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Macro Review

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Q2FY22 GDP at +8.4% meets expectations; FY22E revised to +9.5%

India's second quarter GDP (Q2FY22) growth expectedly came in at 8.4% YoY, albeit off a depressed base (-7.4% in Q2FY21), aided by receding infections, accelerating pace of vaccinations and swift reopening of the economy. On a QoQ basis, GDP expanded by a robust 10.4% in Q2, reflecting a marked sequential rebound in economic recovery that was temporarily halted by disruptions caused by the virulent second wave in Q1FY22. Notably, GDP is now back to pre-COVID levels, recording a modest 0.2% uptick on a two-year CAGR basis. The strong YoY rebound was broad-based, primarily led by investments, exports, and private consumption, partly offset by a sequential contraction in government spending and a healthy expansion in imports. By economic activity, Gross Value Added (GVA) rose by 8.5% YoY, led by a strong jump in Public Administration, Defence and Other Services, thanks to a low base effect. On a sequential basis, except for Agriculture and Mining that witnessed a seasonal contraction, all other sectors recorded a strong expansion, indicating strengthening of growth momentum.

The economic recovery is expected to gain further strength in Q3 on the back of festive optimism, rapid vaccinations, persistent buoyancy in external demand and continued policy support. Abating covid fears and buoyant festive demand have resulted in a sharp revival of consumption impulses and consumer sentiments, consequently uplifting business sentiments as well. A decade-high Diwali sale and upbeat performance of other high-frequency indicators such as E-way bills, GST collections, PMI, non-oil non-gold imports, google mobility indices, and rail freight are a testament of ongoing robust economic activity momentum. That said, the emergence of a new COVID strain named "Omicron", that has been labelled as a variant of concern by WHO, calls for caution at the current juncture, particularly in the wake of renewed border restrictions imposed by several countries. As such, an effective control over any resurgence in COVID infections is extremely crucial to strengthen the nascent economic recovery that's currently underway. Incorporating Q2 GDP figures, we revise our FY22 GDP growth estimate to 9.5% with risks evenly balanced.

- **Q2FY22 GDP expectedly surges on a low base:** The second quarter's national accounts data not only points to a strong YoY growth in the Indian economy due to a depressed base, but also displays a significant sequential traction gained by the economic activity, taking Q2FY22 GDP above pre-covid levels. India's GDP grew at a strong 8.4% in Q2FY22, but off a 7.4% contraction in the year-ago period, matching the consensus expectations. On a two-year and three-year CAGR basis, Indian economy expanded by 0.2% and 1.6% respectively. Sequentially, India's GDP rebounded by a strong 10.4%, much higher than the average seasonal drop of ~0.3% during the 15-year period leading up to September 2019. That said, the print clearly elucidates a marked sequential rebound in the economic activity momentum, that was halted by the disruptions caused by virulent second wave in Q1FY22. Nominal GDP grew by a much higher 17.5%, reflecting a sharp spike in wholesale inflation during the quarter.

Q2FY22 GDP grew by a strong 8.4%, aided by a low base.

Indian economy is now back to pre-COVID levels, recording a modest 0.2% expansion on a two-year CAGR basis.

- **Except government spending, all other segments showed sequential growth:** The strong GDP growth in Q2FY22 has been primarily on account of a robust YoY expansion in all the segments, which found support from a favourable base due to the sharp COVID-induced contraction seen in the September quarter of last year. While Private Fixed Consumption Expenditure (PFCE) grew by 8.6%, Gross Fixed Capital Formation (GFCF)—a reflection of investment demand in the economy—surged by 11% YoY in Q2FY22. Even on a sequential basis (QoQ), PFCE and GFCF expanded by a steep 9.2% and 11.8% respectively. While private investments have surpassed pre-covid levels (+1.5% two-year CAGR), private consumption remains 3.5% below the September 2019 levels, indicating need for a sustained policy support. Government consumption grew by 8.7% YoY in Q2 but fell by 14.2% on a QoQ basis, reflecting lower spending by the government during the quarter. On

The YoY rebound in GDP was led by all segments, which found support from an extremely low base.

Government spending was the only segment that registered sequential contraction.

expected lines, exports and imports performed exceptionally well, thanks to a strong recovery in domestic and external demand and rising commodity prices. On balance, while sequential traction in private consumption, investments and exports bolstered the demand-wise GDP in Q2, sequential contraction in government spending coupled with healthy expansion in imports limited the upside.

- **Sector-wise, industry and services pulled up YoY GVA growth:** In line with expectations, real GVA exhibited a sturdy 8.5% YoY growth in Q2FY22, aided by a low base (-7.3% in Q2FY21). The rebound was primarily led by Public Administration Services (+17.4%), Mining (+15.4%), Electricity (+8.9%) and Trade, hotels, transport (8.2%). On a sequential basis, except agriculture and mining, all other sectors recorded a steep QoQ growth amidst swift reopening, abating covid cases and robust vaccination drive.

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- **Construction and Services still remain below pre-pandemic levels:** Given the annual figures are likely to paint a distorted image, we demystify the two-year CAGR. On a two-year basis, Agri sector (12.4% of GVA) remained steady and grew by 3.8%. After recording a negative two-year CAGR of 3.2% in Q1FY22, Industrial sector (29.9% of GVA) depicted a recovery (+2%) in Q2FY22. Within Industry, the expansion was led by Electricity and other utilities (+6%), Mining (+4%) and Manufacturing (+2%). However, Construction (-0.1%) is the only sub-segment that continues to stay below pre-pandemic levels. Alongside, Services sector also remained below pre-pandemic levels, and recorded a 1.2% contraction on a two-year CAGR basis in Q2FY22. Within Services, while public administration services recorded a 3.2% growth on a two-year CAGR, Trade, Hotels, Transport & Communication Services and Financial, Real Estate & Business Services fell by 5% and 1% on a two-year CAGR respectively. Core GVA (ex-Agri and Public Administration Services) contracted by 0.8% on a two-year CAGR against 6% contraction in Q1FY22.

- **Recovery momentum to gather pace; FY22E revised to +9.5%:** The economic recovery is expected to gain further strength in Q3 on the back of festive optimism, rapid vaccinations, persistent buoyancy in external demand and continued policy support. Abating covid fears and buoyant festive demand have resulted in a sharp revival of consumption impulses and consumer sentiments, consequently uplifting business sentiments as well. A decade-high Diwali sale and upbeat performance of other high-frequency indicators such as E-way bills, GST collections, PMI, non-oil non-gold imports, google mobility indices, and rail freight are a testament of ongoing robust economic activity momentum. That said, the emergence of a new COVID strain named "Omicron", that has been labelled as a variant of concern by WHO, calls for caution at the current juncture, particularly in the wake of renewed border restrictions imposed by several countries. As such, an effective control over any resurgence in COVID infections is extremely crucial to strengthen the nascent economic recovery that's currently underway. Incorporating Q2 GDP figures, we revise our FY22 GDP growth estimate to 9.5% with risks evenly balanced.

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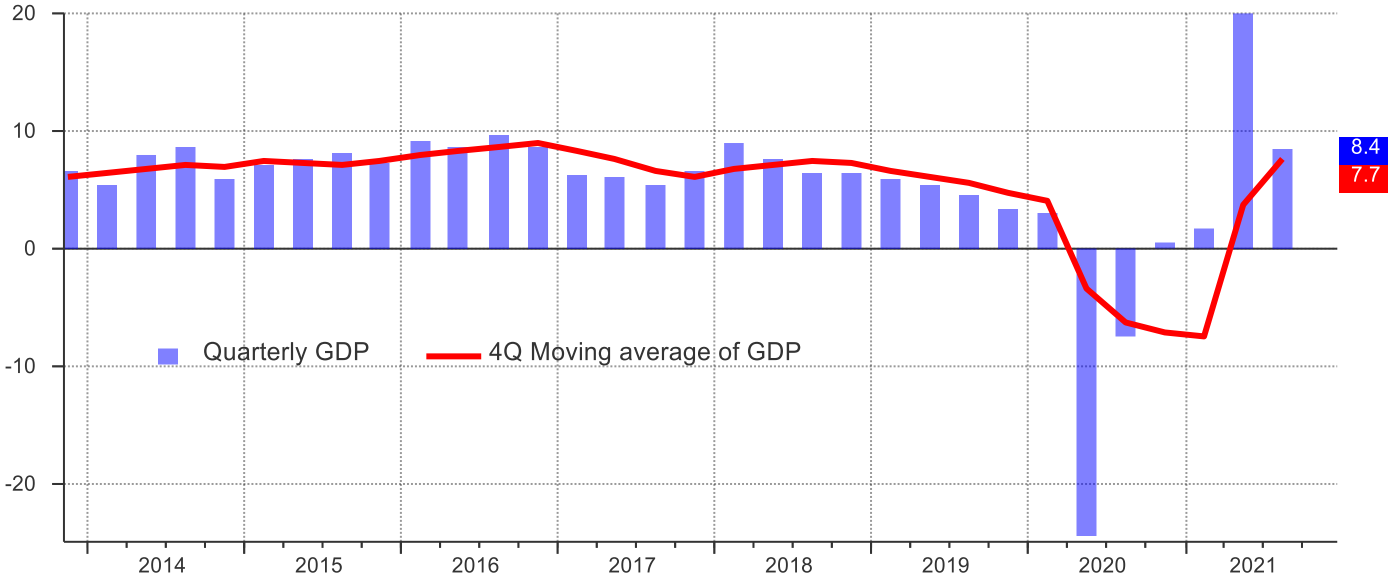
Figure 1: India sees robust expansion on record in Q2 FY22

India's second quarter GDP (Q2FY22) grew by 8.4%, thanks to a depressed base.



Source: Refinitiv Datastream, NSE

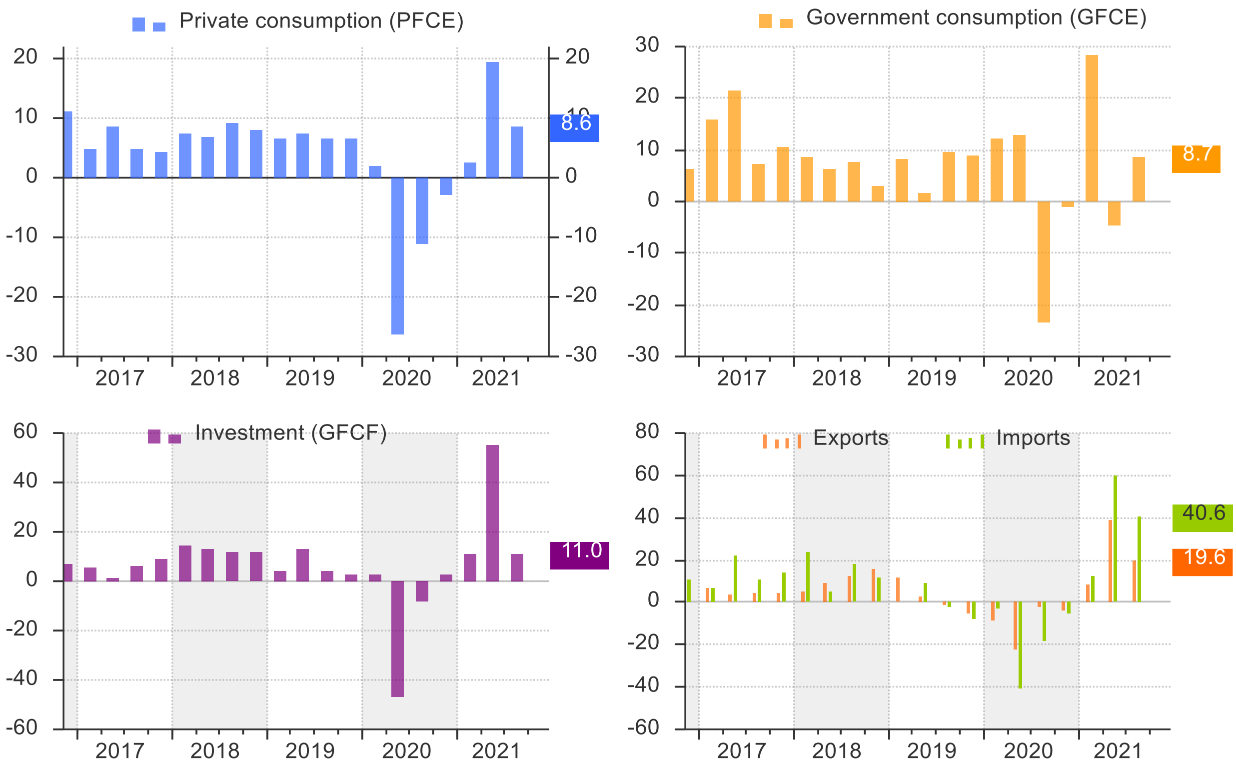
Table 1: Quarterly growth trend (2011-12=100) (%YoY)

	FY20			FY21				FY22	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product (GDP)	**4.6**	**3.3**	**3.0**	**-24.4**	**-7.4**	**0.5**	**1.6**	**20.1**	**8.4**
Private Consumption (PFCE)	6.5	6.4	2.0	-26.2	-11.2	-2.8	2.7	19.3	8.6
Government Consumption (GFCE)	9.6	8.9	12.1	12.7	-23.5	-1.0	28.3	-4.8	8.7
Gross Capital Formation (GCF)	0.8	-0.4	-0.7	-47.7	-8.0	3.0	13.8	56.7	17.2
Gross Fixed Capital Formation (GFCF)	3.9	2.4	2.5	-46.6	-8.6	2.6	10.9	55.3	11.0
Exports	-1.3	-5.4	-8.8	-21.8	-2.0	-3.5	8.8	39.1	19.6
Imports	-1.7	-7.5	-2.7	-40.9	-17.9	-5.0	12.3	60.2	40.6
Gross Value Added (GVA)	**4.6**	**3.4**	**3.7**	**-22.4**	**-7.3**	**1.0**	**3.7**	**18.8**	**8.5**
Agriculture	**3.5**	**3.4**	**6.8**	**3.5**	**3.0**	**4.5**	**3.1**	**4.5**	**4.5**
Industry	**-1.8**	**-2.6**	**-2.2**	**-35.8**	**-3.0**	**2.9**	**7.9**	**46.1**	**6.9**
Mining and Quarrying	-5.2	-3.5	-0.9	-17.2	-6.5	-4.4	-5.7	18.6	15.4
Manufacturing	-3.0	-2.9	-4.2	-36.0	-1.5	1.7	6.9	49.6	5.5
Electricity	1.7	-3.1	2.6	-9.9	2.3	7.3	9.1	14.3	8.9
Construction	1.0	-1.3	0.7	-49.5	-7.2	6.5	14.5	68.3	7.5
Services	**8.2**	**7.0**	**6.4**	**-21.5**	**-11.4**	**-1.2**	**1.5**	**11.4**	**10.2**
Trade, Hotels, Transport, Storage, Comm.	6.8	7.0	5.7	-48.1	-16.1	-7.9	-2.3	34.3	8.2
Fin. Svcs, Real Estate & Business Svcs.	8.9	5.5	4.9	-5.0	-9.1	6.7	5.4	3.7	7.8
Community, Social & Personal Svcs.	8.8	8.9	9.6	-10.2	-9.2	-2.2	2.3	5.8	17.4

Source: CSO, NSE

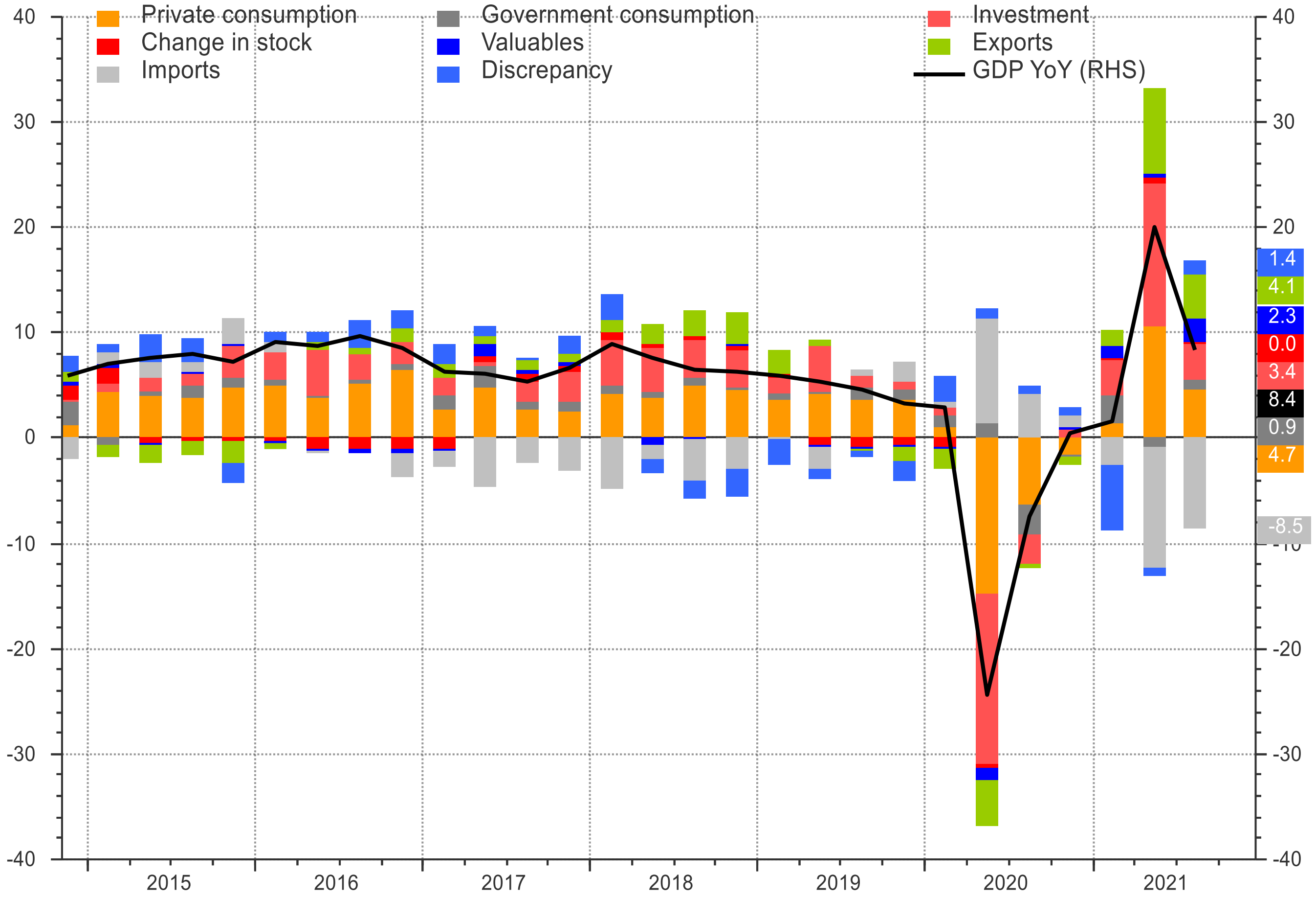
Figure 2: Quarterly GDP growth by expenditure (%YoY)

While Private Fixed Consumption Expenditure (PFCE) grew by 8.6%, Gross Fixed Capital Formation (GFCF)—a reflection of investment demand in the economy—surged by 11% YoY in Q2FY22. Even on a sequential basis, PFCE and GFCF expanded by a steep 9.2% and 11.8% respectively. While private investments have surpassed pre-covid levels (+1.5% two-year CAGR), private consumption remains 3.5% lower than September 2019 levels, indicating need for continued policy support. Government consumption grew by 8.7% YoY in Q2FY22 but contracted sequentially by 14.2%, reflecting lower spending by the government in the quarter. On expected lines, exports and imports performed exceptionally well, thanks to strong recovery in domestic and external demand and surging global commodity prices.



Source: Refinitiv Datastream, NSE

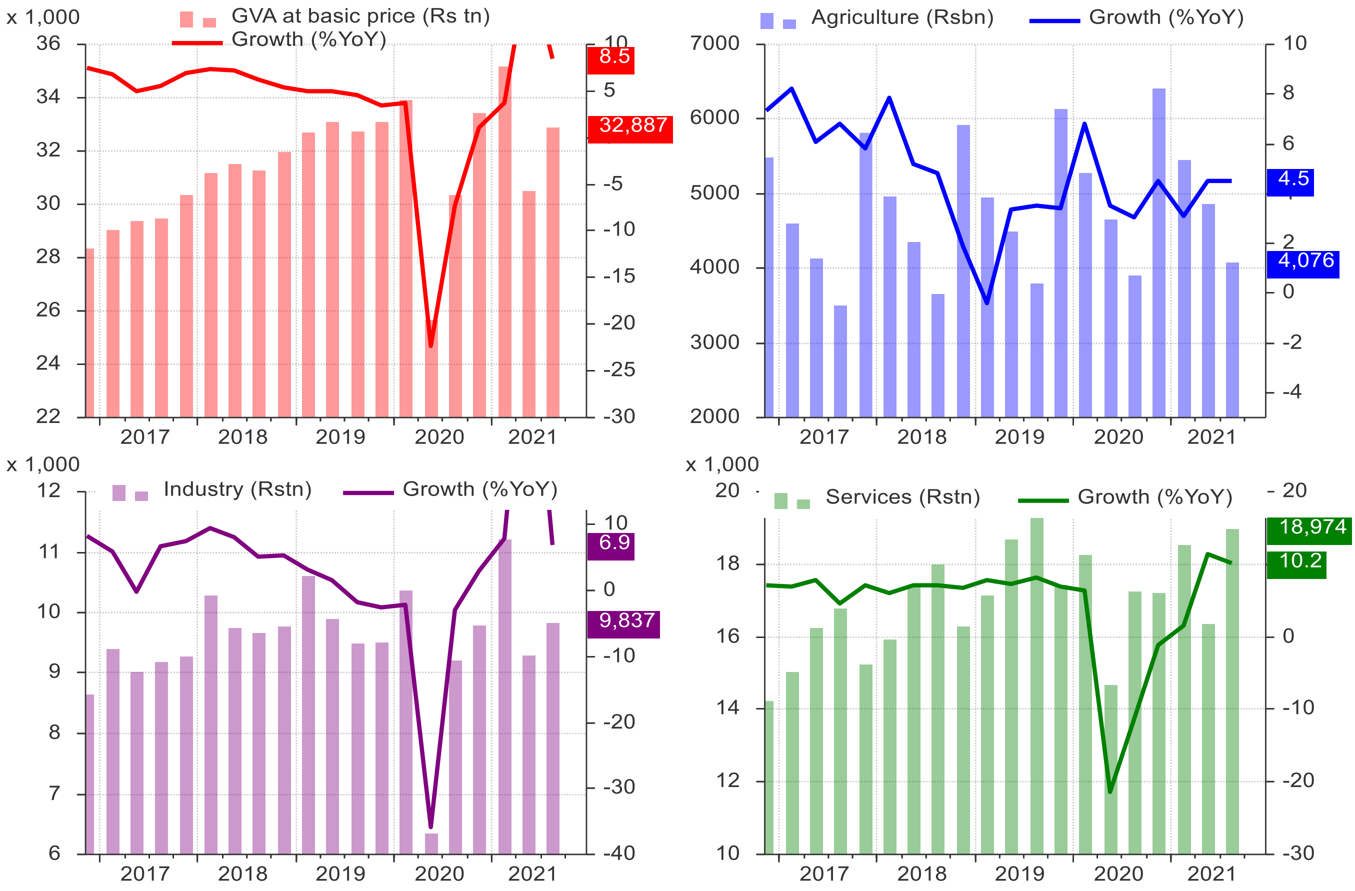
Figure 3: India GDP sector share of growth (%)



Source: Refinitiv Datastream, NSE

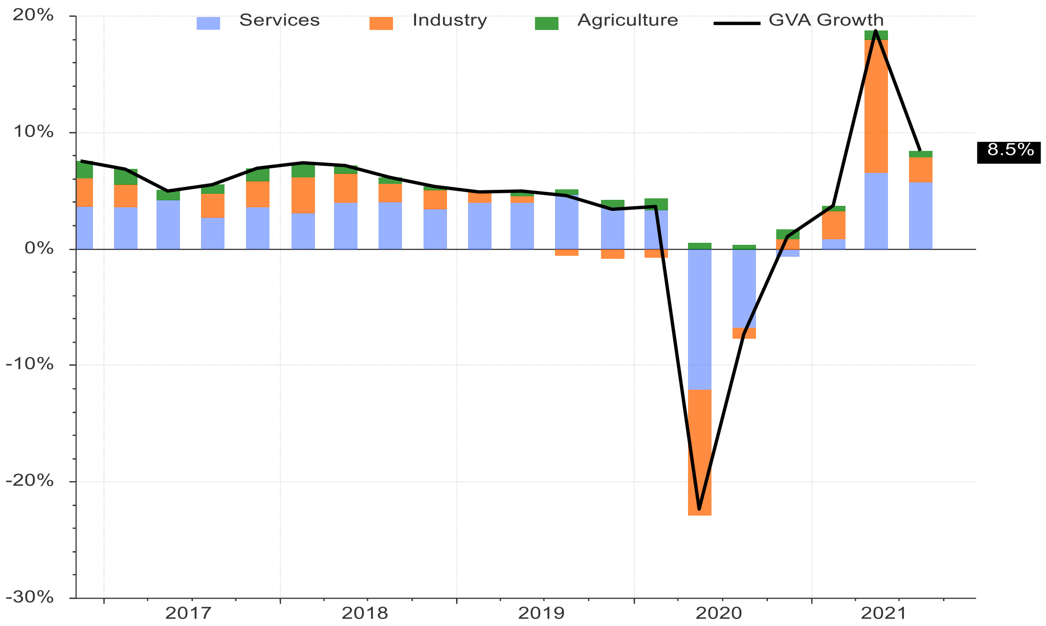
Figure 4: Gross value added (GVA) across sectors:

In line with expectations, real GVA exhibited a sturdy 8.5% YoY growth in Q2FY22, aided by a low base (-7.3% in Q2FY21). The rebound was primarily led by Public Administration Services (+17.4%), Mining (+15.4%), Electricity (+8.9%) and Trade, hotels, transport (8.2%). On a sequential basis, except agriculture and mining, all other sectors recorded a steep QoQ growth amidst swift reopening, abating covid cases and robust vaccination drive.



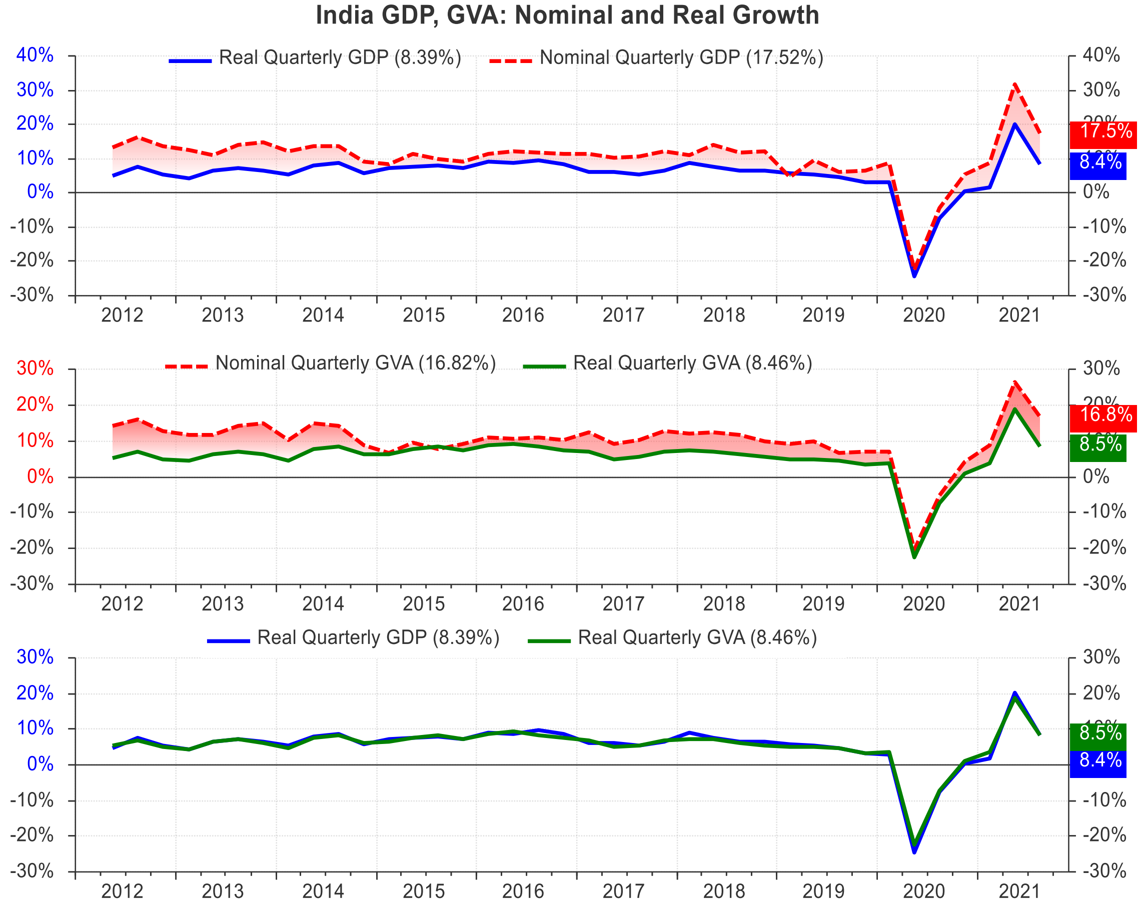
Source: Refinitiv Datastream, NSE

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



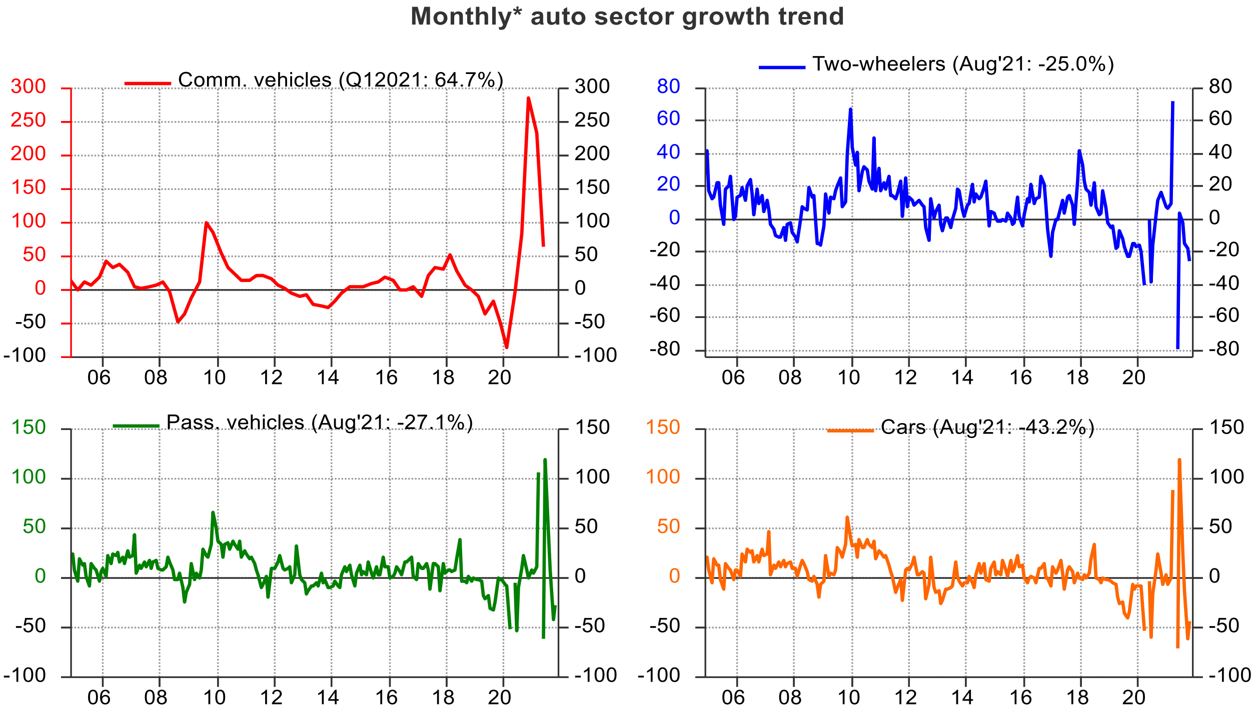
Source: Refinitiv Datastream, NSE

Figure 6: Nominal vs. real GDP and GVA growth



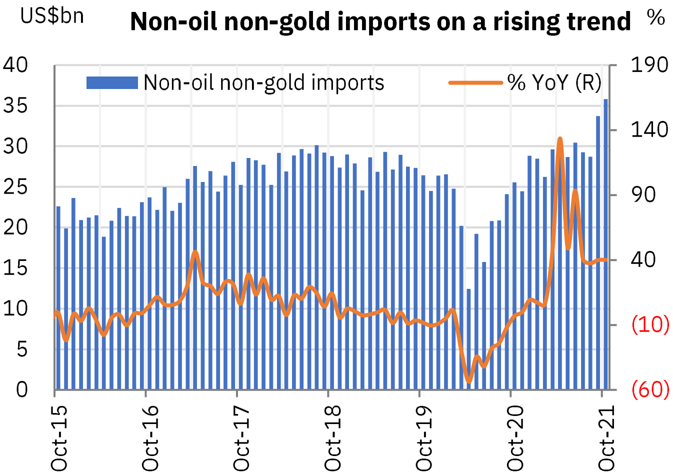
Source: Refinitiv Datastream, NSE

Figure 7: Auto sales growth trend



Source: Refinitiv Datastream.

Figure 8: Non-oil non-gold imports continue to gather pace amidst festive demand



Source: CMIE Economic Outlook, RBI.

Figure 9: Manufacturing and Services PMI continue to improve amid better operating conditions

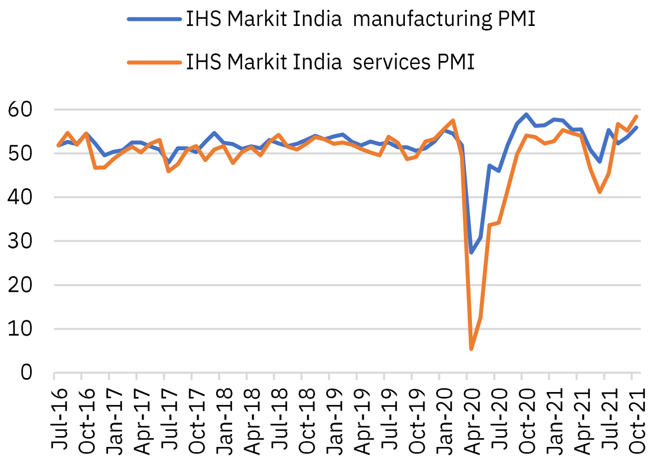


Figure 10: E-way bill generation continue to gain traction

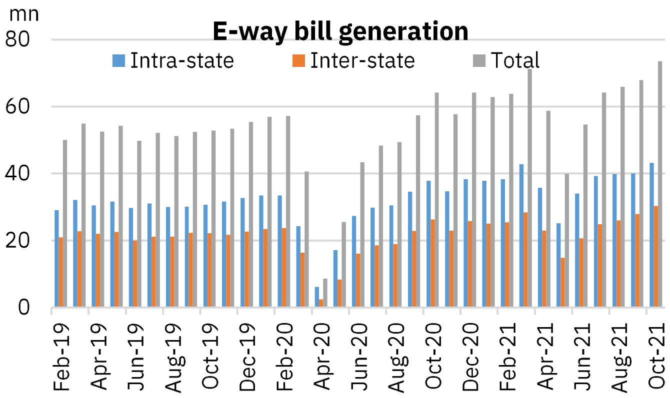
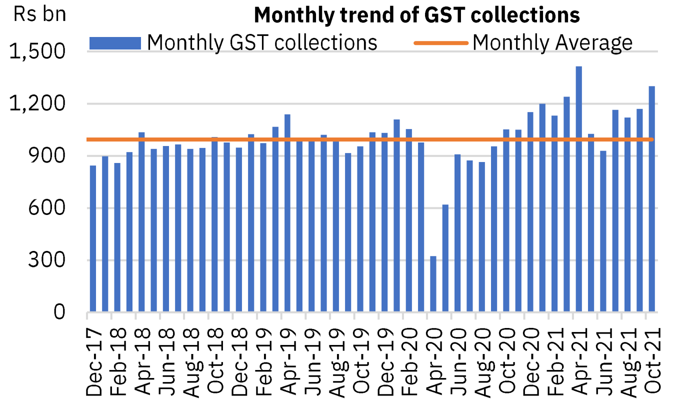
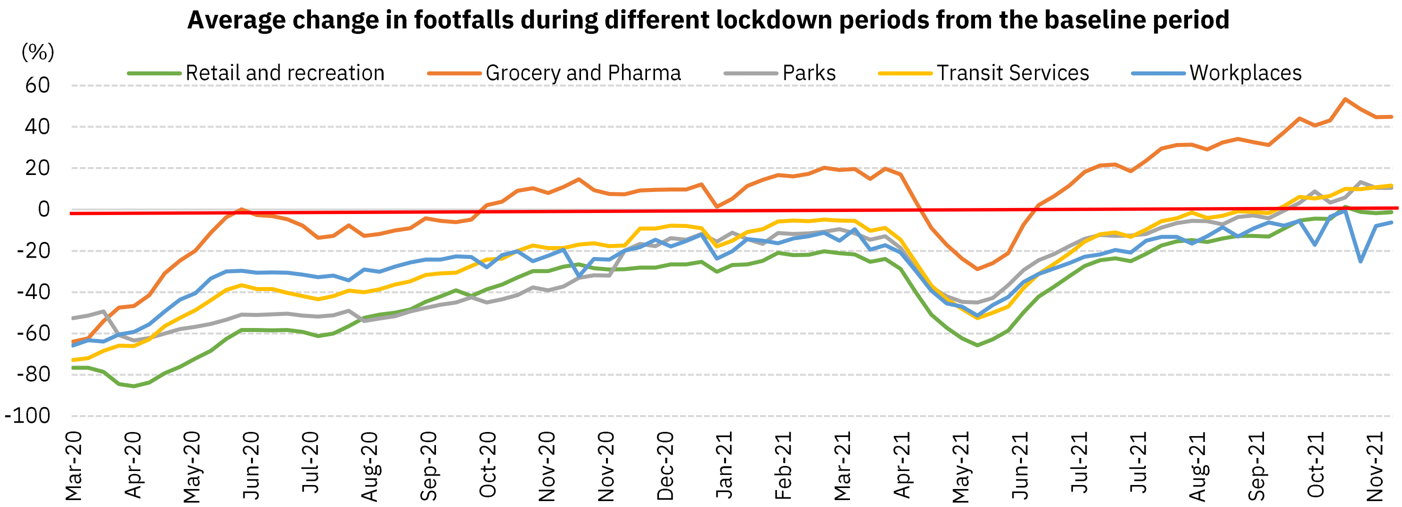


Figure 11: GST collections continue to point towards revival in consumption impulses



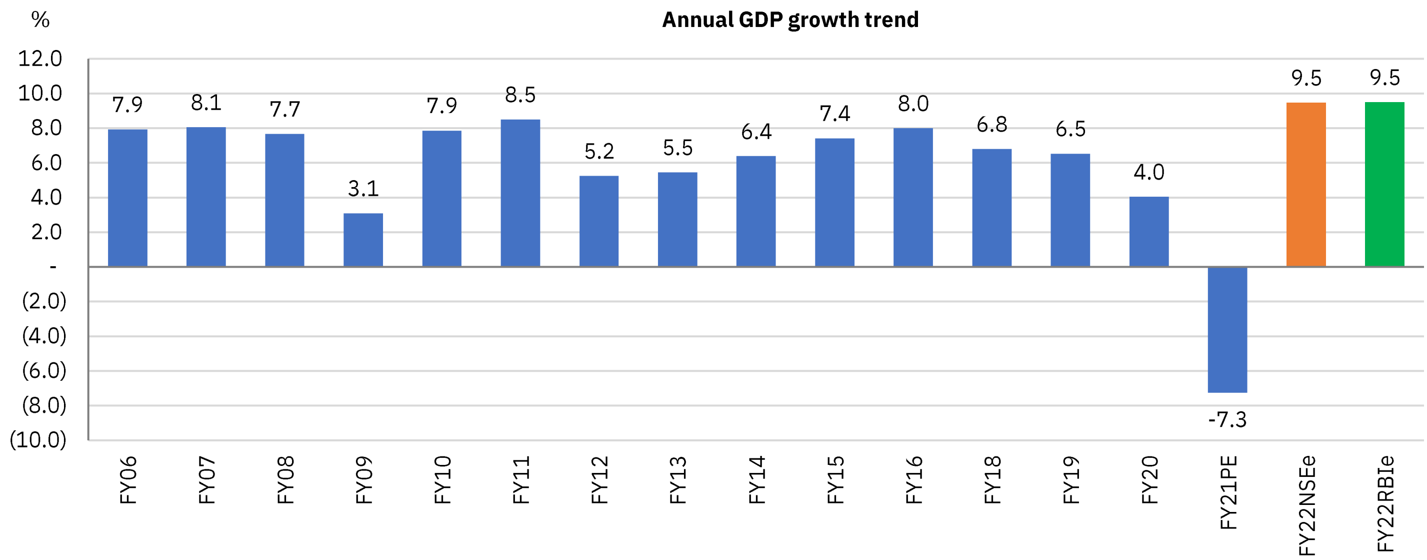
Source: GSTN, CMIE Economic Outlook.

Figure 12: Receding daily cases, rapid vaccinations, festive cheer and swift reopening of economic activities has resulted in sharp steepening of the mobility curve



Source: Google COVID-19 Community Mobility Reports.

Figure 13: Annual GDP growth trend: FY22 GDP growth estimate revised at 9.5%



Source: CSO, CMIE Economic Outlook, NSE.

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