

Press Release

India's GDP back to its pre-Covid levels Growth supported by a robust recovery in services sector

1 December 2021

India's annualized Q2 FY22 GDP growth print came close to our expectations, at 8.4% from a record high print of 20.1% YoY, outpacing economic growth in major DM and EM economies (Chart 1). In addition to the favourable statistical base of last year, consumer expenditure picked up pace registering a growth of 9.2% YoY as gradual unwinding of lockdown restrictions and increase in the pace of vaccinations augmented pent-up demand. Encouragingly, Investments, i.e., Gross Fixed Capital Formation rose by 11.0% YoY in Q2 FY22 compared to a contraction of 8.6% in Q2 FY21 reflecting an improvement in production of capital, infrastructure & construction goods, and continued support from robust public capital expenditure (central government capital spending grew by 51.9% YoY in Q2 FY22). What is worthwhile to note is that, Q2 FY22 GDP in absolute terms has surpassed its pre-pandemic level (Q2 FY20) by 0.33%, signifying that the drag on economic activity is now behind us.

From the demand side, GVA also registered a similar outturn with annualized print clocking a growth of 8.5% in Q2 FY22 from 18.8% in Q1 FY22. The expansion is primarily driven by a sharper growth in services (10.2% YoY) followed by agriculture sector (4.5% YoY). Within services, easing of lockdown restrictions led trade, hotels and transportation to record a robust growth on annualized and sequential basis by 8.2% YoY and 24.9% QoQ respectively. This was very well corroborated in certain high frequency indicators such as google mobility index which is now tracking at pre-covid levels along with uptick recorded in passenger freight (air and rail). Interestingly, public administration, defence and other services also saw a strong rebound of 17.4% YoY from -9.2% in Q2 FY21 amidst increase in central and state government revenue expenditure. On the other hand, manufacturing sector grew by 5.5% YoY in Q2 FY22 reflecting both a gradual recovery in domestic demand and buoyant exports.

On sequential basis, post the second wave driven contraction in Q1 FY22, the GDP and GVA print have recorded an expansion of 10.4% and 7.9% respectively. The sequential revival in economic activity was clearly reflected in our **proprietary AMEP (Acuite Macroeconomic Performance) index** expanding by 7.2% QoQ in Q2 FY22 from a contraction of 9.3% in Q1 FY22. Growth momentum in the month of Oct-21, as also highlighted in our AMEP index, saw considerable upside with most high frequency indicators recovering above their pre-pandemic levels (for further details refer: https://www.acuite.in/pdf/PR_Index_Oct-21.pdf). In first half of Nov-21, we however notice some slowdown in incremental economic activity, which we attribute to seasonality on account of Diwali holidays. Nevertheless, the continued tapering of Covid infections, further progress on vaccination along with the festive season augmenting pent-up demand are likely to push India's sequential growth recovery well into Q3 FY22. However, the sustainability of such demand for both manufactured goods as well as services post Q3 FY22 needs to be monitored to gauge the durability of consumption demand beyond the festive boost.

For FY22, we continue to retain our GDP growth forecast at 10.0% albeit with some downside risks that could possibly emanate from 1) Supply chain disruptions and raw material shortages such as semiconductors that has impacted automobile output 2) Higher commodity prices that have led to a surge in input costs in several manufacturing sectors and could weigh on producer margins in the manufacturing sector in Q3FY22 and may also impact demand if a higher pass through happens 3) Persistence of higher global inflation which may translate into a faster normalization of monetary policies in some of the developed economies, translating to a volatility in capital flows and 4) lastly, resurgence in Covid cases in Europe and the discovery of a new variant of concern in Africa have cast some clouds on global growth. While we believe that the economic implications of another potential pandemic wave should remain limited amidst strong progress in the pace of vaccination, it is likely to create fresh uncertainties for the contact intensive and the travel sectors.

Chart 1: India growth relatively better vs major DMs and EMs with base factor support

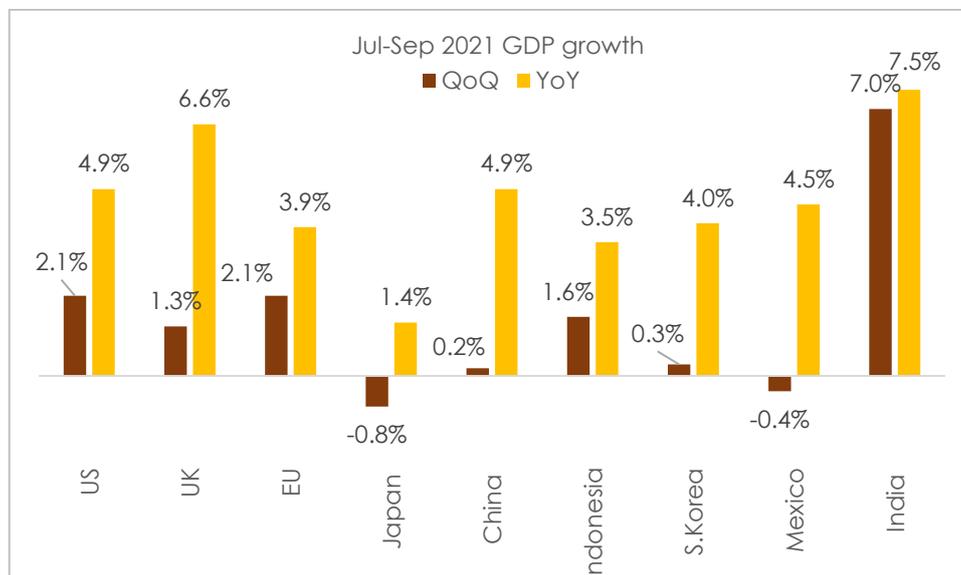
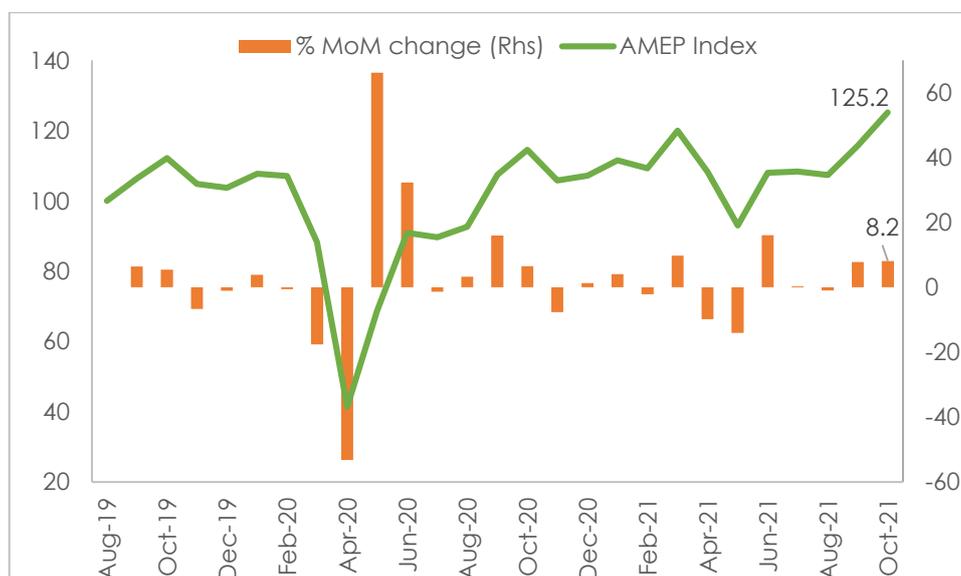


Chart 2: The economic activity improved further in Oct-21 amid festive cheer



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Media Contacts:

Roshni Rohira Ph: + 91-9769383310 roshnirohira@eminenceonline.in	Neelam Naik Ph: + 91-9619699906 neelam@eminenceonline.in
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Investor Outreach:**Analytical Contact:**

Rituparna Roy Deputy Vice President Ph: + 91-7506948108 rituparna.roy@acuite.in	Suman Chowdhury Chief Analytical Officer Ph: + 91-9930831560 suman.chowdhury@acuite.in
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