

## Q2FY21 GDP

27 November 2020

### GDP throws a positive surprise

From a decline of 23.9% in Q1, India's GDP contracted by 7.5% in Q2FY21. The improvement was led by manufacturing, construction and trade, hotels and transport. On the other hand, government spending was muted. The rebound in private sector is also resulting in higher tax collections thus giving room to the government to spend in H2. High frequency indicators also show growth momentum continues in Q3. Thus we maintain our GDP growth estimate of (-) 8.2% for FY21, with an upward bias, and 8.8% for FY22.

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**Much slower pace of contraction of GDP:** India's GDP contracted by 7.5% in Q2FY21 (BoB est.: 8%) against a sharp contraction of 23.9% seen in Q1. This was led by revival in private consumption (11.3% decline against 26.7% contraction in Q2), investment demand (7.3% contraction against 47.1% decline in Q2) and exports (1.5% decline against 19.8% dip in Q2). Government final consumption expenditure on the other hand, fell sharply by 22.2% against an increase of 16.4% in Q1.

**Manufacturing and construction lead GVA higher:** GVA contracted by 7% in Q2FY21 compared with a decline of 22.8% in Q1FY21. The sharper than expected improvement was driven by manufacturing, construction and trade and hotels. Manufacturing sector output rose by 0.6% compared with 39.3% decline in Q1, while construction activity fell by only 8.6% versus 50.3% drop in Q1. Services activity also improved led by trade and hotel, which contracted by 15.6% in Q2 compared with a decline of 47% in Q1. On the other hand, both financial and real estate and public administration and defense services fared worse in Q2 compared with Q1.

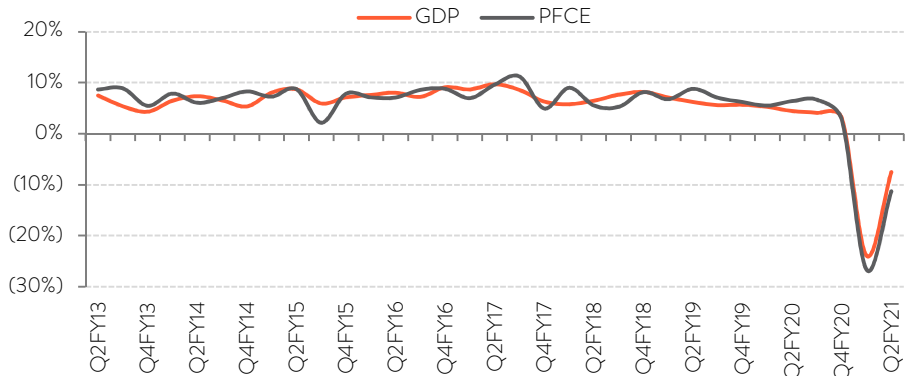
**Outlook for FY21:** High frequency indicators in Q3 FY21 show that the economic rebound seen in Q2FY21 continues. For instance, electricity demand is 4.9% higher in Q3 (Oct-Nov'20), E way bills (+17.8%), rail freight (+14.5%), exports (+8.6%) and non-oil-non-gold imports (-4.9% versus -12.6%). In addition, government spending has been muted in Q2. With improvement in tax collections, we believe there is headroom for government spending to go up in H2. Hence, we continue to expect growth returning to positive territory in Q4FY21. We maintain our estimate of GDP growth of (-) 8.2% in FY21 before growth rebounding to 8.8% in FY22.

#### KEY HIGHLIGHTS

- GDP contracted at a slower pace of 7.5% against 23.9% in Q1FY21.
- Manufacturing, electricity and other utility services noted positive growth.
- Government spending was muted, private consumption and investment picked up.

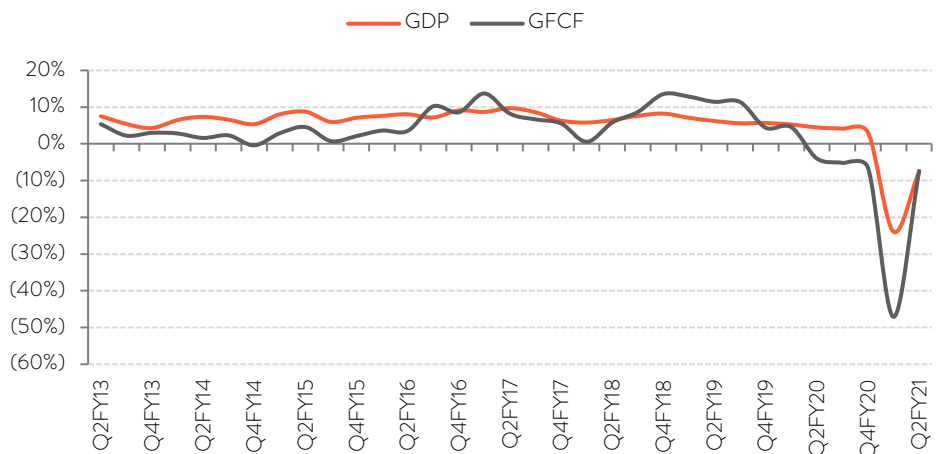


**FIG 1 – CONSUMPTION GATHERS PACE**



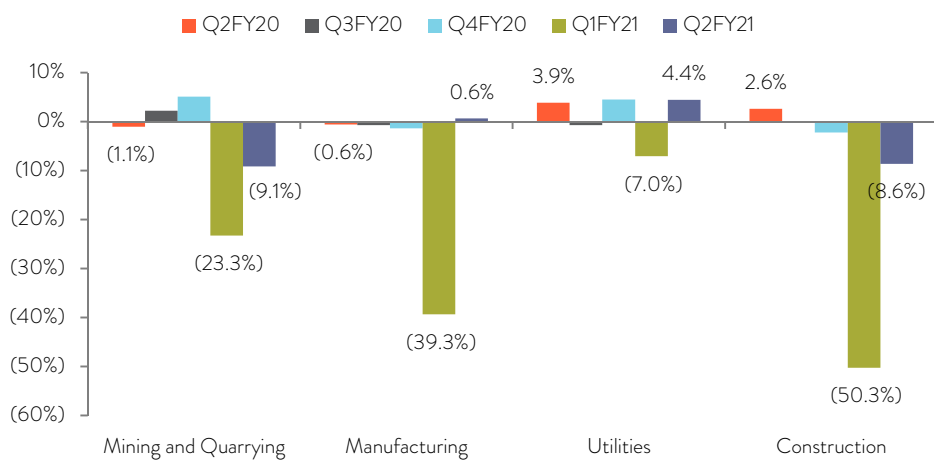
Source: CEIC, Bank of Baroda Research

**FIG 2 – INVESTMENT DEMAND SHOWS IMPROVEMENT**



Source: CEIC, Bank of Baroda Research

**FIG 3 – GVA GROWTH PICKS UP LED BY MANUFACTURING**



Source: CEIC, Bank of Baroda Research

**FIG 4 – GDP EXPECTED TO CONTRACT BY 8.2% IN FY21**

(% change)	FY17	FY18	FY19	FY20PE	FY21E
<b>Agriculture, forestry and fishing</b>	<b>6.8</b>	<b>5.9</b>	<b>2.4</b>	<b>4.0</b>	<b>4.3</b>
<b>Industry</b>	<b>7.7</b>	<b>6.3</b>	<b>4.9</b>	<b>0.9</b>	<b>(10.5)</b>
Mining and quarrying	9.8	4.9	(5.8)	3.1	(9.1)
Manufacturing	7.9	6.6	5.7	0.0	(9.4)
Electricity, gas, water supply and other utility services	10.0	11.2	8.2	4.1	0.6
Construction	5.9	5.0	6.1	1.3	(16.5)
<b>Services</b>	<b>8.5</b>	<b>6.9</b>	<b>7.7</b>	<b>5.5</b>	<b>(9.8)</b>
Trade, hotels, transport, communication & services related to broadcasting	7.7	7.6	7.7	3.6	(20.6)
Financial, real estate & professional services	8.6	4.7	6.8	4.4	(1.4)
Public administration and defence	9.3	9.9	9.4	9.9	(7.6)
<b>GVA at basic prices</b>	<b>8.0</b>	<b>6.6</b>	<b>6.0</b>	<b>3.9</b>	<b>(8.0)</b>
<b>GDP</b>	<b>8.3</b>	<b>7.0</b>	<b>6.1</b>	<b>4.2</b>	<b>(8.2)</b>

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

**FIG 5 – GDP & GVA CONTRACTED BY 7.5% & 7.0% RESPECTIVELY IN Q2FY21**

(% change)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Agriculture, forestry and fishing	3.5	3.6	5.9	3.4	3.4
<b>Industry</b>	<b>0.5</b>	<b>(0.3)</b>	<b>(0.6)</b>	<b>(38.1)</b>	<b>(2.1)</b>
Mining and quarrying	(1.1)	2.2	5.2	(23.3)	(9.1)
Manufacturing	(0.6)	(0.8)	(1.4)	(39.3)	0.6
Electricity, gas, water supply and other utility services	3.9	(0.7)	4.5	(7.0)	4.4
Construction	2.6	(0.0)	(2.2)	(50.3)	(8.6)
<b>Services</b>	<b>6.5</b>	<b>5.7</b>	<b>4.4</b>	<b>(20.6)</b>	<b>(11.4)</b>
Trade, hotels, transport, communication & services related to broadcasting	4.1	4.3	2.6	(47.0)	(15.6)
Financial, real estate & professional services	6.0	3.3	2.4	(5.3)	(8.1)
Public administration and defence	10.9	10.9	10.1	(10.3)	(12.2)
<b>GVA at basic prices</b>	<b>4.3</b>	<b>3.5</b>	<b>3.0</b>	<b>(22.8)</b>	<b>(7.0)</b>
Private final consumption expenditure (PFCE)	6.4	6.6	2.7	(26.7)	(11.3)
Govt final consumption expenditure (GFCE)	14.2	13.4	13.6	16.4	(22.2)
Gross Fixed Capital Formation (GFCF)	(3.9)	(5.2)	(6.5)	(47.1)	(7.3)
Change in Stocks (CIS)	1.3	1.1	0.5	(20.8)	6.3
Valuables	16.0	10.5	3.1	(91.0)	(59.4)
Exports	(2.2)	(6.1)	(8.5)	(19.8)	(1.5)
Less Imports	(9.4)	(12.4)	(7.0)	(40.4)	(17.2)
Discrepancies	(79.6)	264.3	178.1	(193.0)	278.2
<b>GDP</b>	<b>4.4</b>	<b>4.1</b>	<b>3.1</b>	<b>(23.9)</b>	<b>(7.5)</b>

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

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