

## Q1FY22 GDP rebounds on a low base; retain FY22E at +9.2%

**India's** first quarter GDP (Q1FY22) growth expectedly came in at a record-high of 20.1% YoY, aided by an extremely depressed base (-24.4% in Q1FY21). On a sequential (QoQ) basis, however, Q1 GDP contracted by a huge 16.9%, reflecting the extent of disruptions caused by the deadlier second wave, even as the impact was far less pronounced than that seen during the first wave. Implementation of localised, targeted restrictions this time as opposed to a strict nation-wide lockdown the first time helped minimise the loss. That said, the economy has once again fallen below pre-pandemic levels, with GDP in Q1 recording a drop on a two-year as well as three-year CAGR basis. The YoY rebound was primarily on the back of robust expansion in private consumption and investment, even as Government consumption dropped on a high base. Exports outshined in an otherwise deceptive quarter and emerged as the only segment in demand-wise GDP to record a sequential expansion. By economic activity, Gross Value Added (GVA) rose by 18.8% YoY, led by a strong jump in Manufacturing, Construction and Trade, Hotels & Transport, thanks to a low base effect. That said, all these sectors, notably the latter two, recorded a steep QoQ drop amidst reimposition of lockdown restrictions in the quarter gone by.

The economic recovery is expected to gather momentum over the coming months on the back of rapid vaccinations, steady reopening of the economy and continued policy support. Early signs of this impending recovery are already visible in several high-frequency indicators such as Manufacturing PMI, e-Way bills, GST collections, non-oil non-gold imports, Google mobility indicators, among others. Contact-intensive services, however, may take longer to revert to pre-pandemic levels particularly in the light of potential emergence of new COVID variants. On the **negative side, while renewed surge in COVID infections in several countries poses a threat to India's export growth** momentum, a below-normal monsoon back home may weigh on farm incomes and consequently rural demand. Effective control over the impending third wave is extremely crucial to strengthen an otherwise uneven and nascent economic recovery. We maintain our FY22 GDP growth estimate at 9.2% with risks evenly balanced.

- Q2FY22 GDP expectedly surges on a low base: The first quarter's national accounts data points to an illusionary strong growth in the Indian economy, thanks to an extremely depressed base, but displays a rather dull picture when compared with pre-pandemic levels. India's GDP grew at a record-high of 20.1% in Q1FY22 but off a 24.4% contraction in the year-ago period, broadly in line with our (+19.1%) and consensus (+20%) expectations. On a two-year and three-year CAGR basis, however, India's GDP in Q1FY22 contracted by 4.7% and 1.5% respectively. **Sequentially, India's GDP fell by 16.9%**, much higher than the seasonal drop of -5% during the 15-year period leading up to June 2019. That said, the economic impact of the deadlier second wave was far less pronounced as compared to the first wave in Q1FY21, thanks to localised lockdown measures adopted by states as opposed to a stringent nation-wide lockdown implemented last year. Nominal GDP grew by a much higher 31.7%, reflecting a sharp spike in wholesale inflation during the quarter. GDP deflator surged to ~158 in Q1FY22—the highest level in the series.
- Exports outshines in an otherwise deceptive quarter: The historic GDP growth in Q1FY22 has been primarily on account of a robust YoY expansion in private consumption and investment, both of which found support from the low base effect due to the sharp COVID-induced contraction seen in the June quarter of last year. While Private Fixed Consumption Expenditure (PFCE) grew by 19.3%, Gross Fixed Capital Formation (GFCF)—a reflection of investment demand in the economy—surged by a huge 55.3% YoY in Q2FY21. On a sequential basis, however, PFCE and GFCF fell by a steep 17.4% and 23.6% QoQ and are hovering -6% and -9% below the pre-pandemic levels (annualised growth vs. June 2019), indicating the dent caused by the second COVID wave on the recovery that was underway. Government consumption declined by 4.8% YoY in Q1FY22, albeit off a high base

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*India's first quarter GDP grew by 20.1%—the highest growth on record, thanks to a low base, but fell by 4.7% and 1.5% on a two-year and three-year CAGR basis respectively.*

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*The YoY rebound in GDP was led by private consumption and investment, both of which found support from an extremely low base.*

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*Exports emerged as the only segment to record a sequential expansion.*

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(-12.7% in Q1FY21), as Government stepped up spending during the year-ago period to mitigate the impact of stringent COVID-induced lockdown restrictions. What outshined in an otherwise deceptive quarter was exports, registering a strong 39.1% YoY and a modest 0.8% QoQ growth—the only segment in demand-wise GDP to record a sequential expansion.

- **Sector-wise, Manufacturing, Construction and Trade pull up YoY GVA growth...:** In line with our expectations, real GVA exhibited a record-high 18.8% YoY growth in Q1FY22, aided by a significantly low base (-22.4% in Q1FY21). The rebound was primarily led by Manufacturing (+49.6%), Construction (+68.3%), and Trade & Hotels (+34.3%) as these were the sectors that got hit the most during the first wave of COVID-19 amidst stringent lockdown restrictions. The GVA, however, fell by 13.3% on a QoQ basis, albeit much lower than the sequential contraction seen in Q1FY21, reflecting contained economic consequences of the localised and targeted restrictions imposed during the second wave. Except for Utilities and Financial Services, all other sectors recorded a QoQ contraction.

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*Q1FY22 GVA exhibited a record-high 18.8% YoY growth, aided by a significantly low base, but fell by 13.3% on a QoQ basis.*

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- **...but recovery faltered by the devastating second wave:** Given the annual figures are likely to paint a distorted image, we demystify the two-year CAGR. On a two-year basis, Agri sector (16% of GVA) remained steady and grew by 4%. After recording a two-year CAGR of 5.6% in Q4FY21, Industrial sector (30.5% of GVA) depicted a subdued performance (-3.2%) in Q1FY22, elucidating the halt in robust recovery momentum that was shaping up till Q4FY21. Within Industry, the weakness was primarily led by Manufacturing (-2.1%) and Construction (-7.8%) even as Utilities remained sturdy with a 1.5% growth. Re-imposition of lockdowns, slower pace of vaccinations and anaemic business confidence weighed on the manufacturing activity. The recovery in Services sector also faltered as reflected from a two-year CAGR of -6.5% in Q2FY22 vs. +3.9% in Q4FY21. Within Services, while Trade, Hotels, Transport & Communication fell by a huge 16.5%, Financial, Real Estate & Business Services (-0.8%) and Public administration services (-2.5%) remained less impacted. Core GVA (ex-Agri and Public Administration Services) contracted by 5.8% on a two-year CAGR against 3% growth in Q4FY21.

- **Recovery momentum to gather pace; maintain FY22E at +9.2%:** The second wave of COVID-19 temporarily disrupted the economic recovery that was underway until early this year. That said, the recovery is expected to gather momentum over the coming months on the back of rapid vaccinations, steady reopening of the economy and continued policy support. Early signs of this impending recovery are already visible in several high-frequency indicators such as Manufacturing PMI, e-Way bills, GST collections, non-oil non-gold imports, Google mobility indicators, among others. Contact-intensive services, however, may take longer to revert to pre-pandemic levels particularly in the light of potential emergence of new COVID variants. On the negative side, while renewed surge in COVID infections in several countries poses a threat to **India's export growth** momentum, a below-normal monsoon back home may weigh on farm incomes and consequently rural demand. Effective control over the impending third wave is extremely crucial to strengthen an otherwise uneven and nascent economic recovery. We maintain our FY22 GDP growth estimate at 9.2% with risks evenly balanced for now.

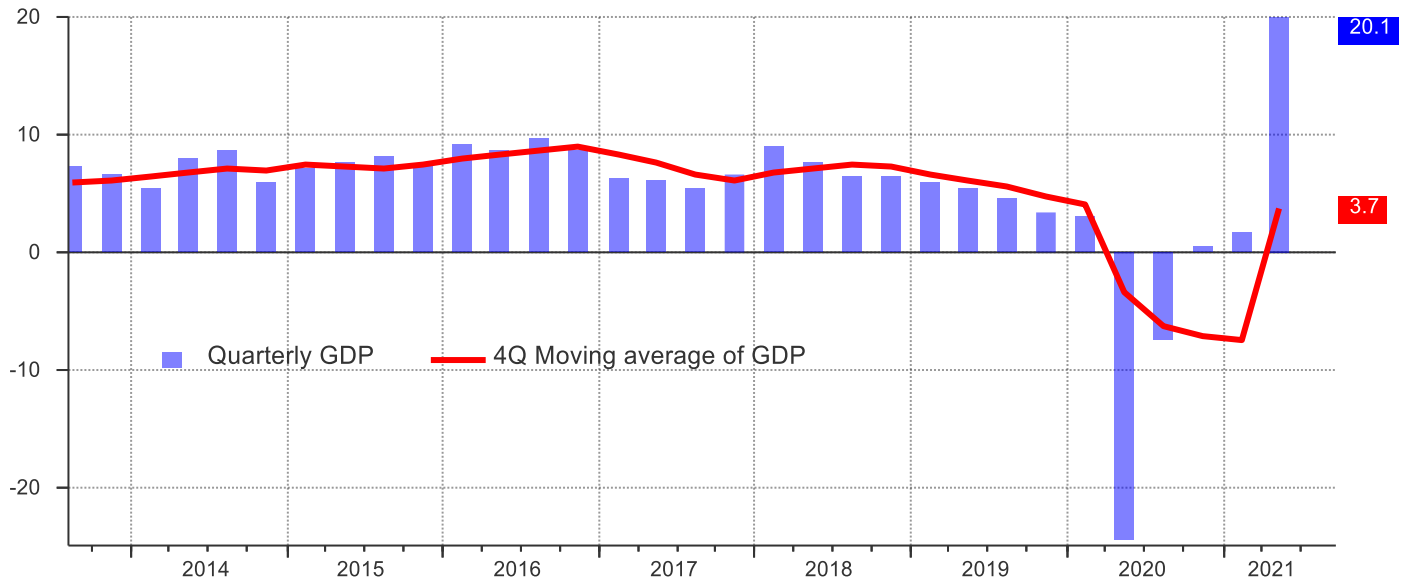
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*Maintain FY22 GDP growth estimate at 9.2%, with risks evenly balanced for now.*

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Figure 1: India sees the best expansion on record in Q1 FY22

India's first quarter GDP (Q1FY22) growth jumped to record-high of 20.1%, thanks to an extremely depressed base.



Source: Refinitiv Datastream, NSE

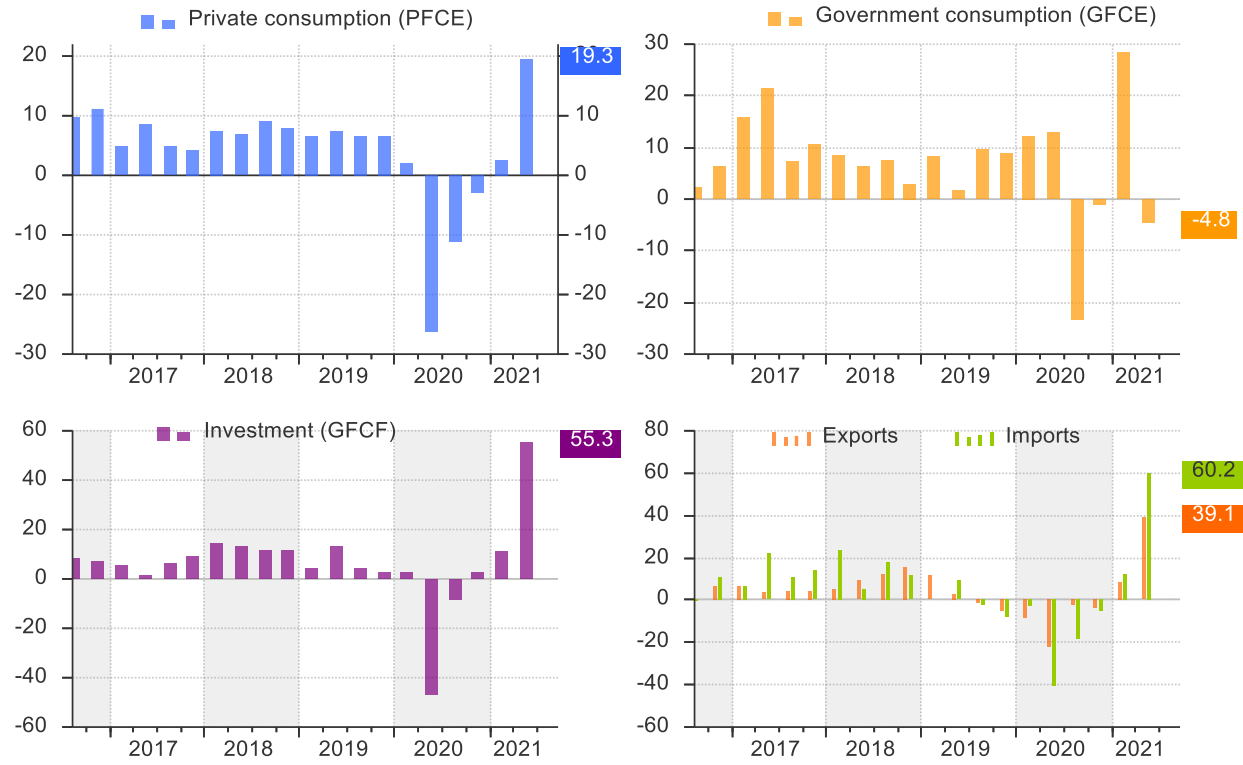
Figure 2: Quarterly growth trend (2011-12=100) (%YoY)

	FY20				FY21				FY22
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>Gross Domestic Product (GDP)</b>	5.4	4.6	3.3	3.0	-24.4	-7.4	0.5	1.6	20.1
Private Consumption (PFCE)	7.6	6.5	6.4	2.0	-26.2	-11.2	-2.8	2.7	19.3
Government Consumption (GFCE)	1.8	9.6	8.9	12.1	12.7	-23.5	-1.0	28.3	-4.8
Gross Capital Formation (GCF)	9.8	0.8	-0.4	-0.7	-47.7	-8.0	3.0	13.8	56.7
Gross Fixed Capital Formation (GFCF)	13.3	3.9	2.4	2.5	-46.6	-8.6	2.6	10.9	55.3
Exports	3.0	-1.3	-5.4	-8.8	-21.8	-2.0	-3.5	8.8	39.1
Imports	9.4	-1.7	-7.5	-2.7	-40.9	-17.9	-5.0	12.3	60.2
<b>Gross Value Added (GVA)</b>	5.0	4.6	3.4	3.7	-22.4	-7.3	1.0	3.7	18.8
Agriculture	3.3	3.5	3.4	6.8	3.5	3.0	4.5	3.1	4.5
Industry	1.7	-1.8	-2.6	-2.2	-35.8	-3.0	2.9	7.9	46.1
Mining and Quarrying	-1.3	-5.2	-3.5	-0.9	-17.2	-6.5	-4.4	-5.7	18.6
Manufacturing	0.6	-3.0	-2.9	-4.2	-36.0	-1.5	1.7	6.9	49.6
Electricity	6.9	1.7	-3.1	2.6	-9.9	2.3	7.3	9.1	14.3
Construction	3.7	1.0	-1.3	0.7	-49.5	-7.2	6.5	14.5	68.3
Services	7.2	8.2	7.0	6.4	-21.5	-11.4	-1.2	1.5	11.4
Trade, Hotels, Transport, Storage, Comm.	6.2	6.8	7.0	5.7	-48.1	-16.1	-7.9	-2.3	34.3
Fin. Svcs, Real Estate & Business Svcs.	8.8	8.9	5.5	4.9	-5.0	-9.1	6.7	5.4	3.7
Community, Social & Personal Svcs.	5.6	8.8	8.9	9.6	-10.2	-9.2	-2.2	2.3	5.8

Source: CSO, NSE

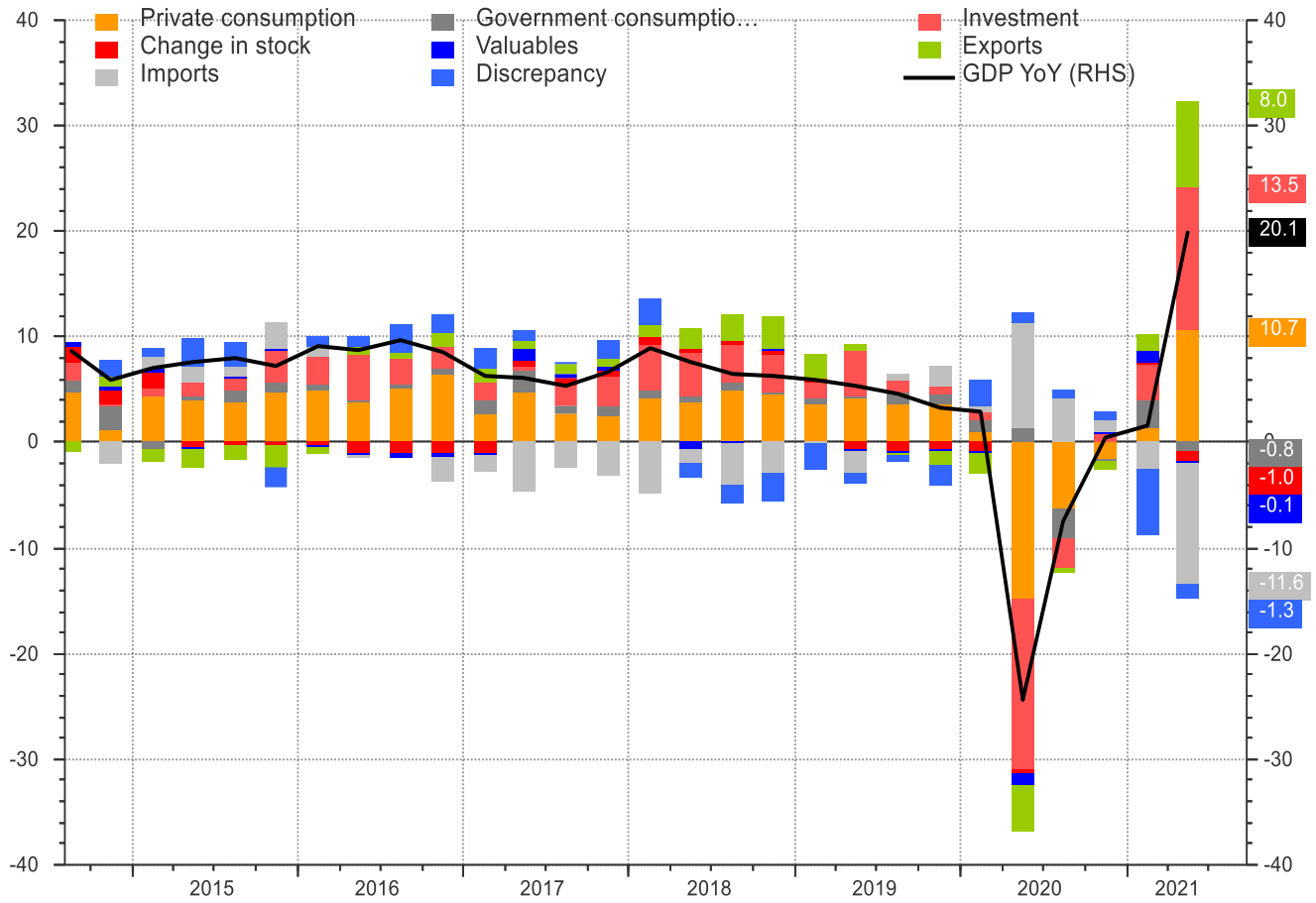
Figure 3: Quarterly GDP growth by expenditure (%YoY)

While Private Fixed Consumption Expenditure (PFCE) grew by 19.3%, Gross Fixed Capital Formation (GFCF)—a reflection of investment demand in the economy—surged by a huge 55.3% YoY in Q2FY21. Government consumption on the other hand declined by 4.8% YoY in Q1FY22, albeit off a high base (-12.7% in Q1FY21), as Government stepped up spending during the year-ago period to mitigate the impact of stringent COVID-induced lockdown restrictions.



Source: Refinitiv Datastream, NSE

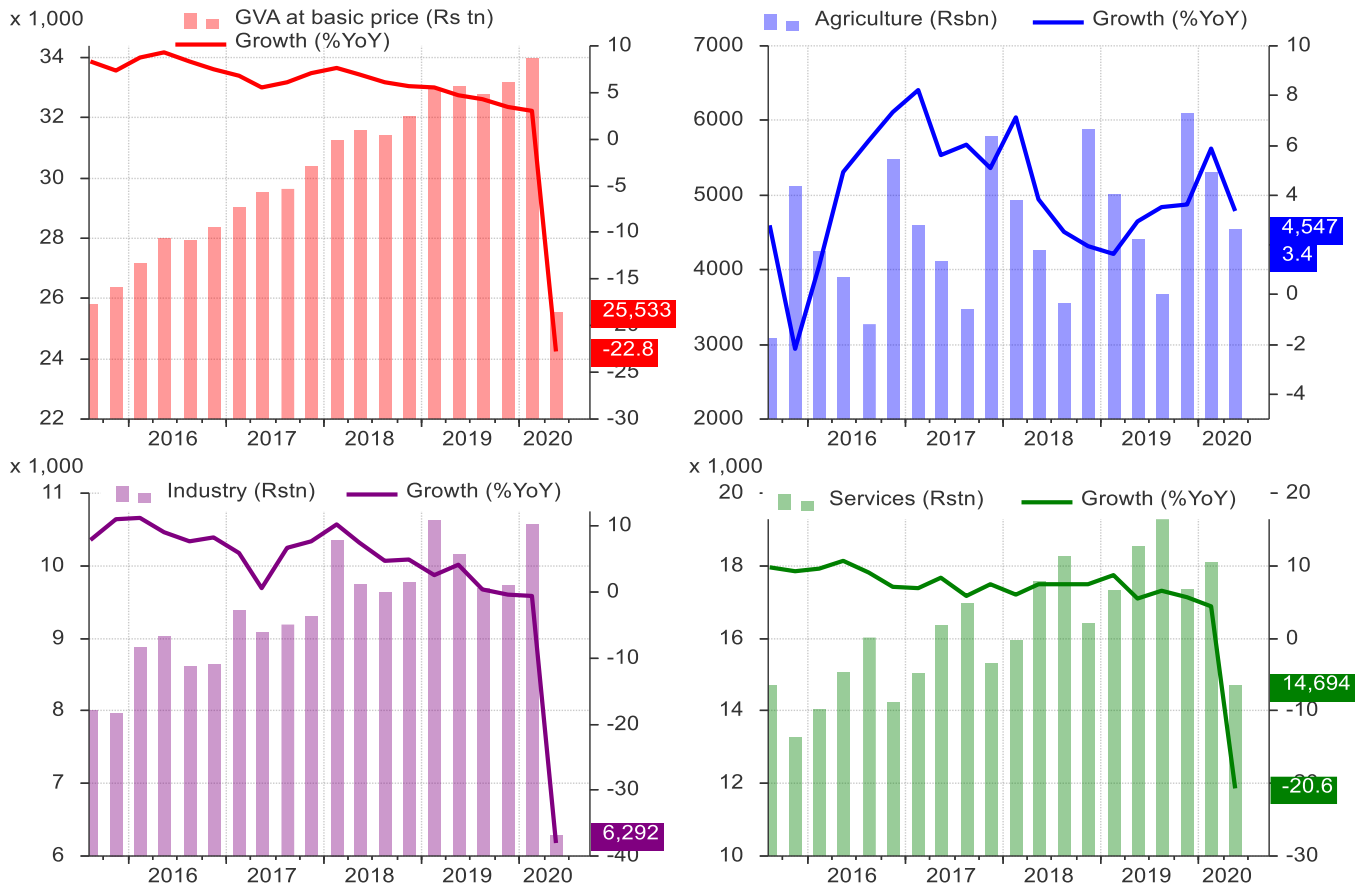
Figure 4: India GDP sector share of growth (%)



Source: Refinitiv Datastream, NSE

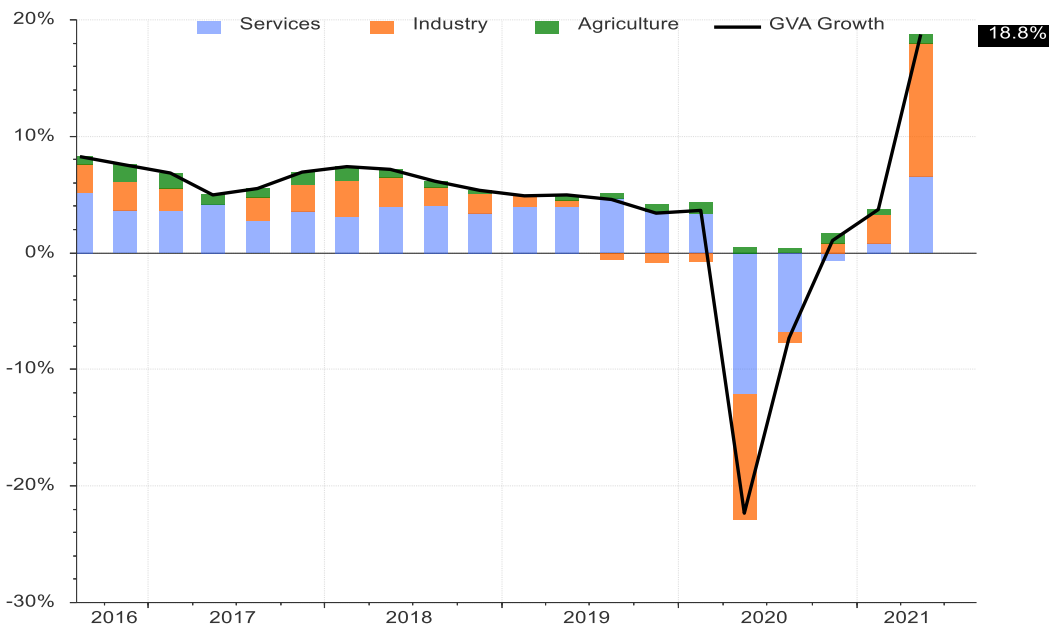
Figure 5: Gross value added (GVA) across sectors:

The real GVA exhibited a record-high 18.8% YoY growth, aided by a significantly low base (-22.4% in Q1FY21). The rebound was primarily led by Manufacturing (+49.6%), Construction (+68.3%), and Trade & Hotels (+34.3%) as these were the sectors that got hit the most during the first wave of COVID-19 amidst stringent lockdown restrictions.



Source: Refinitiv Datastream, NSE

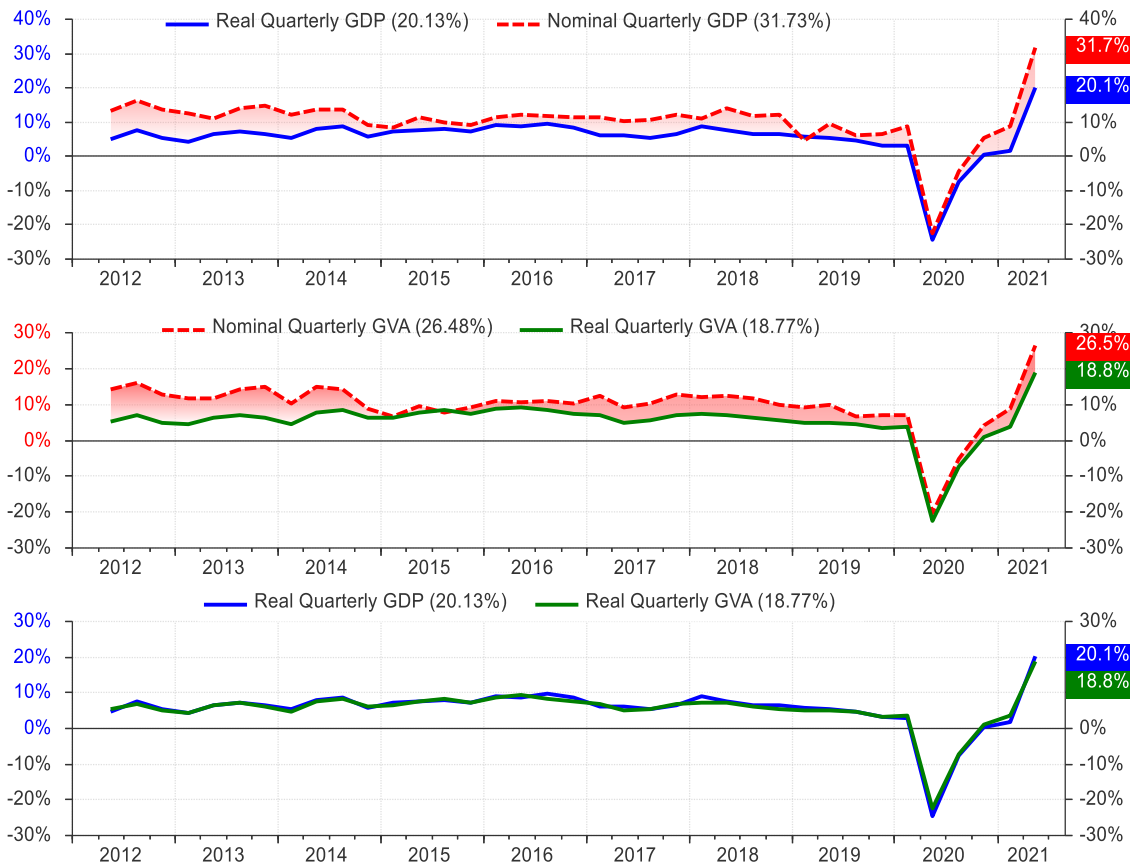
Figure 6: India GVA sector share of growth (%)



Source: Refinitiv Datastream, NSE

Figure 7: Nominal vs. real GDP and GVA growth

### India GDP, GVA: Nominal and Real Growth

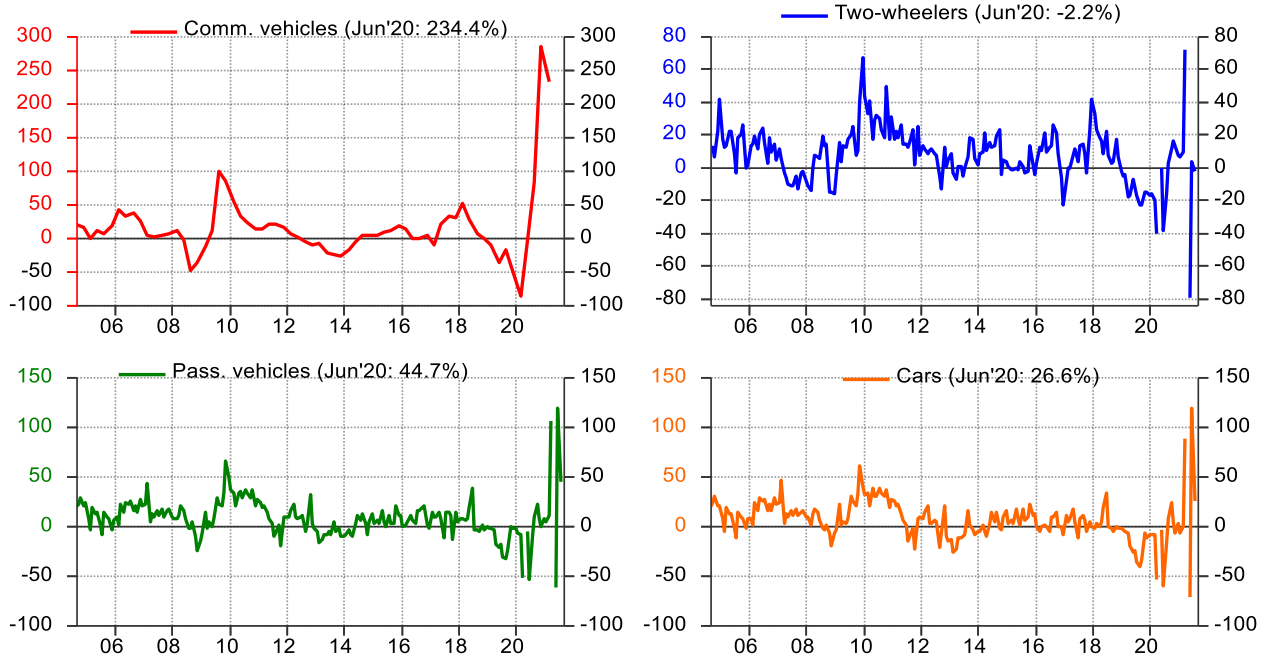


Source: Refinitiv Datastream, NSE

Recovery momentum to gather pace; maintain FY22E at +9.2%: The second wave of COVID-19 temporarily disrupted the economic recovery that was underway until early this year. That said, the recovery is expected to gather momentum over the coming months on the back of rapid vaccinations, steady reopening of the economy and continued policy support. Early signs of this impending recovery are already visible in several high-frequency indicators such as Manufacturing PMI, e-Way bills, GST collections, non-oil non-gold imports, Google mobility indicators, among others. Contact-intensive services, however, may take longer to revert to pre-pandemic levels particularly in the light of potential emergence of new COVID variants. On the negative side, while renewed surge in COVID infections in several countries poses a threat to India's export growth momentum, a below-normal monsoon back home may weigh on farm incomes and consequently rural demand. Effective control over the impending third wave is extremely crucial to strengthen an otherwise uneven and nascent economic recovery. We maintain our FY22 GDP growth estimate at 9.2% with risks evenly balanced for now.

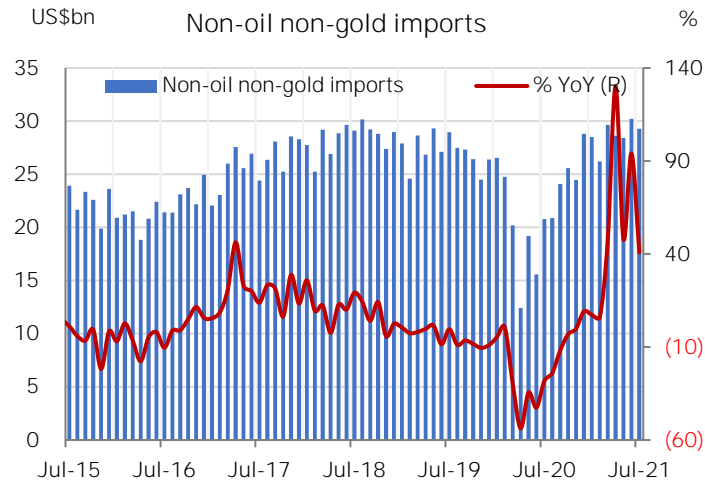
Figure 8: Auto sales growth trend

### Monthly auto sector growth trend



Source: Refinitiv Datastream.

Figure 9: Non-oil non-gold imports registering a strong growth despite a deadlier second wave



Source: CMIE Economic Outlook, RBI.

Figure 10: Manufacturing and Services PMI picking up from June-lows

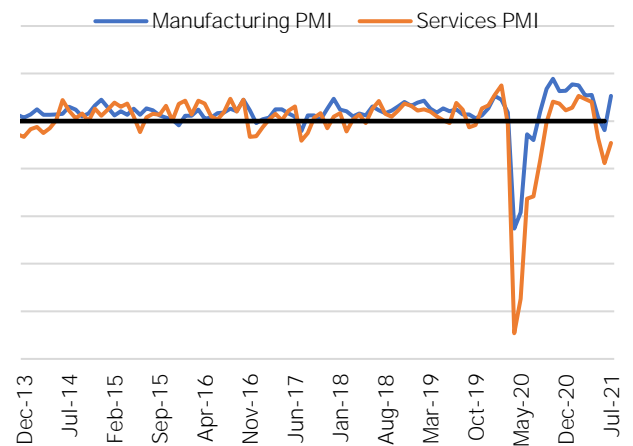




Figure 11: E-way bill generation showing a robust recovery

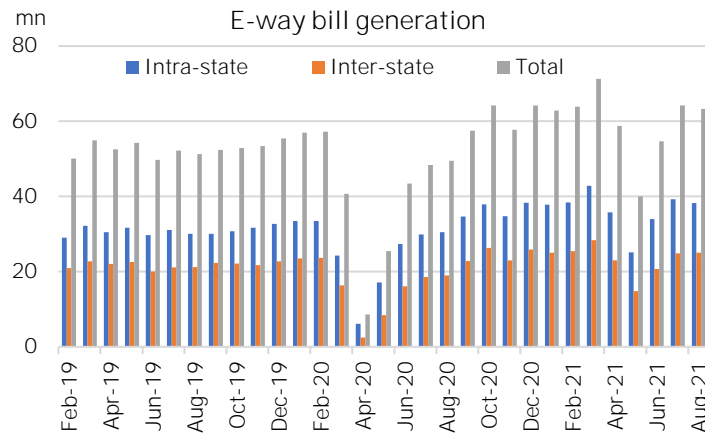
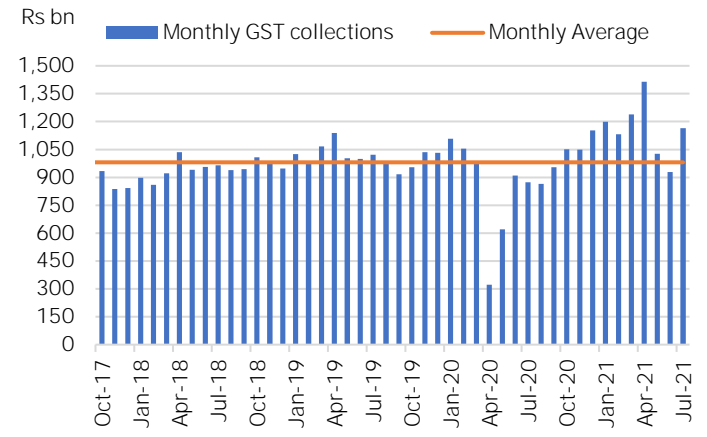
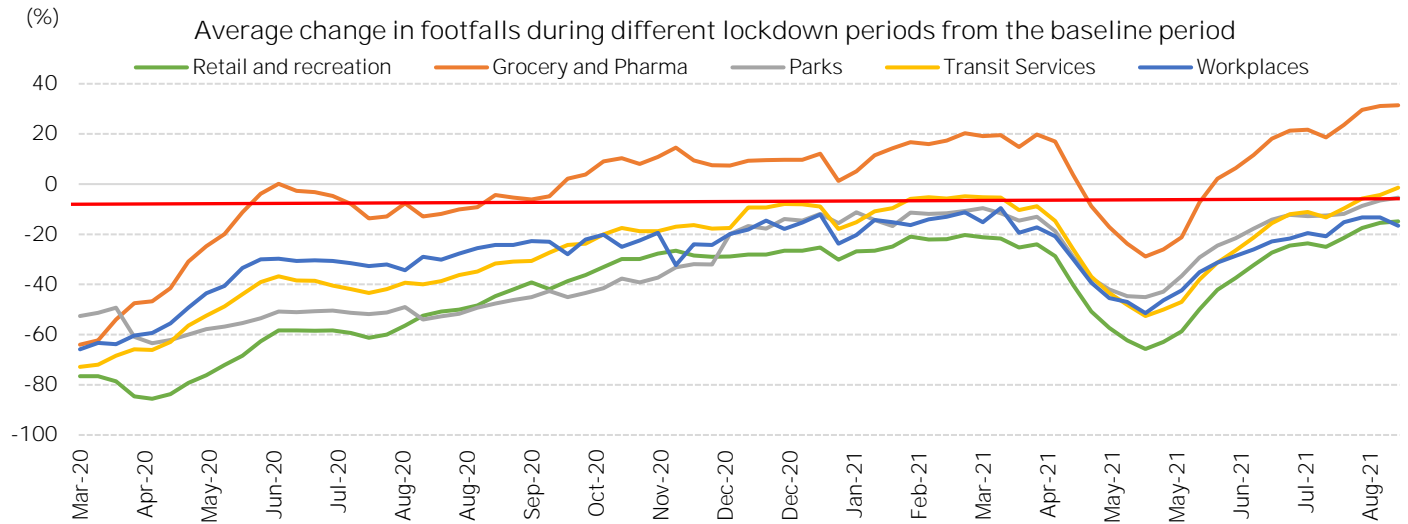


Figure 12: GST collections rebounded sharply in July following a slip over the previous two months



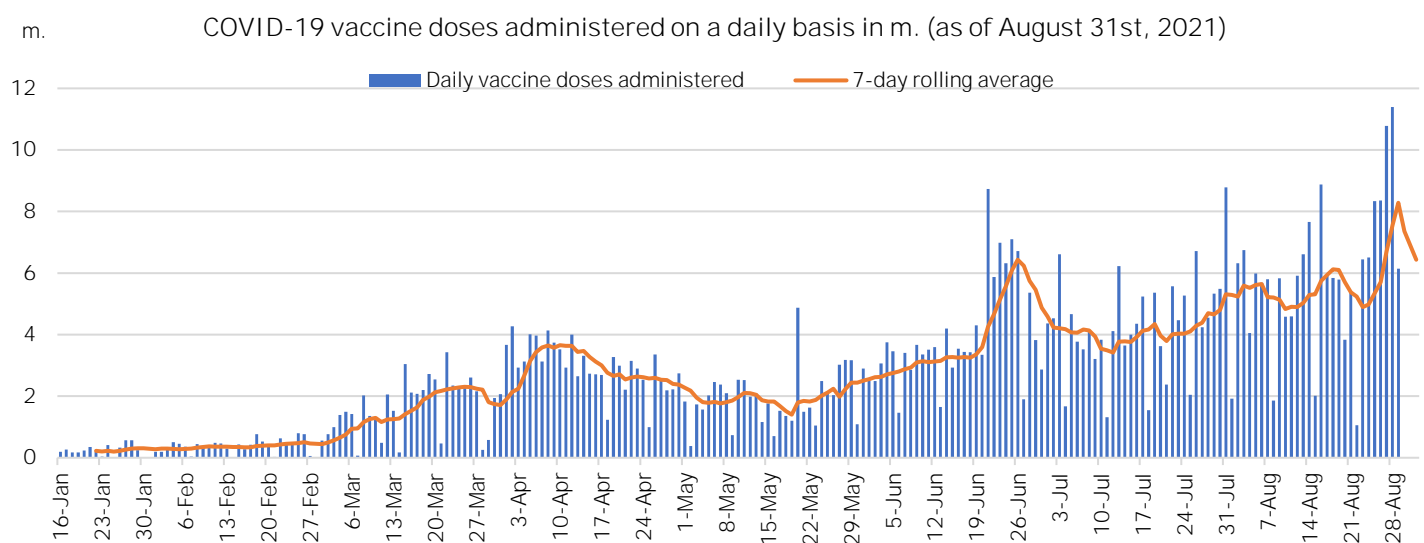
Source: GSTN, CMIE Economic Outlook. \* e-way bill data for August 2021 data is as of August 30<sup>th</sup>, 2021.

Figure 13: Google mobility data shows a meaningful jump in footfalls across categories



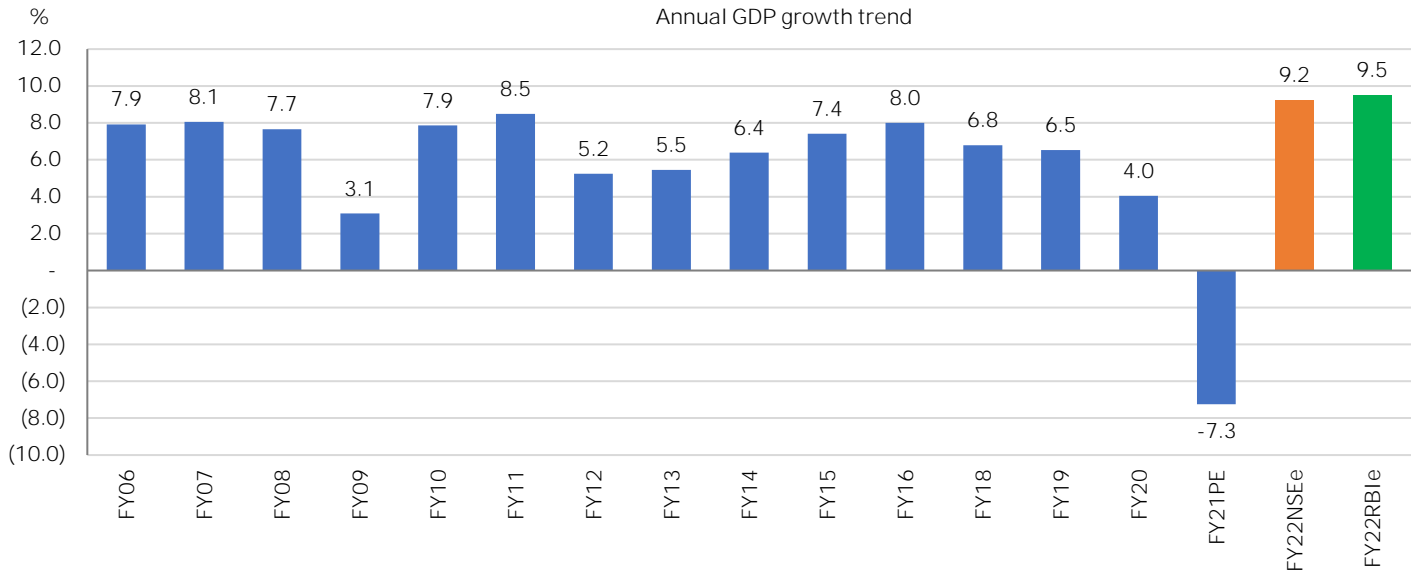
Source: Google COVID-19 Community Mobility Reports.

Figure 14: COVID-19 vaccine doses administered in India



Source: covid19india.org.

Figure 15: Annual GDP growth trend: Maintain FY22 GDP growth estimate at 9.2%



Source: CSO, CMIE Economic Outlook, NSE.

Economic Policy &amp; Research, NSE

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