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What does Q1 growth data tell us?

India's GDP rebounded by 20.1% in the quarter ending June 2021. This reflects that most of the rebound is a result of the sharp fall seen last year or what we call the base effect. However, there are few interesting underlying trends that are noteworthy.

Sameer Narang Sep 02, 2021, 09.16 AM IST

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BLOGS

After falling by 24.4% in the quarter ending June 2020, India's **GDP** rebounded by 20.1% in the quarter ending June 2021. This goes to show that most of the rebound is a result of the sharp fall seen last year or what we call the base effect. However, there are few interesting underlying trends that are noteworthy.

The **agriculture sector** has not been impacted by the pandemic. Agriculture output is 8% higher than the pre-pandemic level which we define as the output seen in the quarter ending June 2019. While last year the agriculture sector grew by 3.6%. In the quarter gone by, it has shown an increase of 4.5%. However, a below-normal monsoon may cast some negative impact on this pandemic resilient sector.

Electricity, gas and water supply output too is now above pre-pandemic level. While this sector reported an

increase of 14.3% in the previous quarter. Notably, last year in the same quarter, it shrunk by 9.9%. The increase in electricity output is directly related to improvement in underlying manufacturing and consumption demand.

The other two sectors which have come closest to recovery to pre-pandemic levels are mining and financial services, real estate, and professional services. Mining activity is now just 2% short of the pre-pandemic level. It reported an increase of 18.6% in the quarter ending June 2021 after a steep decline of 17.2% last year. Financial services, real estate and professional services managed to grow by 3.7% from a fall of 5% last year. Within this sub-category, financial services growth has been stable. However, real estate is now reporting an uptick on the back of improvement in sales and reduction in inventory particularly linked with wage and job growth in the IT sector.

The manufacturing sector too is 4% below its pre-pandemic level and it reported an increase of 49.6% in the quarter ending June 2021 from a decline of 36% last year. The manufacturing sector has benefitted from an improvement in global demand as seen in a steady increase in India's merchandise exports. In fact, over a two-year horizon, India's non-oil exports have increased by 21% in the current financial year. Exports are likely to do well in the near term as well.

While the construction sector is still 15% below its pre-pandemic level, it has shown the highest rebound in the quarter ending June 2021 at 68.3%. This is also attributable to an equally large decline of 49.5% last

What does Q1 growth data tell us?



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for the construction sector is looking up on the back of spending by the government and pick-up in residential real estate in the coming years.

The sector that has been the worst hit from the pandemic is contact intensive trade, hotels, transport and communication. It is 30% below its pre-pandemic level. Though it reported an increase of 34.3% over the previous year in the quarter ending June 2021, it came on a much sharper decline of 48.1% last year. This sector is likely to come out of the pandemic the last given its contact-intensive nature and risk of rising infections in some states delaying recovery.

The expenditure side too tells us an interesting tale. While government spending is 7% above the pre-pandemic level, consumption and investment are 12% and 17% below the pre-pandemic level.

Consumption demand will only rebound once the [economy](#) is fully functional. Investment demand may see a recovery sooner on the back of the government's PLI scheme and corporates looking at investing in new and sustainable driven investments in sectors such as renewables and electric vehicles among others. Even in certain old economy sectors such as cement and steel investment cycle are near the horizon. Exports are also expected to do well.

This makes us believe that India is likely to grow by 9.7% in the current financial year with government spending, exports and investments in select sectors by Indian corporates ensuring a sustainable uptick in India's medium-term growth trajectory.

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Rise of FinTech entrepreneurship in Tier 2 and 3 cities

Time to go local. The fintech revolution that has largely been limited to the metro cities so far has expanded. The next wave of innovation is building in the semi-urban and rural areas. We already have a fintech unicorn, Razorpay from Jaipur. More such billion-dollar start-ups can come from emerging cities if encouraged

Tanul Mishra

**Tanul Mishra**

CEO, Afthonia Lab

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