

Broad-based recovery in Q4FY21 hit by the second wave; FY22E at 9.2%

India's fourth quarter GDP (Q4FY21) recorded an expansion of 1.6% YoY vs. a contraction of 1.1% suggested by the CSO's Second Advance Estimate (AE), higher than market expectations (+1%). The surprise came entirely from investments, even as private consumption moderated. Gross Fixed Capital Formation—a proxy for investments—grew by a strong 10.9% YoY vs. the CSO's implied growth of 2.8%. Household investments in the form of valuables also witnessed a sharp jump, growing by 107% YoY in Q4FY21 vs. an expected contraction of 13.2%—reflected in a 3.2x YoY jump in gold imports during the quarter. Private consumption, however, grew by a tad lower 2.7%, reflecting the impact of the deadlier second COVID wave on discretionary consumption. Government consumption expectedly drove the recovery, growing by a robust 28.3%, excluding which GDP would have fallen by 1.1% YoY.

By economic activity, Gross Value Added (GVA) grew by a much better 3.7% YoY in Q4FY21, led by an unexpectedly strong rebound in Industrial sector (+7.9% YoY), primarily attributed to Manufacturing and Construction, and a better-than-expected 3.1% growth in the Agriculture sector. Services sector, on the other hand, disappointed and grew by a muted 1.5% vs. the CSO's AE of 2.0%, reflecting weaker demand for services amidst COVID resurgence. The subdued GDP print for Q4FY21 as compared to GVA is a result of a sharp jump in subsidy pay-outs during quarter owing to a shift in off-budget borrowings of the Food Corporation of India (FCI) to budgetary resources¹.

Strong recovery in investments in Q4FY21 translated into a lower-than-expected GDP contraction of 7.3% in FY21 vs. the CSO's Second AE of -8%. GVA growth for FY21 also came in at slightly better -6.2% vs. -6.5% pegged in the advance estimates, led by positive surprise from Agriculture and Industry, even as contraction in Services was steeper than expected. That said, the share of Industry GVA in overall GVA in FY21 was the lowest in 19 years.

A sharp spike in COVID infections during Apr-May'21 and attendant lockdown restrictions imposed by several states are likely to temporarily delay the recovery that was taking shape—signs of which are visible in several high frequency indicators viz. auto sales, fuel consumption, freight traffic, among others. Rural demand, that was relatively resilient last year, may get hit this time given a much adverse impact of the second wave on the rural sector. That said, the implementation of localised and targeted restrictions during the second wave unlike a strict nation-wide lockdown last year, coupled with better preparedness, should limit the downside, further aided by a sustained policy support. We have accordingly slashed our FY22 GDP growth estimate from 10% to 9.2%. Effective curb on the second wave and faster vaccinations are crucial for the recovery to gather pace and credibility.

- Q4FY21 GDP growth surprised on the upside: The Indian economy witnessed a better-than-expected rebound in the fourth quarter, with GDP registering a growth of 1.6% YoY vs. a contraction of 1.1% suggested by the CSO's second AE. This surpassed the 0.5% YoY growth witnessed in the previous quarter, beating market expectations. The expansion was primarily led by a robust recovery in investments for yet another quarter, more than compensating for a lower-than-expected growth in private investments and higher trade deficit. The GVA in Q4FY21 rose by a much higher 3.7% vs. 2.5% estimated in the second AE, led by an unexpectedly strong rebound in the Industrial sector and steady growth in the Agri sector, partly making up for a slower recovery in contact-intensive Services.
- A sharp rebound in investments drove GDP growth for yet another quarter: Gross Fixed Capital Formation (GFCF)—a reflection of investment demand in the economy—grew by a strong 10.9% in Q4FY21 vs. the CSO's implied growth of +2.8%, thereby driving the overall GDP growth for yet another quarter. This is essentially led by strong capital expenditure by the Centre as well as States, as well as a pick-up in private investments, as vaccination rollouts and strong pent-up demand bolstered business sentiments. Household investments in the form of valuables also witnessed a sharp jump, growing by 107% YoY in Q4FY21 vs. an expected contraction of 13.2%—reflected in a 3.2x YoY jump in gold imports during

India's GDP growth in Q4FY21 came in 1.6% YoY while GVA rose by a much higher 3.7%—better than the CSO's imputed growth figures of -1.1% and 2.5% respectively.

GDP expansion in Q4 was primarily led by a broad-based recovery in investments even as private consumption growth came in a tad lower than the second AE.

¹ GDP = GVA + taxes on products – subsidies on products.

the quarter. Private consumption, however, grew by a tad lower 2.7%, reflecting the impact of the deadlier second COVID wave on discretionary consumption, particularly that of contact-intensive services such as transport, entertainment, and recreation. Government consumption expectedly drove the recovery, growing by a robust 28.3%, excluding which GDP would have fallen by 1.1% YoY in Q4FY21. **Strong progress on the vaccination front globally, particularly in India's key trading partners, and continued economic recovery aided exports growth—up 8.8% YoY in Q4FY21, albeit off a low base. Imports, however, grew by a much steeper 12.3%, leading to a sharp rise in trade deficit, nearly 52% higher than the second AE.**

- Sector-wise, Agri, Manufacturing and Construction led the rebound in GVA: By economic activity, agricultural sector (15.5% of the GVA basket) remained steady and recorded 3.1% YoY growth, higher than the implied GDP growth of 1.9% in the second AE. The industrial sector (32% of overall GVA) demonstrated robust improvement and grew by a 11-quarter high of 7.9% YoY. Within Industry, the rebound was primarily led by Manufacturing (+6.9%) and Construction (+14.5%—the highest in the series), even as Mining & Quarrying witnessed a YoY contraction for the eighth quarter in a row (-5.7% YoY in Q4FY21). Favourable base, vaccine rollouts and strong pent-up demand bolstered manufacturing activity.

Services sector, on the other hand, disappointed and grew by a muted 1.5% vs. the CSO's AE of 2.0%, reflecting a slower-than-expected pickup in demand for discretionary services which got further hit by COVID resurgence. Within Services, Trade, Hotels, Transport & Communication remained in the contraction zone (-2.3% YoY) for yet another quarter, albeit much lower than that witnessed in the previous quarter, Financial, Real Estate & Business Services (+5.4%) was steady, and Community, Social & Personal Services (+2.3%) witnessed a modest expansion. Core GVA (ex-Agri and public administration services) improved further and witnessed 4.1% YoY growth vs. 0.7% YoY growth in the previous quarter.

- FY21 GDP growth pegged at -7.3%: Strong recovery in investments in Q4FY21 translated into a lower-than-expected GDP contraction of 7.3% in FY21 vs. the CSO's Second AE of -8%. This was primarily led by a much lower contraction in Gross Fixed Capital Formation (-10.8%) as estimated in the second Advance Estimate (-12.4%) and an expansion in Valuables (+2.0%) vs. an expected contraction of 38%. GVA growth for FY21 also came in at slightly better -6.2% vs. -6.5% pegged in the advance estimates, led by positive surprise from Agriculture and Industry, even as contraction in Services was steeper than expected. That said, the share of Industry GVA in overall GVA in FY21 was the lowest in 19 years.
- Expect FY22 GDP growth at 9.2%: A sharp spike in COVID infections during Apr-May'21 and attendant lockdown restrictions imposed by several states are likely to temporarily delay the recovery that was taking shape—signs of which are visible in several high frequency indicators viz. auto sales, fuel consumption, freight traffic, among others. Rural demand, that was relatively resilient last year, may get hit this time given a much adverse impact of the second wave on the rural sector. That said, the implementation of localised and targeted restrictions during the second wave unlike a strict nation-wide lockdown last year, coupled with better preparedness, should limit the downside, further aided by a sustained policy support. We have accordingly slashed our FY22 GDP growth estimate from 10% to 9.2%. Effective curb on the second wave and faster vaccinations are crucial for the recovery to gather pace and credibility.

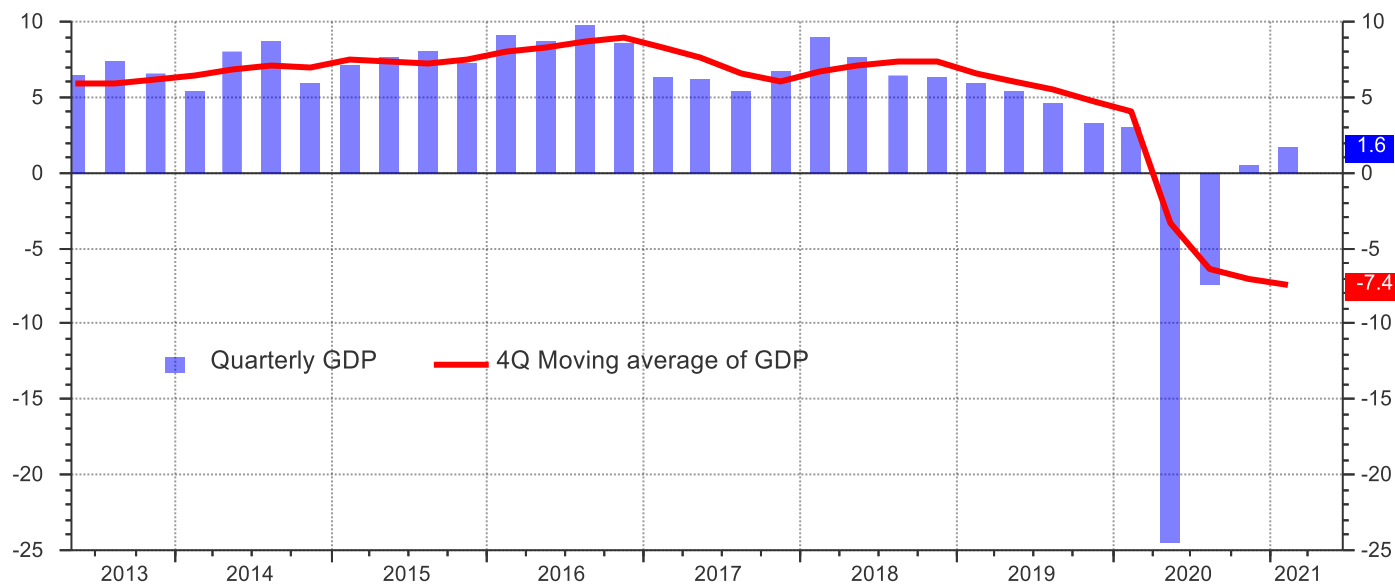
GVA expansion was led by Agri, Manufacturing and Construction, partly offset by continued contraction in Mining and a slower-than-expected recovery in Services.

The huge divergence in GDP and GVA growth in FY21 reflects a sharp jump in subsidy pay-outs in the last quarter of the fiscal.

We have reduced our FY22 GDP growth estimate from 10% to 9.2%, factoring in a COVID-led delay in economic recovery.

Figure 1: GDP grew by a better-than-expected 1.6% in Q4FY21

The Indian economy witnessed a better-than-expected rebound in the fourth quarter, with GDP registering a growth of 1.6% YoY vs. a contraction of 1.1% suggested by the CSO's second AE, beating market expectations.



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	Q2	Q3	Q4
Gross Domestic Product (GDP)	7.6	6.5	6.3	5.8	5.4	4.6	3.3	3.0	-24.4	-7.4	0.5	1.6
Private Consumption (PFCE)	6.8	9.1	7.9	6.6	7.6	6.5	6.4	2.0	-26.2	-11.2	-2.8	2.7
Government Consumption (GFCE)	6.2	7.6	3.1	8.1	1.8	9.6	8.9	12.1	12.7	-23.5	-1.0	28.3
Gross Capital Formation (GCF)	10.9	11.6	11.8	5.3	9.8	0.8	-0.4	-0.7	-47.7	-8.0	3.0	13.8
Gross Fixed Capital Formation (GFCF)	13.0	11.4	11.5	4.4	13.3	3.9	2.4	2.5	-46.6	-8.6	2.6	10.9
Exports	9.5	12.5	15.7	11.7	3.0	-1.3	-5.4	-8.8	-21.8	-2.0	-3.5	8.8
Imports	5.0	17.8	12.0	0.6	9.4	-1.7	-7.5	-2.7	-40.9	-17.9	-5.0	12.3
Gross Value Added (GVA)	7.2	6.2	5.4	4.9	5.0	4.6	3.4	3.7	-22.4	-7.3	1.0	3.7
Agriculture	5.2	4.8	1.9	-0.4	3.3	3.5	3.4	6.8	3.5	3.0	4.5	3.1
Industry	8.1	5.0	5.3	3.1	1.7	-1.8	-2.6	-2.2	-35.8	-3.0	2.9	7.9
Mining and Quarrying	-0.1	-1.8	0.9	1.5	-1.3	-5.2	-3.5	-0.9	-17.2	-6.5	-4.4	-5.7
Manufacturing	10.2	5.2	4.7	1.6	0.6	-3.0	-2.9	-4.2	-36.0	-1.5	1.7	6.9
Electricity	7.7	9.8	9.3	5.2	6.9	1.7	-3.1	2.6	-9.9	2.3	7.3	9.1
Construction	6.6	5.3	6.8	6.6	3.7	1.0	-1.3	0.7	-49.5	-7.2	6.5	14.5
Services	7.2	7.1	6.8	7.8	7.2	8.2	7.0	6.4	-21.5	-11.4	-1.2	1.5
Trade, Hotels, Transport, Storage, Comm.	8.0	7.1	7.2	6.4	6.2	6.8	7.0	5.7	-48.1	-16.1	-7.9	-2.3
Fin. Svcs, Real Estate & Business Svcs.	6.2	6.9	6.9	8.9	8.8	8.9	5.5	4.9	-5.0	-9.1	6.7	5.4
Community, Social & Personal Svcs.	7.7	7.4	6.1	8.4	5.6	8.8	8.9	9.6	-10.2	-9.2	-2.2	2.3

Source: CSO.

Figure 3: Revisions in quarterly GDP growth figures for FY21

	Q1FY21		Q2FY21		Q3FY21		Q4FY21	
	Old	New	Old	New	Old	New	Old	New
Gross Domestic Product (GDP)	-24.4	-24.4	-7.3	-7.4	0.4	0.5	-1.1	1.6
Private Consumption	-26.3	-26.2	-11.3	-11.2	-2.4	-2.8	3.1	2.7
Government Consumption	12.8	12.7	-24.0	-23.5	-1.1	-1.0	29.2	28.3
Gross capital formation	-46.8	-47.7	-7.8	-8.0	2.1	3.0	2.4	13.8
Gross Fixed Capital Formation	-46.4	-46.6	-6.8	-8.6	2.6	2.6	2.8	10.9
Change in Stocks	-32.5	-32.8	3.7	3.3	7.0	6.7	7.7	12.2
Valuables	-71.2	-93.0	-45.6	-4.5	-16.1	10.7	-13.2	107.2
Exports of goods & services	-22.0	-21.8	-2.1	-2.0	-4.6	-3.5	-3.7	8.8
Imports of goods & services	-41.1	-40.9	-18.2	-17.9	-4.6	-5.0	-4.3	12.3
Discrepancies	706.7	918.0	104.5	89.4	-57.4	-42.9	-140.0	-129.9
Gross Value Added (GVA)	-22.4	-22.4	-7.3	-7.3	1.0	1.0	2.5	3.7
Agriculture	3.3	3.5	3.0	3.0	3.9	3.1	1.9	3.1
Industry	-35.9	-35.8	-3.0	-3.0	2.7	7.9	3.6	7.9
Mining and Quarrying	-18.0	-17.2	-7.6	-6.5	-5.9	-5.7	-5.5	-5.7
Manufacturing	-35.9	-36.0	-1.5	-1.5	1.6	6.9	2.3	6.9
Electricity	-9.9	-9.9	2.3	2.3	7.3	9.1	8.9	9.1
Construction	-49.4	-49.5	-7.2	-7.2	6.2	14.5	8.4	14.5
Services	-21.4	-21.5	-11.3	-11.4	-1.0	1.5	2.0	1.5
Trade, Hotels, Transport, Storage, Comm.	-47.6	-48.1	-15.3	-16.1	-7.7	-2.3	-2.9	-2.3
Fin. Svcs, Real Estate & Business Svcs.	-5.4	-5.0	-9.5	-9.1	6.6	5.4	6.9	5.4
Community, Social & Personal Svcs.	-9.7	-10.2	-9.3	-9.2	-1.5	2.3	3.2	2.3

Source: CSO.

Figure 4: Annual real GDP growth trend (% YoY)

	FY16	FY17	FY18	FY19	FY20	FY21
Gross Domestic Product (GDP)	8.0	8.3	6.8	6.5	4.0	-7.3
Private Consumption (PFCE)	7.9	8.1	6.2	7.6	5.5	-9.1
Government Consumption (GFCE)	7.5	6.1	11.9	6.3	7.9	2.9
Gross Capital Formation (GCF)	4.7	3.7	10.0	9.5	-2.0	-5.3
Gross Fixed Capital Formation (GFCF)	6.5	8.5	7.8	9.9	5.4	-10.8
Exports of goods & services	-5.6	5.0	4.6	12.3	-3.3	-4.7
Imports of goods & services	-5.9	4.4	17.4	8.6	-0.8	-13.6
Gross Value Added (GVA)	8.0	8.0	6.2	5.9	4.1	-6.2
Agriculture	0.6	6.8	6.6	2.6	4.3	3.6
Industry	9.6	7.7	5.9	5.3	-1.2	-7.0
Mining and Quarrying	10.1	9.8	-5.6	0.3	-2.5	-8.5
Manufacturing	13.1	7.9	7.5	5.3	-2.4	-7.2
Electricity	4.7	10.0	10.6	8.0	2.1	1.9
Construction	3.6	5.9	5.2	6.3	1.0	-8.6
Services	9.4	8.5	6.3	7.2	7.2	-8.4
Trade, Hotels, Transport, Storage, Comm.	10.2	7.7	10.3	7.1	6.4	-18.2
Fin. Svcs, Real Estate & Business Svcs.	10.7	8.6	1.8	7.2	7.3	-1.5
Community, Social & Personal Svcs.	6.1	9.3	8.3	7.4	8.3	-4.6

Source: CSO, NSE

Figure 5: Share in GDP (%)

	FY16	FY17	FY18	FY19	FY20	FY21
Gross Domestic Product (GDP)	100.0	100.0	100.0	100.0	100.0	100.0
Private Consumption (PFCE)	56.1	56.1	55.8	56.3	57.1	56.0
Government Consumption (GFCE)	10.0	9.8	10.2	10.2	10.6	11.7
Gross Capital Formation (GCF)	34.5	33.0	34.0	35.0	32.9	33.6
Gross Fixed Capital Formation (GFCF)	30.7	30.8	31.1	32.0	32.5	31.2
Net trade of goods & services	-1.2	-1.1	-3.6	-3.0	-3.4	-1.3
Exports of goods & services	20.8	20.2	19.8	20.9	19.4	19.9
Imports of goods & services	22.1	21.3	23.4	23.9	22.8	21.2
Discrepancies	0.7	2.3	3.4	1.2	1.0	0.0
Gross Value Added (GVA)	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	15.4	15.2	15.3	14.8	14.8	16.4
Industry	31.6	31.5	31.4	31.2	29.6	29.3
Mining and Quarrying	3.0	3.1	2.7	2.6	2.4	2.4
Manufacturing	18.1	18.1	18.4	18.3	17.1	16.9
Electricity	2.1	2.2	2.3	2.3	2.3	2.5
Construction	8.2	8.1	8.0	8.0	7.8	7.6
Services	53.0	53.3	53.3	54.0	55.6	54.3
Trade, Hotels, Transport, Storage, Comm.	19.0	18.9	19.7	19.9	20.3	17.7
Fin. Svcs, Real Estate & Business Svcs.	21.9	22.0	21.1	21.3	22.0	23.1
Community, Social & Personal Svcs.	12.2	12.3	12.6	12.7	13.3	13.5

Source: CSO.

Figure 6: Revisions in annual GDP growth forecasts

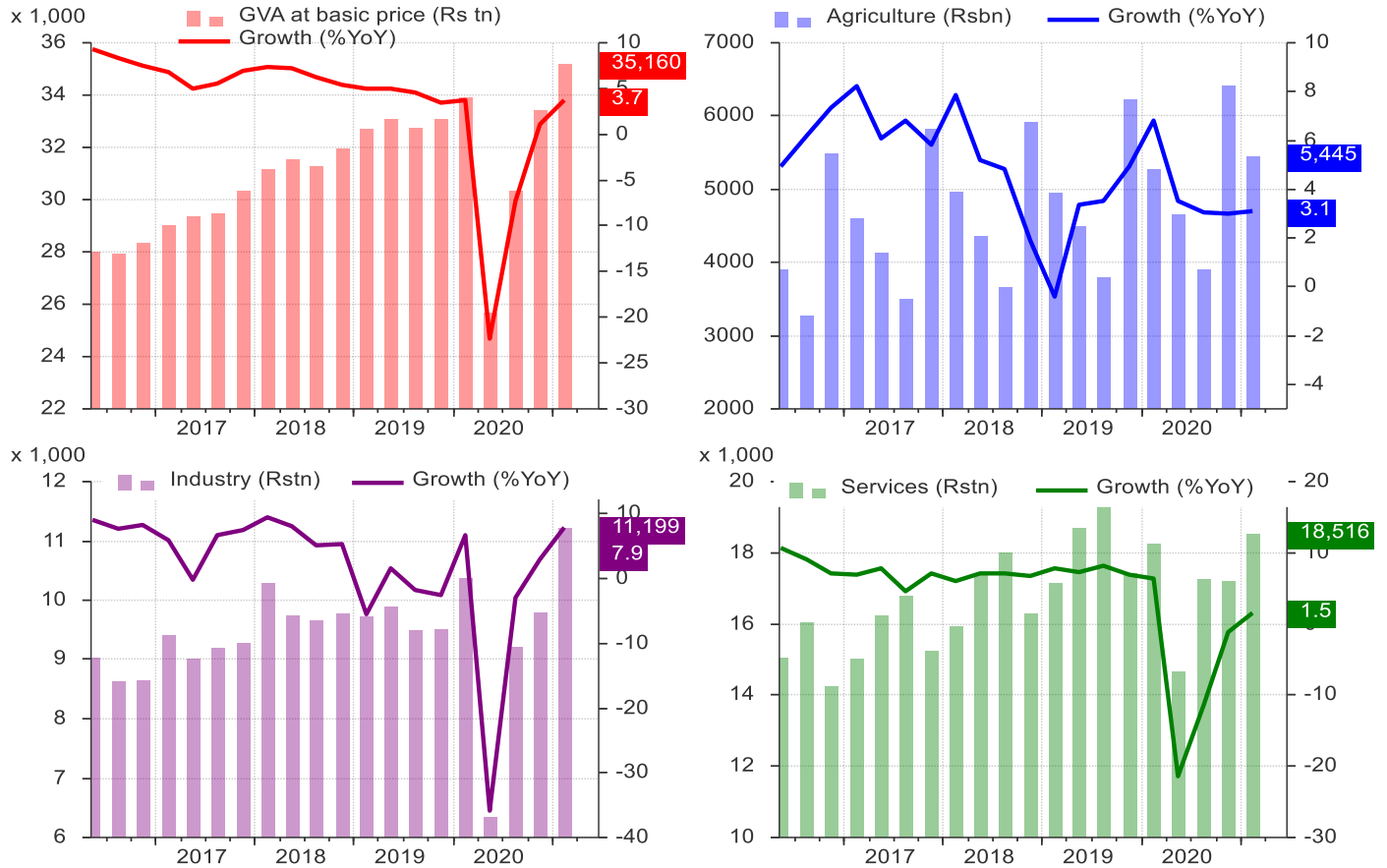
The provisional estimate for FY21 GDP growth is pegged at -7.3%, higher than the second Advance Estimate of -8.0%. GVA growth for FY21 has also been revised upwards from -6.5% in the Advance Estimate to -6.2%

% YoY	FY19			FY20				FY21		
	PE	1 st RE	2 nd RE	1 st AE	2 nd AE	PE	1 st RE	1 st AE	2 nd AE	PE
Gross Domestic Product (GDP)	6.8	6.1	6.5	5.0	5.0	4.2	4.0	-7.7	-8.0	-7.3
Private Consumption	8.1	7.2	7.6	5.8	5.3	5.3	5.5	-9.5	-9.0	-9.1
Government Consumption	9.2	10.1	6.3	10.5	9.8	11.8	7.9	5.8	2.9	2.9
Gross capital formation	9.0	9.5	9.5	1.5	0.0	-2.0	-2.0	-15.3	-8.3	-5.3
Gross Fixed Capital Formation	10	9.8	9.9	1.0	-0.6	-2.8	5.4	-14.5	-12.4	-10.8
Net trade of goods & services	31.0	-11.8	-11.8	-24.3	-30.2	-29.2	16.8	-136.3	-72.5	-65.0
Exports of goods & services	12.5	12.3	12.3	-2.0	-1.9	-3.6	-3.3	-8.3	-8.1	-4.7
Imports of goods & services	15.4	8.6	8.6	-5.9	-5.5	-6.8	-0.8	-20.5	-17.6	-13.6
Gross Value Added (GVA)	6.6	6.0	5.9	4.9	4.9	3.9	4.1	-7.2	-6.5	-6.2
Agriculture	2.9	2.4	2.6	2.8	3.7	4.0	4.3	3.4	3.0	3.6
Industry	6.9	4.9	5.3	2.5	1.8	0.9	-1.2	-9.6	-8.2	-7.0
Mining and Quarrying	1.3	-5.8	0.3	1.5	2.8	3.1	-2.5	-12.4	-9.2	-8.5
Manufacturing	6.9	5.7	5.3	2.0	0.9	0.0	-2.4	-9.4	-8.4	-7.2
Electricity	7.0	8.2	8.0	5.4	4.6	4.1	2.1	2.7	1.8	1.9
Construction	8.7	6.1	6.3	3.2	3.0	1.3	1.0	-12.6	-10.3	-8.6
Services	7.5	7.7	7.2	6.9	7.0	5.5	7.2	-8.8	-8.1	-8.4
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Fin. Svcs, Real Estate & Business Svcs.	7.4	6.8	7.2	6.4	7.3	4.6	7.3	-0.8	-1.4	-1.5
Community, Social & Personal Svcs.	8.6	9.4	7.4	9.1	8.8	10.0	8.3	-3.7	-4.1	-4.6

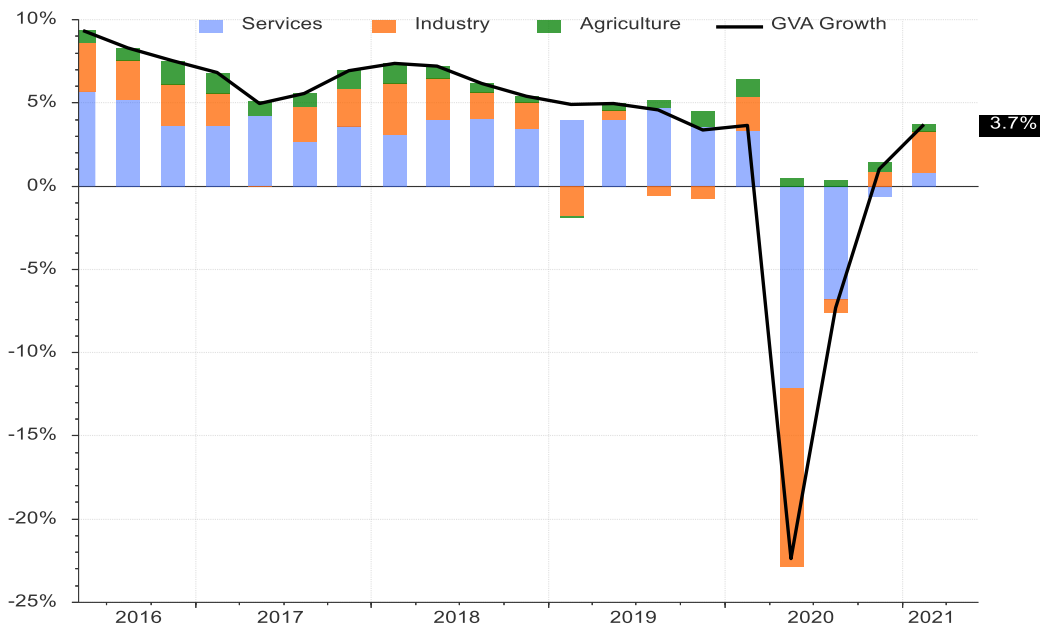
 Source: CSO. PE = Provisional Estimates; 1st RE = First Revised Estimates; 2nd RE = Second Revised Estimates; 1st AE = First Advance Estimates; 2nd AE = Second Advance Estimates.

Figure 7: Gross value added (GVA) across sectors

GVA grew by a much better 3.7% YoY in Q3FY21, led by a strong rebound in Industrial sector (+7.9% YoY) and steady growth in Agriculture sector (+3.1% YoY), partly offset by a weaker-than-expected recovery in the Services sector.



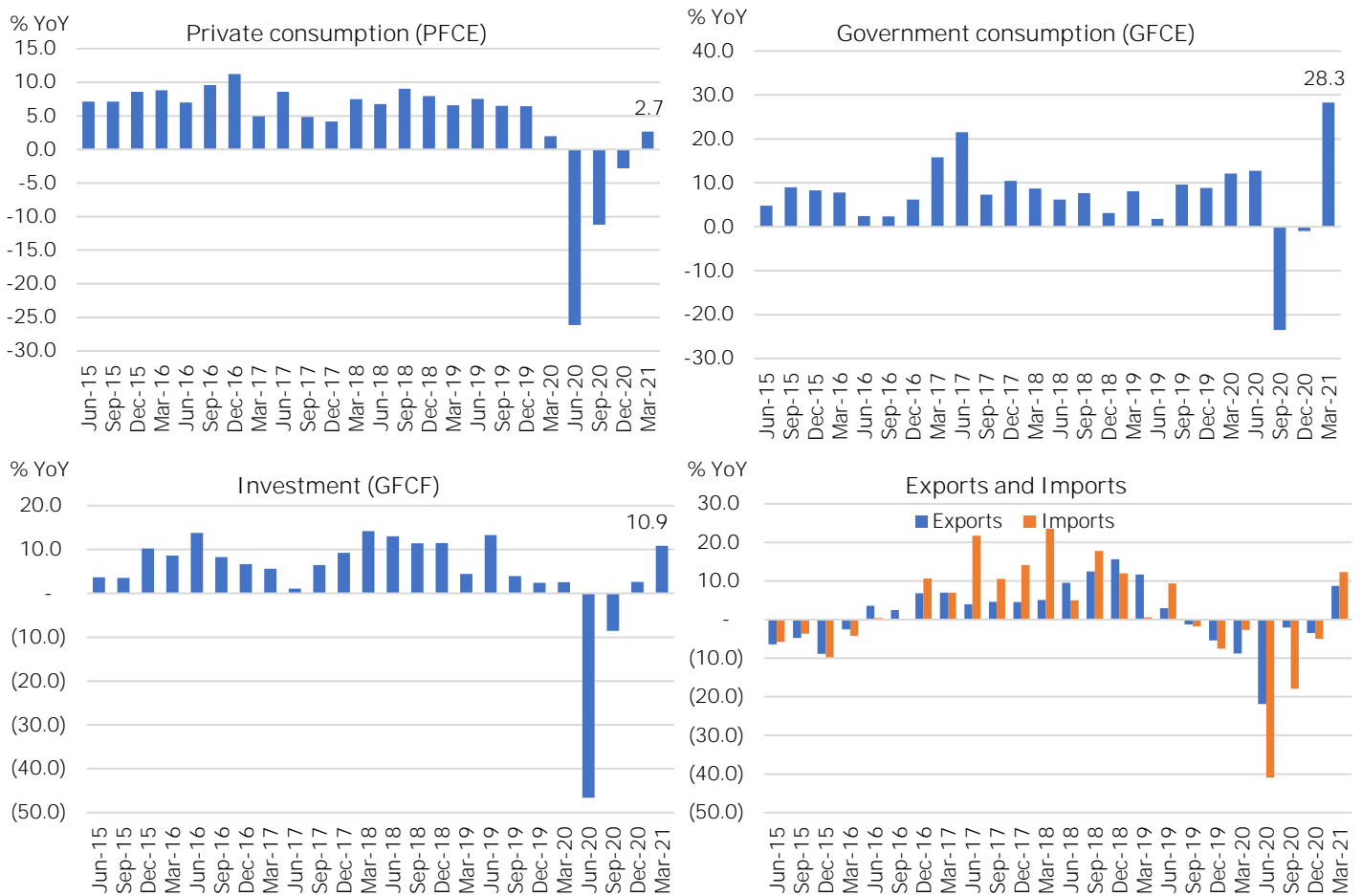
Source: Refinitiv Datastream, NSE

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


Source: Refinitiv Datastream, NSE

Figure 9: Quarterly GDP growth by sectors (%YoY)

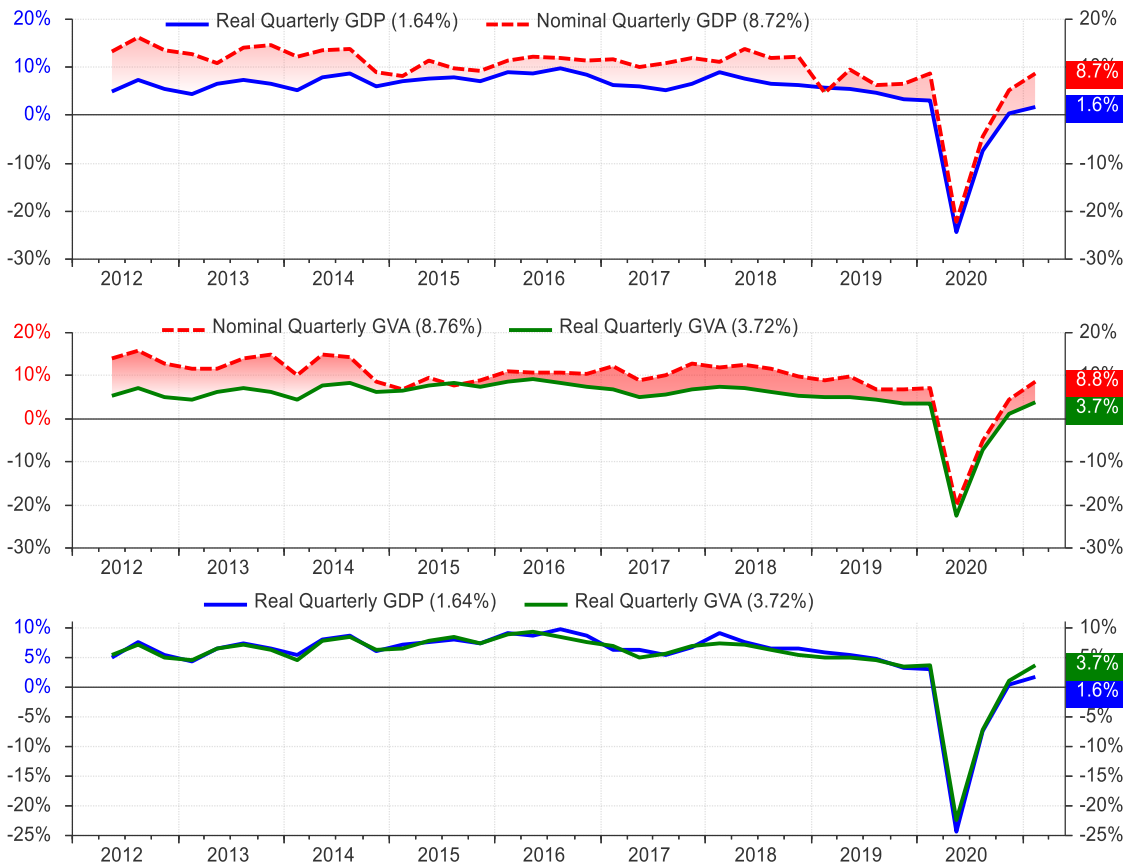
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Source: Refinitiv Datastream, NSE

Figure 10: Nominal vs. real GDP and GVA growth

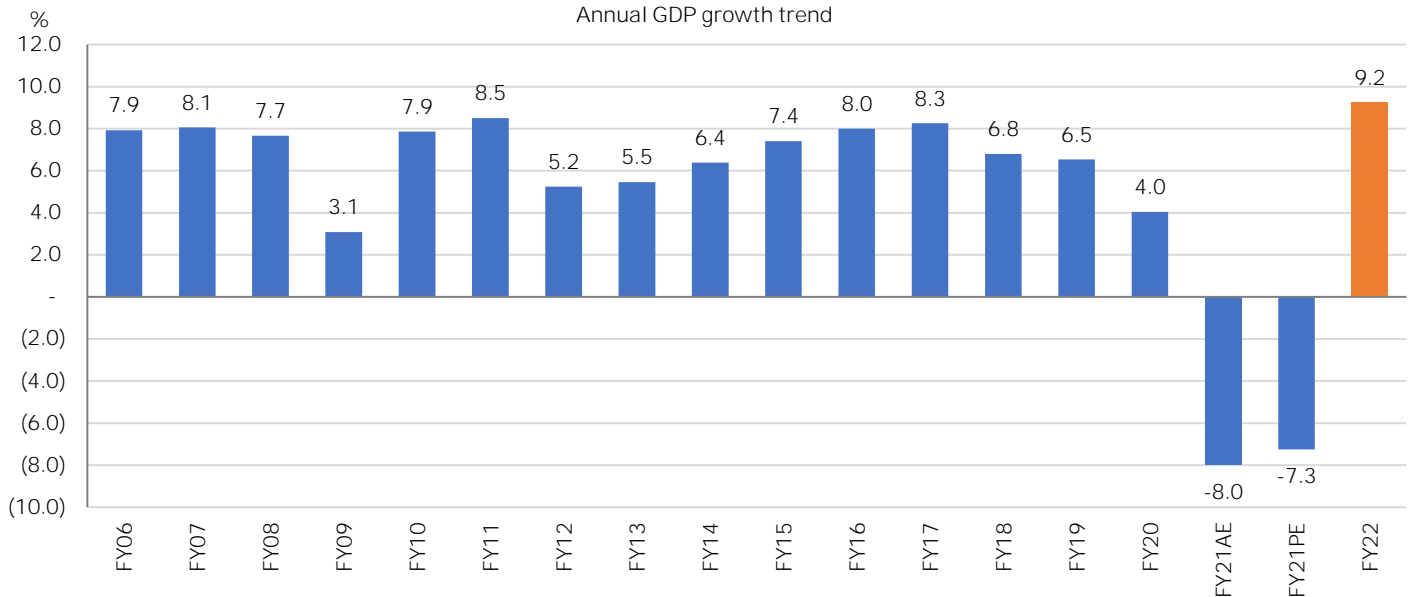
India GDP, GVA: Nominal and Real Growth



Source: Refinitiv Datastream, NSE

Figure 11: Annual GDP growth trend: Reduce FY22 GDP growth forecast to 9.2% from 10% estimated earlier

Annual GDP growth trend



Source: CSO, CMIE Economic Outlook, NSE. AE = Advance Estimate; PE = Provisional Estimate.

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