Q2FY22 GDP

30 November 2021

GDP marginally above pre-pandemic level

India's GDP growth moderated to 8.4% in Q2FY22 from 20.1% in Q1 as base effect wanes. However over a 2-year horizon, GDP rose by 0.3% after falling by 9.7% in Q1. Exports remained buoyant, private consumption also showed improvement. GVA growth too improved over a 2-year horizon led by broad-based recovery in all sectors. Recovery in consumption bodes well for growth outlook. However, concerns over new Covid-19 variant may derail the growth recovery. We expect GDP growth at ~10% in FY22.

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GDP marginally above pre-pandemic level: GDP growth moderated to 8.4% in Q2FY22 from a sharp rise of 20.1% in Q1 on a YoY basis. This was largely owing to base effect (-7.4% in Q2FY21 versus –24.4% in Q1FY21). In fact, on a 2-year basis, GDP rose by 0.3% in Q2FY22 compared with a decline of 9.2% in Q1. Over a 2-year horizon, uptick was visible in private consumption which declined at a much slower pace of 3.5% in Q2 versus a decline of 11.9% in Q1. Investment demand also picked up to 1.5% in Q2 after contracting by 17.5% in Q1. Exports continued to outperform and rose by 17.2% in Q2 versus 8.7% in Q1. On the other hand, government consumption expenditure contracted sharply by 16.8% in Q2 after increasing by 7.4% in Q1.

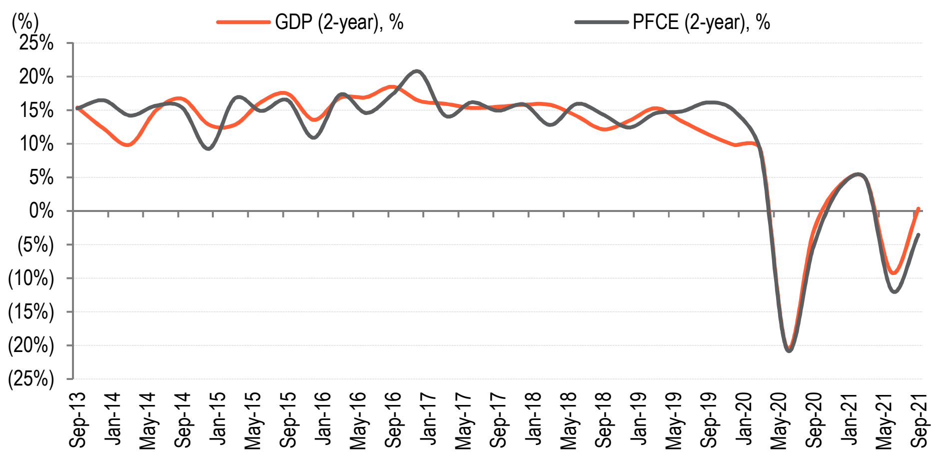
Unfavorable base drags down GVA: GVA moderated by 8.5% in Q2FY22 against 18.8% in Q1, due to an adverse base of -7.3% in Q2FY21 versus -22.4% in Q1. However, over a 2-year horizon, GVA improved by 0.5% against 7.8% decline in Q1FY22. All broad components of GVA showed improvement on a 2-year basis. While industry growth picked up to 3.7% against 6.2% decline in Q1, mining and quarrying rose by 7.9% against 1.8% decline, manufacturing (3.9% against 4.2% decline), and electricity and other utility services (11.4% against 3%) also improved. Even services growth showed improvement declining by only 2.4% against sharp fall of 12.5% in Q1. This was led by public administration and defence at 6.6% against 5% decline in Q1. Even trade, hotels and communication services improved, falling by 9.2% against decline of 30.2% in Q1. Agriculture despite remaining the bright spot, showed slight moderation on a 2-year basis to 7.7% from 8.2% in Q1.

Outlook for FY22: Economic activity is gaining momentum with revival seen in railway freight, mobility indicators, e-way bills, electricity demand and unemployment data. Even government spending is picking pace. Further, improved sowing and reservoir level above long run average is likely to support agriculture. Improved pace of vaccination (currently at ~37%) will also support economic activity. Thus we expect GDP to be ~10% in FY22. However, elevated input costs, rising global Covid-19 cases and emergence of new variant pose downside risks to our growth forecast.

Key highlights

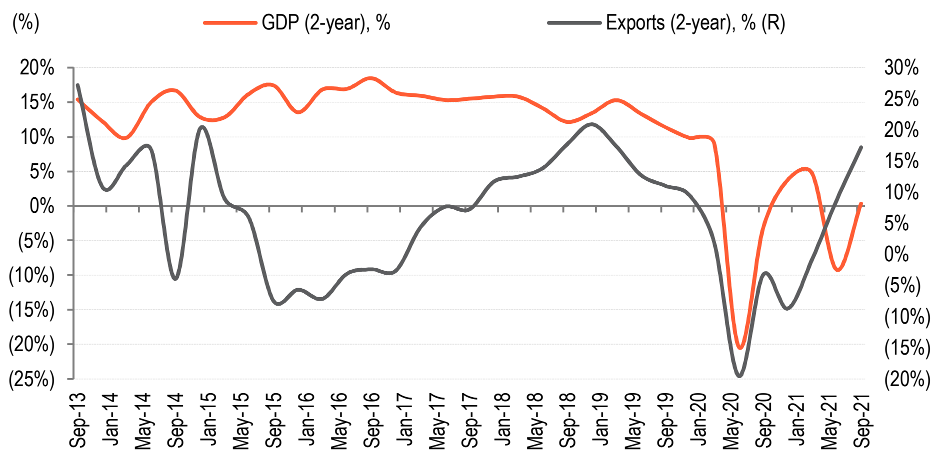
- GDP growth at 8.4% (YoY) in Q2. GDP 0.3% above pre-pandemic level.
- GVA growth at 8.5% in Q2 and at 0.5% above pre-pandemic, showing broad based recovery.
- GDP to grow by ~10% in FY22 led by exports, government spending and investments.

Fig 1 – GDP growth picks up over a 2-year horizon, consumption shows improvement



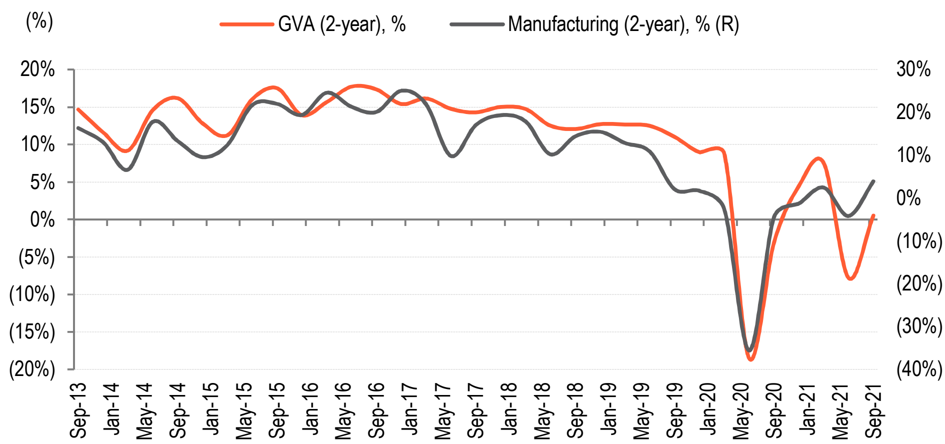
Source: CEIC, Bank of Baroda Research

Fig 2 – Exports continue to perform well



Source: CEIC, Bank of Baroda Research

Fig 3 – Manufacturing showing revival



Source: CEIC, Bank of Baroda Research

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