

Press Release

Higher base weighs down Q3 FY22 GDP

NSO lowers growth estimate for FY22 on the back of revised FY21 nos

01-March-2022

India's annualized GDP growth moderated in Q3 FY22, coming below the market consensus, at 5.4% from 8.5% in Q2 FY22, weighed down by tapering of favourable statistical base of the previous year. On sequential, basis the GDP expanded at a slower pace of 6.4% in Q3 FY22 vs. 10.4% in Q2 FY22. Along with Q3 GDP growth, the second advance estimate (AE) for FY22 was also released by the NSO which pegged a weaker print for FY22 real GDP growth at 8.9% vs. the previous estimate of 9.2%. The revision was primarily due to upward revision of FY21 real GDP, leading to a lower contraction YoY from 7.3% to 6.6%. Considering the NSO estimates for FY22, the implied GDP growth for Q4 FY22 stands at 5.3%. Although the economic impact of the third Covid wave was limited as compared to the previous pandemic waves, some loss of momentum in economic revival particularly in contact intensive services amidst the spread of Omicron along with persistence of supply chain bottlenecks and sharply higher international crude oil prices due to emerging geo-political risks is expected to marginally weigh on Q4 GDP growth.

Looking at the internals for Q3 FY22, on the supply side, the drag was primarily led by industry segment particularly by construction and manufacturing sector. The manufacturing sector grew by 0.2% YoY in Q3 FY22 as compared to 5.6% in Q2 on account of supply shortages, especially in semiconductors and coal during the quarter which was also reflected in the index of Industrial Production (IIP). Value add in services exceeded the industry value add in Q3 FY22, for the second consecutive quarter since the beginning of the pandemic, albeit at a slower pace as compared to Q2 FY22. Services segment in Q4 FY22 could see some further moderation on account of significant proliferation of Omicron cases which led may states to impose mobility restrictions. On the other hand, despite the sequential strength amidst the seasonal phenomenon, annualized growth in agriculture sector eased to an 11-quarter low of 2.6% in Q3 FY22 (as compared to the average of 4.2% recorded in the last three years). This could possibly be on account of late withdrawal of monsoon along with unseasonal winter rains impacting the harvest timelines. However, strong progress on rabi sowing along with prospects of a normal monsoon in FY23 is expected to bode well for agricultural sector going ahead.

On the expenditure front, the heavy lifting has been done by private consumption which grew by 7.0% in Q3 FY22 as compared to 10.2% in Q2 with continued progress in the pace of vaccination coverage augmenting the pent-up demand. Notably, the NSO in its second advance estimate has made an upward revision to the private consumption which is now likely to expand by +1.2% vs. an earlier estimate of -2.2%, when compared to the pre-pandemic period of Q3 FY20. Investments, i.e., Gross Fixed Capital Formation rose at a slower pace of 2.0% YoY in Q3 FY22 compared to a double-digit expansion recorded in the last three quarters, in line with moderation seen in the production of infrastructure & construction goods and capital goods. Nevertheless, going forward, government's focus on capital expenditure underscored

in the Union Budget, improvement in capacity utilization, low interest rate environment along with government incentives in the form PLI schemes is likely to augur well for a turnaround in private sector investments in FY23.

Although not very significant, the Omicron wave dented the pace of growth recovery that posted a good run post the second Covid wave amidst a mix of pent-up, festive and some organic demand. A similar narrative was also reflected in our inhouse proprietary AMEP (Acuité Macroeconomic Performance) index easing marginally to 112.2 in Jan-22 from 115.0 in Dec-21. From growth perspective, the index contracted sequentially by 2.5% MoM in Jan-22 from an expansion of 3.3% in Dec-21. However, the silver lining to the outlook comes from relatively lower severity of the Omicron wave with cases having peaked rather quickly amidst robust vaccination coverage, prevailing level of seroprevalence, improvement in medical and healthcare facilities and better management of supply chain logistics. In addition, vaccination coverage continues to power ahead with over 80% of the adult population being double vaccinated. Further, the monetary as well fiscal policy environment also remains conducive for overall economic growth.

That said, the pace of economic revival in the near term could be clouded once again on the back of ongoing geopolitical strife between Russia and Ukraine that has created an additional stress on an already elevated commodity price scenario and existing supply chain bottlenecks. Additionally, the scale back of fiscal and monetary policy support in most developed economies, and the financial market volatility (amidst rising interest rates and prospects of quantitative tightening) could impact capital flows and weigh on overall growth momentum in the next couple of months.

Overall, given the revision to FY21 GDP data and consequently a less favorable base for FY22, our GDP growth estimate for FY22 has been revised lower to 9.2% albeit it remains marginally higher than the NSO estimate of 8.9%. We believe that the final GDP print for FY22 can surprise on the upside given the limited impact of the third pandemic wave. For FY23, we expect GDP growth at 7.5% amidst government's strong thrust on infrastructure segment highlighted in the Union Budget FY23, healthy progress on vaccination, moderate recovery in rural consumption and the full play out of pent-up demand although it is likely to be partly offset by high crude oil prices and higher than expected inflationary pressures.

ANNEXURE

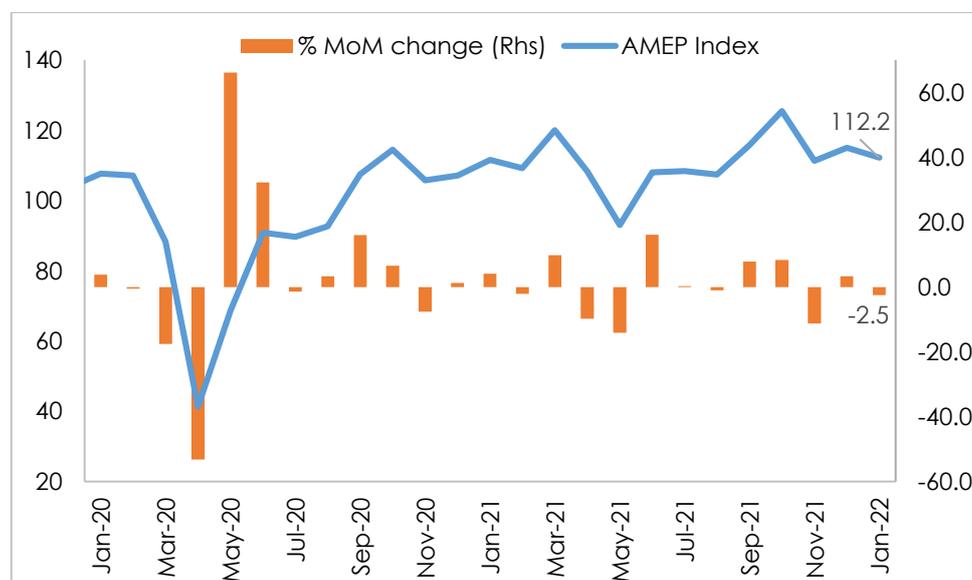
Table 1: Key highlight of GVA data (% YoY)

	2020-21	2021-22 (E)	Q3 FY22
Total	-4.8	8.3	4.7
Agriculture, forestry and fishing	3.3	3.3	2.6
Industry	-3.3	10.3	0.2
Mining and quarrying	-8.6	12.6	8.8
Manufacturing	-0.6	10.5	0.2
Electricity, gas, water supply services	-3.6	7.8	3.7
Construction	-7.3	10.0	-2.8
Services	-7.8	8.6	8.2
Trade, hotels, transport, comm. services	-20.2	11.6	6.1
Financial ser., real estate and profess. services	2.2	4.3	4.6
Public admin., defence and other services	-5.5	12.5	16.8

Table 2: Key highlight of GDP data (% YoY)

	2020-21	2021-22 (E)	Q3 FY22
Private Consumption	-6.00	7.63	7.03
Government Consumption	3.59	4.83	3.42
Gross Fixed Capital Formation	-10.40	14.56	2.01
Exports	-9.24	21.07	20.89
(less) Imports	-13.81	29.88	32.65
GDP	-6.6	8.9	5.4

Chart 1: Slowdown in the AMEP index in Nov-Dec'21



About Acuité Ratings & Research Limited:

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