ICICI Bank Global Markets

India GDP FY2021 Advance Estimate: The Year of the Virus

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- **GDP contraction for FY2021 has been pegged at 7.7% YoY by the Government's Advance Estimates. Subsequent revisions cannot be ruled out**
- **By these estimates, growth is expected to record a negligible contraction in the second half of this fiscal, with narrowing contraction impulses in all segments buttressed by significant Government support to growth**
- **GDP growth is likely to improve to ~9.5% YoY (with an upward bias) in FY2022. The Union Budget will be the next major event parsed for measures to accelerate the growth momentum**

The Government advance estimates have pegged the contraction in real Gross Domestic Product (GDP) at 7.7% YoY for FY2021. Significant loss of steam in consumption, investment and exports will weigh on headline growth for this year, while Government spending is expected to support the same, without which contraction would have been 1.7 percentage points more. Gross Value Added (GVA) is also expected to contract, albeit by a smaller 7.2% YoY in FY2021. Barring agriculture and electricity & utilities, every other sector is expected to detract from headline value addition for the year as a whole. Interestingly, the forecasts peg industry to clock a steeper contraction than services over the year, despite the magnificent pickup seen in industrial performance over July-September 2020.

While the overall print is not a surprise, given the stresses seen during the pandemic, the pace of recovery budgeted for the second half of the fiscal seems to be somewhat modest, given the current traction seen in most indicators. While GDP is expected to clock a minor 0.1% YoY contraction in October 2020 - March 2021, GVA is expected to see a negligible growth of 0.3% YoY. The NSO has specified that restrictions imposed due to the pandemic have affected data collection procedures across-the-board, and thus the projected values may sharply differ from actual values, leading to probable sharp revisions at a later date.

Key highlights of GDP:

- **Core GVA growth (non-agriculture non-government spending growth) is expected to clock a contraction of 10.1% YoY in FY2021.** Major support to growth this year stems from agriculture, without which GVA contraction would be a steep 9.1% YoY.
- **Agriculture growth is expected at a moderate 3.4% YoY in FY2021 on the heels of a 4% YoY growth seen last fiscal.** Though moderate, this is a stellar performance when compared to the significant contraction seen in other areas of the economy. The *kharif* harvest was healthy, while *rabi* sowing is ~3% higher till date on an annual basis this year.
- **Industry is expected to contract by 9.6% YoY, following a 0.9% YoY growth in FY2020.** The key sectors of manufacturing and construction are expected to display a significant recovery in H2 FY2021 as compared to H1, which is also visible. After a lackluster Q1, increased impetus in Q2 came from pent-up demand surfacing, while Q3 saw robust festive demand, which spurred production. The improvement is also validated by the movement seen in high frequency data reflecting in our proprietary UFI index averaging close to pre-COVID levels in Q3 FY2021, and a healthy earnings performance of India Inc. on the back of some rise in demand, and significant cost savings.
    - **Manufacturing GVA is expected to improve to +0.5% YoY in H2 from -19% YoY in H1.** Manufacturing IIP returned to a positive print in October after eight months, as festive demand buttressed production, especially of consumer durables. Momentum in exports has been somewhat uneven, given a global re-emergence of infections over October-November, but the latest number for December (~USD 27 bn) has been healthy. Manufacturing PMI reading over November-December have been promising (~56.4).
    - **Construction is expected to show a robust recovery to +4.4% YoY in H2 from -30% YoY in H1.** Since September, output of steel and cement have improved considerably, as shown in the core industries indices. The infrastructure and construction goods category in IIP has shown a stellar performance in November, and more importantly, has slowly

but sustainably improved over this fiscal. Credit growth to construction has moderated since the highs seen in August-September, when the return of migrants accelerated stalled work, but the pace of activity is likely to continue.

- **Services sector is expected to display a contraction of 8.8% YoY for the ongoing fiscal.** This segment will expectedly show a much more muted recovery momentum, as this sector took significant pain from the COVID onslaught. Accordingly, even H2 FY2021 is expected to see a mild contraction for services (-1.1% YoY).
  - **The trade, hotels, transport and communication segment has been the most beleaguered segment of services this year,** with much of the activity shelved. This segment of services remains challenged, but may have come out of the worst phase, as evidenced by continuous pickup in freight, cargo and passenger traffic over October-December 2020. It is expected to still face a double-digit contraction in H2, albeit at a slower pace.

  - **The financial, real estate and professional services segment is expected to show a huge recovery to +7% YoY in H2 from -7% YoY in H1.** Anecdotally, there was a surge in apartment sales over Q3 FY2021, after a modest improvement over Q2, which has led to hopes of a recovery in the real estate sector taking off sooner than expected. First-time home buyers and resale flat buyers are now lured by a buyer-centric market, which is also attracting renewed interest of NRIs. In the financial segment, both non-food credit and aggregate deposit growth have recently accelerated in December.

  - **Government spending is expected to make a comeback in H2 after a contraction seen over H1.** Despite revenue challenges, expenditure has been stepped up in November, and higher expenditure commitments like the vaccination drive (from January) will remain, as will capex targets.

GVA growth

Growth estimates (% YoY)		FY2020 (PE)	FY2021 (AE)	H1 FY2021	H2 FY2021 (Estimate)*
Agriculture		4.0	3.4	3.4	3.4
Industry		0.9	-9.6	-20.5	1.1
of which:					
	Mining & quarrying	*3.1*	*-12.4*	*-17.2*	*-8.3*
	Manufacturing	*0.0*	*-9.4*	*-19.4*	*0.5*
	Electricity, gas,water supply & other utility services	*4.1*	*2.7*	*-1.4*	*7.1*
	Construction	*1.3*	*-12.6*	*-30.2*	*4.4*
Services		5.5	-8.8	-15.9	-1.1
of which:					
	Trade, hotels, transport & communication	*3.6*	*-21.4*	*-31.5*	*-12.0*
	Financial, real estate & professional services	*4.6*	*-0.8*	*-6.8*	*7.1*
	Public administration, defence and Other Services	*10.0*	*-3.7*	*-11.3*	*3.3*
GVA at basic prices		3.9	-7.2	-14.9	0.3

*H2 is derived from the 1st advance estimates of the NSO

Source: NSO, ICICI Bank Research

- **On the expenditure side, private consumption is expected contract only marginally in H2 as compared to a large contraction seen in H1.** Consumption fillip returned slowly over 2020 on the back of pent up demand and lockdown relaxations. Production of consumer durables under IIP was exceptionally robust (17.6% YoY in October), and the demand momentum has continued, as is visible in retail sales of automobiles and other data.

- **Gross fixed capital formation, or the impulse to invest, is expected to show a negligible contraction over H2, in line with the improvement already seen in Q2.** The focus of the Government in this segment has been considerable, and a sustainable return in demand may stimulate private sector plans in the coming quarters as well. There is anecdotal news of private capex in cement, aluminium and realty sectors taking off at a nascent stage. While too early to comment on a trend, this pickup in spending plans by Indian companies has come after a considerable period of time, and the green shoots bode well.

- **Net exports are expected to contribute positively to headline GDP,** as the contraction in imports will be much higher than that seen for exports over FY2021. Recent numbers have shown industrial and infrastructure imports slowly resuming pace as recovery is underway, which is a positive.

GDP growth

GDP (% YoY)	FY2020 (PE)	FY2021 (AE)	H1 FY2021	H2 FY2021 (Estimate)*
PFCE	5.3	-9.5	-18.9	-0.6
GFCE	11.8	5.8	-3.9	17.0
GFCF	-2.8	-14.5	-28.1	-0.8
Change in Stocks	1.9	-4.3	-7.3	-1.2
Valuables	13.5	-48.6	-75.1	-18.0
Exports	-3.6	-8.3	-10.7	-5.8
Less Imports	-6.8	-20.5	-29.1	-11.3
GDP	4.2	-7.7	-15.7	-0.1
GDP ex-Govt	3.3	-9.5	-17.3	-2.1

*H2 is derived from the 1st advance estimates of the NSO

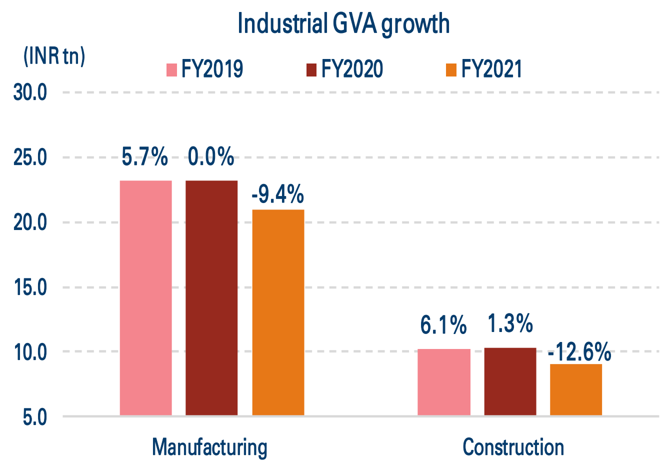
PFCE: Private final consumption expenditure, GFCE: Government final consumption expenditure, GFCF: Gross fixed capital formation

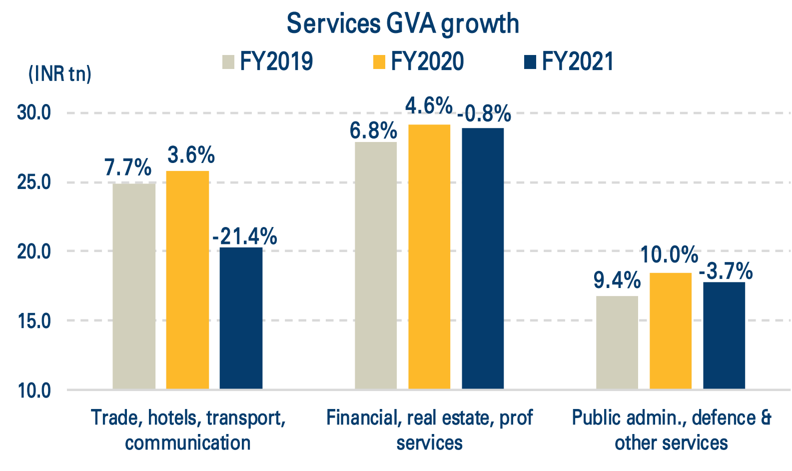
Source: NSO, ICICI Bank Research

High frequency data for Q3 indicate an improving economic scenario, and could well overshoot the modest estimate pegged by today's numbers. As mentioned above, traction has been seen in indicators such as rail freight traffic, commercial vehicle sales, manufacturing and services PMI, petroleum consumption, domestic passenger traffic, electricity consumption, among others.

We expect GDP growth to recover to at least ~9.5% YoY (with a possible upward bias) in FY2022. While a low base will obviously aid the next fiscal's print, on-ground recovery is also visible in different sectors at varied speeds. The upcoming Union Budget will be parsed for fresh stimulus from the Government targeted towards areas of stress created or worsened by the pandemic.

Manufacturing and construction took significant pain from the pandemic this year	The high contact segments of services have weighed on the headline momentum





% figures are YoY growth rates
Source: NSO, ICICI Bank Research

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