Q1FY21 GDP

31 August 2020

Investment and consumption drive record fall in GDP

India's GDP growth in Q1FY21 contracted by 23.9%. Manufacturing led the decline at 39.3% followed by services at 20.6%. The only beacon of light was agriculture output which increased by 3.4%. Counter cyclical fiscal policy was visible with 16.4% jump in government consumption. However, private consumption and investment spending fell by 26.7% and 47.1% respectively. With a higher than anticipated fall in Q1 GDP and localized lockdowns in Q2 continuing, we now expect GDP to contract by 6.8% in FY21 (5% earlier).

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Investment and consumption see sharp declines: India's GDP contracted sharply by 23.9% in Q1FY21 (our estimate: 18.3%) led by 39.3% decline in manufacturing and 20.6% decline in services activity. Agriculture output increased by 3.4%. Government consumption too stood up at 16.4% in Q1. However, private consumption was subdued with a contraction of 26.7%. Investment demand (GFCF) fell by 47.1% (6.5% decline in Q4). Exports too contracted by 19.8% versus 8.5% contraction in Q4 as external demand was weak. Imports fell by 40.4% in Q1 on the back of lower domestic demand.

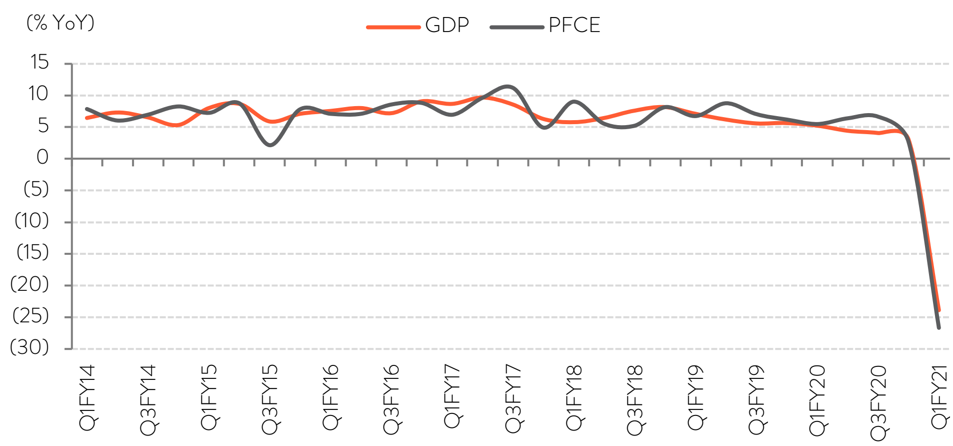
Construction and trade drive GVA lower: GVA contracted by 22.8% in Q1FY21 compared with increase of 3% in Q4FY20. Construction sector reported a sharp fall of 50.3% (2.2% decline in Q4), followed by trade, hotels, transport and communication with a decline of 47% (increase of 2.6% in Q4). Manufacturing and mining output fell by 39.3% and 23.3% respectively. While government consumption increased, public administration and defence spending fell by 10.3%. Apart from this quarter, the two series have a correlation of 0.88 in the current series. Hence, there may be a case of revision in either one of them.

Outlook for FY21: Since the last quarter, economic recovery has picked up. For instance, infra sector contraction in Jul'20 is 9.6% compared with a decline of 24.3% in Q1FY21. Merchandise exports have fallen by 10.2% in Jul'20 compared with a 19.8% decline in exports of goods and services in Q1. Imports have also recovered. Vehicle output, rail freight, E-way bills and other high frequency indicators are also pointing out to a recovery. However, the extent of contraction in Q1 and gradual pace of recovery on the back of continued lockdowns suggests that GVA will now contract by 6.8% in FY21 with downside risks to our estimates depending upon the duration/ spread of the pandemic.

KEY HIGHLIGHTS

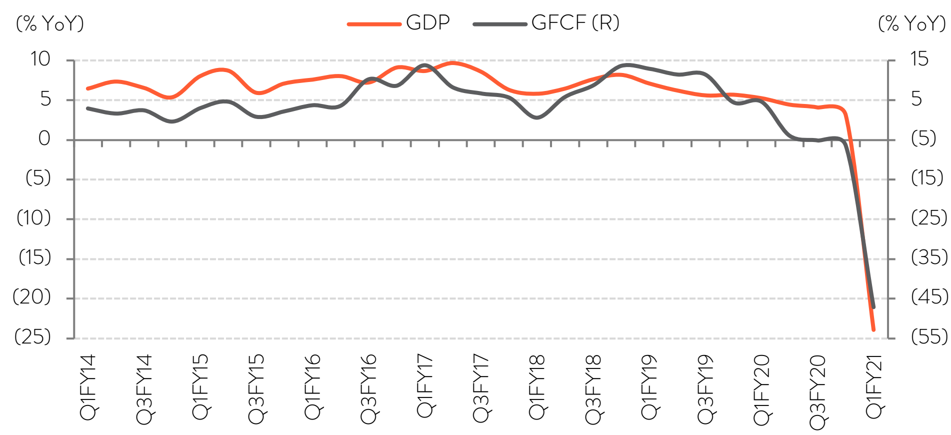
- GDP contracted sharply by 23.9% in Q1FY21 led by sharp fall in consumption and investment.
- Government spending was a positive.
- On the supply side, manufacturing fell the most. Agriculture contributed positively.

FIG 1 – CONSUMPTION DEMAND DECLINES STEEPLY



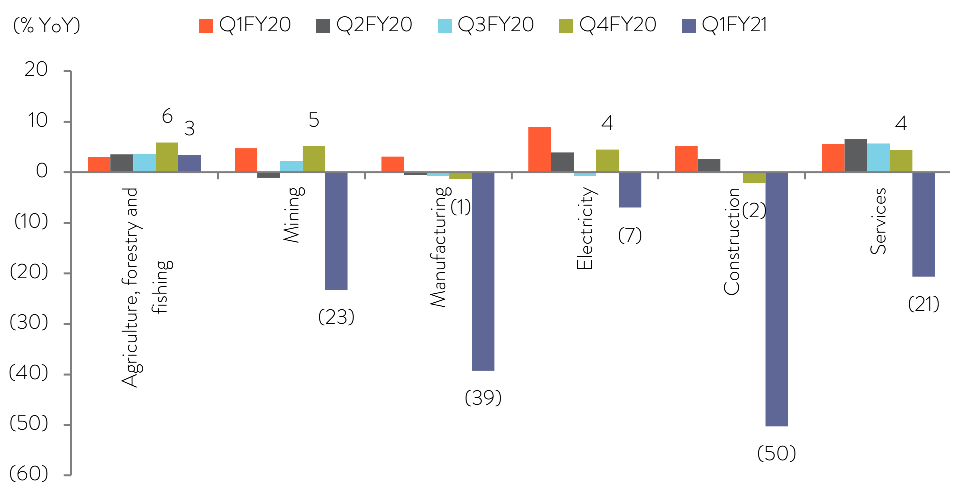
Source: CEIC, Bank of Baroda Research

FIG 2 – INVESTMENT ALSO FALLS SHARPLY



Source: CEIC, Bank of Baroda Research

FIG 3 – EXCEPT AGRI, ALL SECTORS IN GVA FELL SHARPLY



Source: CEIC, Bank of Baroda Research

FIG 4 – GDP & GVA SHARPLY CONTRACTED BY 23.9% & 22.8% RESPECTIVELY IN Q1FY21

(% change)	Q1FY19	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Agriculture, forestry and fishing	3.0	3.5	3.6	5.9	3.4
Industry	**4.2**	**0.5**	**(0.3)**	**(0.6)**	**(38.1)**
Mining and quarrying	4.7	(1.1)	2.2	5.2	(23.3)
Manufacturing	3.0	(0.6)	(0.8)	(1.4)	(39.3)
Electricity, gas, water supply and other utility services	8.8	3.9	(0.7)	4.5	(7.0)
Construction	5.2	2.6	0	(2.2)	(50.3)
Services	**5.5**	**6.5**	**5.7**	**4.4**	**(20.6)**
Trade, hotels, transport, communication & services related to broadcasting	3.5	4.1	4.3	2.6	(47.0)
Financial, real estate & professional services	6.0	6.0	3.3	2.4	(5.3)
Public administration and defence	7.7	10.9	10.9	10.1	(10.3)
GVA at basic prices	**4.8**	**4.3**	**3.5**	**3.0**	**(22.8)**
Private final consumption expenditure (PFCE)	5.5	6.4	6.6	2.7	(26.7)
Govt final consumption expenditure (GFCE)	6.2	14.2	13.4	13.6	16.4
Gross Fixed Capital Formation (GFCF)	4.6	(3.9)	(5.2)	(6.5)	(47.1)
Change in Stocks (CIS)	5.0	1.3	1.1	0.5	(20.8)
Valuables	25.0	16.0	10.5	3.1	(91.0)
Exports	3.2	(2.2)	(6.1)	(8.5)	(19.8)
Less Imports	2.1	(9.4)	(12.4)	(7.0)	(40.4)
Discrepancies	(188.6)	(79.6)	264.3	178.1	(193.0)
GDP	**5.2**	**4.4**	**4.1**	**3.1**	**(23.9)**

Source: CSO, MOSPI, Bank of Baroda Research

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