

India's GDP Growth: Q2 FY21

Contact:
Madan Sabnavis
 Chief Economist
 madan.sabnavis@careratings.com
 91-22-6837 4433

Authors:

Kavita Chacko
 Senior Economist
 kavita.chacko@careratings.com
 91-22-6837 4426

Mradul Mishra (Media Contact)
 mradul.mishra@careratings.com
 91-22-6754 3573

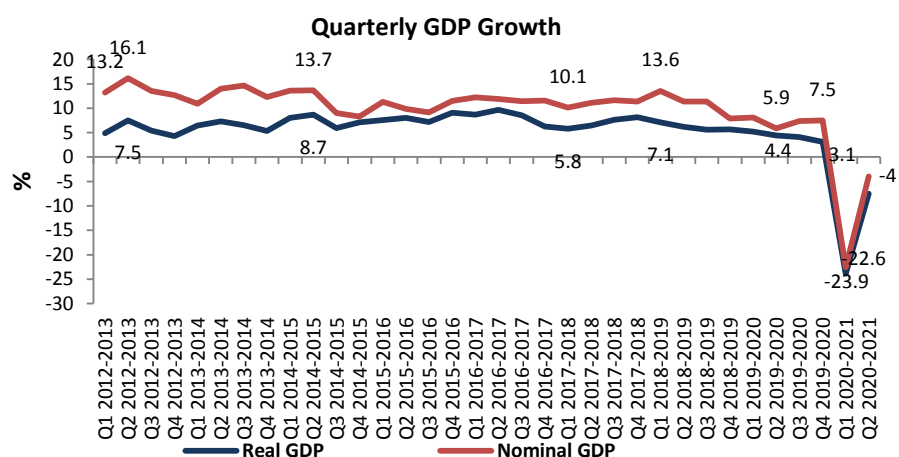
The Indian economy in the July – September quarter staged an impressive recovery from the record decline of the preceding three months, suggesting that the resumption of economic activity has been gathering pace.

Despite the improvement, the domestic economy in Q2 FY21 continued to be in contraction mode for the second successive quarter and thereby was technically in a recession. In terms of size, the domestic economy shrunk to the level of December'17. Also, India is trailing other major economies in terms of recovery during July-September'20.

The GDP growth in Q2 FY21 at (-) 7.5% (y-o-y) was sharply lower than the 4.4% growth in Q2 FY20. At the same time, the contraction was less severe than the (-)24% fall in Q1 FY21. The GDP reading was also better than market expectations. CARE Ratings had estimated the GDP growth for the quarter at -9.9%.

The gains in the domestic economy in Q2 FY21 was powered by the manufacturing, electricity and agriculture sector. The contact intensive service sectors continues to record a contraction in growth rates both on a yearly and quarterly basis.

Consumption demand continued to be weak with private as well as government consumption registering negative growth. Investments too contracted during the quarter.



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Sector-wise performance in Q2 2020-21 (year-on-year)

- Barring agriculture, manufacturing and electricity, all the other sectors witnessed a contraction in growth in Q2 FY21.
- The core GVA growth, which excludes the agriculture and government sector was -7.6 % in Q2 FY21 against the -7.0% growth in overall GVA.
- Agriculture sector witnessed near stable growth at 3.4%.
- The industrial sector contracted by -2.1% in Q2 FY21 (y-o-y) which is a notable improvement from the (-) 38% growth of in Q1 FY21. The gains here were led by the manufacturing sector.
- Manufacturing sector witnessed positive growth of 0.6% in Q2 FY21 v/s the (-) 0.6% growth in Q2 FY20. The positive growth in the manufacturing sector can be attributed to the higher activity with the easing of the lockdown restrictions as well as favourable base effect.
- The construction sector improved from (-)50.3% in Q1 FY20 to (-) 8.6% in Q2 FY21.
- The trade, hotel and transport segment registered the highest contraction amongst the sectors during July-September at (-)15.6%.
- Public administration, defence and other services saw growth contracted further from 10.3% in Q1 FY21 to (-) 12.2% in Q2 FY21.
- The overall services sector registered a contraction of 11.4% in Q2 FY21 against the 6.5% growth in Q2 FY20.

Table 1: Sectoral Growth Estimates – Quarterly at constant prices

| | Q2 FY18 | Q2FY19 | Q2 FY20 | Q2 FY21 |
|---|------------|------------|------------|--------------|
| Agriculture, forestry & fishing | 6.0 | 2.5 | 3.5 | 3.4 |
| Industry | 6.7 | 4.8 | 0.5 | -2.1 |
| Mining & quarrying | 11.2 | -7.0 | -1.1 | -9.1 |
| Manufacturing | 7.8 | 5.6 | -0.6 | 0.6 |
| Electricity, gas ,water supply& other utility services | 11.8 | 9.9 | 3.9 | 4.4 |
| Construction | 1.5 | 5.2 | 2.6 | -8.6 |
| Services | 5.8 | 7.4 | 6.5 | -11.4 |
| Trade, hotels, transport, communication and broadcasting | 8.1 | 7.8 | 4.1 | -15.6 |
| Financial, real estate & professional services | 2.9 | 6.5 | 6.0 | -8.1 |
| Public administration, defence and other services | 8.5 | 8.9 | 10.9 | -12.2 |
| GVA at Basic Price | 6.1 | 6.1 | 4.3 | -7.0 |
| Core GVA(excluding agri & public administration) | 5.7 | 6.1 | 3.3 | -7.6 |

Source: Mospi

Consumption and Investments

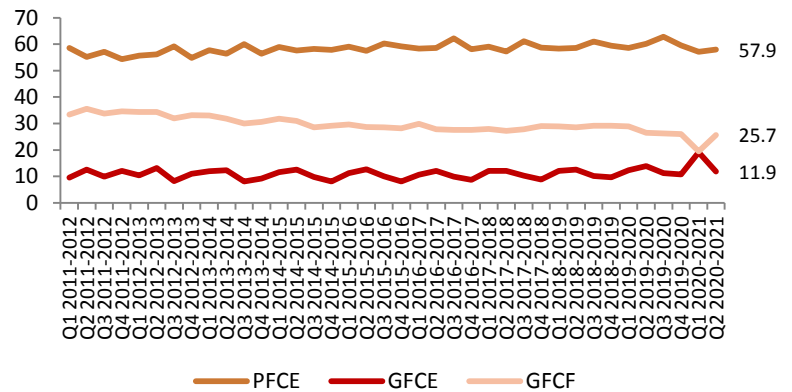
- Private consumption which is driver of the economy (accounting for 58% of the GDP) witnessed a contraction in growth of (-) 11.32% in growth rates in Q2 FY21 from year ago (6.4%)
- Government consumption too witnessed a sharp decline in growth of (-) 22.2% in Q2 FY21. This is in sharp contrast to the 16.4% growth in Q1 FY21.
- Investment growth continued to contract. Gross capital formation or investments was 7.5% lower in Q2 FY21 from year ago.
- As a percentage of GDP, investments (as measured by the Gross Fixed Capital Formation) at 25.7% in Q2 FY21 was an improvement from 19.5% in the previous quarter.

Table 2: Growth in Expenditure of GDP (constant prices)

| | Q2 FY18 | Q2 FY19 | Q2 FY20 | Q2 FY21 |
|--------------------------------|-------------|-------------|-------------|--------------|
| GFCE | 7.20 | 10.85 | 14.19 | -22.18 |
| PFCE | 5.52 | 8.79 | 6.39 | -11.32 |
| GFCF | 5.83 | 11.45 | -3.92 | -7.35 |
| Exports | 4.58 | 12.48 | -2.23 | -1.52 |
| Less Imports | 10.47 | 18.74 | -9.43 | -17.16 |
| GDP (at current prices) | 6.47 | 6.20 | 4.42 | -7.54 |

GFCE : Govt Final Consumption Expenditure
 PFCE: Private Final Consumption Expenditure
 GFCF: Gross Fixed Capital Formation
 Source: Mospil

Consumption and Investments : Rates of GDP (%)

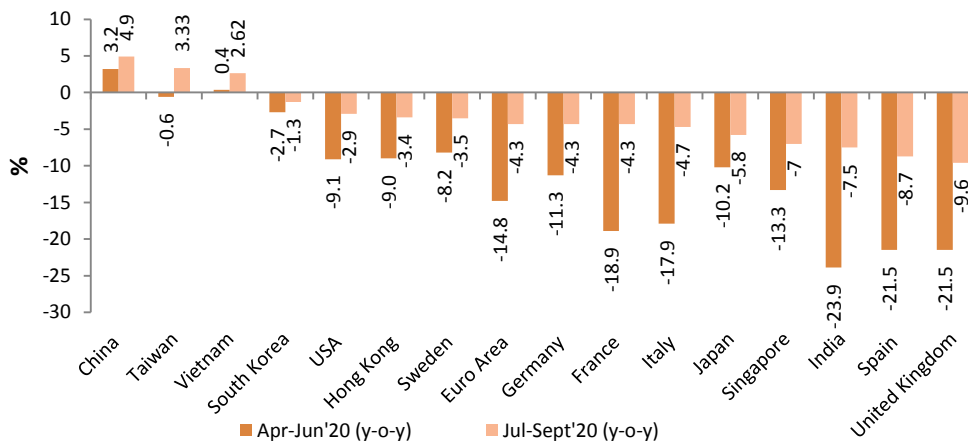


How does India's economy compare with other key economies during July-September'20?

Of the 51 countries that have reported their GDP for the period Apr-Jun'20, only China, Taiwan and Vietnam have recorded positive growth over the same period of year ago. The GDP has contracted in the range of -0.1% (Lithuania) to -63.8% (Macua) for the remaining 47 countries. All economies have seen an easing in their economic downturn with the contraction in the GDP (y-o-y) being less severe than during the preceding 3 months i.e. April – June'20.

The contraction in India's economic growth during July-September'20 has been sharper than most of major economies. Growth here however has been higher than that of Spain (-8.7%) and United Kingdom (-9.6%).

GDP Growth of Key Economies (y-o-y)



Source: Trading Economics and Mospil

CARE Ratings View:

GDP growth although expected to improve in the remaining two quarters of 2020-21 with the improved pace of pickup in economic activity across most sectors. The economy however continues to face downward pressured from the sustained spread of the pandemic in the country and the re-imposition of restrictions in various regions.

Consumption demand and investments which is necessary to propel the economy would continue to be tepid and is unlikely to seen a noteworthy improvement during the course of the year.

We expect the country's GDP to contract by -7.7% to -7.9% in FY21.