INDIA GROWTH OUTLOOK

03 November 2021

Consumption recovery gathers steam

India's GDP growth which bore the brunt of pandemic started seeing green shoots of recovery especially on consumption demand front. High-frequency indicators for urban consumption are picking up supported by pent-up demand. Government spending and exports have also held up. Rural sector remained resilient supported by normal monsoon and record foodgrain production. We expect India's GDP to rise by 9.7% in FY22 of which frontrunner will be buoyant consumption demand.

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Revival story: Indian economy registered its first ever contraction in over 4-decades and contracted by 7.3% in FY21 due to the Covid-19 pandemic. The second-wave of Covid-19 hit just when the economy started recovering. While the impact of the second-wave was more pronounced in terms of daily infections and mortality, impact on economy was relatively muted as government emphasised on the need for localised restrictions. As a result, GDP was only 9.2% lower in Q1FY22 than its pre-pandemic level compared with 20.4% in Q1FY21. Economic recovery has gained momentum once again amidst a steady drop in Covid-19 cases and pickup in vaccinations. Several indicators of urban demand are now running above pre-pandemic levels such as non-oil-non-gold imports, electricity demand, toll collections and GST e-way bills. Moreover, demand for personal, vehicle and credit card loans are also showing traction.

Silver lining: Agriculture sector had largely remained unscathed in the first wave and had outshined other sectors in FY21. However, concerns arose during the second wave as the infection spread even to the rural sector. However, with a gradual decline in Covid-19 cases and pickup in monsoon, kharif sowing improved significantly, the sector thereby largely remained unaffected. Further, improvement in water storage reservoir levels and higher MSP prices have considerably raised the prospects for Rabi sowing.

Growth outlook: While consumption demand is likely to benefit from festive demand, lower infections and accelerated pace of vaccination, investment demand will also benefit from asset monetization and government's infrastructure push including the implementation of recently announced GATI infra plan. Exports have remained a bright spot and are likely to see a further boost from the government's PLI scheme. Overall, we expect India's GDP growth at 9.7% in FY22 supported by a 10.3% (favourable base) growth in private consumption. There are downside risks emanating from supply chain restriction (chip shortage), resurgence in Covid-19 cases, energy crisis and spike in inflation which might derail the overall recovery.

Key highlights

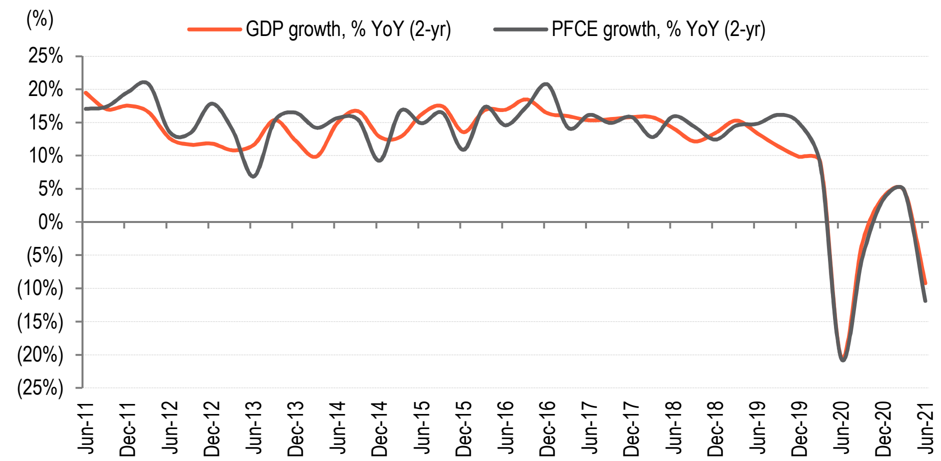
- Normal monsoon, record food grain and MSP hike to support rural consumption.
- Urban consumption to get a boost from festive cheer.
- GDP is expected to rebound to 9.7% in FY22.
- Frontrunner will be buoyant consumption.

Consumption took a big hit during the pandemic

Backdrop

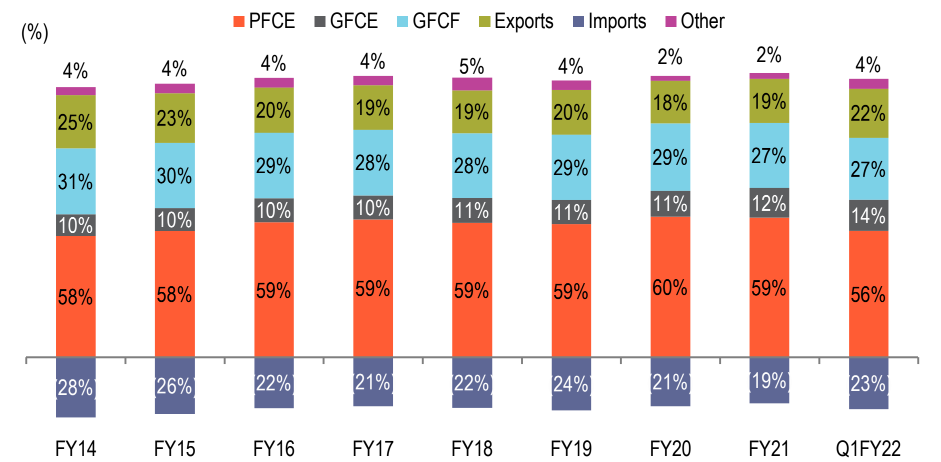
In the aftermath of the Covid-19 pandemic, India's GDP growth shrank precipitously by 7.3% in FY21, concentrated most densely in Q1FY21 during the nationwide lockdown. Almost all the sectors of the economy were badly hit. Consumption, which remained an engine for growth historically, fell much more sharply by 9.1% as lockdown measures forced households to curtail non-essential spending. With easing of restrictions, growth recovered, but it continues to trail below pre-pandemic levels. GDP in Q1FY22 is still 9.2% lower than its pre-pandemic level. While exports and government expenditure have exceeded the pre-pandemic level, consumption and investment continue to trail lower than pre-pandemic levels. PFCE is about 11.9% lower than Q1FY20. In fact, if we remove Q1FY21, private consumption is at its lowest level since Q2FY18. Furthermore, share of PFCE in GDP has also dipped to 56% in Q1FY22, after reaching to high of 60% in FY20.

Fig 1 – Consumption demand has fallen sharply



Source: CEIC, Bank of Baroda Research

Fig 2 – Share of PFCE in GDP has dipped



Source: CEIC, Bank of Baroda Research

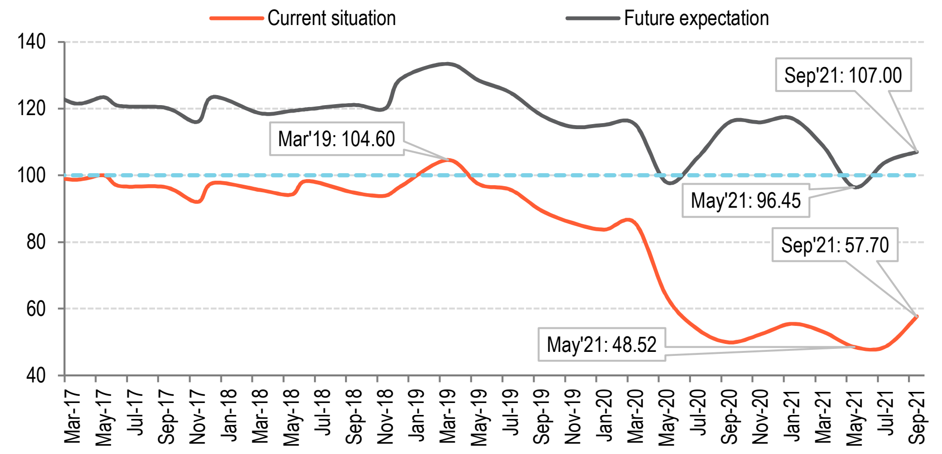
Revival on the cards

With a steady decline in Covid-19 cases since Jul'21 and an improvement in vaccination rate (5.3mn doses per day-7 day trailing average, as of 2 Nov 2021), economic activity has gathered momentum. This bodes well for consumption demand. While rural demand remained resilient throughout the pandemic, indicators for urban demand are also showing a revival.

Urban demand shows signs of revival

There is a substantial pickup in consumer confidence since the second-wave of Covid-19 in Apr-May'21. While the current situation index has remained in contraction zone, there is significant improvement in FY22. After falling to a low of 48.52 in May'21 (peak of second-wave), it has since shown a steady pickup to 57.7 in Sep'21. On the other hand, the future expectation index dropped into the contraction zone in May'21 at 96.45 but has since improved and rose to 107 in Sep'21.

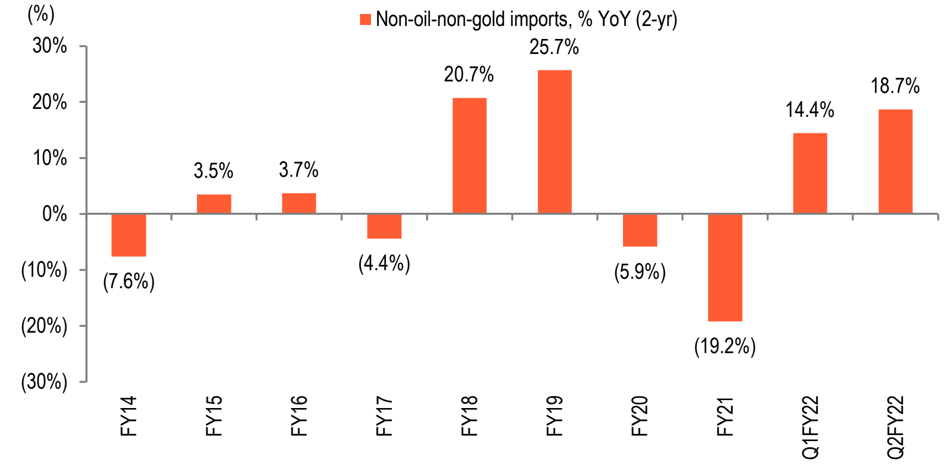
Fig 3 – Consumer confidence improving



Source: CEIC, Bank of Baroda Research

Traction can also be seen in non-oil-non-gold imports. In FY21, non-oil-non-gold imports plunged sharply by 19.2% (2-year basis) as lockdown measures dented demand. Despite the second-wave of Covid-19, non-oil-non-gold imports rose by 14.4% (2-year basis) in Q1FY22 supported by pent-up demand as well as higher commodity prices. Further, the momentum has continued even in Q2FY22 with non-oil-non-gold imports rising by 18.7% over a 2-year horizon. In fact, non-oil-non-gold imports surged to a record high of US$ 35.8bn in Oct'21. Cumulatively in FYTD22, non-oil-non-gold imports have maintained a healthy rate of ~US$ 30bn per month. Non-oil-non-gold imports are expected to see a further leg-up supported by festive demand. Apart from this, ramping up of vaccinations (35% of India's population is fully vaccinated) also bodes well for consumption demand.

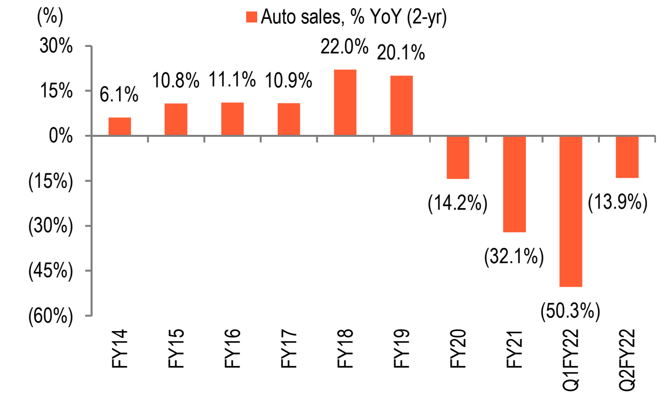
Fig 4 – Non-oil-non-gold imports above pre-pandemic levels



Source: CEIC, Bank of Baroda Research | Data upto Sep'21

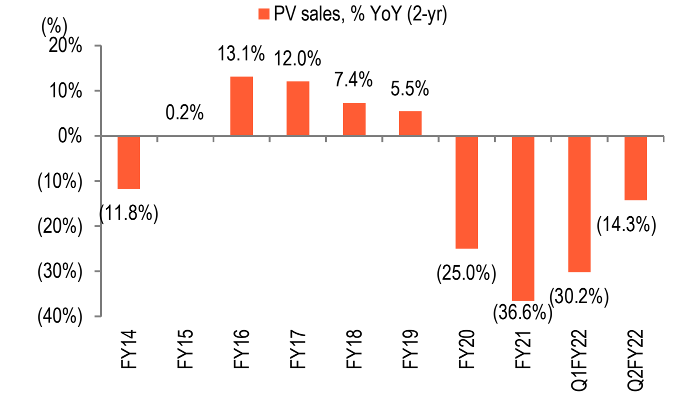
Auto sales, another important barometer used to measure urban demand, signals revival is on the cards. Contraction in auto sales has moderated in Q2FY22 on a 2-year basis. So is the case for passenger vehicle (PV) sales. However, the recovery may not sustain due to the global semi-conductor shortage.

Fig 5 – Auto sales contracting at a slower pace



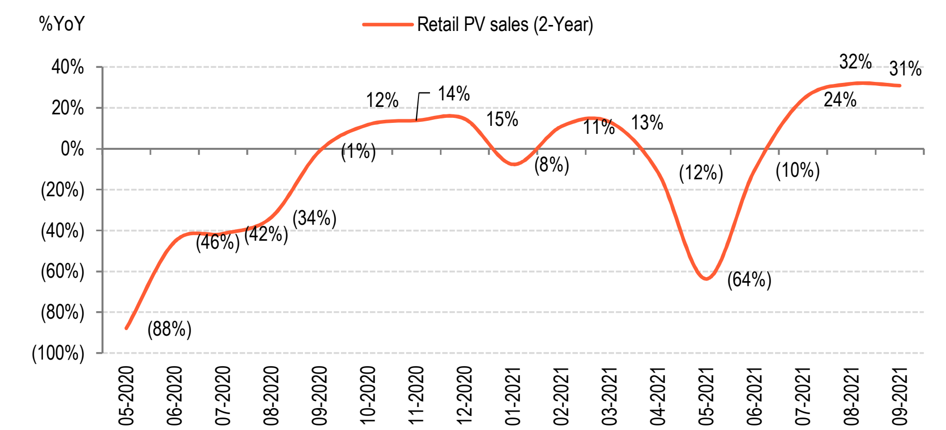
Source: CEIC, Bank of Baroda Research

Fig 6 – … similar case for PVs



Source: CEIC, Bank of Baroda Research

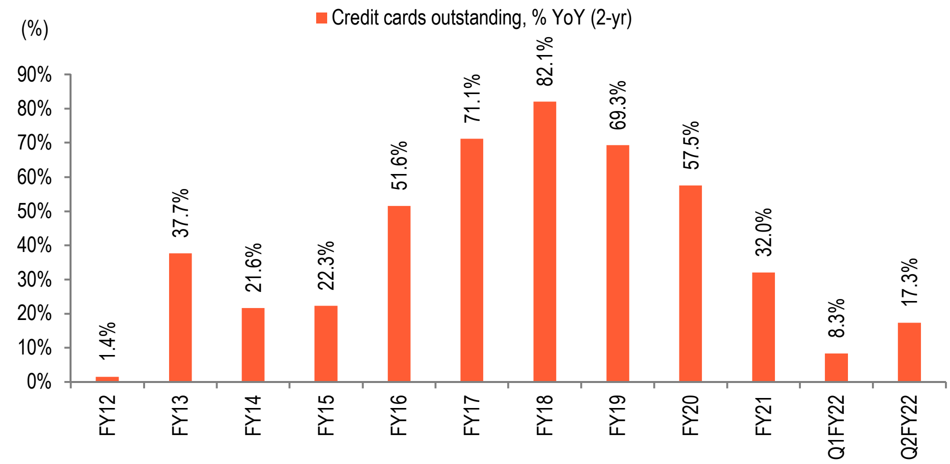
Fig 7 – Retail PV sales remain steady



Source: FADA, Bank of Baroda Research

Demand for credit by households is also seeing a revival since Q1FY22 as consumers resume spending. This can be seen in pickup in credit cards outstanding.

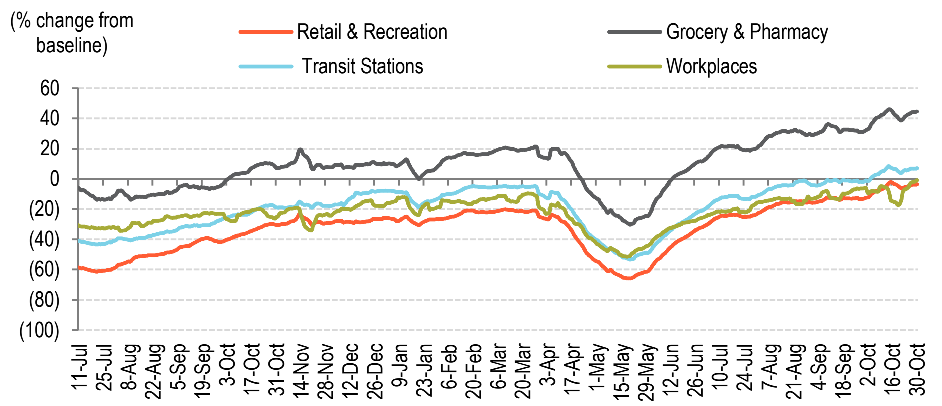
Fig 8 – Pickup in credit cards



Source: CEIC, Bank of Baroda Research

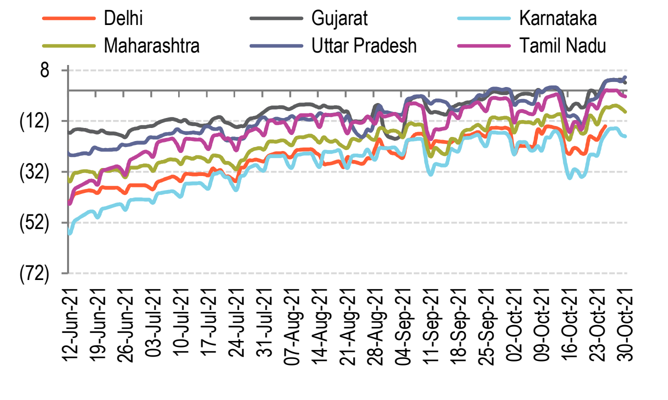
Google mobility indices are also showing improvement as people return to offices. While grocery and pharmacy continue to predominate, there has been a steady pickup in mobility across other sectors as well with the lifting of lockdown restrictions. For example, google mobility index for retail and recreation has shown a steady pickup after falling to (-) 70% in May'21 (second-wave of Covid-19). This augurs well for urban consumption demand.

Fig 9 – Google mobility index edging upwards



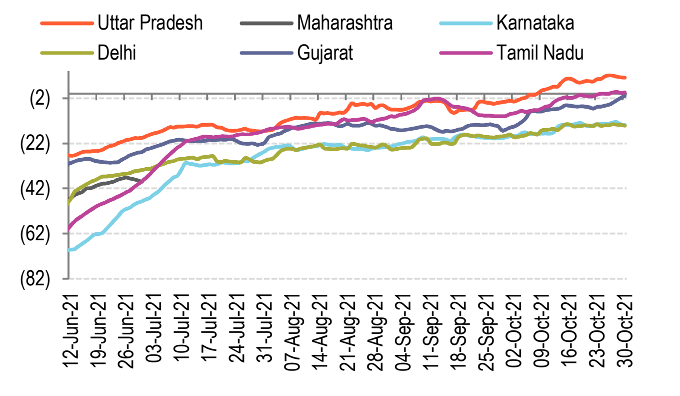
Source: CEIC, Bank of Baroda Research. Note :Highlights % change in visits to the place from baseline reading (median value, for the corresponding day of the week, during the five week period 3 Jan – 6 Feb 2020).

Fig 10 – Workplace mobility has improved



Source: CEIC, Bank of Baroda Research

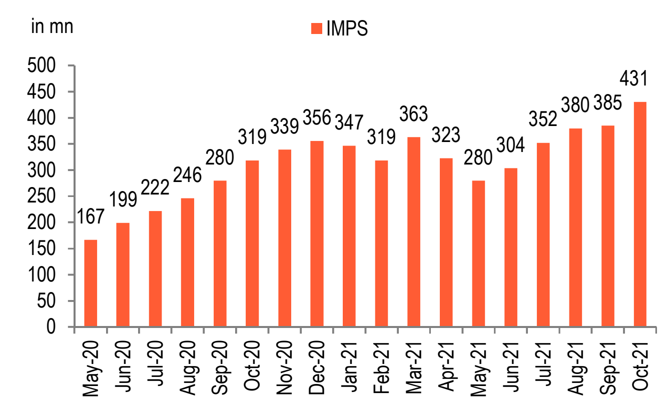
Fig 11 – Retail and recreation showing similar trend



Source: CEIC, Bank of Baroda Research

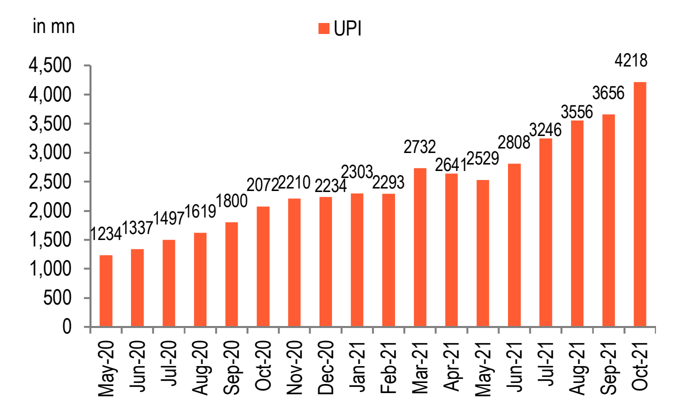
Amongst other high frequency indicators, surge in digital transactions has also been observed, as large share of the population is overcoming the 'digital divide'. The volume of transactions has reached an all-time high (UPI: 4.2bn in Oct'21) led by improvement in 4G network penetration even in remote areas. Easier accessibility and Covid-19 induced restrictions have also lowered the overall reliance on cash transactions.

Fig 12 – Volume of transactions at an all-time high



Source: CEIC, Bank of Baroda Research

Fig 13 – Similar trend for UPI payment



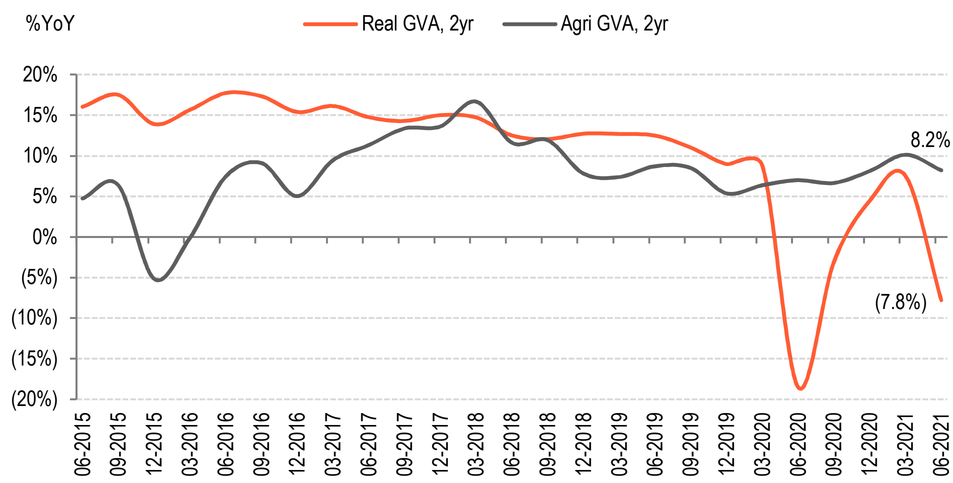
Source: CEIC, Bank of Baroda Research

After an initial hiatus, India has made significant progress in its vaccination drive. So far, about 10.7bn doses have been administered and 35% of adult population is now fully vaccinated. Further, 78 % of eligible population (above 18 years of age) have received at least one dose of vaccine. In Oct'21, average daily run-rate of vaccinations was 5.4mn doses per day. At this rate, we estimate that about 50% of total population will be fully vaccinated by Dec'21.

Pandemic proof: Rural sector

Contrary to urban demand, rural growth has shined when the growth outlook for the rest of the country was bleak. Agriculture output remained strong and rose by 3.3% in FY21. Going further, several high frequency indicators are looking resilient even in FY22. In fact, agriculture sector output was 8.2% above pre-pandemic level in Q1FY22.

Fig 10: Agriculture growth remains resilient

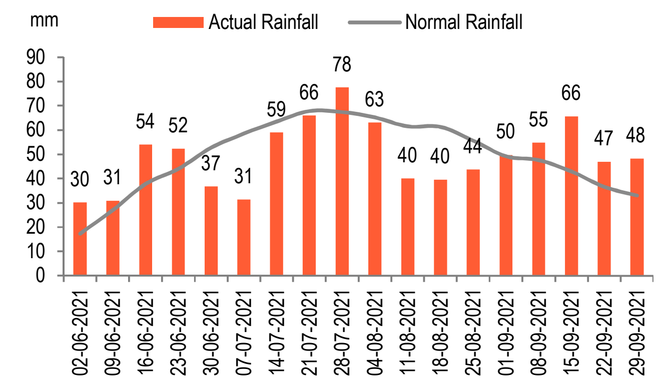


Source: CEIC, Bank of Baroda Research

Going ahead, agriculture sector is likely to play a pivotal role in the economic recovery. Improved kharif sowing on the back of normal rainfall, along with expectation of robust Rabi sowing in the upcoming season bodes well for agricultural output. Further, other high frequency indicators such as tractor sales and two-wheeler sales are also signalling a gradual revival. However, uneven winter rainfall and uncertainty over the Covid-19 trajectory poses a downside risk to growth.

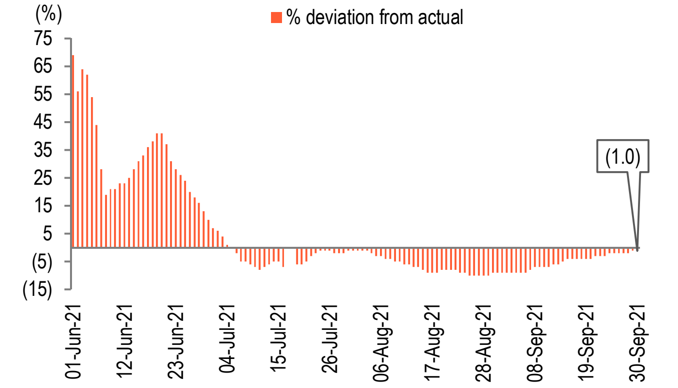
The resilience in agriculture growth has been possible due to normal monsoon. While IMD had predicted a normal monsoon this year, the South-West monsoon remained largely erratic. As a result, monsoon rains were below normal up until Aug'21(24% below LPA in Aug'21-lowest in over 12-years), with negative Indian Ocean Dipole (IOD) formation throughout the month. However, rainfall activity picked up momentum in Sep'21 (surplus of 38% of LPA). Cumulatively, for the entire period (1 Jun-30 Sep), monsoon was only 1% below LPA compared with 9% above LPA last year. This is positive for rural sector.

Fig 14 – Uptick in rainfall activity in Sep'21



Source: CEIC, Bank of Baroda Research

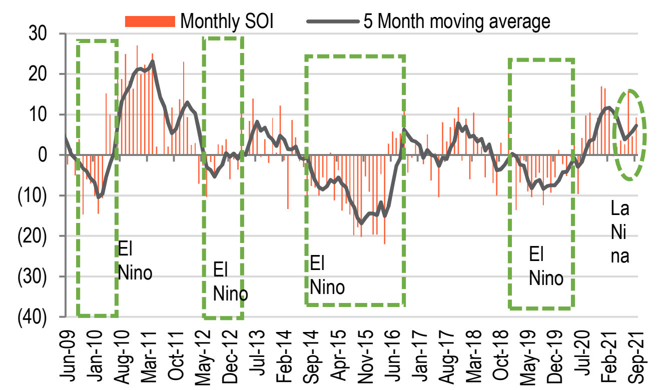
Fig 15 – Rainfall 1% below LPA



Source: CEIC, Bank of Baroda Research

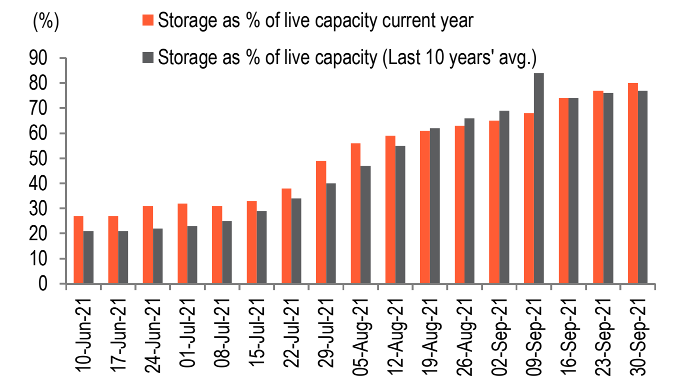
India has received above normal rainfall for the last 2-years at 109% of LPA in 2020 and 110% of LPA in 2019. In 2021 as well, the country received normal rains at 99% of LPA. This was in part due to the formations of La Nina conditions in Sep'21, which lowered the overall deficiency of the South-West monsoon. While the storage availability of the reservoirs is 80% of its total capacity as of 30 Sep 2021 compared with 86% last year, it is above the average of last 10-years at 77%.

Fig 16 – Conditions of La Nina formation



Source: Bureau of Metrology, Australian Government, Bank of Baroda Research

Fig 17 – Water storage levels remains above 10-year average



Source: CEIC, Bank of Baroda Research

With normal rainfall, kharif sowing has improved significantly. Area sown under kharif crops is only marginally lower by 0.2% compared with last year. Within this, acreage of rice (3.3%), pulses (2.2%), sugarcane (2%) and jute and mesta (1%) has improved compared with last year. According to the First Advance Estimates for kharif crops, foodgrain production is expected to increase to a record high at 150.5mn tonnes for agriculture year 2021-22 (149.5mn tn in agriculture year 2020-21). Except coarse cereals and oilseeds, production of all other summer crops is likely to be robust. Procurement of rice continues to be higher than wheat in the ongoing marketing season and is expected to support rural income.

Fig 18 – Kharif sowing has improved compared with last year

Crop Type (ha mn)	Area sown in 2020-21	Area sown in 2019-20	Normal area for whole Kharif Season	Growth (%YoY)
Foodgrains	74.3	73.2	71.5	1.6
Cereals	60.1	59.2	57.9	1.5
Rice	42.3	40.9	39.6	3.3
Pulses	14.2	13.9	13.5	2.2
Oilseeds	19.6	19.9	18.0	(1.4)
Cotton	12.0	12.8	12.4	(6.0)
Sugarcane	5.5	5.4	4.8	2
Jute and Mesta	0.7	0.7	0.7	1.0
Total	112.18	111.94	107.3	0.2

Source: CEIC, Bank of Baroda Research

Fig 19 – Wheat and rice procurement

Year	Wheat	Rice
2012-13	38.15	34.04
2013-14	25.09	31.85
2014-15	28.02	32.04
2015-16	28.09	34.22
2016-17	22.96	38.11
2017-18	30.83	38.19
2018-19	35.8	44.39
2019-20	34.13	51.99
2020-21	38.99	59.87*
2021-22	43.34*	

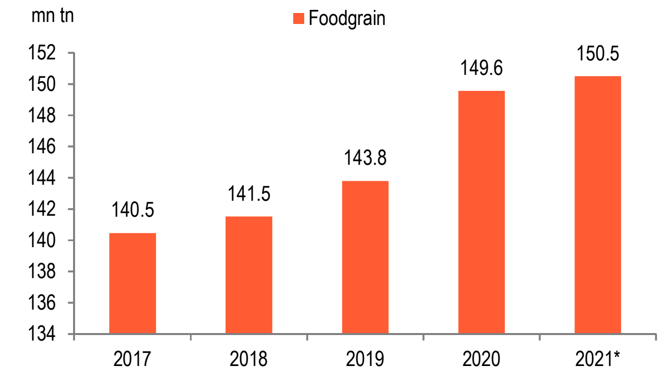
Source: Ministry of Consumer Affairs, Food and Public Distribution | *As on: 30 Sep 2021

Fig 20 – Growth in Foodgrain production over the years

	2017	2018	2019	2020*
Rice	2.8	3.3	2.1	2.2
Wheat	1.4	3.7	4.1	0.8
Pulses	9.9	(13.1)	4.3	11.1
Cereals	1.9	1.7	1.9	2.9
Foodgrain Production	**3.6**	**0.1**	**4.3**	**2.7**
Sugarcane	24.1	6.7	(8.6)	6
Oilseeds	0.6	0.2	5.4	10.1
Cotton	0.7	(14.5)	28.6	1.2

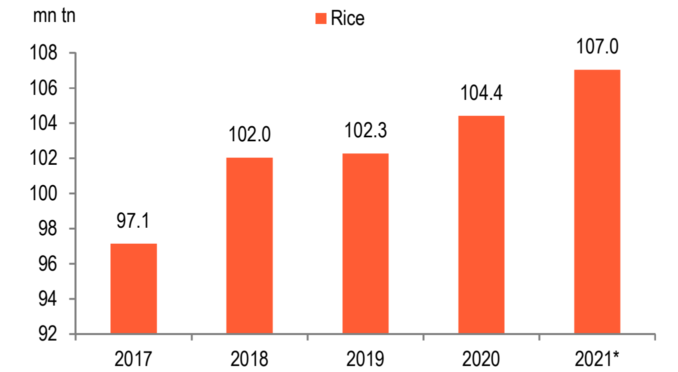
Source: CEIC, Bank of Baroda Research │ Note: As per 4th advance estimates, Does not include advance estimate for Kharif production

Fig 21 – Foodgrain production as per 1st advance estimates for Kharif crops



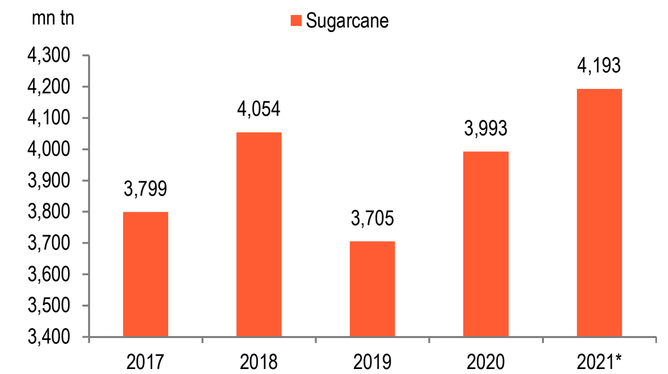
Source: Ministry of Agriculture, Bank of Baroda Research. Note: 1st AE for Kharif crops

Fig 22 – …Rice production on an uptrend



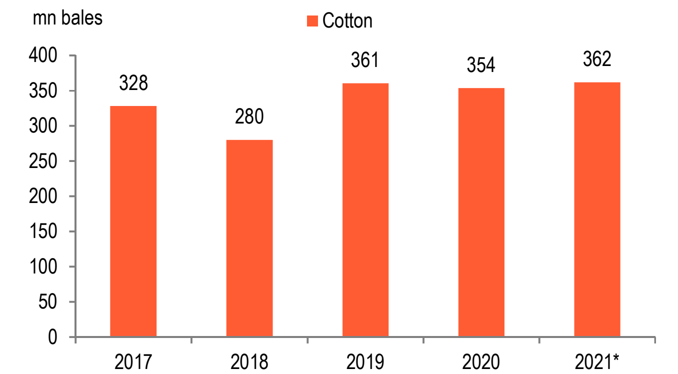
Source: Ministry of Agriculture, Bank of Baroda Research. Note: 1st AE for Kharif crops

Fig 23 – Sugarcane production remains robust



Source: Ministry of Agriculture, Bank of Baroda Research. Note: 1st AE for Kharif crops

Fig 24 – …similar trend in cotton production

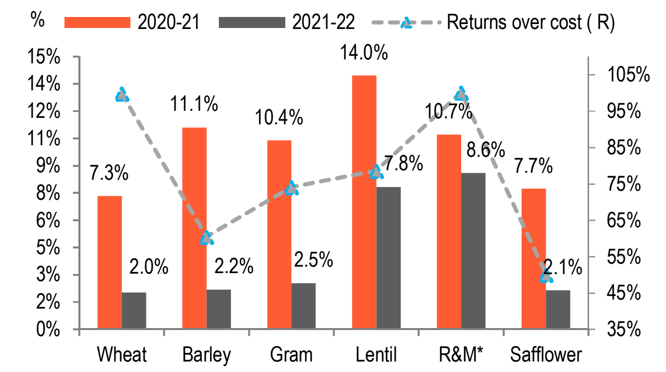


Source: Ministry of Agriculture, Bank of Baroda Research. Note: 1st AE for Kharif crops

Government has recently hiked the MSP for Rabi crops for the agriculture year 2022-23. Rapeseed and mustard and lentils have registered the sharpest increase in MSP at 8.6% and 7.8% respectively. MSP for wheat (2%), barley (2.2%) and gram (2.5%) have also noted increase. This in turn is expected to boost rural income.

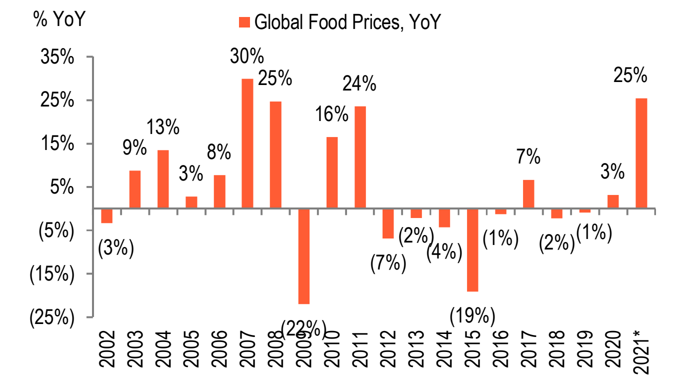
On the price front, global food prices accelerated to a 10-year high in Sep'21 led by spike in prices of cereal and vegetable oils. Higher cereal prices were attributable to export restrictions (Russia and Kazakhstan) even as strong demand persisted. The uptick in vegetable oil prices was led by palm oil prices with strong import demand and concerns surrounding labor shortage in Malaysia, as reported by FAO. One of the key positive of higher prices are these prices will translate to higher rural income.

Fig 25 – Hike in MSP for Rabi Crops



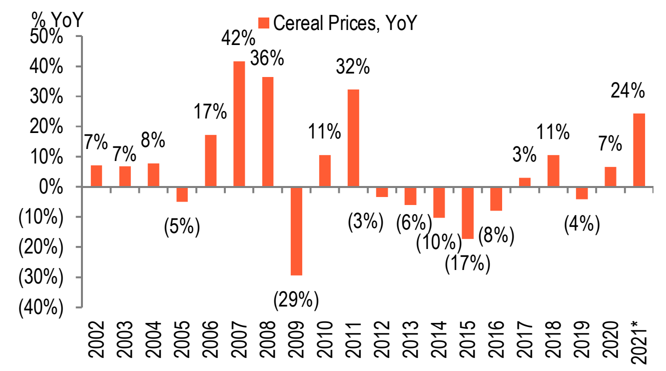
Source: CEIC, Bank of Baroda Research

Fig 26 – Acceleration in global food prices



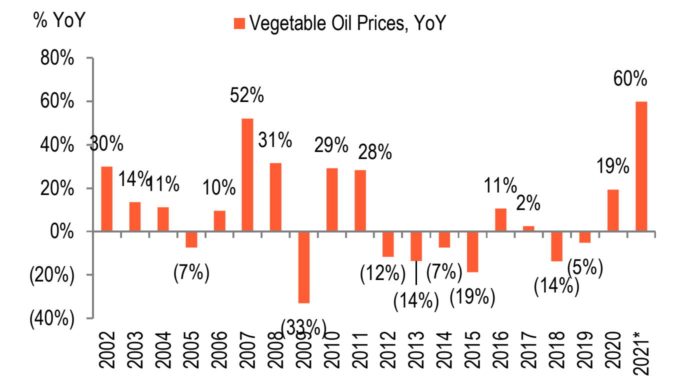
Source: Source: FAO, Bank of Baroda Research. Note: * till Sep''21

Fig 27 – Uptick in cereal prices



Source:: FAO, Bank of Baroda Research. Note: * till Sep''21

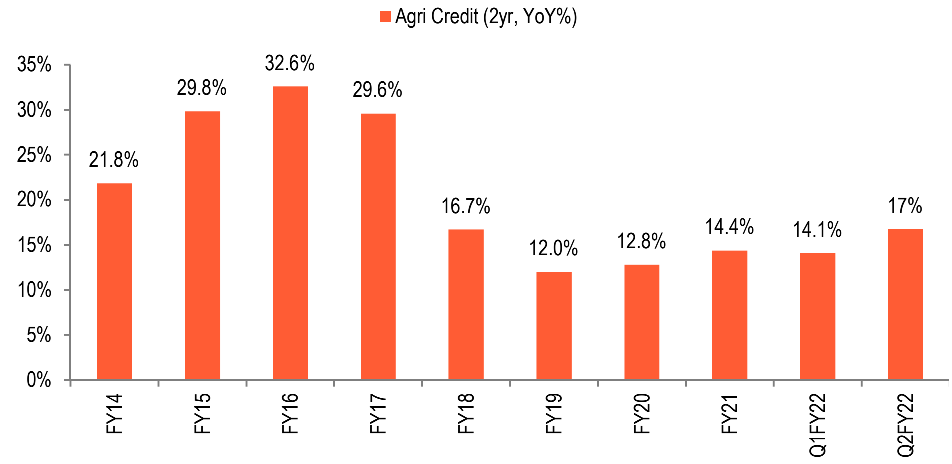
Fig 28 – …Spike in vegetable oil price



Source: Source: FAO, Bank of Baroda Research. Note: * till Sep''21

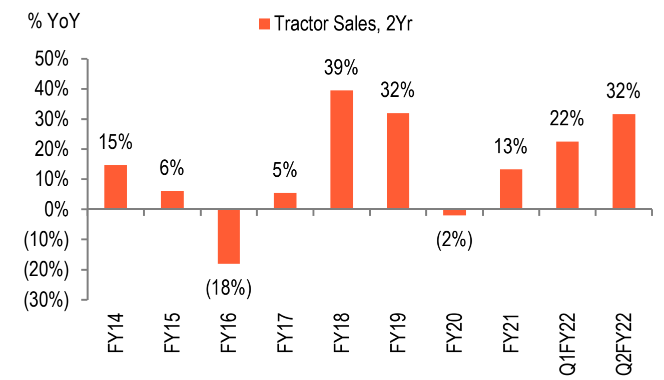
Other high-frequency indicators such as agriculture credit, tractor and two-wheeler sales also signal that rural demand continues to remain strong. Agriculture credit has been expanding at a robust pace. From 12.8% in FY20, the credit disbursal for the agriculture sector has improved by 14.4% in FY21. It has further risen by 17% in Q2FY22 (2-year basis) showcasing buoyant demand for the sector. Tractor sales have also improved from 22% in Q1FY22 to 32% in Q2FY22 (2-year basis). Slower pace of contraction is visible in two-wheeler sales.

Fig 24: Double digit growth in agriculture credit



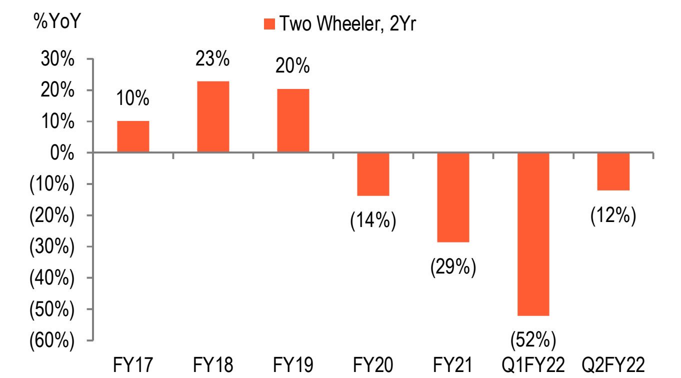
Source: CEIC, Bank of Baroda Research

Fig 29 – Tractor sales continue to grow at robust pace



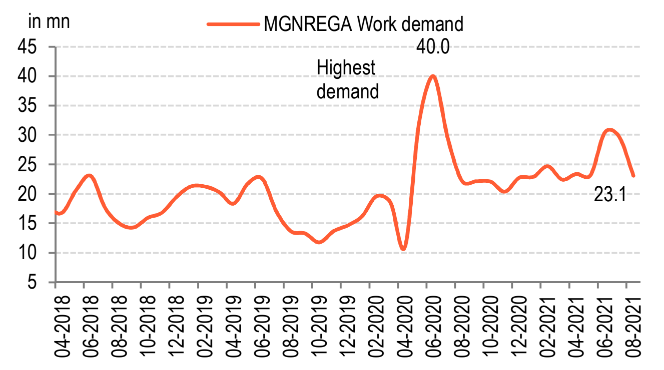
Source: CEIC, Bank of Baroda Research. Note: Farm tractor sales including exports

Fig 30 – Slower pace of contraction in two-wheeler sales



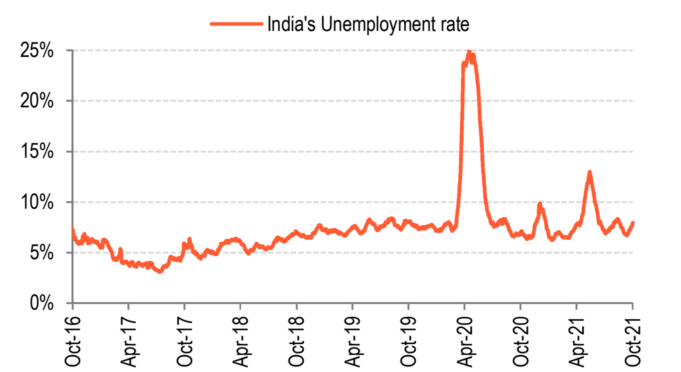
Source: CEIC, Bank of Baroda Research.

Fig 31 – MGNREGA work demand has fallen after reaching a pandemic-high



Source: Gram Panchayat Report, Bank of Baroda Research

Fig 32 – Unemployment rate inched up in Oct'21



Source: CEIC, Bank of Baroda Research

Demand for work in MGNREGA had reached an all-time high during the first nationwide lockdown in FY21 as people shifted back to rural areas in search for livelihood. However, with gradual re-opening of the economy, demand for work in rural areas has moderated. With this, the labor force has shifted back to the urban areas in search for better opportunities and normalisation of the economy.

Outlook

India's consumption story is poised for strong growth on the back of revival of in urban consumption and robust rural demand. This will be supported by rapid pace of vaccination with entire eligible population to receive at least one dose by Dec'21. As of now (2 Nov 2021), over 35% of the total population has been completely vaccinated. India's active 7-day average Covid-19 cases has also dropped to 13,433 as of 2 Nov 2021 from a high of 0.39mn cases seen on 9 May 2021.

The economy has already begun to gain traction with early signals of recovery seen in both urban as well as rural demand. Non-oil-non-gold imports have accelerated in Q2FY22 and are likely to inch up further backed by pent-up demand and festive season. Credit demand by households is also improving as households look at spending their accumulated savings. RBI's latest consumer confidence survey also shows an uptick. Other high frequency indictors, such as port cargo, railway freight traffic, GST collections, e-way bills, also signal the same. Hence, we foresee green shoots of recovery in urban demand which has remained lacklustre since the onset of the pandemic.

Tailwinds have also emerged for rural demand with a normal monsoon. Record foodgrain production (1st advance estimates) and robust sowing of Rabi crops bodes well for overall agriculture sector. Increase in MSP also ensures higher incomes for farmers which will be positive for demand. RBI has also recently revised its growth projection upwards at 7.9% (60bps) and 6.8% (+50bps) in Q2 and Q3FY22 respectively. Further, government backed reforms such as asset monetisation, PLI scheme to boost domestic manufacturing and infrastructure developments (including GATI Shakti national master plan) are expected to bolster India's growth prospects over the medium term.

Hence, we expect India's GDP growth at 9.7% in FY22 led by a revival in consumption and vaccination efficiency. However, there are some risk to these outlook. Risks emanating from supply chain bottlenecks (semiconductor chip shortage), spike in inflation, resurgence of Covid-19 cases, along with uneven winter rainfall and plausibility of energy crisis remain key risks to our view.

Fig 33 – GDP expected to rise by 9.7% in FY22

(% change)	FY17	FY18	FY19	FY20	FY21PE	FY22E
Agriculture, forestry and fishing	6.8	6.6	2.6	4.3	3.6	3.5
Industry	7.7	5.9	5.3	(1.2)	(7.0)	16.5
Mining and quarrying	9.8	(5.6)	0.3	(2.5)	(8.5)	9.1
Manufacturing	7.9	7.5	5.3	(2.4)	(7.2)	16.4
Electricity, gas, water supply and other utility services	10.0	10.6	8.0	2.1	1.9	8.1
Construction	5.9	5.2	6.3	1.0	(8.6)	21.6
Services	8.5	6.3	7.2	7.2	(8.4)	8.5
Trade, hotels, transport, communication & services related to broadcasting	7.7	10.3	7.1	6.4	(18.2)	15.3
Financial, real estate & professional services	8.6	1.8	7.2	7.0	(1.5)	5.7
Public administration and defence	9.3	8.3	7.4	8.2	(4.6)	4.2
GVA at basic prices	**8.0**	**6.2**	**5.9**	**4.1**	**(6.2)**	**9.0**
Private final consumption expenditure (PFCE)	8.1	6.2	7.6	5.6	(9.1)	10.3
Govt final consumption expenditure (GFCE)	6.1	11.9	6.3	8.1	2.9	4.8
Gross Fixed Capital Formation (GFCF)	8.5	7.8	9.9	5.5	(10.8)	18.8
Change in Stocks (CIS)	(48.8)	68.3	27.2	(39.7)	(2.6)	15.2
Valuables	(18.6)	40.2	-9.7	(14.1)	2.0	117.3
Exports	5.0	4.6	12.3	(3.1)	(4.7)	17.3
Less Imports	4.4	17.4	8.6	(0.6)	(13.6)	27.6
GDP	**8.3**	**6.8**	**6.5**	**4.0**	**(7.3)**	**9.7**

Source: CEIC, Bank of Baroda Research | PE: Provisional estimate, E-Bank of Baroda estimate

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