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Trade, hotels, transport and communication to recover to pre-COVID-19 level in 2022

Economists and sector analysts are of the opinion that trade, hotels, transport and communication services are slated for a gradual recovery.

As per the first advance estimates released by the National Statistical Office on January 7, trade, hotels, transport and communication services are set to fall by a massive 21.4 percent in FY21.

"Trade, hotels, transport and communication sectors suffered disproportionately more compared to others in Q1 FY21 amidst the nationwide lockdown and strict restrictions imposed by the government (esp. on hotel and flight operations). Since then, while a gradual unlocking of economic activity has driven recovery in the sector (as validated by Q2 GDP and other lead indicators), some sub-sectors such as civil aviation, hotels and tourism continue to function well below pre-COVID levels amidst social distancing norms needed in these contact intensive areas," said Yuvika Singhal, Economist, QuantEco Research.

"On the other hand, sub-sector of trade (i.e. both wholesale and retail) which comprises a significant share (around 60 percent), has seen a sharp rebound. After being limited to only essential items in Q1, normalisation in trading activity is underway, reflected in growth of both online and offline sales. Further, within transportation, railway and road also continue to post a healthy recovery as validated by high-frequency rail freight and GST e-way bills data. Essentially, trade, hotels, transport and communication are facing a K-shaped multi-speed and uneven recovery of its sub-sectors," she added.

Commenting on the recovery, Yuvika said: "Looking ahead, the tertiary sector is expected to benefit from the rollout of vaccine, which we anticipate will happen in Q4FY21. As the vaccine availability gains critical mass over the first half of FY22, the services sector will record a faster pickup. From a policy perspective, we keenly await the [Union Budget](#), as the government could offer measures to boost consumption and sops to ensure business continuity of services-dominant sectors. For FY22, we expect India's GDP to clock its first double-digit expansion of +11.5 percent led by the services sector. As per our estimates, the sector of trade, hotels, transport and communication per se, will be able to recoup to its pre-COVID GDP level only by the end of FY22. So, in some sense, COVID has set back the sector by nearly 2 years."

In the April-June quarter of 2020-2021, trade, hotels, transport and communication services reported a contraction of 47 percent. The sector reported a much narrower deceleration in the July-September. It fell by 15.6 percent in Q2.

"This segment has seen a decline of -32 percent in H1-FY21 and based on the first advance estimates the second half of the fiscal is also likely to register a contraction. But the pace of decline is expected to be much lower at around 12 percent. Trade, hotels and transport are segments severely affected in the first half of the year and this is weighing in on the overall decline during the year. Also, the contact intensive nature of some of these services like hotels and air transport means the normalisation of economic activities has been more gradual than others," said Sushant Hede, Associate Economist, CARE Ratings.

"Also, it is important to note that the "communication" sub-component was not affected much during this phase as consumers continued to use these services at home via the online route," he added.

"The level of contraction in this segment is likely to improve albeit at a gradual pace during the remainder of the year. Barring communication, the recovery in this segment looks to be slower owing to the contact intensive nature of the services and lower confidence among people to spend on hotels and travel. Sub-segments like road transport could witness a much faster recovery with the positive developments in the economy," Hede concluded.

A report on the COVID-19 impact on the Indian hotel sector by HVS ANAROCK published earlier had estimated a Rs 90,000 crore decline in 2020.

Mandeep Singh Lamba, President, (South Asia), HVS ANAROCK said, "We expect demand to improve considerably in 2021, especially once the vaccine is widely available for use. Domestic leisure travel, particularly to motorable and previously unexplored destinations, will continue to show a steady increase during the year."

"Meanwhile, corporate demand will remain subdued, at least in the short term, as virtual meetings have become a norm and corporates will continue with their cost-cutting measures, including reducing discretionary travel. We expect the sector to bounce back to pre-COVID levels on occupancy by 2022 and average daily rate by 2023," Lamba noted.