

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
<i>Mining and Quarrying</i>	2.7	(5.8)	3.1	(8.0)	4.0	(23.3)	(9.1)
<i>Manufacturing</i>	16.5	5.7	-	(9.5)	6.5	(39.3)	0.6
<i>Electricity, gas and water supply</i>	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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