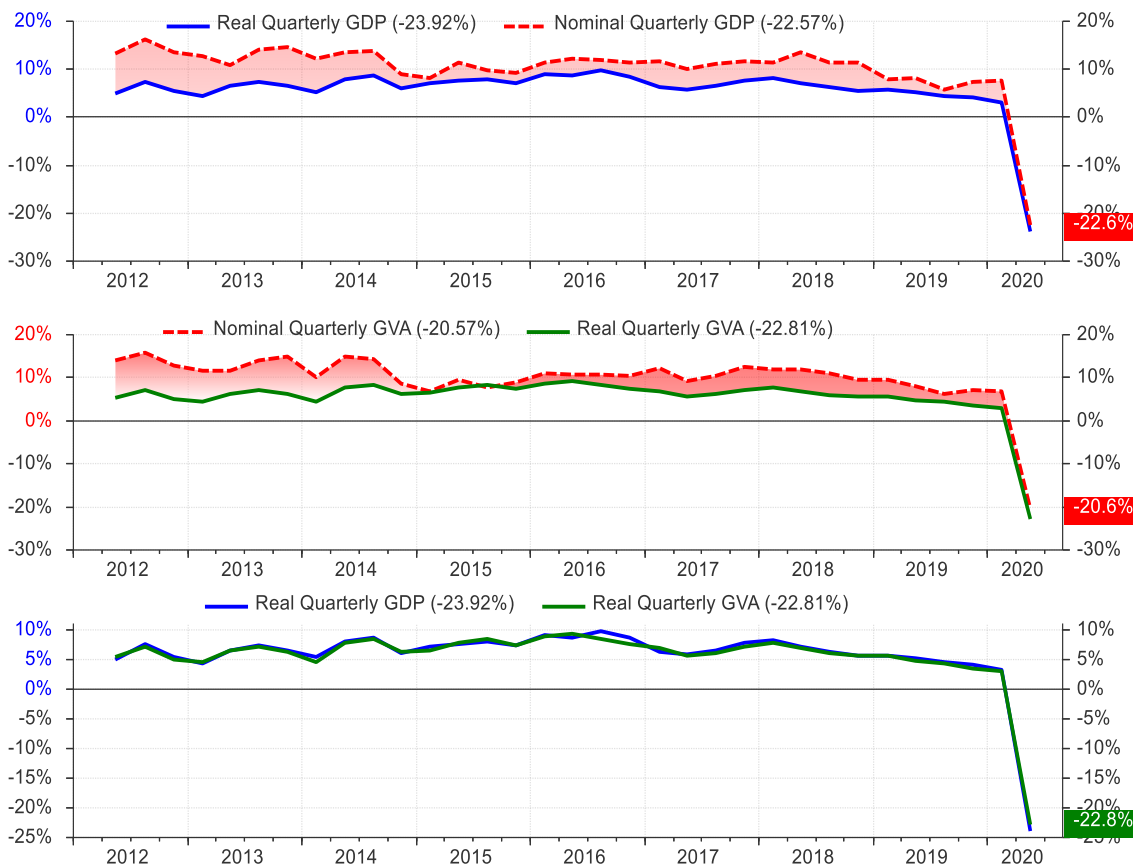
Figure 8: India GDP sector share of growth (%)



Source: Refinitiv Datastream, NSE

Figure 9: Nominal vs. real GDP and GVA growth

India GDP, GVA: Nominal and Real Growth

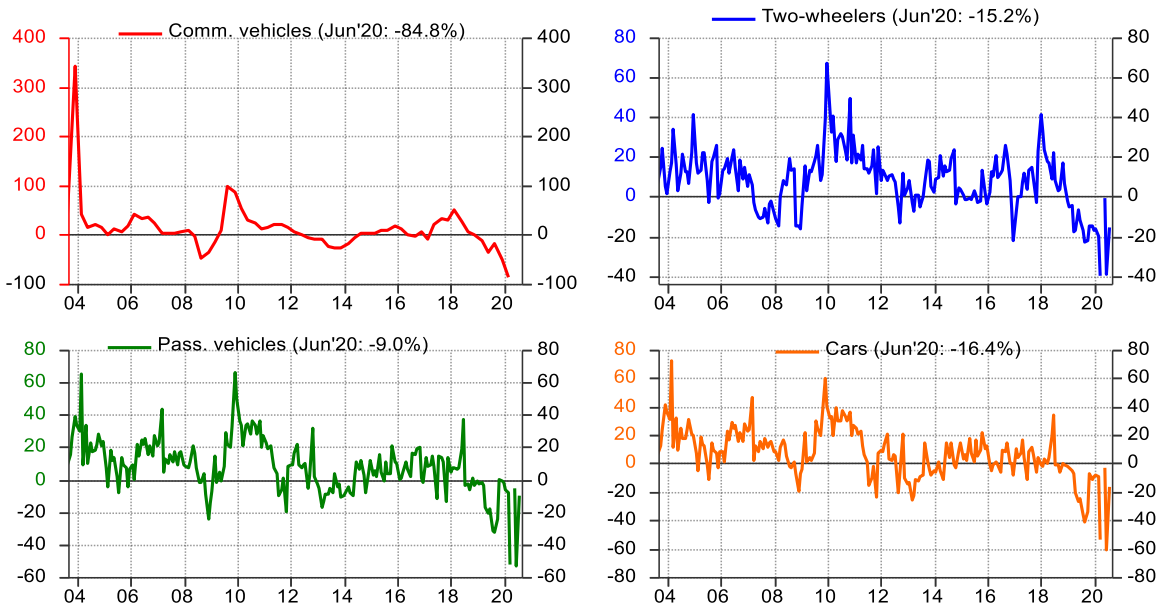


Source: Refinitiv Datastream, NSE

Our FY21 GDP estimate of -6% faces downside risks amid a slower-than-anticipated economic recovery: Even as the pan-India lock-down was eased beginning June 2020 and power to micro-manage the restrictions to control the pandemic was transferred to states, rising number of cases across the country has led to state governments implementing localised lockdowns over the last month or so. This has resulted in a slower-than-anticipated economic recovery, as also reflected in several high-frequency indicators such as auto sales, non-oil non-gold imports, manufacturing production, Manufacturing and Services PMI, GST collections, e-way bills and Google mobility trends, amongst others. While some of these indicators (PMI, Google mobility trends, GST collections) have plateaued in July/August following a meaningful recovery in June, uptick in others (auto sales, e-way bills, non-oil non-gold imports) has been very gradual.

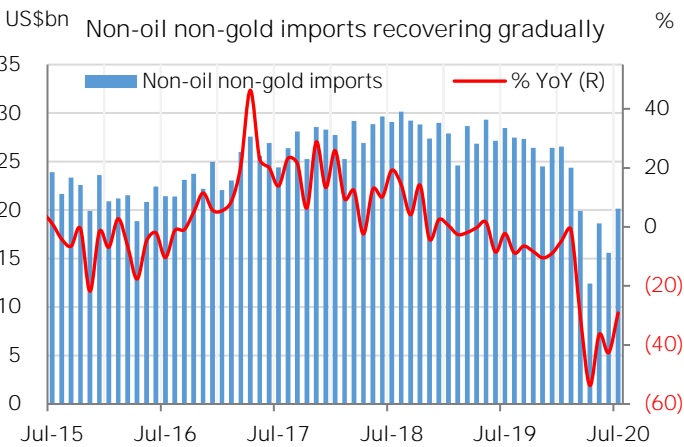
An unrelenting rise in COVID-19 cases in the country is likely to keep private aggregate demand muted for a prolonged period, thereby diminishing hopes of a credible recovery any time soon. Moreover, with the biggest revenue source for the Government—taxes—literally drying up in the wake of a huge contraction in nominal GDP, the Government’s hands are also tight in terms of providing any meaningful fiscal support to the ailing economy. The Centre’s fiscal deficit has already crossed the annual budgeted target in the first four months of the fiscal. A benign interest rate environment, while helping corporates reduce their funding costs, is also unlikely to result in a revival in investment cycle anytime soon. In the wake of a gradual and protracted recovery process ahead, risks to our FY21 GDP growth estimate of -6% are skewed to the downside. Faster development and roll-out of COVID-19 vaccine is crucial for a credible economic recovery.

Figure 10: Auto sales growth trend

Monthly auto sector growth trend


Source: Refinitiv Datastream.

Figure 11: Non-oil non-gold imports recovering at a gradual pace



Source: CMIE Economic Outlook, RBI.

Figure 12: Consumer confidence at all-time lows

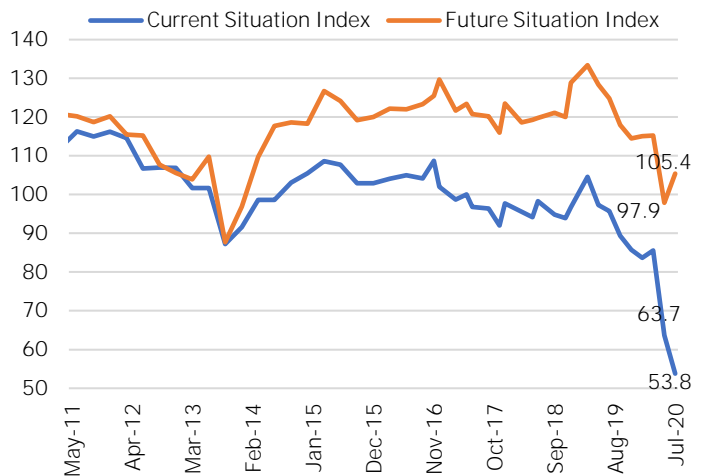
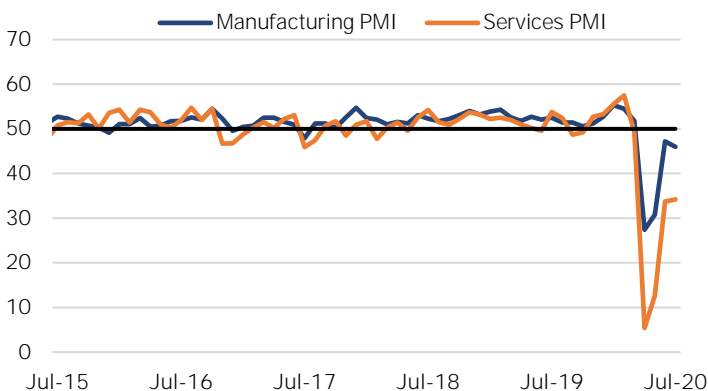


Figure 13: Manufacturing and Services PMI plateaued in July...



Source: CMIE Economic Outlook, Refinitiv Datastream.

Figure 14: ...and is much lower than other economies

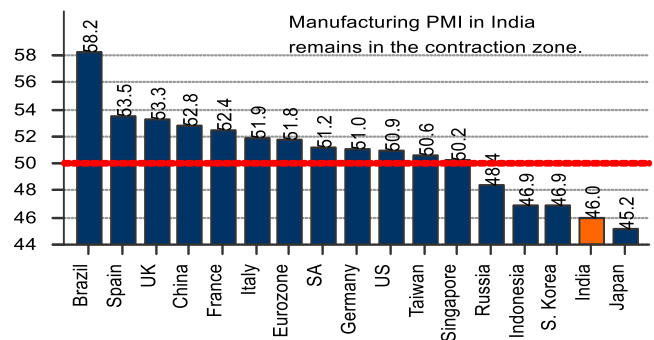
Manufacturing PMI across countries


Figure 15: E-way bill generation picking up but still remain 15% below pre-COVID level

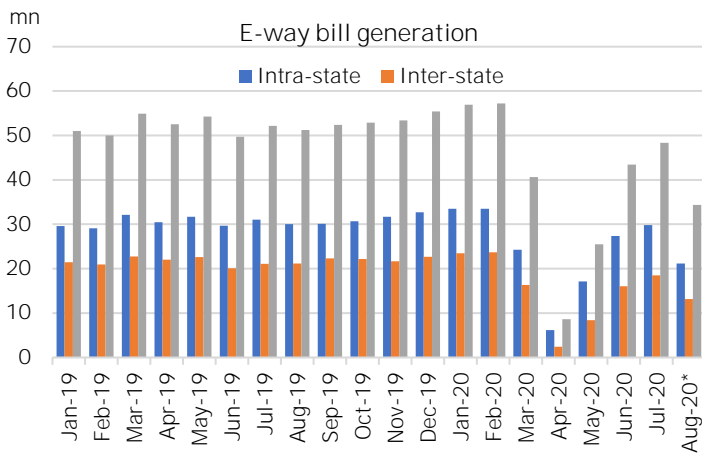
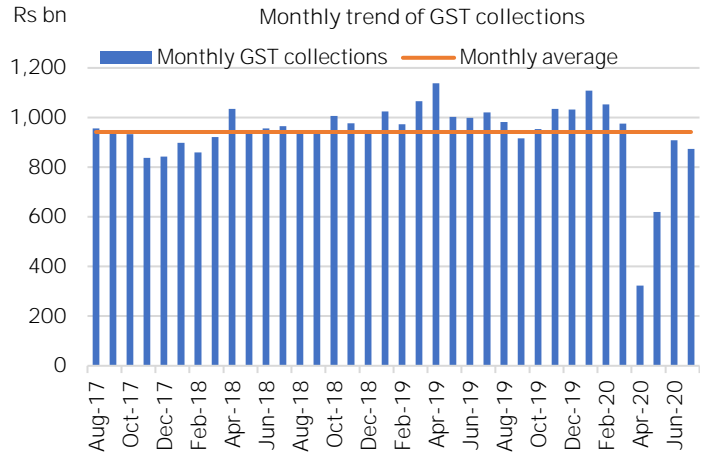
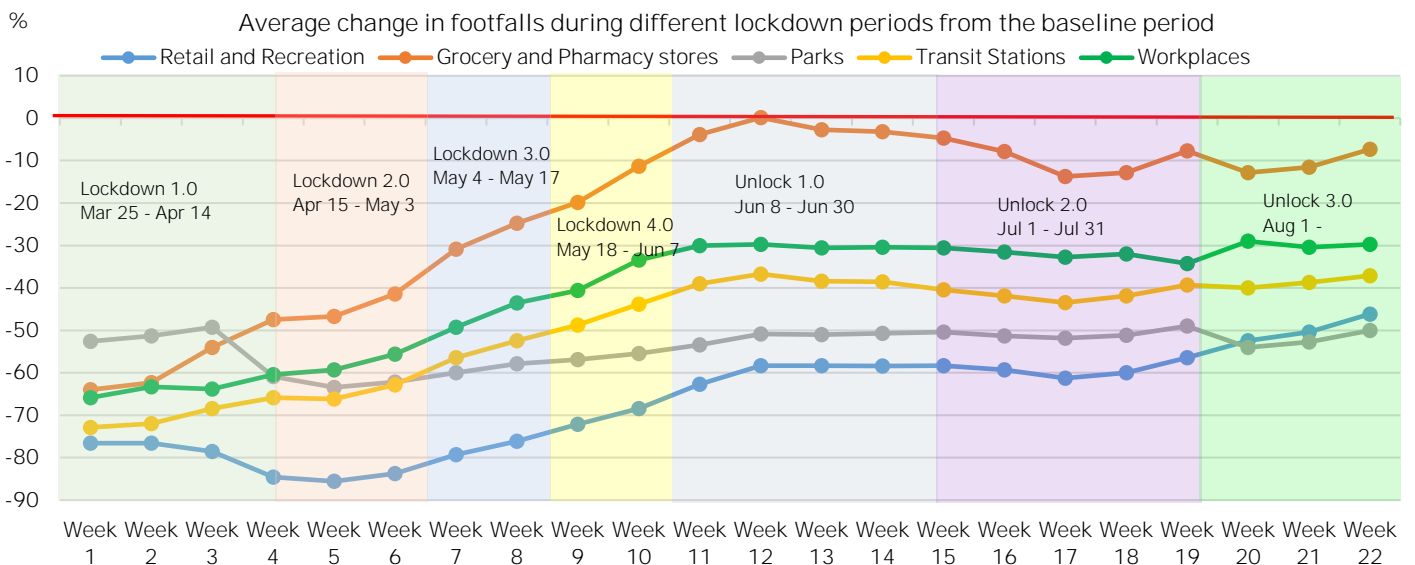


Figure 16: GST collections fell in July after recovering meaningfully in June



Source: GSTN, CMIE Economic Outlook. * August data is as of August 23rd, 2020

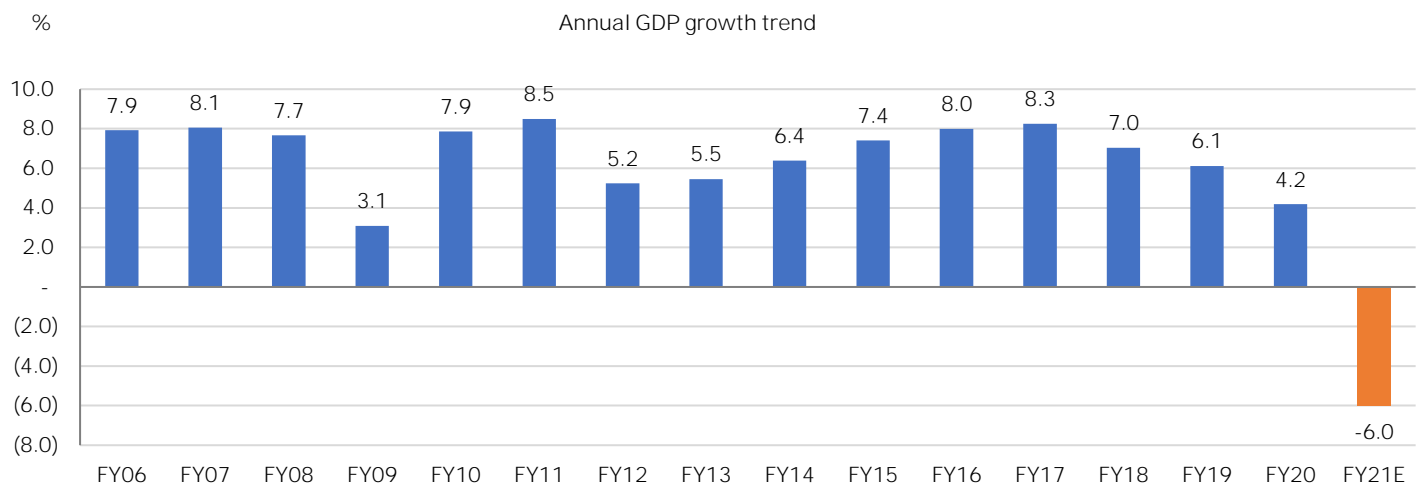
Figure 17: Weekly average change in footfalls in India during different lockdown periods from the baseline day



Source: Google COVID-19 Community Mobility Reports, NSE. Data available till August 25th, 2020.

Note: Weeks start from the day lockdown was implemented in India, i.e. March 25th, 2020. Accordingly, Week 1 is March 25-31, Week 2 is April 1-7 and so on.

Figure 18: Annual GDP growth trend: Our FY21 GDP growth estimate of -6% faces significant downside risks



Source: CSO, CMIE Economic Outlook, NSE.

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