

## Q1FY22 GDP

31 August 2021

### Growth recovers on a low base

India's economy reported a sharp rebound at 20.1% in Q1FY22 over a low base of (-) 24.4% last year. Exports and investment demand led the uptick. Consumption is recovering at a slower pace and likely to do so in the near-term as well. Construction and manufacturing are the GVA growth drivers and will continue to do well in the near-term. Contact intensive trade, hotels category will rebound with a lag. We expect India to grow by 9.7% in FY22 led by government spending, exports and corporate capex.

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**GDP growth at 20.1% in Q1FY22:** GDP growth bounced back to 20.1% in Q1FY22 from an increase of 1.6% in Q4FY21. This was due to base effect as GDP had fallen by 24.4% in Q1FY21. The uptick was led by investment demand which reported an increase of 55.3% over the previous year on the back of equally sharp decline of 46.6% last year. Exports too seem to have done well with an increase of 39.1% over the previous year. Exports had contracted by 21.8% last year. Private consumption demand increased by 19.3% after reporting a drop of 26.2% last year. Consumption is still 12% below its pre-pandemic level (Jun'19 level) and will recover only when the economy is fully functional.

**Base effect pulls GVA up:** GVA rose by 18.8% in Q1FY22 from 3.7% in Q4FY21. This was supported by a favourable base (-22.4% in Q1FY21). The uptick in Q1 was led by construction sector which reported an increase of 68.3% from an equally sharp fall of 49.5% last year. Even manufacturing output recovered by a strong 49.6% in the quarter after falling by 36% last year. Both these sectors are now at 15% and 4% below pre-pandemic levels. Services sector rose by 11.4% in Q1FY22 from 1.5% in Q4FY21 (-21.5% in Q1FY21). While trade, hotels, transport and communication reported an increase of 34.3%, it is still 30% below its pre-pandemic level (Jun'19) and will recover with a lag. Financial services and real estate sector reported an increase of 3.7% compared with a decline of 5% last year. Public administration and defence too reported a muted growth of 5.8% over a 10.2% decline seen last year. The second wave seems to have delayed the recovery of services sector more than manufacturing.

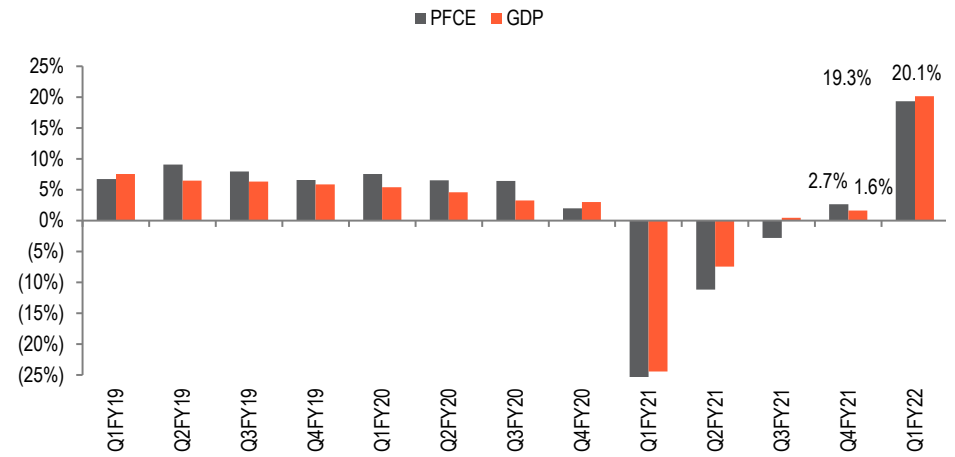
**Outlook for FY22:** Agriculture sector has been pandemic resilient. Its output is 8% above pre-pandemic level. A below normal monsoon poses a risk to its growth in FY22. Manufacturing and construction activity are likely to do well on the back of exports and government spending. Contact intensive services sector is likely to recover with a lag. Rising infections in certain states pose a risk to services recovery. Thus on an overall basis, we expect GDP growth at 9.7% in FY22. The improving pace of vaccinations, government tax collections, exports and corporate investments in select sectors are a tailwind for growth.

### Key highlights

- GDP growth at 20.1% in Q1 led by exports and investments.
- GVA growth at 18.8% in Q1 led by construction manufacturing and trade, hotels category.
- GDP to grow by 9.7% in FY22 led by exports, government spending and investments. Consumption to recover with a lag.

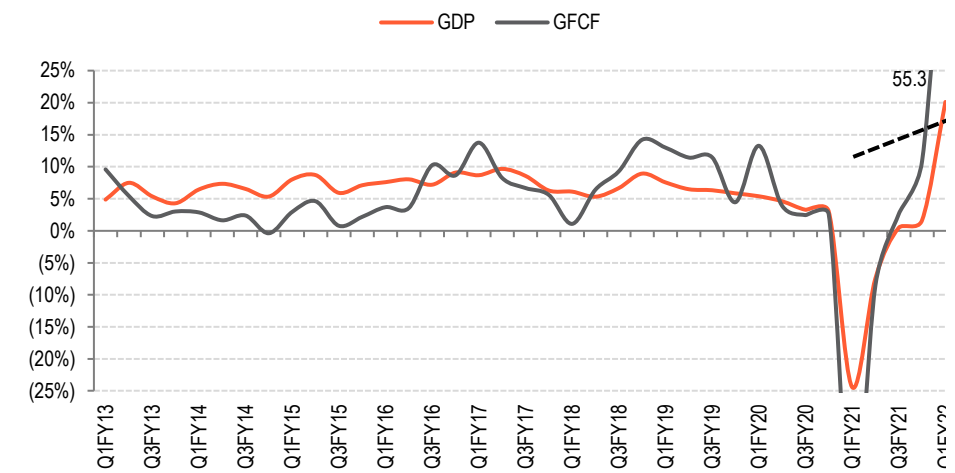


**Fig 1 – Base effect supports GDP growth**



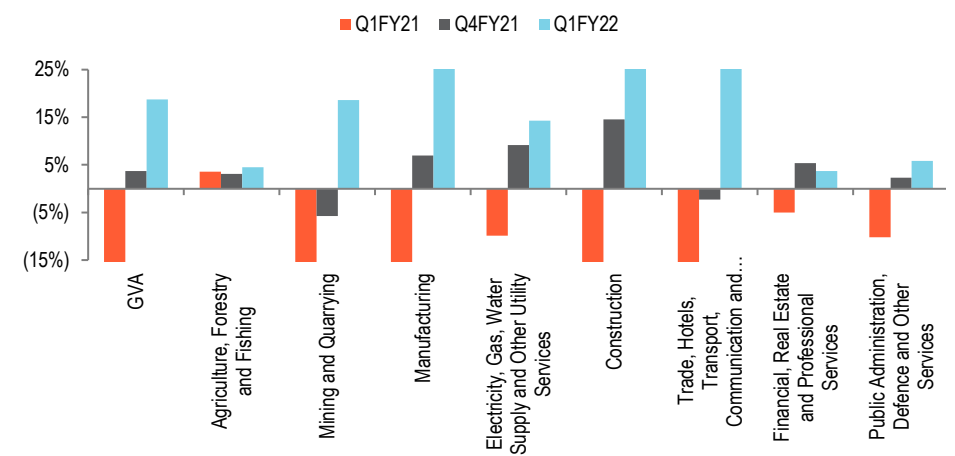
Source: CEIC, Bank of Baroda Research

**Fig 2 – Investment demand increases at a faster pace**



Source: CEIC, Bank of Baroda Research

**Fig 3 – GVA and its components**



Source: CEIC, Bank of Baroda Research

**Fig 4 – 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   |
| 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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