

Q3FY21 GDP

26 February 2021

Growth back in positive territory

After two consecutive quarters of decline, GDP and GVA growth returned to the positive territory at 0.4% and 1% respectively in Q3FY21. The growth momentum was led by construction, manufacturing and financial services and real estate. Notably, FY21 GVA has been revised up to (-) 6.5% from (-) 7.2%. However, GDP growth has been revised lower to account for higher subsidy payouts. We expect GDP to fall by 7.3% in FY21. However, we see a sharp reversal at 11.5% in FY22 on the back of base effect and normalisation.

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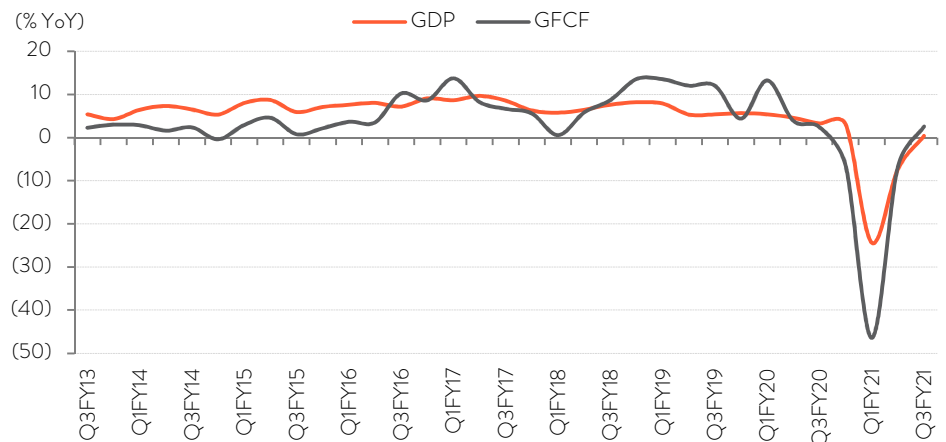
Investment demand picks up: India's GDP growth moved into positive territory at 0.4% in Q3FY21 from (-) 7.3% in Q2FY21. The sharp reversal can be explained by improvement in both consumption, in particular government spending, and investment. From (-) 24% in Q2, government consumption is now at (-) 1.1%. Ditto for private consumption from (-) 11.3% in Q2 to (-) 2.4% in Q3. Notably, investment spending has shown an increase of 2.6% from (-) 6.8%. Inventory build-up continued for second consecutive quarter.

GVA growth improves: GVA growth improved to 1% in Q3 from contraction of 7.3% in Q2 led by broad based recovery in all sectors. Agri output increased by 3.9% (3.4% during FYTD21). Construction output increased by 6.2% in Q3 compared with a decline of 16.8% during FYTD21. Manufacturing output registered an increase of 1.6% (decline of 11.9% during FYTD21). Within services, trade, hotels etc reported a contraction of 7.7% against a decline of 23.5% during FYTD21. Higher GST collections since October imply this recovery will continue. Financial services reported an increase of 6.6% in Q3 led by real estate. Public admin and defence continued to contract by 1.5% in Q3 despite higher government spending dragged down by informal services.

GVA/GDP growth forecasts revised: FY21 GVA growth has now been revised upwards to (-) 6.5% from (-) 7.2% earlier led by industry and trade, hotels etc (services). The other services categories and agriculture have seen a downward revision. Investment demand is now estimated to fall by 12.4% versus a decline of 14.5% earlier. The focus of the government is to revive investments through PLI scheme and higher infra spending. We expect GDP growth to fall by 7.3% in FY21, before seeing a revival to 11.5% in FY22, on the back of a low base, higher capital spending by government, additional output from PLI scheme and pick-up in exports.

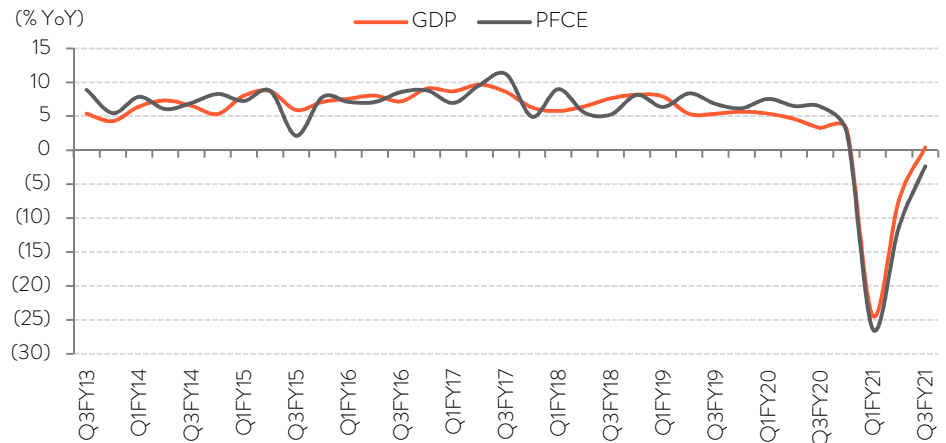


FIG 1 – INVESTMENT DEMAND PICKS UP



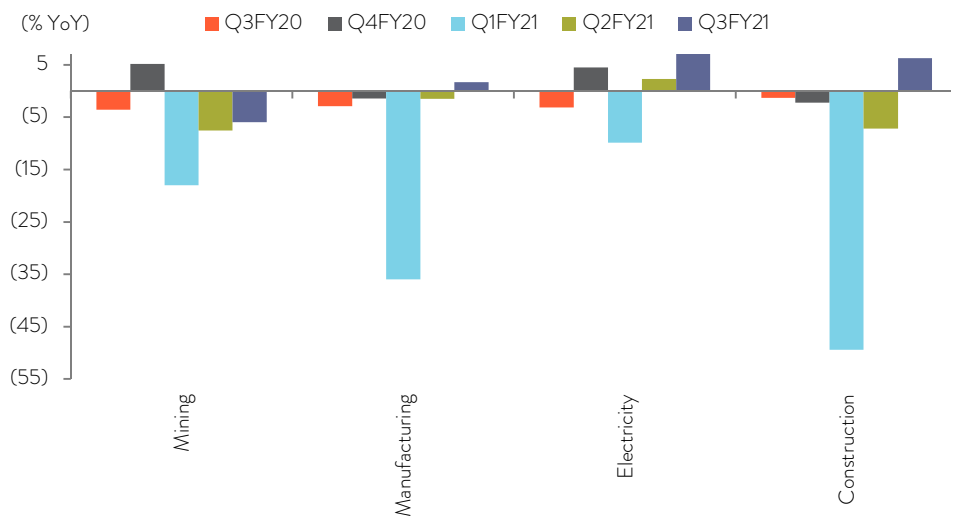
Source: CEIC, Bank of Baroda Research

FIG 2 – PRIVATE CONSUMPTION ALSO IMPROVES



Source: CEIC, Bank of Baroda Research

FIG 3 – GVA GROWTH PICKS UP LED BY MANUFACTURING



Source: CEIC, Bank of Baroda Research

FIG 4 – GDP EXPECTED TO CONTRACT BY 8.2% IN FY21

(% change)	FY18	FY19	FY20	FY21AE	FY21E	FY22E
Agriculture, forestry and fishing	6.6	2.6	4.3	3.0	3.4	3.0
Industry	5.9	5.3	(1.2)	(8.2)	(8.2)	12.7
Mining and quarrying	(5.6)	0.3	(2.5)	(9.2)	(8.6)	9.8
Manufacturing	7.5	5.3	(2.4)	(8.4)	(7.9)	14.8
Electricity, gas, water supply and other utility services	10.6	8.0	2.1	1.8	1.8	7.0
Construction	5.2	6.3	1.0	(10.3)	(10.6)	10.8
Services	6.3	7.2	7.2	(8.1)	(8.1)	13.3
Trade, hotels, transport, communication & services related to broadcasting	10.3	7.1	5.7	(18.0)	(18.2)	22.5
Financial, real estate & professional services	1.8	7.2	6.4	(1.4)	(0.1)	8.5
Public administration and defence	8.3	7.4	8.3	(4.1)	(4.4)	9.3
GVA at basic prices	6.2	5.9	4.1	(6.5)	(6.3)	10.9
GDP	6.8	6.5	4.0	(8.0)	(7.3)	11.5

Source: CSO, MOSPI, Bank of Baroda Research | AE-Second Advance Estimates | E-Bank of Baroda estimate

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