

2QFY21 GDP Growth Review

30 November 2020

2QFY21 GDP slightly better than expected at -7.5% YoY, but where is the stimulus?

2QFY21 GDP contracted by 7.5% YoY while GVA contracted by 7% YoY. This was slightly better than Bloomberg consensus expectation and our expectation of 8.2% GDP contraction but does not really call for a revision of our FY21 GDP forecast, which stands at -8.5%. Nominal GDP growth contracted by 4% YoY, improving from a contraction of 22.6% in the previous quarter. The upside surprise came from industry, which grew by 0.1% YoY, supported by manufacturing growing by 0.6% YoY and electricity, gas & water supply growing by 4.4% YoY. The 0.6% YoY growth in manufacturing is not entirely surprising as operating profitability of BSE 500 companies (ex-banks) was up by over 5% YoY. But, in our preview, we had conservatively given a slightly higher weightage to manufacturing as measured by the index of industrial production (IIP), which contracted by 6.8% YoY. Agriculture grew by 3.4% YoY, unchanged from the previous quarter and slightly lower than our estimate of 3.9%. Services (including construction) contracted by 11.1% YoY - in line with our estimate. However, trade, hotels, transport & communication did better than our estimate, registering a decline of 15.6% YoY (vs. our estimate of 25%). This was offset by a sharper than expected decline in financial, real estate & professional services; construction; and public administration & defence services. Government spending is now clearly a drag on growth. Public administration & defence services declined by 12.2% YoY, worse than a 10.3% decline in 1QFY21. On the expenditure side of GDP, government consumption was down 22.2% YoY. The trend of declining government expenditure has sustained in 3QFY21. Data released separately showed that total expenditure was up by only 0.4% YoY for April-October 2020. The fiscal deficit for April-October 2020 stood at 119.7% of budget estimate. Moreover, incoming data suggests that recovery is unlikely to be a one-way path. Core infrastructure industries output declined by 2.5% YoY in October'20 after a 0.2% YoY decline in the previous month despite a low base. This was mainly on account of lower refinery output, which declined by 16.9% YoY in October'20 after a 9.5% YoY decline in the previous month.

Agriculture holding up; manufacturing shows some positive surprise: 2QFY21 GDP contracted by 7.5% YoY while GVA contracted by 7% YoY. Nominal GDP contracted by 4% YoY, improving from a contraction of 22.6% in the previous quarter. The upside surprise came from industry, which grew by 0.1% YoY, supported by manufacturing growing by 0.6% YoY and electricity, gas & water supply growing by 4.4% YoY. The 0.6% YoY growth in manufacturing is not entirely surprising as operating profitability of BSE 500 companies (ex-banks) was up by over 5% YoY. But, in our preview, we had conservatively given slightly higher weightage to manufacturing as measured by the IIP, which had contracted by 6.8% YoY. Agriculture grew by 3.4% YoY, unchanged from the previous quarter and slightly lower than our estimate of 3.9%. Mining output was down by 9.1% YoY.

Government spending a drag on growth: Services, including construction, contracted by 11.1% YoY - in line with our estimate. However, trade, hotels, transport & communication did better than our estimate, registering a decline of 15.6% YoY (vs. our estimate of 25%). This was offset by a sharper-than-expected decline in financial, real estate & professional services; construction; and public administration & defence services. Government spending is now clearly a drag on growth. Public administration & defence services declined by 12.2% YoY, worse than a 10.3% decline in 1QFY21. Finance, real estate & professional services declined by 8.1% YoY in 2QFY21, worse than a 5.3% decline in the previous quarter. Construction was down 8.6% YoY in 2QFY21, improving sharply from a 50.3% decline in the previous quarter. On the expenditure side of GDP, government consumption was down 22.2% YoY. The trend of declining government expenditure has sustained in 3QFY21. Data released separately showed that total expenditure was up by only 0.4% YoY. The fiscal deficit for April-October 2020 stood at 119.7% of budget estimate. Capex was down 1.9% YoY and revenue expenditure was up 0.7% YoY for April -October'20. In October'20, capex was up 129.5% YoY (on a low base of a 5.1% decline) while revenue expenditure was down 1.3% YoY. Total expenditure was up 9.5% YoY.

Fixed investment shows resilience: Private consumption was down 11.3% YoY in 2QFY21, improving from a 26.7% decline in the previous quarter. In a surprising and interesting trend, fixed investment did better than private consumption and was down by just 7.3% YoY, improving from a contraction of 47.1% in 1QFY21, probably boosted by some pick-up in real estate activity and investment in rural development schemes.

FY21 GDP unchanged at -8.5%; recovery may still be uneven and prolonged: Although 2QFY21 GDP was slightly better than expectations, it does not really call for a revision of our FY21 GDP forecast, which stands at -8.5%. We are expecting a decline of 2.1% in 3QFY21 and flat growth in 4QFY21. Moreover, incoming data suggests that recovery is unlikely to be a one-way path. Core infrastructure industries output declined by 2.5% YoY in October'20 after a 0.2% YoY decline in the previous month despite a low base. This was mainly on account of lower refinery output, which declined by 16.9% YoY in October'20 after a 9.5% YoY decline in the previous month. Coal output was up 11.5% YoY but was down vs. 21.2% growth recorded in the previous month. Crude oil production declined by 6.3% YoY and natural gas output declined by 8.6% YoY. Cement production turned positive and was up 2.8% YoY while electricity production was up 10.5% YoY. But, steel production declined by 2.7% YoY. After a brief dip in the previous month, fertiliser production was up 6.3% YoY. We are also relatively cautious on GDP growth in FY22 and our forecast stands at 6% as containment measures would well continue into 1HCY21.

RBI likely to stay on hold on December 4th: On balance, with inflation above the RBI's 6% target, slightly better than expected GDP growth in 2QFY21 and improvement in high frequency indicators (in our Macro Meter the number of indicators in positive territory stand at about 57% in October unchanged from September), we expect the central bank to keep rates on hold at its meeting on December 4th. However, we do expect 25-50bps of rate cuts in 1HCY21 as inflation eases.

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Exhibit 1: 2QFY21 GDP contracts by 7.5%; FY21 GDP forecast unchanged at -8.5%

| | % of GDP | FY19 | FY20 | FY21E | FY22E | Q1FY21 | Q2FY21 |
|---|-------------|------------|------------|---------------|------------|---------------|---------------|
| Agriculture | 13.8 | 2.4 | 4.0 | 3.4 | 3.5 | 3.4 | 3.4 |
| Industry excluding construction | 21.2 | 4.5 | 0.8 | (8.3) | 6.4 | (33.8) | 0.1 |
| Mining and Quarrying | 2.7 | (5.8) | 3.1 | (8.0) | 4.0 | (23.3) | (9.1) |
| Manufacturing | 16.5 | 5.7 | - | (9.5) | 6.5 | (39.3) | 0.6 |
| Electricity gas and water supply | 2.1 | 8.2 | 4.1 | 1.0 | 8.0 | (7.0) | 4.4 |
| Services including construction | 56.8 | 7.5 | 5.0 | (10.4) | 6.4 | (24.3) | (11.1) |
| Construction | 7.3 | 6.1 | 1.3 | (14.0) | 3.5 | (50.3) | (8.6) |
| Trade, hotels etc. | 17.6 | 7.7 | 3.6 | (20.0) | 8.0 | (47.0) | (15.6) |
| Finance, insurance, real estate etc. | 20.0 | 6.8 | 4.6 | (4.0) | 6.0 | (5.3) | (8.1) |
| Public administration, defence and other services | 11.8 | 9.4 | 10.0 | (5.0) | 6.5 | (10.3) | (12.2) |
| GVA at basic price | | 6.0 | 3.9 | (7.9) | 5.9 | (22.8) | (7.0) |
| GDP at market price | | 6.1 | 4.2 | (8.5) | 6.0 | (23.9) | (7.5) |
| GDP by expenditure | | | | | | | |
| Private cons. exp. (PCE) | 56.4 | 7.2 | 5.3 | (8.0) | 7.0 | (26.7) | (11.3) |
| Govt. cons. exp. (GCE) | 10.4 | 10.1 | 11.8 | 9.0 | 7.7 | 16.4 | (22.2) |
| Gross fixed cap. formation (GFCF) | 30.8 | 9.8 | (2.8) | (13.0) | 4.0 | (47.1) | (7.3) |
| Net exports | | | | | | | |
| Exports | 20.2 | 12.3 | (3.6) | (11.1) | 7.5 | (19.8) | (1.5) |
| Imports | 22.4 | 8.6 | (6.8) | (10.1) | 7.0 | (40.4) | (17.2) |

Source: CSO, CEIC, Nirmal Bang Institutional Equities Research.

Exhibit 2: Fiscal deficit at 119.7% of budget; but government cutting back on expenditure

| Item (Rsbn) | FY19A | FY20A | FY20 (YTD) | FY21 (YTD) | FY20(% of BE) | FY21(% of BE) | FY21 (%YoY) |
|------------------------------------|------------------|------------------|------------------|------------------|---------------|---------------|---------------|
| 1 Revenue Receipts | 15,530.1 | 16,820.9 | 9,076.3 | 6,919.0 | 46.2 | 34.2 | (23.8) |
| 2 Tax Revenue (net to centre) | 13,172.1 | 13,558.9 | 6,834.9 | 5,757.0 | 41.4 | 35.2 | (15.8) |
| 3 Non-Tax Revenue | 2,358.0 | 3,262.0 | 2,241.5 | 1,162.1 | 71.6 | 30.2 | (48.2) |
| 4 Non-debt capital receipts | 1,126.8 | 686.2 | 268.3 | 164.0 | 22.4 | 7.3 | (38.9) |
| 5 Recoveries of Loans | 179.6 | 183.2 | 94.6 | 102.2 | 55.6 | 59.2 | 8.0 |
| 6 Other Receipts (Divestment) | 947.3 | 503.0 | 173.7 | 61.8 | 11.8 | 63.8 | 68.3 |
| 7 Total Receipts (1+4) | 16,657.0 | 17,507.1 | 9,344.6 | 7,083.0 | 44.9 | 31.5 | (24.2) |
| 8 Revenue Expenditure | 20,080.2 | 23,496.2 | 14,536.3 | 14,641.0 | 59.4 | 55.7 | 0.7 |
| 9 Capital Expenditure | 2,735.4 | 3,367.4 | 2,012.7 | 1,973.6 | 59.5 | 47.9 | (1.9) |
| 10 Total Expenditure (8+9) | 22,815.6 | 26,863.6 | 16,549.1 | 16,614.5 | 59.4 | 54.6 | 0.4 |
| 11 Fiscal Deficit {7-10} | (6,158.7) | (9,356.6) | (7,204.5) | (9,531.5) | 102.4 | 119.7 | 32.3 |
| % of GDP | -3.40% | -4.6% | | | | | |

Source: CSO, CEIC, Nirmal Bang Institutional Equities Research.

Exhibit 3: Core sector declines 2.5%YoY in October'20

| % YoY | Weight (%) | Sep-19 | Oct-19 | Sep-20 | Oct-20 |
|--------------------------------|------------|--------|--------|--------|--------|
| Core infrastructure industries | | (5.1) | (5.5) | (0.2) | (2.5) |
| Coal | 10.3 | (20.5) | (17.5) | 21.2 | 11.5 |
| Crude Oil | 9.0 | (5.3) | (5.1) | (6.1) | (6.3) |
| Natural Gas | 6.9 | (4.9) | (5.7) | (10.6) | (8.6) |
| Petroleum Refinery Products | 28.0 | (6.6) | 0.3 | (9.5) | (16.9) |
| Fertilizers | 2.6 | 5.5 | 11.8 | (0.4) | 6.3 |
| Steel | 17.9 | (1.4) | (0.5) | 2.8 | (2.7) |
| Cement | 5.4 | (1.9) | (7.7) | (3.5) | 2.8 |
| Electricity | 19.9 | (2.6) | (12.2) | 4.9 | 10.5 |

Source: MoSPI, Nirmal Bang Institutional Equities Research.

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