बैंक ऑफ़ बड़ौदा
Bank of Baroda

Q4FY20 GDP

29 May 2020

FY20 GDP growth drops; Q4 surprises positively

India's FY20 growth slipped to 4.2% from 6.1% due to lower consumption and investment demand. Growth for Q4 moderated to 3.1% from 4.1% in Q3. Agriculture did well. Government spending held up with fiscal deficit at 4.6% of GDP in FY20. The start to the year has been much worse with cement, steel and electricity output contracting by 86%, 84% and 23% respectively. We expect GDP to decline by 4.7% in FY21 led by private consumption and investment demand. We expect RBI to reduce rate by 25bps in next policy.

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Q4 growth slips to 3.1%: GDP growth in Q4FY20 fell to 3.1%, higher than our estimate of 1.6%, from 4.1% in Q3. The positive surprise is due to Centre maintaining its spending by increasing fiscal deficit to 4.6% of GDP (FY20RE at 3.8%). Even so, consumption demand dipped to 2.7% in Q4 from 6.6% in Q3 and investment contracted by 6.5% in Q4 versus a decline of 5.2% in Q3. GVA growth was also lower at 3% in Q4 as against 3.5% in Q3. Manufacturing at (-) 1.4% (-0.8% in Q3), construction at (-) 2.2% (0% in Q3), Trade, hotels etc at 2.6% (4.3% in Q3) and financial, real estate etc. at 2.4% (3.3% in Q3) led the decline. Agriculture, mining and electricity did better in Q4.

FY20 growth at 4.2%: GDP growth in FY20 is now estimated to have increased by 4.2% compared with 6.1% in FY19, lowest since FY09. The decline is led by investment demand at (-) 2.8% from an increase of 9.8%. Even consumption has slipped to 5.3% in FY20 from 7.2% in FY19. Data for growth in previous three quarters (Apr'19-Dec'19) has been revised lower to 4.6% from 5.1% led by large downward revisions in financial services, real estate etc. (200bps) and trade, hotels etc. (180bps). Only agriculture sector and government spending has held up in the year.

Outlook for FY21: We expect GDP to contract by 4.7% in FY21 led by sharp decline in private consumption and investment demand. Only agriculture and public spending (general government deficit at 10%) will hold up. The extent of impact in Apr'20 when there was complete lockdown shows exports contracting by 60%, steel output by 84%, cement by 86% and electricity by 23%. These numbers will see a gradual improvement in the months ahead. Thus maximum impact will be felt in Q1 when growth will contract by more than 20% before returning to positive trajectory in Q3. However, discretionary demand will take longer to revive as consumer confidence will take time to recover.

KEY HIGHLIGHTS

- GDP growth slipped down to 3.1% in Q4FY20 led by private consumption and investment.
- GVA growth decelerated to 3% in Q4FY20 led by manufacturing and private services.
- Agriculture and government spending to support growth in the near-term.

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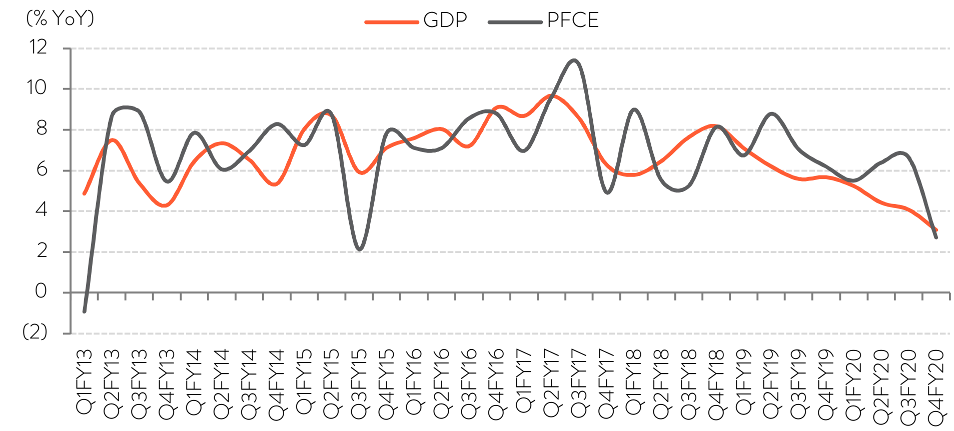
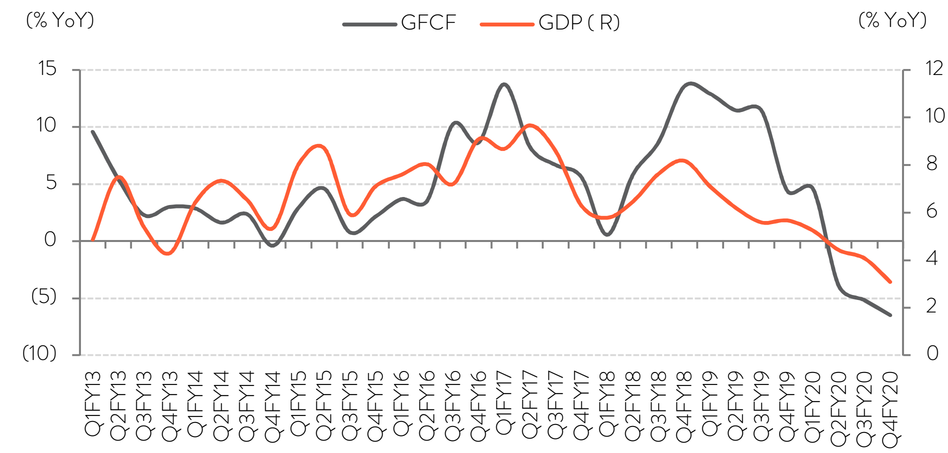
FIG 1 – GDP GROWTH DECELERATES IN Q4 LED BY PRIVATE CONSUMPTION



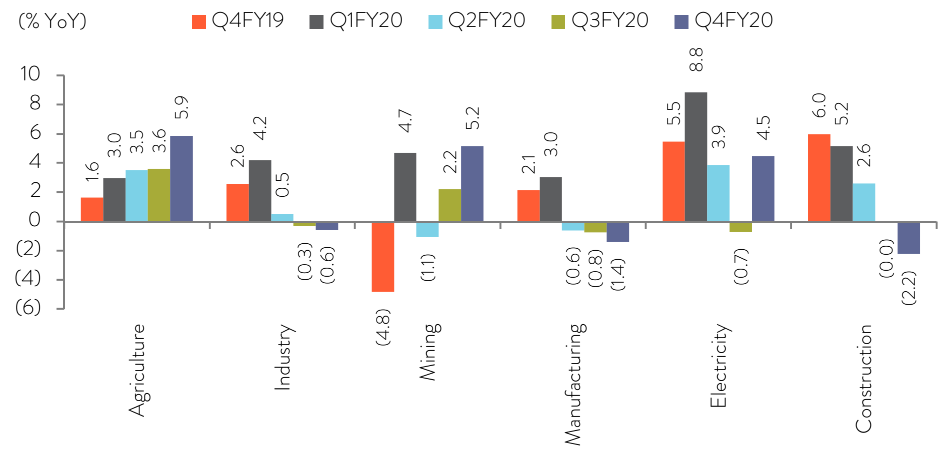
Source: CEIC, Bank of Baroda Research

FIG 2 – …AND INVESTMENT DEMAND



Source: CEIC, Bank of Baroda Research

FIG 3 – SHARP CONTRACTION IN MANUFACTURING AND CONSTRUCTION



Source: CEIC, Bank of Baroda Research

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