

GDP UPDATE

20 November 2020

India on recovery path

High frequency indicators show an underlying revival in economic activity led by private sector. Corporate results, freight movement, indirect tax collections, imports, electricity demand and E-Way bills are pointing to a steady upturn in the economy. Thus we are revising our GDP growth to (-) 8.2% in FY21, with an upside risk, from our earlier projection of (-) 8.8%. Growth will revive further to 8.8% in FY22. Key risk to our growth projections are below normal monsoon, higher oil prices and delay in Covid-19 vaccine.

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GDP to contract at a slower pace: After contracting by 23.9% in Q1, economic activity has shown resilience. It is also related to increase in doubling of Covid-19 infection rate to 71 days in Nov'20 from 20 days at the peak. Corporate results have surprised positively with consumer goods, metals and automobile firms reporting better results. The bigger impact is on the informal sector.

What high frequency indicators say?: High frequency indicators show improvement seen in Q2 continuing into Q3 with manufacturing PMI at a 13-year high and services PMI too above 50 (expanding). Rail freight movement (13.6% in Nov'20, 4.6% in Q2, -21.4% in Q1), electricity demand (4.9% in Nov'20, -1.6% in Q2, -15.3% in Q1), E-way bills generated (155mn in Q2 versus 78mn in Q1), and GST collections (up 10.2% in Oct'20) point to a continued economic recovery.

Upside to government spending: Owing to revival in economic activity indirect tax collections were higher by 11.7% in Q2 compared with a decline of 34.1% in Q1. Higher excise duty on petroleum products is also a factor. A revival in corporate profitability also bodes well for tax collections. Thus government may kickstart its spending in H2 to support growth, as spending by centre and states each was down by 0.6% as of Sep'20 (FYTD basis) led by lower capex. Capital spending was lower by 11.6% for centre and 23.2% for states.

Where we see growth?: The above backdrop makes us believe that India's FY21 growth prospects are now different from our earlier assessment when we had projected growth of (-) 8.8%. Our new assessment is that GDP will contract by 8.2%, with an upside risk. The upward revision to our estimates is led by industry from supply side and both consumption and investment from demand side. However, given the lockdowns in Europe and US, exports may be muted.

KEY HIGHLIGHTS

- GDP to contract by 8.2% in FY21
- High frequency macro indicators showing rebound in activity
- FY22 growth to revive to 8.8% on the back of normalisation of activity.



FIG 1 – PERFORMANCE OF HIGH FREQUENCY INDICATORS

| Indicators | Apr-20 | May-20 | Jun-20 | Jul-20 | Sep-20 | Aug-20 | Oct-20 | Nov-20 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Agriculture | | | | | | | | |
| Domestic Tractor Sales | (80.1) | 0.5 | 20.2 | 35.9 | 64.8 | 26.7 | 9.0 | - |
| Two Wheeler Sales | - | (81.4) | (37.9) | (19.6) | 0.2 | 11.3 | 18.1 | - |
| MNREGA work (HH, MoM) | - | 179 | 20 | (29) | (24) | 0.3 | (0.3) | - |
| Manufacturing | | | | | | | | |
| IIP: General Index | (57.3) | (33.4) | (16.6) | (10.8) | (7.4) | 0.2 | - | - |
| IIP: Manufacturing | (66.6) | (37.8) | (17.0) | (11.6) | (7.9) | (0.6) | - | - |
| IIP: Capital goods | (92.7) | (65.9) | (37.4) | (22.8) | (14.8) | (3.3) | - | - |
| IIP: Infra & Construction goods | (37.9) | (21.4) | (12.4) | (8.0) | (7.3) | (0.8) | - | - |
| IIP: Consumer goods | (48.1) | (9.7) | 6.9 | 1.8 | (2.3) | 4.1 | - | - |
| Steel | (82.8) | (40.4) | (23.2) | (8.2) | (1.7) | 0.9 | - | - |
| Cement | (85.3) | (21.4) | (6.8) | (13.5) | (14.6) | (3.5) | - | - |
| Electricity demand | (25.3) | (13.2) | (7.3) | (3.1) | (4.2) | 2.5 | 5.3 | 4.9* |
| PMI: Manufacturing | 27.4 | 30.8 | 47.2 | 46 | 52 | 56.8 | 58.9 | - |
| Services | | | | | | | | |
| Services PMI index | 5.4 | 12.6 | 33.7 | 34.2 | 49.8 | 41.8 | 54.1 | - |
| Automobile sales | - | (84.8) | (43.0) | (18.6) | (1.3) | 7.2 | 10.5 | - |
| Passenger vehicle sales | - | (85.2) | (49.6) | (3.9) | 14.2 | 26.5 | 14.2 | - |
| Vehicle Registration | (78.3) | (88.6) | (41.4) | (35.1) | (25.4) | (8.4) | (22.8) | - |
| Domestic air passenger traffic | (99.9) | (97.4) | (83.5) | (82.6) | (75.8) | (65.1) | - | - |
| Rail freight traffic | (35.3) | (21.3) | (7.7) | (4.6) | 3.9 | 15.5 | 15.4 | 13.6** |
| Port Cargo volume | (21.1) | (23.3) | (14.5) | (13.2) | (10.4) | (1.9) | (1.2) | - |
| Credit growth | 6.8 | 5.5 | 5.6 | 6.4 | 5.5 | 5.1 | 5.1 | 5.7 |
| Deposit growth | 9.9 | 10.5 | 9.6 | 12.1 | 10.9 | 10.5 | 10.1 | 10.6 |
| CIC | 15.7 | 19.1 | 22.0 | 23 | 23.2 | 22.7 | 20.3 | - |
| Toll collection (in mn) | - | - | 81.9 | 86.6 | 96.8 | 110.1 | 122.4 | 77.4* |
| Diesel consumption | (55.6) | (29.5) | (15.5) | (19.5) | (20.7) | (5.9) | 7.4 | - |
| GST E-way bill (in mn) | 8.6 | 25.5 | 43.4 | 48.4 | 49.4 | 57.4 | 64.2 | 28.9^ |
| External Trade | | | | | | | | |
| Merchandise exports | (60.6) | (35.7) | (12.4) | (9.9) | (12.6) | 6.0 | (5.4) | 22.5# |
| Merchandise imports | (59.7) | (51.2) | (48.1) | (29.6) | (26.0) | (19.6) | (11.6) | 13.6# |
| Services exports | (8.9) | (10.2) | (8.4) | (10.8) | (9.9) | (1.4) | - | - |
| Services imports | (18.4) | (20.4) | (15.3) | (21.7) | (20.1) | (8.7) | - | - |
| Non-oil non-gold imports | (53.7) | (34.5) | (42.0) | (30.4) | (29.7) | (12.6) | (4.9) | - |

Source: CEIC, MoRTH, Posoco, Markit, Bank of Baroda Research | *-as of 19 Nov 2020 | **1-10 Nov 2020 | ^ as of 15 Nov 2020 | #1-7 Nov 2020

FIG 2 – GDP EXPECTED TO CONTRACT BY 8.2% IN FY21

| (% change) | FY17 | FY18 | FY19 | FY20PE | FY21E |
|--|------------|------------|------------|------------|---------------|
| Agriculture, forestry and fishing | 6.8 | 5.9 | 2.4 | 4.0 | 4.8 |
| Industry | 7.7 | 6.3 | 4.9 | 0.9 | (11.1) |
| Mining and quarrying | 9.8 | 4.9 | (5.8) | 3.1 | (8.4) |
| Manufacturing | 7.9 | 6.6 | 5.7 | 0.0 | (10.8) |
| Electricity, gas, water supply and other utility services | 10.0 | 11.2 | 8.2 | 4.1 | (0.5) |
| Construction | 5.9 | 5.0 | 6.1 | 1.3 | (15.6) |
| Services | 8.5 | 6.9 | 7.7 | 5.5 | (10.5) |
| Trade, hotels, transport, communication & services related to broadcasting | 7.7 | 7.6 | 7.7 | 3.6 | (25.5) |
| Financial, real estate & professional services | 8.6 | 4.7 | 6.8 | 4.4 | 0.2 |
| Public administration and defence | 9.3 | 9.9 | 9.4 | 9.9 | (7.1) |
| GVA at basic prices | 8.0 | 6.6 | 6.0 | 3.9 | (8.6) |
| GDP | 8.3 | 7.0 | 6.1 | 4.2 | (8.2) |

Source: CSO, MOSPI, Bank of Baroda Research | PE: Provisional Estimate | E-Bank of Baroda estimate

FIG 3 – GDP & GVA PROJECTED TO CONTRACT BY 8.0% & 9.2% RESPECTIVELY IN Q2FY21

| (% change) | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21E |
|--|------------|--------------|--------------|---------------|---------------|
| Agriculture, forestry and fishing | 3.5 | 3.6 | 5.9 | 3.4 | 5.5 |
| Industry | 0.5 | (0.3) | (0.6) | (38.1) | (4.7) |
| Mining and quarrying | (1.1) | 2.2 | 5.2 | (23.3) | (6.5) |
| Manufacturing | (0.6) | (0.8) | (1.4) | (39.3) | (5.0) |
| Electricity, gas, water supply and other utility services | 3.9 | (0.7) | 4.5 | (7.0) | 0.2 |
| Construction | 2.6 | (0.0) | (2.2) | (50.3) | (5.0) |
| Services | 6.5 | 5.7 | 4.4 | (20.6) | (14.3) |
| Trade, hotels, transport, communication & services related to broadcasting | 4.1 | 4.3 | 2.6 | (47.0) | (35.0) |
| Financial, real estate & professional services | 6.0 | 3.3 | 2.4 | (5.3) | (2.0) |
| Public administration and defence | 10.9 | 10.9 | 10.1 | (10.3) | (10.0) |
| GVA at basic prices | 4.3 | 3.5 | 3.0 | (22.8) | (9.2) |
| Private final consumption expenditure (PFCE) | 6.4 | 6.6 | 2.7 | (26.7) | (9.0) |
| Govt final consumption expenditure (GFCE) | 14.2 | 13.4 | 13.6 | 16.4 | 5.0 |
| Gross Fixed Capital Formation (GFCF) | (3.9) | (5.2) | (6.5) | (47.1) | (20.0) |
| Change in Stocks (CIS) | 1.3 | 1.1 | 0.5 | (20.8) | (10.0) |
| Valuables | 16.0 | 10.5 | 3.1 | (91.0) | 15.0 |
| Exports | (2.2) | (6.1) | (8.5) | (19.8) | 5.0 |
| Less Imports | (9.4) | (12.4) | (7.0) | (40.4) | (18.0) |
| Discrepancies | (79.6) | 264.3 | 178.1 | (193.0) | (690) |
| GDP | 4.4 | 4.1 | 3.1 | (23.9) | (8.0) |

Source: CSO, MOSPI, Bank of Baroda Research | E-Bank of Baroda estimate

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