

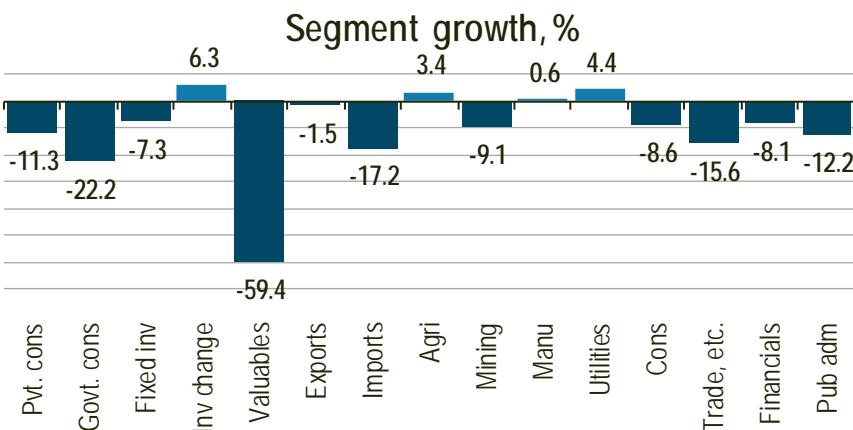
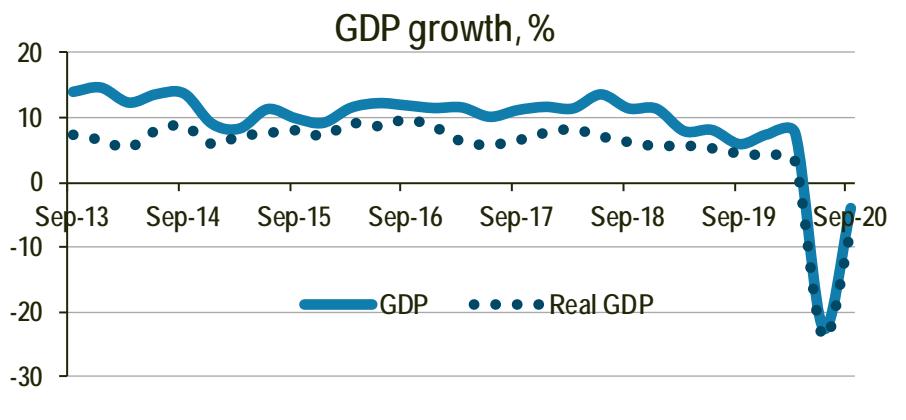
	vs. growth in		
	Sep-20	Jun-20	Sep-19
GDP	-7.5	↑	↓
Pvt. Consumption	-11.3	↑	↓
Govt. consumption	-22.2	↓	↓
Fixed investment	-7.3	↑	↓
Exports	-1.5	↑	↑
Imports	-17.2	↑	↓
GVA	-7.0	↑	↓
Agriculture	3.4	↑	↓
Industry	-2.1	↑	↓
Services	-11.4	↑	↓

Real GDP growth, %

	Dec-19	Mar-20	Jun-20	Sep-20
GDP	4.1	3.1	-23.9	-7.5
Pvt. Consumption	6.6	2.7	-26.7	-11.3
Govt. consumption	13.4	13.6	16.4	-22.2
Fixed investment	-5.2	-6.5	-47.1	-7.3
Exports	-6.1	-8.5	-19.8	-1.5
Imports	-12.4	-7.0	-40.4	-17.2
GVA	3.5	3.0	-22.8	-7.0
Agriculture	3.6	5.9	3.4	3.4
Industry	-0.3	-0.6	-38.1	-2.1
Services	5.7	4.4	-20.6	-11.4

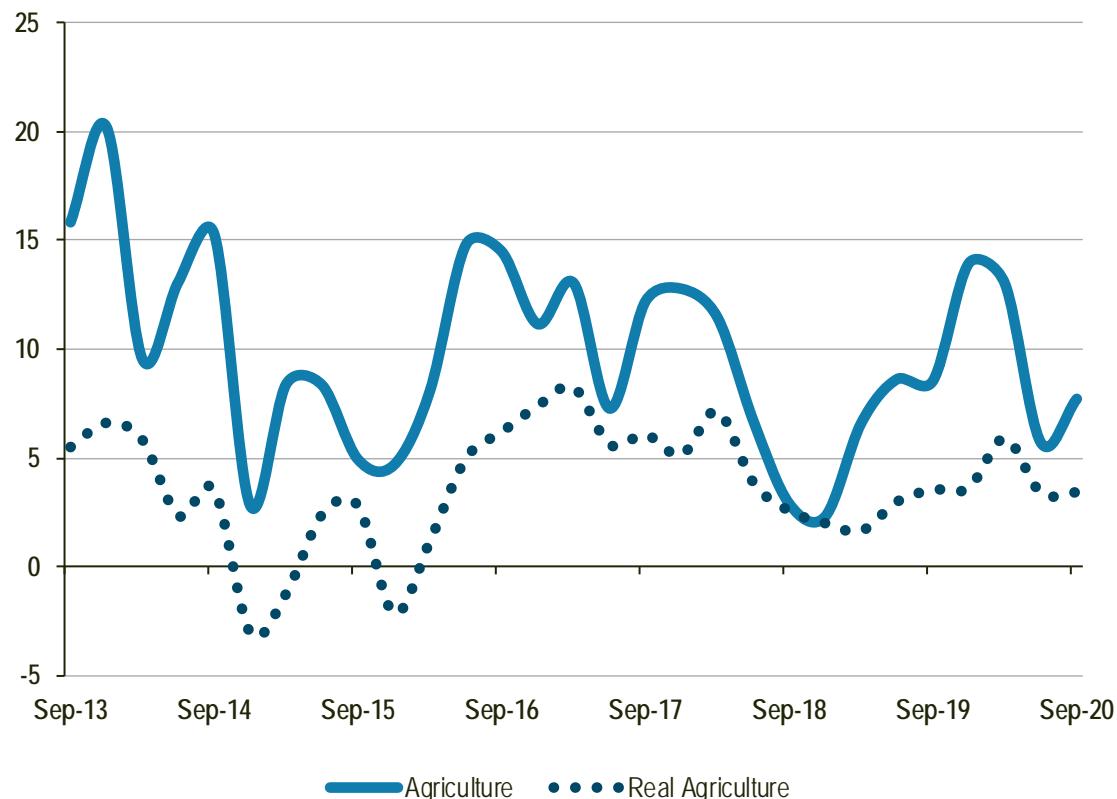
As expected, India entered the first technical recession in the known history. Yet, -7.5% decline in GDP growth during Sep'20 was better than expected. Positive net exports, better than expected manufacturing recovery and modest improvement in investment rate raise hope for H2 FY21. Fiscal conservatism and subdued consumption key concerns

- Decisive improvement.** With -7.5% growth in quarter ending Sep'20 on the back of a -23.9% growth in the previous quarter, India is officially under a technical recession for the first time in the known history of the country. Despite this, the rebound, especially of manufacturing, fixed investment and exports, have been ahead of expectations. A positive net exports on the demand side and resilience of agriculture and V-shaped recovery in manufacturing, on the supply side, led the recovery.
- A mixed bag.** Despite better-than-expected recovery, subdued private consumption and services activities remain causes for concern. Conservative fiscal stance led to sharp contraction in government consumption during the quarter ending Sep'20. While this will have salutary effect on containing the fiscal deficit, the implications for economic recovery can be negative.
- Encouraging prospects.** With the simultaneous cautious removal of lock down restrictions and flattening of the infection curve, the outlook for H2 FY21 looks promising. While we were earlier expecting India's full year real growth to contract by close to 10%, we now estimate that the economy will shrink by 9% during FY21.
- Easy monetary policy to continue, fiscal stance remain uncertain.** The unexpected hardening of retail inflation has compelled the RBI to hold back cut in policy rates. Inflation, however, is driven mainly by high food prices. We expect retail inflation to start softening from Nov'20 and the RBI to resume rate cut during Q4 FY21. With the current conservative fiscal stance, however, we are not sure the fiscal policy will be as accommodative in H2 as it was in H1 FY21 .

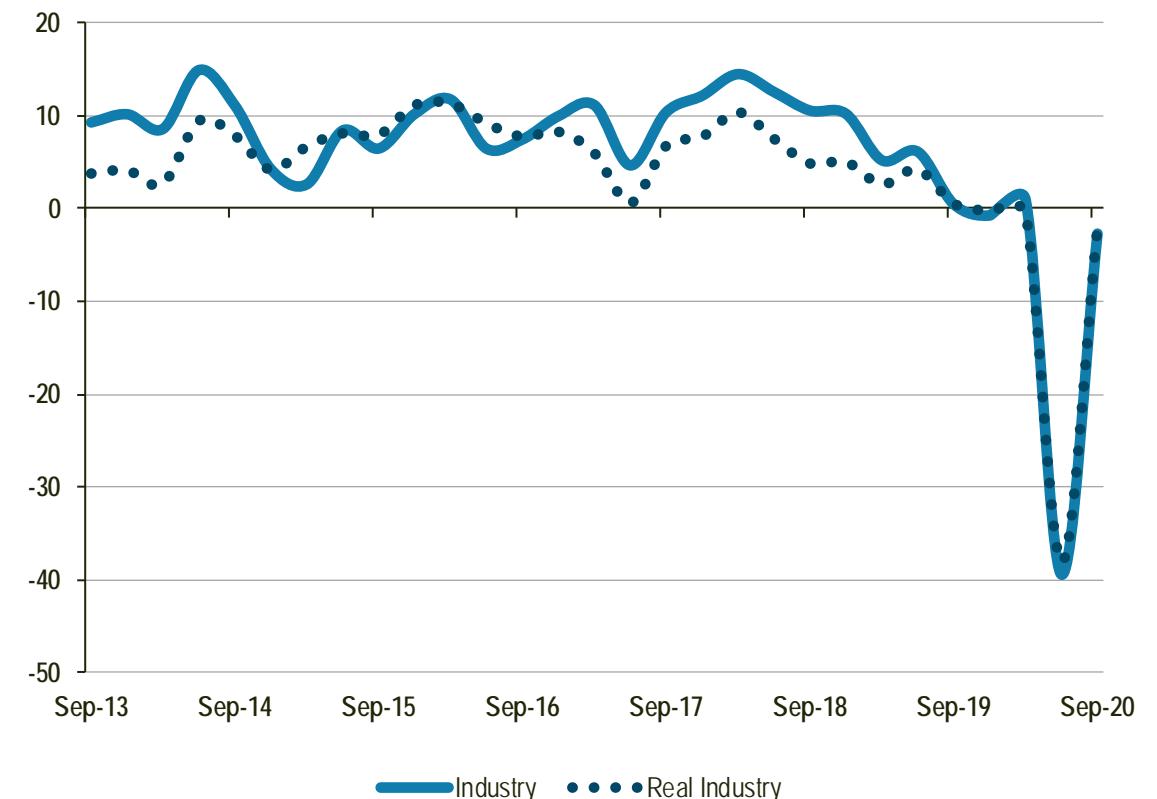


- **Resilience of agriculture continues.** For the second successive quarter, agriculture recorded the highest growth rate among all constituents of gross value added (GVA). As in the quarter ending Jun'20, agriculture in real terms grew by 3.4% during the quarter ending Sep'20.
- **V-shaped industrial recovery.** With all constituents of industry recording improvement in growth rate during the quarter ending Sep'20 vs. Jun'20, the overall industrial growth recorded marked recovery. Manufacturing and utilities recorded growth while mining and construction remained in the contraction mode. The overall industrial growth rate during the quarter ending Sep'20 was at -2.1% versus -38.1% in the previous quarter
- **Restrictions eased; activities picked up.** Sharp contraction in GDP during the quarter ending Jun'20 and the recovery but still a contraction during the quarter ending Sep'20 can largely be attributed to lock down restrictions. With the relaxation of restrictions economic activities have picked up and we expect the trend to continue.

Agriculture growth, %

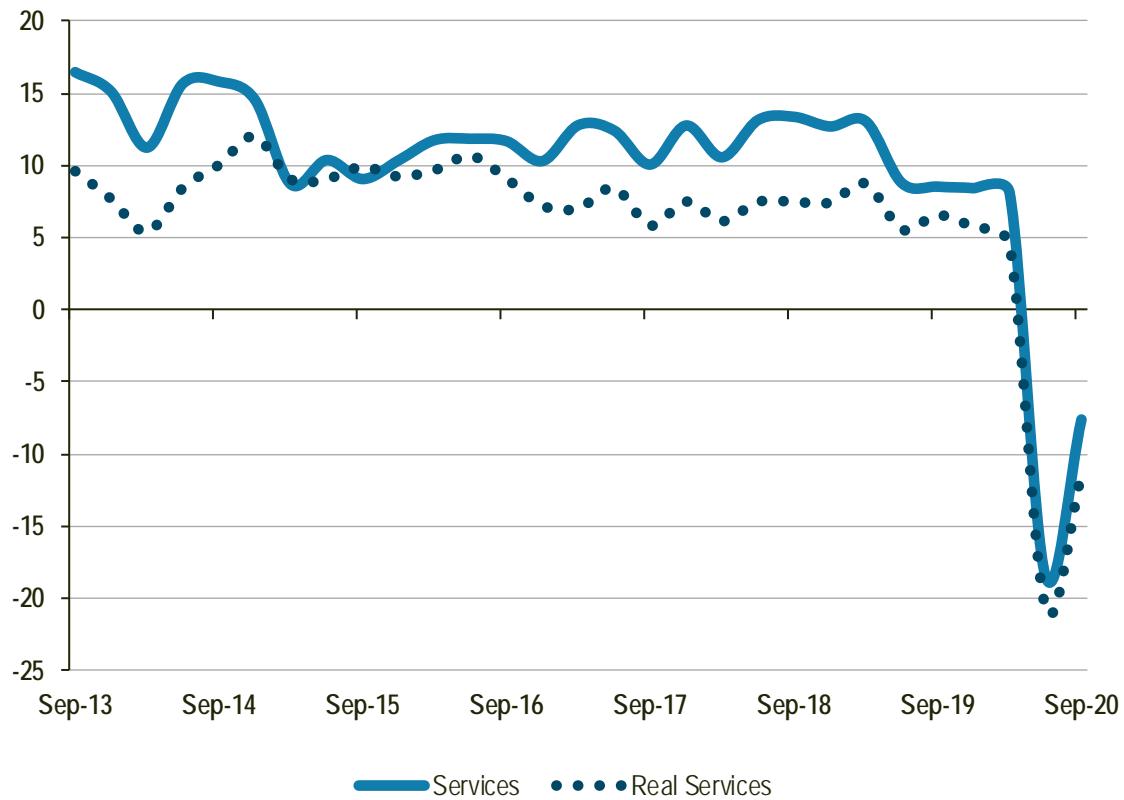


Industry growth, %

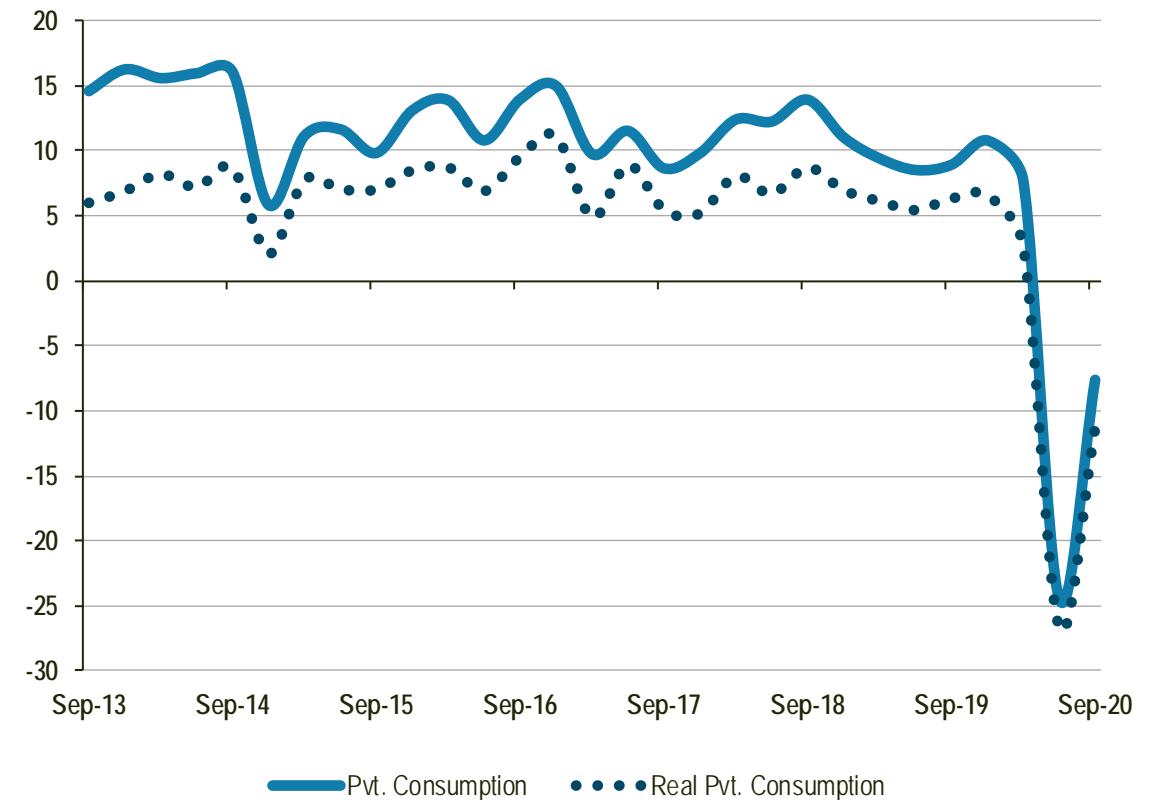


- **Services recorded feeble recovery.** Lock down restrictions impacted industrial activities more than services activities during the quarter ending Jun'20. In contrast, recovery of the services sector during the quarter ending Sep'20 has been far less marked vs. the industry. As compared to a decline of -20.6% in quarter ending Jun'20, services activities contracted by -11.4% in quarter ending Sep'20. Trade, hospitality and communication continues to remain the most impacted segment of the services sector. Yet, the extent of decline in this segment has come down in quarter ending Sep'20. In contrast, both financial and real estate services and public administration, defence and other services recorded deterioration of growth rate in the quarter ending Sep'20 vs. the quarter ending Jun'20.
- **Consumer spending still subdued.** Private consumption continued to contract albeit at a lower rate of -11.3% in Sep'20 vs. -26.7% in Jun'20. Dislocation of supply chain laid shortages and contraction in demand due to falling income and rising unemployment coupled with generally subdued sentiment constrained recovery of private consumption. With marked improvements during the festive season, we expect private consumption to do better in H2 FY21.

Services growth, %

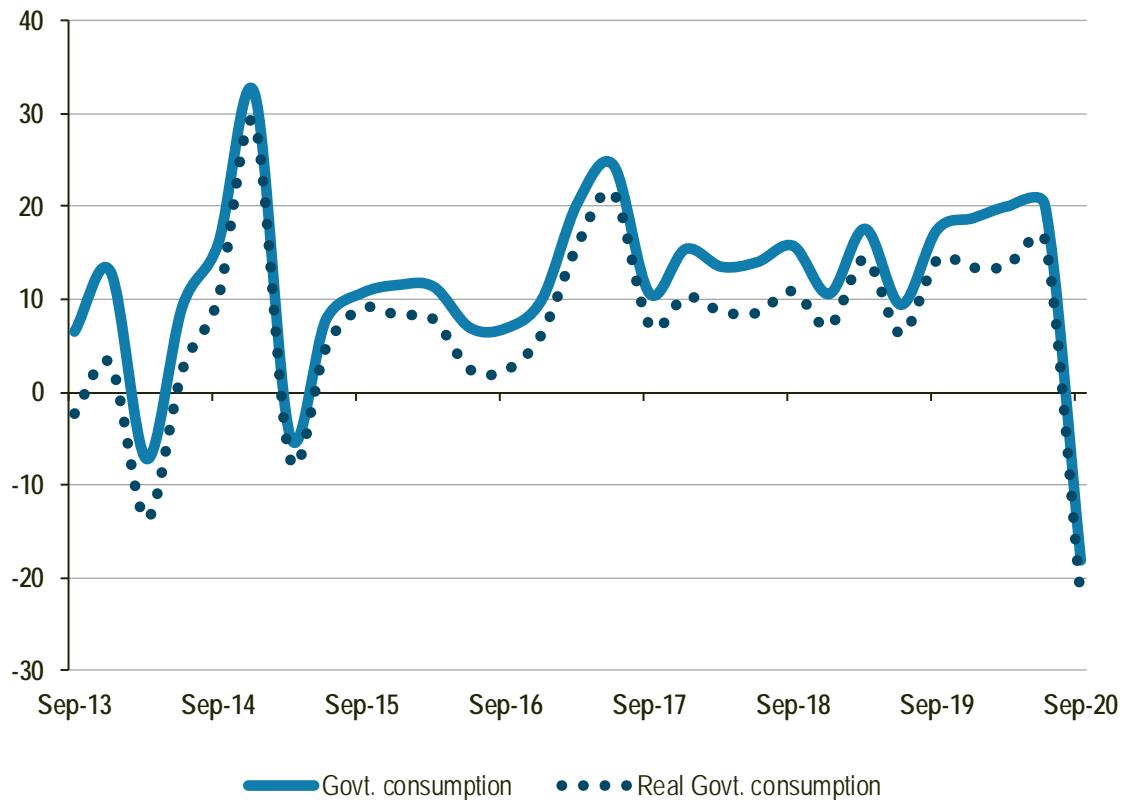


Private consumption growth, %

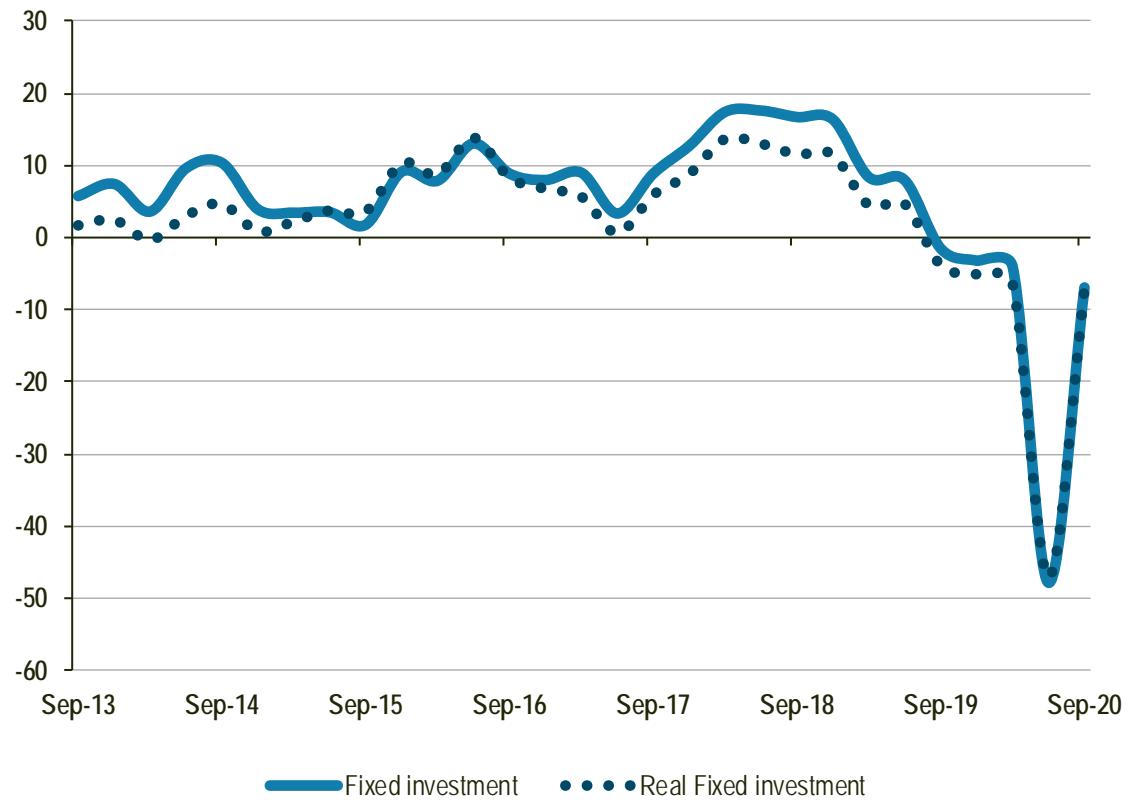


- **Investment still contracting.** Fixed investment, the biggest component of capital formation, declined by -7.3% during the quarter ending Sep'20 vs. a collapse by -47.1% in Jun'20. The better than expected recovery in investment seem to suggest restarting of some of the stalled projects in a staggered manner during the latest quarter.
- **Contraction in government consumption.** From a major increase by 16.4% during the quarter ending Jun'20, government consumption contracted sharply by -22.2% in Sep'20. With the ballooning of fiscal deficit during the quarter ending Jun'20 due to marked contraction in receipt and high spending, government has scaled down spending during the quarter ending Sep'20. In particular, revenue spending has been reduced.
- **Capex may surprise in H2 FY21.** While concerns of fiscal deficit may keep the overall government spending low in H2 FY21, the plan for public capex has been scaled up. In addition, tendering of public projects has been accelerated. These, coupled with lower lending rate may result in a modest recovery in investment during H2 FY21.

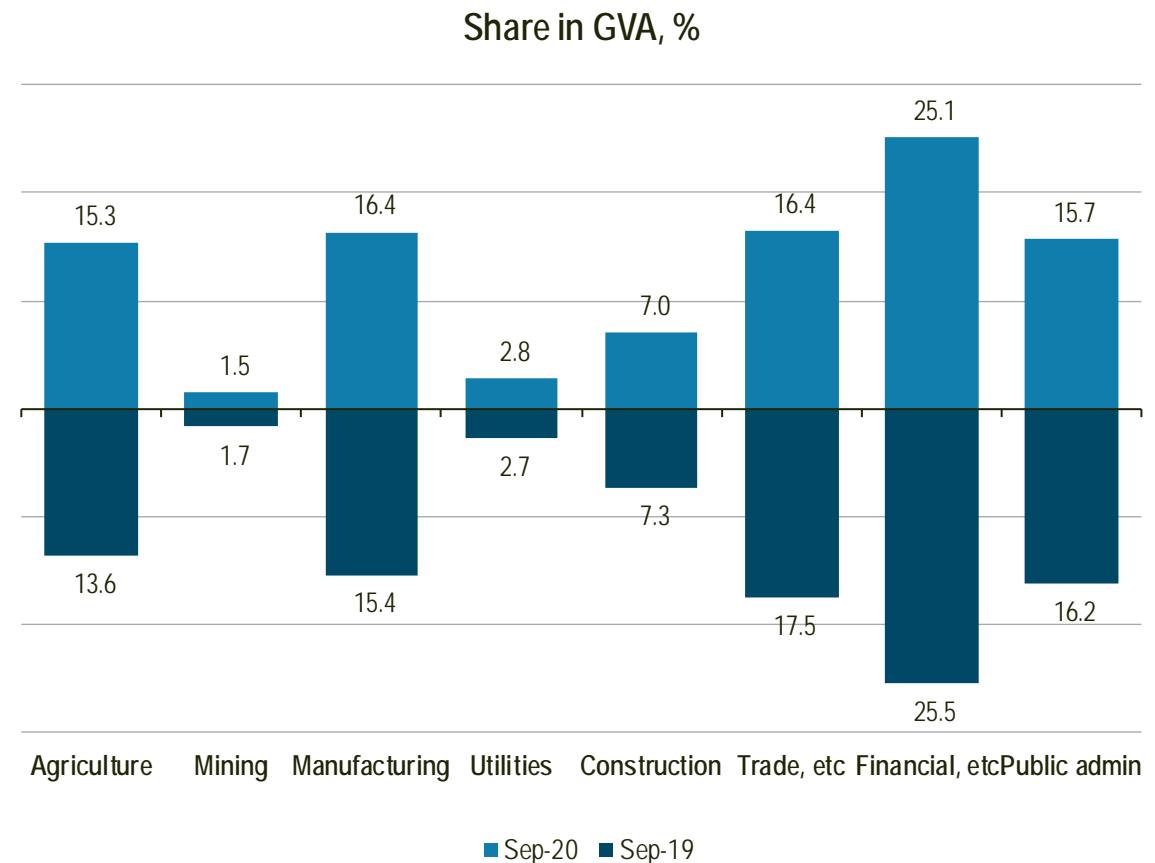
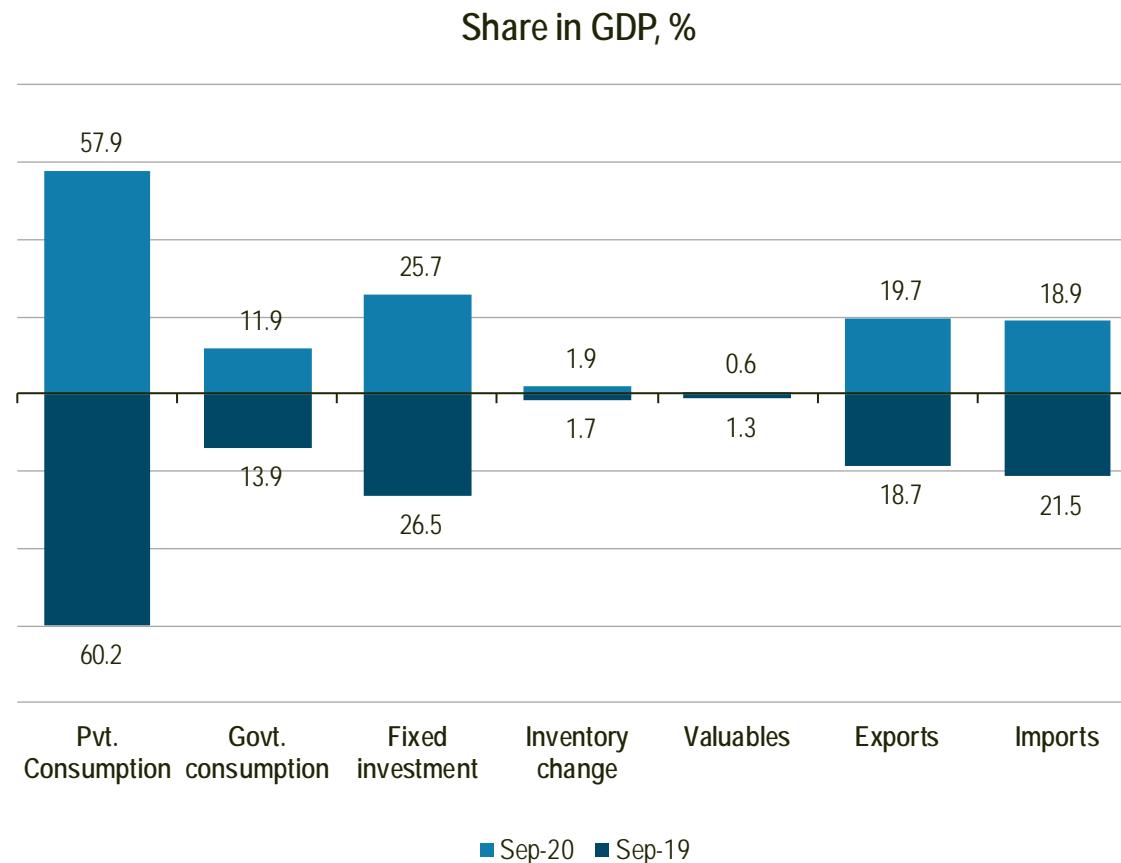
Government consumption growth, %



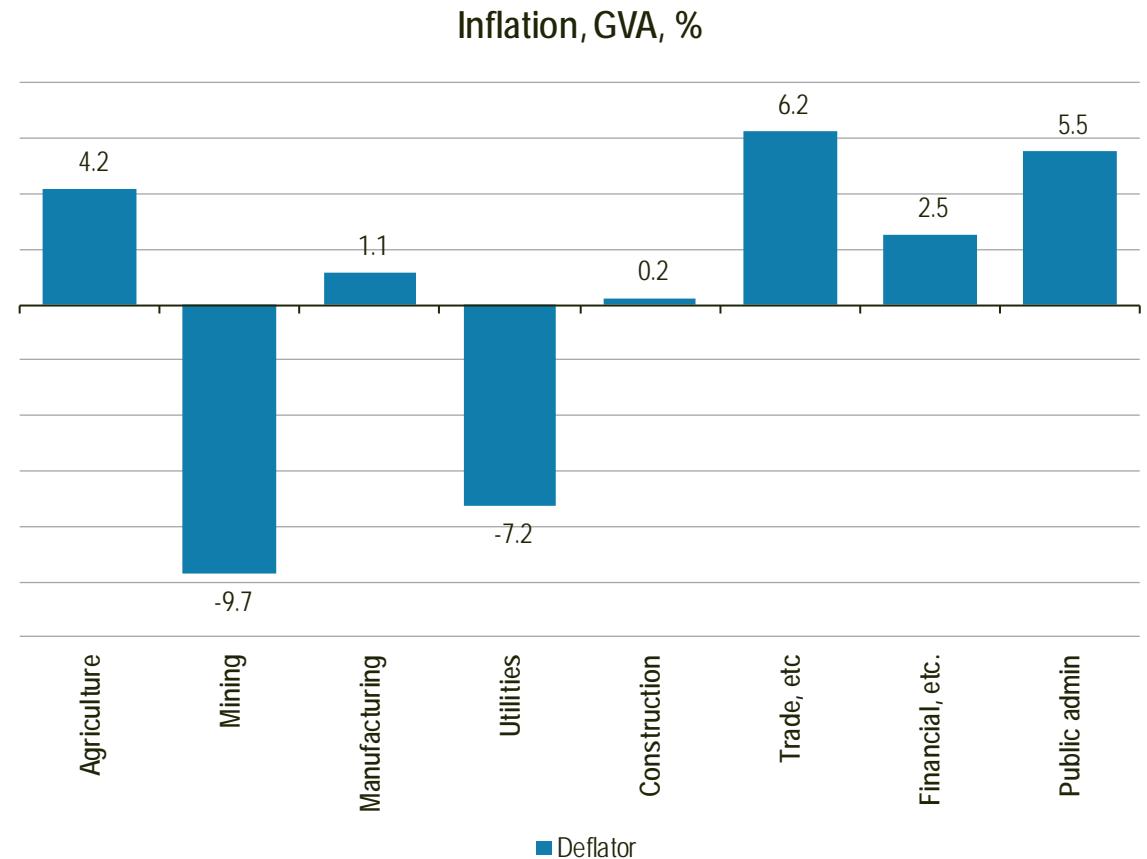
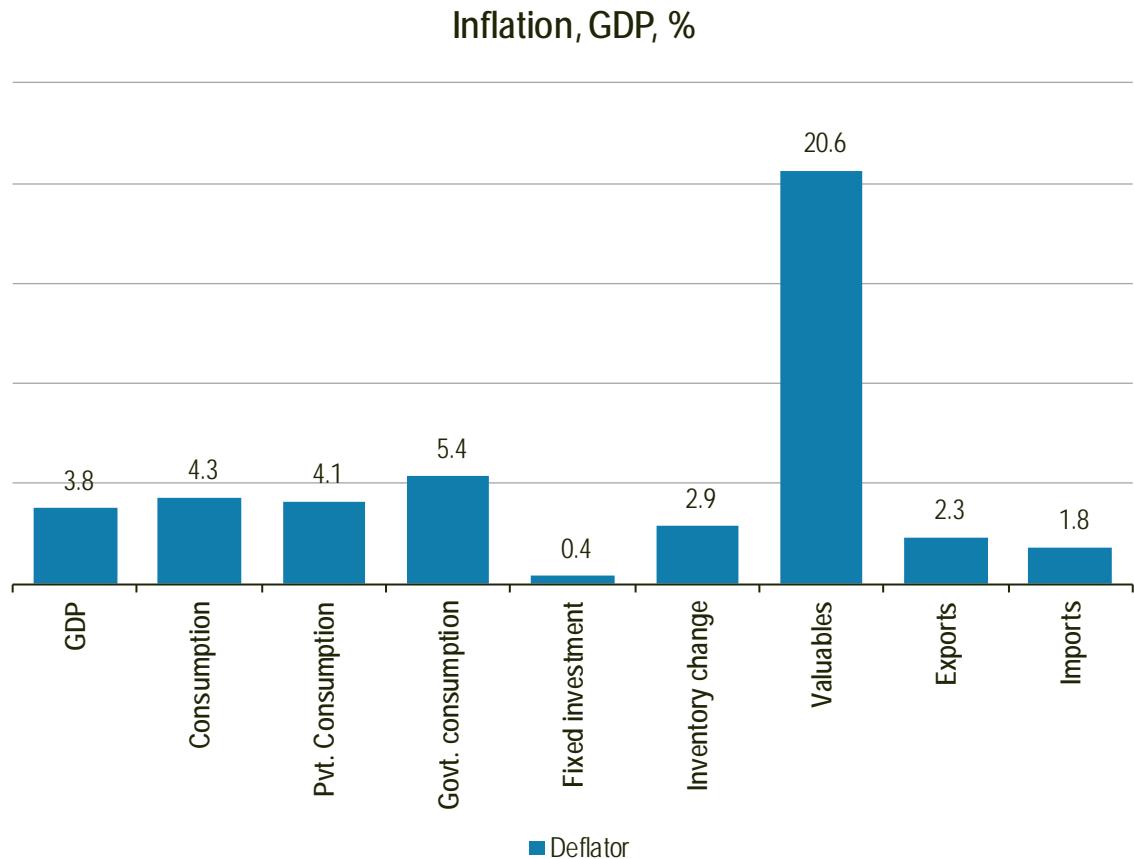
Fixed investment growth, %



- **Positive net exports.** Export to GDP ratio increased by 1% point in Sep'20 vs. Sep'19. In contrast, import to GDP ratio declined by 2.6 % point. The combined effect of these two, resulted in lower contraction in GDP growth during Sep'20 while both consumption and investment recorded contractions during the quarter. With the likely continuation of subdued global crude oil prices, net exports are likely to remain a positive contributor to India's GDP growth during FY21.
- **Plunge in consumption.** Both private and government consumption lost share in GDP during the quarter ending Sep'20 vs. quarter ending Sep'19. While fiscal constraints may keep the share of government consumption in GDP low during H2 FY21, we expect modest improvements in the share of private consumption.
- **Agriculture, industry gained share, services lost.** In terms of GVA, the share of agriculture increase by almost 2% point in Sep'20 vs. the same quarter of the previous year. Industry, in particular manufacturing, also gained share in GVA. All components of services, on the other hand, recorded loss of GVA share.



- **Modest rise in inflation.** There has been modest rise of inflation in terms of GDP and GVA in quarter ending Sep'20 vs. the previous quarter. Despite this, at around 4%, both the inflation rates remain relatively benign.
- **Mining, utilities in deflation.** With the global deflationary trend, prices of mining and utilities recorded contraction. This could help the corporate sector to contain energy, fuel and raw material costs. Despite considerable growth contraction, inflation for trade, hotel and communication and public administration, defence and other services recorded relatively high inflation. Inflation for exports and imports remained relatively low, indicating transmission of global deflationary pressures .
- **Inflation unlikely to be a worry.** While there has been considerable acceleration of retail inflation in recent months and wholesale price inflation has come out of deflation, the inflationary trends depicted by the GDP show a relatively benign situation. We expect for softening of inflation in H2 FY21.



India no longer the worst performer among G-20

ANAND RATHI

OVER
25
YEARS OF
SERVICE

	Real GDP growth, %		Stringness of lockdown	
	Sep-20	Jun-20	Maximum	Current
Argentina	NA	-19.8	100.0	79.2
Australia	NA	-6.3	79.2	52.3
Brazil	NA	-11.4	81.0	57.9
Canada	NA	-13.0	74.5	64.4
China	4.9	3.2	81.9	72.7
EU	-4.3	-13.9	NA	NA
France	-3.9	-18.9	88.0	78.7
Germany	-4.0	-11.2	76.9	59.3
India	-7.5	-23.9	100.0	61.6
Indonesia	-3.5	-5.3	80.1	50.5
Italy	-4.5	-17.7	93.5	79.6
Japan	-5.9	-10.3	47.2	38.9
Korea	-1.3	-2.8	82.4	44.4
Mexico	-8.6	-18.7	82.4	71.8
Russia	NA	-5.6	87.0	47.7
S Africa	NA	-17.2	88.0	38.9
S Arabia	-4.2	-7.0	NA	NA
Turkey	NA	-9.9	77.8	60.7
UK	-9.6	-21.5	79.6	63.9
US	-2.9	-9.0	72.7	75.5

NA: Not available.

Source: Country data dissemination authorities, Oxford Covid-19 Government Response Tracker (OxCGRT), Stringency Index, Blavatnik School of Government, University of Oxford

- **Not longer the worst performer.** While the GDP growth number for 7 out of 20 members of G 20 for the quarter ending Sep'20 is not yet available, unlike in the quarter ending Jun'20, India is no longer the worst performing within the group. So far, Mexico and UK have recorded GDP growth rates worse than that of India.
- **Flattened the curve.** Gradual removal of lock down restrictions in India has enabled the country to move towards the path of phased recovery. At the same time, stringent restrictions in the earlier phase of the pandemic has enabled India to flatten the curve by mid-Sep'20.
- **Saved life and livelihood.** Less stringent lock down restriction and early opening up enable many G-20 members to clock better growth than India during both the quarter ending Jun'20 and Sep'20. However, the same policies seem to have led to the second wave of infection in many of these countries. From a longer term perspective, therefore, it seems that India's lock down policy has worked better both in terms of saving life and supporting livelihood.
- **Relative ranking likely to improve in H2 FY21.** Despite considerable removal of lock down restrictions in a phased manner, as of in late Nov'20, there's no sign off ah second wave of infection in India, at least at the national level. If this trend continues, India's ranking among the G 20 countries in terms of relative growth is likely to improve during H2 FY21.

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