India Q4FY2021GDP: Surprises on the upside amid a low base and high Government spending

- **Gross Domestic Product (GDP) came in much better than expected, printing at +1.6% YoY in Q4 FY2021, aided by a low base and high Government spending**
- **Continued targeted Government support, easy policy environment and faster dissemination of vaccine will all aid growth over the coming quarters, in addition to the base effect**
- **We peg our FY2022 GDP forecast at 9.5 -10 % YoY from our earlier expectations of 10.5%-10.7% YoY, due to the rising spread of the second wave of infections and localised lockdowns in more than 90% of the states, straining health care facilities and closure of non-essential activities leading to a consumption collapse.**

Gross Domestic Product (GDP) came in much better than expected, printing at +1.6% YoY in Q4 FY2021 (Jan-Mar 2021) as compared to an upwardly revised growth of 0.5% YoY in the previous quarter. This better than expected improvement is attributed to the widespread recovery in volumes benefitting from the low base of last year. Strong Government spending supplemented by robust global demand and exports drove growth in Q4. A substantial sequential improvement was seen in Q4 in investment and Government spending, while private consumption also improved slightly sequentially. GDP excluding Government spending would have been much more muted, posting a contraction of 1.1% YoY in Q4 FY2021 as compared to a growth of 0.6% YoY in the previous quarter.

Gross Value Added (GVA) came in at a much higher growth of +3.7 % YoY for Q4 FY2021, against our expectations of 2.2% YoY. The sequential improvement was led by industry and services while agriculture deteriorated on a sequential basis. Within industry, manufacturing and construction did much better than expected, showing a stellar growth in Q4 aided by a low base, strong Q4 earnings of India Inc. and demand realisation. Services GVA came back to the positive territory after contracting for three quarters with significant sequential improvement seen across all sub-sectors, given pent-up demand, Government spending and traction in real estate.

India's GDP for FY2021 contracted by 7.3 % YoY, exactly in line with our estimate. A considerable prop to growth in the fiscal year just gone by, came from the Government's spending support, without which, growth would have been -8.45 % YoY. GVA growth for the full year FY2021 also matched expectations, contracting by 6.2 % YoY, with agriculture putting up a robust show.

<u>Key highlights:</u>

- Core GVA growth (non-agriculture non-government spending growth) recorded a higher growth of 4.1 % YoY in Q4 FY2020 compared to the growth of 0.7% YoY in Q3, as the industrial and services sectors gained notable traction. For FY2021, core GVA, growth contracted by -8.5% YoY as compared to a growth of 3.4% YoY in FY2020
- Agriculture deteriorated on a sequential basis in Q4 FY2021 (-14.9 % QoQ, 3.1 % YoY), as compared to an upwardly revised growth of 4.5% YoY in Q3 FY2021 despite the production of several crops reaching all-time highs across the states. This slowdown in agriculture can be attributed to the impact of the rising infections (starting mid-March) affecting the rural areas and imposition of lockdowns, leading to supply-side disruptions in states such as Uttar Pradesh, Madhya Pradesh and Rajasthan

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The robust food grain output this year should continue to bolster contribution of agriculture to GVA in FY2022, while the forecast of a normal monsoon by IMD bodes well for upcoming *kharif* season. However, the ongoing wave of infections could have an impact on the overall sector, depending on the trajectory of the pandemic and its rural penetration.

- **Value added by industry remained robust in the just concluded quarter, posting a growth of 7.9 % YoY in Q4 as compared to a growth of 2.9% YoY in the previous quarter.** Within industry, manufacturing and construction showed a stellar growth, largely aided by a low base, robust exports growth, demand recovery, Government's infrastructure push and strong earnings growth of India Inc. The sequential improvement is also visible in the high frequency indicators for Q4. Our proprietary UFI index averaged around 106 in Q4, the highest reading till now. All the indicators including rail freight traffic, electricity generation, automobile sales, vehicle registrations, GST collections and E - way bill generations, remained robust
- **The biggest turnaround has taken place in the construction sector, growing by 14.5% YoY during the quarter.** This corroborates with the pace of highway construction that is closing in on an average of ~40 km a day during the quarter. Core index for steel registered a substantially higher average growth over Q4 as compared to Q3 amid a demand slowdown due to rising steel prices, while the index for cement came back to a positive territory after contracting in the previous quarter. The impetus to value addition from the construction segment should improve in the quarters ahead, given the infrastructure push planned in the Budget. However, reverse migration of workers, due to rising infections needs to be carefully monitored as more stringent restrictions are imposed to curb the spread of the virus
- **Mining clocked an expected contraction over Q4, printing at -5.7% YoY, worse than a contraction of 4.4% YoY in the previous quarter.** The mining index in IIP had clocked a contraction in two of the three months of Q4 FY2021, as growth in the coal output contracted very sharply and crude oil still remained in significant contraction, while natural gas production improved on a sequential basis. Mining posted the steepest contraction in FY2021 (-8.5% YoY) since FY2012 due to supply bottlenecks, while crude oil and natural gas production remained subdued due to lack of critical infrastructure and equipment, operational difficulties, lack of demand and labour supply shortages amidst the pandemic. **The electricity head showed continued improvement over Q4 (9.1% YoY) as compared to Q3 (7.3% YoY).** Electricity production was healthy over Q4, and plant load factor for thermal electricity averaged 63.67 over January-March as compared to 55.16 over October-December, given robust activity levels amid demand recovery
- **Services GVA came back to the positive territory in Q4 FY2021, printing at 1.5% YoY as compared to a contraction of 1.2% YoY in the previous quarter.** The growth was largely led by increased Government spending and traction in real estate, while the hospitality sector has remained a drag on the sector. For FY2021 as a whole, services GVA contracted by 8.2% YoY with the hospitality sector suffering the most debilitating consequences of the pandemic
- **The growth in financial, real estate and professional services segment moderated slightly, printing at 5.4% YoY in Q4 as compared to 6.7% YoY in the previous quarter.** While this sector is difficult to gauge in terms of indicators, increased traction in real estate would have played a major role. Real estate has been a sector, which has developed traction post Q1. Anecdotally, there was a surge in apartment sales over Q4 FY2021 amid stamp duty cuts, circle rate reductions and Home Loan rate cuts boosting buyer sentiments, which has led to hopes of a recovery in the real estate sector taking off sooner than expected

GVA growth

Growth estimates (% YoY)		Q1-FY2021	Q2-FY2021	Q3-FY2021	Q4-FY2021	FY2021 (PE)
Agriculture		3.5	3.0	4.5	3.1	3.6
Industry		-35.8	-3.0	2.9	7.9	-7.0
of which:						
	Mining & quarrying	*-17.2*	*-6.5*	*-4.4*	*-5.7*	*-7.2*
	Manufacturing	*-36.0*	*-1.5*	*1.7*	*6.9*	*-8.5*
	Electricity, gas, water supply & other utility	*-9.9*	*2.3*	*7.3*	*9.1*	*1.9*
	Construction	*-49.5*	*-7.2*	*6.5*	*14.5*	*-8.6*
Services		-21.5	-11.4	-1.2	1.5	-8.4
of which:						
	Trade, hotels, transport & communication	*-48.1*	*-16.1*	*-7.9*	*-2.3*	*-18.2*
	Financial, real estate & professional services	*-5.0*	*-9.1*	*6.7*	*5.4*	*-1.5*
	Public administration, defence and Other Services	*-10.2*	*-9.2*	*-2.2*	*2.3*	*-4.6*
GVA at basic prices		-22.4	-7.3	1.0	3.7	-6.2
GDP		-24.4	-7.4	0.5	1.6	-7.3

Source: CEIC, ICICI Bank Research

- **The trade, hotels, transport and communication segment improved sharply on a sequential basis amid pent-up demand realisation and progressive easing of travel restrictions during the early part of the quarter.** Over the Jan to Mar 2021 period, domestic passenger traffic reached the 15 million mark; higher than the levels seen in Mar 2020. Impetus to travel remained strong during this period as infection rates were lower and states demanded lesser stringent quarantine rules. Railway freight traffic remained robust in Q4 with March witnessing massive 33% YoY jump after a small slump in February. Cargo traffic also remained in green over January-March. Credit growth to the services sector decelerated to 1.4 % in Mar 2021 from 7.4 % in Mar 2020, mainly due to slow down in credit growth to NBFCs and contraction in credit to professional services. However, credit to trade segment continued to perform well, registering accelerated growth of 11.8% in Mar 2021. **However, the sustenance in demand for services needs to be monitored, especially in light of the deadly second wave of infections**

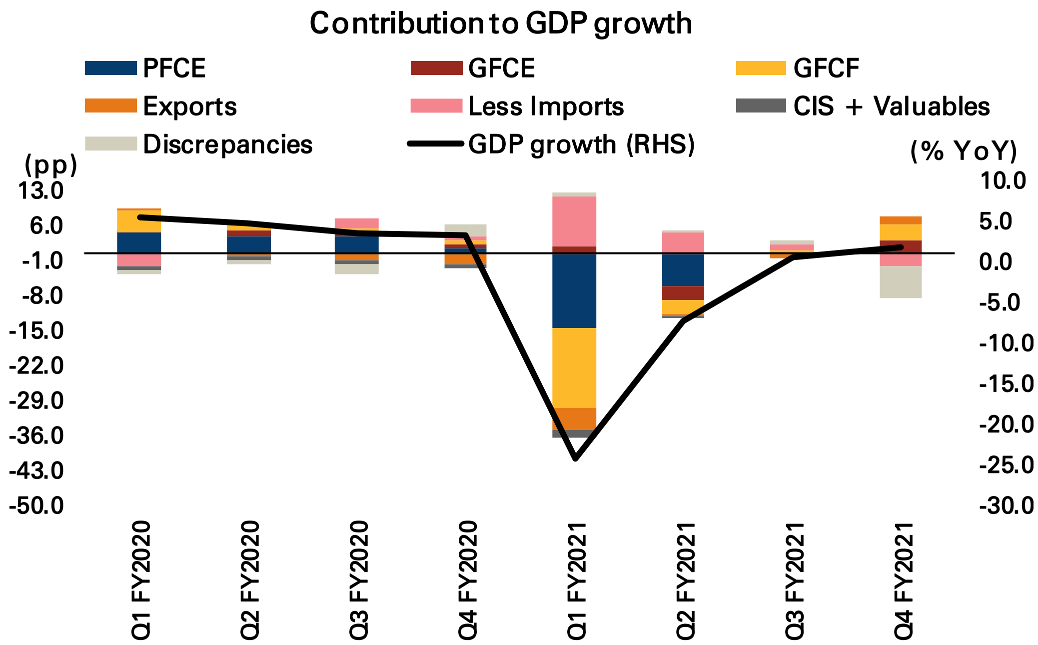
- **On the expenditure side, private consumption expenditure continued to improve sequentially while posting a marginal growth of 2.7% YoY as the** pandemic-induced scarring was already weighing on consumption, even before the second wave. The passenger vehicle sales data which posted 17.9% YoY growth in March, went up from 11.1% YoY growth in February, indicating continued improvement in the private consumption demand. Similar trend was also observed in the two wheeler sales which posted double digit growth of 10.2% YoY in March. Easing of lockdown restrictions during the first half of the Q4FY2021 has helped in consumption demand recovery
- **Government expenditure came out of contractionary territory in Q4FY2021 with Government Final Consumption Expenditure (GFCE) growing by a robust 28.3% YoY.** A closer look at government fiscal data reveals that spending towards subsidies grew by more than 6 times to INR 4.6 trillion in Q4FY2021, as against INR 711.4 bn in Q3FY2021. Full year subsidy payment for FY2021 almost tripled as compared to the previous year owning to payment of dues to Food Corporation of India (FCI) as announced in the budget and higher payments towards fertilizer subsidies. Q4 growth was mainly driven by Government spending and strong global demand and exports. In other words, the Government's fiscal response – which began to kick-in in the second half of the year, was crucial to last quarter's growth dynamics.
- **Gross fixed capital formation, or the impulse to invest which had turned positive in Q3 has grown substantially by 10.9% YoY in Q4** driven by public investment, with central government capex growing almost 75% in the second half of last fiscal – reinforced by strong construction growth on the production side. The revival in investment sentiment will not only support GDP but will be beneficial for generating employment and long-term growth. The focus of the Government in this segment has been considerable and can be seen from the fact that there has been significant recovery in the government capex in Q4FY2021.
- **Valuables have also seen growth of 107.2% YoY in Q4 owning to high purchase of gold and jewellery items on the back of falling gold prices in FYQ42021.** The exports grew by 8.8% YoY reflecting a recovery in global demand. Robust global demand is likely to continue to work as an important support for exports going forward. Imports grew even at faster pace - 13.6% YoY, reflecting improving domestic demand conditions, making the contribution of net trade to GDP negative. A rise in global commodity prices will support further improvements in import value.

GDP growth

GDP (% YoY)	Q1-FY2021	Q2-FY2021	Q3-FY2021	Q4-FY2021	FY2021 (PE)
PFCE	-26.2	-11.2	-2.8	2.7	-9.1
GFCE	12.7	-23.5	-1.0	28.3	2.9
GFCF	-46.6	-8.6	2.6	10.9	-10.8
Change in Stocks	-32.8	3.3	6.7	12.2	-2.6
Valuables	-93.0	-4.5	10.7	107.2	2.0
Exports	-21.8	-2.0	-3.5	8.8	-4.7
Less Imports	-40.9	-17.9	-5.0	12.3	-13.6
GDP	-24.4	-7.4	0.5	1.6	-7.3

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

Source: CSO, ICICI Bank Research



Source: CEIC, ICICI Bank Research

Against this backdrop, we peg our FY2022 GDP growth at 9.5 -10% YoY from our earlier expectations of 10.5-10.7% YoY due to rising spread of second wave of infections and localised lockdowns in more than 90% of the states, straining health care facilities and closure of non-essential activities leading to a consumption collapse. The recovery process might weaken, posing downside risks to our projections due to a fall in discretionary spending, less pent up demand, spread of virus in the rural areas leading to a fall in rural demand, slower pace of vaccinations, fear of a third wave and rising commodity prices leading to input cost pressures and weighing further on purchasing power of the consumers as and when the higher prices are passed on to the consumers.

However, RBI/MPC will continue to support growth through its accommodative policy stance, easy liquidity conditions and clear communication to provide relief to debt markets until growth is on a durably strong footing and uncertainty ebbs. The growth stimuli available from the Union Budget, robust pace of vaccinations and the additional long term impact measures including the PLI will provide a sturdy growth path over the recovery horizon.

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