



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

GROSS DOMESTIC PRODUCT

Q2 FY2022 GDP printed 0.3% higher than
pre-Covid level, mildly above our
expectations; signs of durability amiss

December 2021

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HIGHLIGHTS



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YoY growth in real GDP and GVA saw a base effect-led easing to 8.4% and 8.5%, respectively, in Q2 FY2022

Growth in Q2 FY2022 exceeded our forecasts

Real GDP and GVA exceeded the pre-Covid level of Q2 FY2020 by 0.3% and 0.5%, respectively, in Q2 FY2022

Private and government consumption continued to trail the pre-Covid level, while valuables nearly tripled

YoY growth of GVA ex-agri and PADOS stood at 7.5% in Q2 FY2022

The National Statistical Office (NSO) has pegged the year-on-year (YoY) growth in India's real GDP and GVA at basic prices for Q2 FY2022 at higher-than-expected 8.4% and 8.5%, respectively (ICRA exp. +7.9% and +7.4%, respectively). The absolute level of real GDP in Q2 FY2022 reverted above the pre-Covid level of Q2 FY2020, albeit by a mild 0.3% (-9.2% in Q1 FY2022 vs. Q1 FY2020). However, the disaggregated data does not offer signs that the recovery had gained a durable momentum, with lags in private final consumption expenditure (PFCE: -3.5%) and government final consumption expenditure (GFCE: -16.8%) being offset by a sharp rise in valuables (+170.5%) relative to the Q2 FY2020 level. The 1.5% rise in gross fixed capital formation (GFCF) in Q2 FY2022 relative to Q2 FY2020 appears to be the lone silver lining, echoing the trend in the output of capital goods, and robust government capital expenditure.

- **GDP expanded by 8.4% YoY in Q2 FY2022, mildly exceeded pre-Covid level:** The YoY GDP growth moderated to 8.4% in Q2 FY2022 (-7.4% in Q2 FY2021) from 20.1% in Q1 FY2022 (-24.4% in Q1 FY2021), on normalising base. The YoY expansion in GFCF and PFCE stood at 11.0% and 8.6%, respectively, in Q2 FY2022, and GFCE reverted to an 8.7% growth in Q2 FY2022 (-4.8% in Q1 FY2022) whereas the drag imposed by net exports deepened. As state-wise restrictions lifted after the second wave, the performance relative to the respective pre-Covid quarters improved to a mild growth of 0.3% in Q2 FY2022 from the 9.2% shrinkage in Q1 FY2022, driven by GFCF (+1.5% in Q2 FY2022; -17.1% in Q1 FY2022) and PFCE (-3.5%; -11.9%).
- **YoY GVA growth pegged at 8.5% in Q2 FY2022:** The YoY GVA growth was driven by services (+10.2%) on the back of a low base, with a moderate growth in industry (+6.9%) and agriculture (+4.5%). As expected, other than financial, real estate and professional services (FRP), and public administration, defence and other services (PADOS), the other sub-sectors of industry and services recorded a base effect-led slowdown in YoY growth in Q2 FY2022. The GVA growth of manufacturing, construction and trade, hotels etc. trailed our expectations, suggesting that rising input costs compressed corporate margins, amidst lagged recovery in contact-intensive services.
- **FY2022 GDP growth forecast maintained at 9.0%:** Government spending is expected to improve sequentially in H2 FY2022. While improving vaccine coverage and fuel tax cuts will boost confidence and re-invigorate demand, rising higher prices may contain the consumption recovery in H2 FY2022. With caution warranted following the discovery of the Omicron variant of Covid-19, we maintain our estimate of a 9.0% YoY growth in real GDP in FY2022, with economic activity expected to exceed the pre-Covid level in H2 FY2022.
- **Status quo expected in Dec 2021 policy review:** Although the Q2 FY2022 GDP growth is higher than the Monetary Policy Committee's (MPC's) forecast of 7.9%, uncertainty has been reignited by the Omicron variant. We expect a status quo in the Dec 2021 policy review. However, the tone may shift, in order to signal an upcoming change in the policy stance to neutral in the Feb 2022 meeting.

OVERVIEW

YoY economic performance in Q2 FY2022: The data released by the NSO indicates that the YoY expansion in GDP (at constant 2011-12 prices) moderated to 8.4% in Q2 FY2022 (-7.4% in Q2 FY2021) from 20.1% in Q1 FY2022 (-24.4% in Q1 FY2021; refer Exhibit 1 and 2), led by a normalising base (related to the stringent nationwide lockdown in Q1 FY2021 amid the first wave of Covid-19 in India), while exceeding our forecast of 7.9%.

The pace of expansion of PFCE, GFCF and exports slowed to 8.6%, 11.0% and 19.6%, respectively, in Q2 FY2022 from 19.3%, 55.3% and 39.1%, respectively, in Q1 FY2022. Healthy capital spending by the Centre and state governments¹ coupled with a modest rise in the value of completed projects boosted investment activity by 11.0% on a YoY basis in the just-concluded quarter. The urban consumer sentiment, as per the Central Bank's consumer confidence survey, improved only modestly prior to the festive season, indicating the continued income uncertainty being faced by households' dependent on the less-formal and contact-intensive sectors. However, resilient farm demand buffered private consumption to an extent in Q2 FY2022, contributing to the 8.6% YoY rise in PFCE. Notably, GFCE reverted to a growth of 8.7% in Q2 FY2022, after having contracted by 4.8% in Q1 FY2022, even though it trailed the pre-Covid level by a considerable 16.8%. With both imports and exports displaying a sharp double-digit expansion, the drag imposed by net imports deepened in Q2 FY2022.

EXHIBIT 1: Growth of GDP and its Components (in %, Constant 2011-12 Prices, YoY)

	Q2 FY2021	Q3 FY2021	Q4 FY2021	Q1 FY2022	Q2 FY2022	FY2020 RE	FY2021 PE	H1 FY2022
Private Final Consumption Exp.	-11.2%	-2.8%	2.7%	19.3%	8.6%	5.5%	-9.1%	13.5%
Government Final Consumption Exp.	-23.5%	-1.0%	28.3%	-4.8%	8.7%	7.9%	2.9%	1.0%
Exports	-2.0%	-3.5%	8.8%	39.1%	19.6%	-3.3%	-4.7%	28.2%
Imports	-17.9%	-5.0%	12.3%	60.2%	40.6%	-0.8%	-13.6%	49.0%
Gross Fixed Capital Formation	-8.6%	2.6%	10.9%	55.3%	11.0%	5.4%	-10.8%	28.3%
GDP	-7.4%	0.5%	1.6%	20.1%	8.4%	4.0%	-7.3%	13.7%
	Q2 FY2021	Q3 FY2021	Q4 FY2021	Q1 FY2022	Q2 FY2022	FY2020 RE	FY2021 PE	
Agriculture, Forestry & Fishing	3.0%	4.5%	3.1%	4.5%	4.5%	4.3%	3.6%	4.5%
Industry	-3.0%	2.9%	7.9%	46.1%	6.9%	-1.2%	-7.0%	22.9%
Services	-11.4%	-1.2%	1.5%	11.4%	10.2%	7.2%	-8.4%	10.7%
GVA at Basic Prices	-7.3%	1.0%	3.7%	18.8%	8.5%	4.1%	-6.2%	13.2%
GVA ex-Agri	-8.7%	0.2%	3.8%	21.9%	9.0%	4.1%	-7.9%	14.7%

RE: Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

¹ These include Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Himachal Pradesh, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Mizoram, Nagaland, Odisha, Punjab, Rajasthan, Sikkim, Tamil Nadu, Telangana, Tripura, Uttarakhand and Uttar Pradesh.

Moreover, the YoY growth in GVA (at basic prices) moderated to 8.5% in Q2 FY2022 (-7.3% in Q2 FY2021; refer Exhibit 2) from 18.8% in Q1 FY2022 (-22.4% in Q1 FY2021), driven by a sharp correction in industry (to +6.9% in Q2 FY2022 from +46.1% in Q1 FY2022), followed by a mild easing in services (to +10.2% from +11.4%), while the performance of agriculture, forestry and fishing was steady at 4.5% (similar to Q1 FY2022), despite an exceedingly uneven monsoon (refer Annexures A, B and C). Excluding agriculture, the GVA expansion stood at 9.0% in Q2 FY2022 (-8.7% in Q2 FY2021).

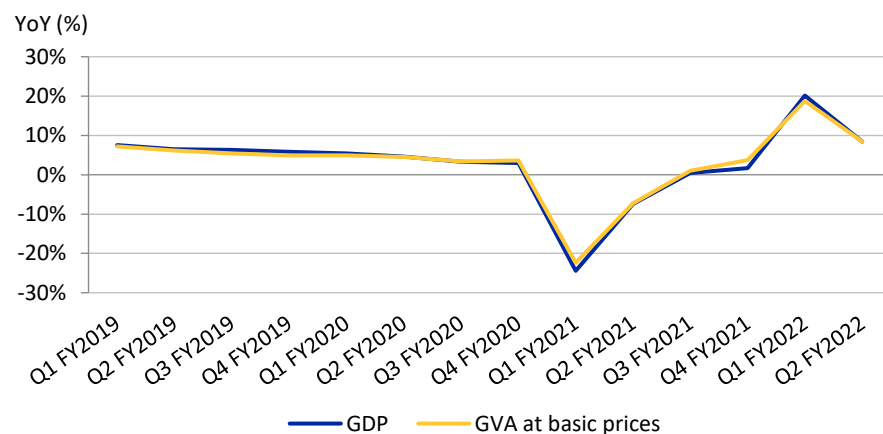
The sharp moderation in the YoY growth in the industrial GVA to 6.9% in Q2 FY2022 (-3.0% in Q2 FY2021) from 46.1% in Q1 FY2022 (-35.8% in Q1 FY2021) was broad-based across all the sub-sectors, namely construction (to +7.5% in Q2 FY2022 from +68.3% in Q1 FY2022), manufacturing (to +5.5% from +49.6%), mining (to +15.4% from +18.6%), and electricity, gas, water supply and other utility services (to +8.9% from +14.3%).

The mild base-effect led easing in the YoY growth of the services sector to 10.2% in Q2 FY2022 (-11.4% in Q2 FY2021) from 11.4% in Q1 FY2022 (-21.5% in Q1 FY2021), mirrored the trend for the GVA of trade, hotels, transport, communication and services to broadcasting (THTCS; to +8.2% in Q2 FY2022 from +34.3% in Q1 FY2022). As expected, the YoY GVA growth of PADOS and FRP improved to 17.4% and 7.8%, respectively, in Q2 FY2022 from 5.8% and 3.7%, respectively, in Q1 FY2022.

The GVA growth in Q2 FY2022 modestly exceeded our projection of 7.4%, primarily led by agriculture, forestry and fishing, and PADOS. Setting aside these two sub-sectors, GVA recorded a relatively lower YoY growth of 7.5%. In particular, the growth of manufacturing, construction and THTCS trailed our forecasts, suggesting that rising input costs bit corporate margins, and contact-intensive services continued to trail the pre-Covid levels.

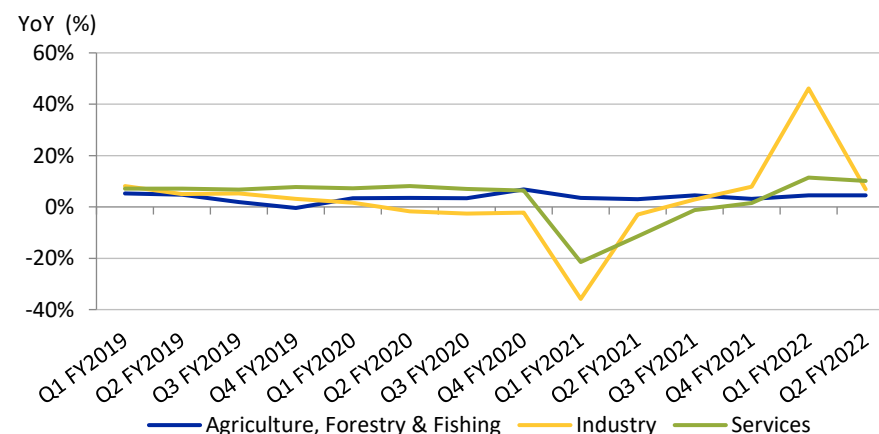
Net indirect taxes (taxes on products minus subsidies on products) rose by 7.7% in Q2 FY2022, even as GDP (+8.4%) recorded a slightly lower YoY growth relative to GVA (+8.5%).

EXHIBIT 2: YoY Growth in GDP and GVA at Basic Prices (Constant 2011-12 Prices)



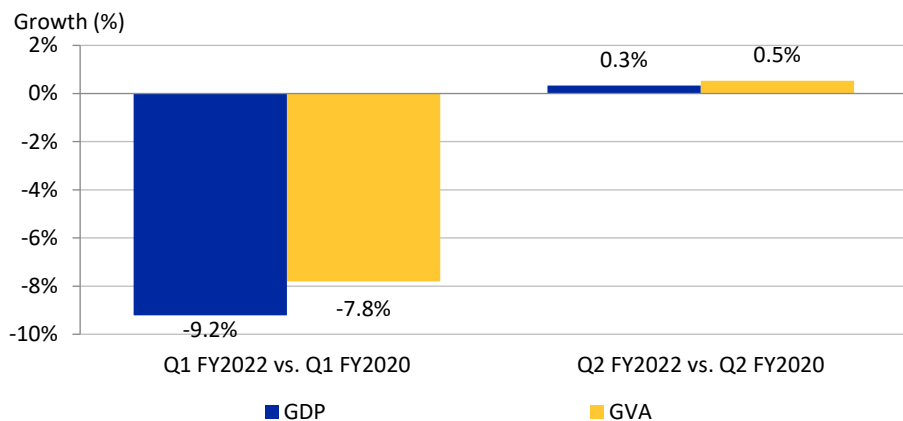
Source: NSO; CEIC; ICRA Research

EXHIBIT 3: YoY Growth in Agriculture, Industry and Services (Constant 2011-12 Prices)



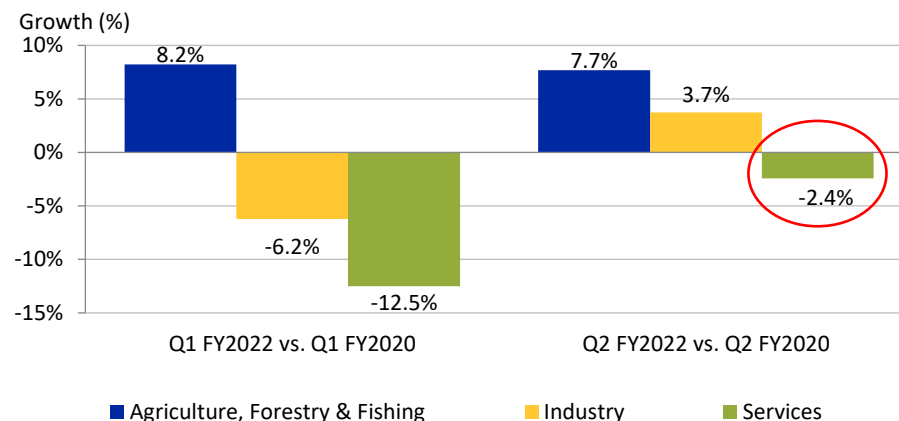
Source: NSO; CEIC; ICRA Research

EXHIBIT 4: Performance of GDP and GVA (at constant 2011-12 prices) in Q1 FY2022 and Q2 FY2022, relative to Q1 FY2020 and Q2 FY2020 (pre-Covid), respectively



Source: NSO; CEIC; ICRA Research

EXHIBIT 5: Sectoral performance in Q1 FY2022 and Q2 FY2022, relative to Q1 FY2020 and Q2 FY2020 (pre-Covid), respectively



Source: NSO; CEIC; ICRA Research

Performance relative to pre-Covid level: Following the re-opening of the economy after the second wave, the performance of GDP relative to the respective pre-Covid quarter recorded a significant improvement, to a growth of 0.3% in Q2 FY2022 from the contraction of 9.2% in Q1 FY2022 (refer Exhibit 4). Similarly, the GVA at basic prices also recorded a mild growth of 0.5% in Q2 FY2022, in contrast to the contraction of 7.8% in Q1 FY2022, relative to the respective pre-Covid quarter.

Encouragingly, relative to pre-Covid levels of Q2 FY2020, industrial GVA was 3.7% higher in Q2 FY2022 (refer Exhibit 5), driven by electricity, gas, water supply and other utility services (+11.4%), mining and quarrying (+7.9%), and manufacturing (+3.9%), while construction trailed the pre-Covid quarter by a mild 0.3%.

However, relative to Q2 FY2020, the GVA for services was 2.4% lower in Q2 FY2022, led by THTCS (-9.2%; reflecting the lagged normalisation in demand for contact-intensive sectors) and FRP (-2.0%), even as PADOS rose by a healthy 6.6%.

While the absolute level of real GDP in Q2 FY2022 reverted mildly above the pre-Covid level of Q2 FY2020, the disaggregated data for Q2 FY2022 is far from convincing, with considerable lags in private (-3.5%) and government consumption expenditure (-16.8%) being absorbed by a sharp rise in valuables (+170.5%) relative to the pre-Covid level of Q2 FY2020. The 1.5% rise in GFCF in Q2 FY2022 relative to Q2 FY2020 appears to be the lone silver lining.

Performance of Nominal GDP during Q2 FY2022: In nominal terms, the YoY expansion in the GDP and GVA eased to 17.5% and 16.8%, respectively, in Q2 FY2022 from 31.7% and 26.5%, respectively in Q1 FY2022 (refer Exhibit 6). The GDP deflator moderated to 9.1% in Q2 FY2022 from the series-high 11.6% in Q1 FY2022, while the GVA deflator rose to 8.4% from 7.7%, respectively. The former reflects the softening in the WPI inflation as well as CPI inflation in Q2 FY2022, which was driven by food items.

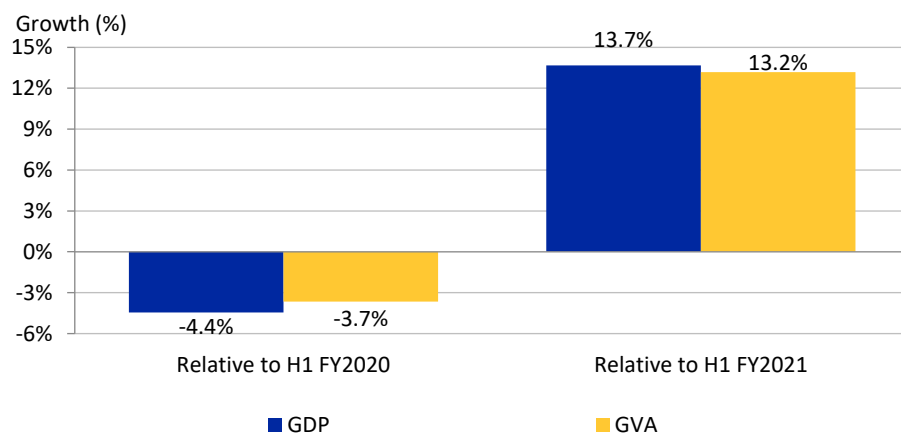
EXHIBIT 6: GDP and GVA data

GDP	Q2 FY2021	Q3 FY2021	Q4 FY2021	Q1 FY2022	Q2 FY2022	GVA at Basic Prices	Q2 FY2021	Q3 FY2021	Q4 FY2021	Q1 FY2022	Q2 FY2022
Constant	-7.4%	0.5%	1.6%	20.1%	8.4%	Constant	-7.3%	1.0%	3.7%	18.8%	8.5%
Current	-4.4%	5.2%	8.7%	31.7%	17.5%	Current	-5.3%	4.3%	8.8%	26.5%	16.8%
Deflator	3.0%	4.8%	7.1%	11.6%	9.1%	Deflator	2.1%	3.3%	5.0%	7.7%	8.4%

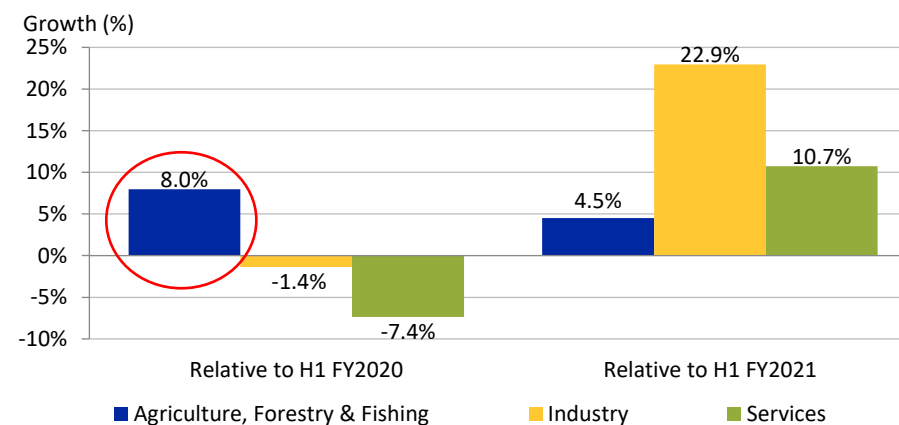
Source: NSO; CEIC; ICRA Research

Real GDP rose by 13.7% during H1 FY2022, on the back of a low base related to pandemic-led recession in H1 FY2021: Following the second wave of Covid-19, India's GDP (at constant 2011-12 prices) and GVA at basic prices recorded a considerable growth of 13.7% and 13.2%, respectively, in H1 FY2022, mainly on account of a low base (-15.9% and -14.9%, respectively, in H1 FY2021; refer Exhibit 7). The growth seen in GDP in H1 FY2022 is largely on account of GFCF (+28.3%), PFCE (+13.5%), and exports (+28.2%). However, the GDP trailed the pre-Covid level of H1 FY2020 by 4.4% in H1 FY2022, led by GFCF (-8.2%), PFCE (-7.7%), and GFCE (-5.3%).

Additionally, the 13.2% growth in GVA in H1 FY2022 was led by industry (+22.9%), followed by services (+10.7%; mainly driven by THTCS), and agriculture, forestry and fishing (+4.5%). However, the GVA contracted by 3.7% in H1 FY2022, relative to H1 FY2020, led by services (-7.4%) and industry (-1.4%), while agriculture, forestry and fishing exceeded the same by a healthy 8.0% in H1 FY2022 (refer Exhibit 8).

EXHIBIT 7: Performance of GDP and GVA in H1 FY2022, relative to H1 FY2021 and H1 FY2020 (pre-Covid)


Source: NSO; CEIC; ICRA Research

EXHIBIT 8: Sectoral performance in H1 FY2022, relative to H1 FY2021 and H1 FY2020 (pre-Covid)


Source: NSO; CEIC; ICRA Research

OUTLOOK

Benefitting from healthy moisture levels, the area sown under rabi crops recorded a healthy YoY increase of 7.3% as on November 26, 2021. This was led by higher acreage under oilseeds, pulses and wheat, partially offset by lower area sown under rice and coarse cereals. Sowing had already been completed on 50.6% of the total area covered under rabi crops in 2020, which is encouraging. The modest rise in MSPs for the rabi season, and the expectation of continued healthy procurement, should support rural farm sentiment and consumption demand in the remainder of this fiscal. We expect the growth of agriculture, forestry and fishing to print at 3.0% in Q3 FY2022 and 2.0% in Q4 FY2022, with the latter dampened by a high base.

We anticipate a brisk pace of Central and state government spending in H2 FY2022, following improved revenue visibility, even as the base effect is particularly unfavourable in Q4 FY2022. Moreover, the recent releases of the remaining tranches of the back-to-back GST compensation loan as well as an extra instalment of central tax devolution would improve the cash flows of the state governments, nudging them to step up their spending. This is growth-positive, as state expenditure is an important component of boosting business sentiment and economic activity.

However, after a broadly healthy festive season, many indicators have displayed a flagging momentum in November 2021. Going forward, the rising Covid-19 vaccine coverage will boost confidence and spending towards contact intensive services, enhancing the impact of the duty cuts on fuels. With surging commodity and logistics costs, more sectors are likely to see producers raising prices, which will contain the extent of the overall demand recovery in H2 FY2022.

With the discovery of the Omicron variant of Covid-19 reigniting uncertainty regarding the strength of global demand and cross-border flows, we are maintaining our estimate of a 9.0% growth in real GDP in FY2022 for now, in the absence of concrete evidence regarding the durability of domestic demand. Given the renewed uncertainty, we expect a status quo from the MPC and the RBI in the December 2021 policy review. However, the tone may record a shift, to signal an upcoming change in the monetary policy stance to neutral in the February 2022 policy review, as long as the new variant of interest doesn't become a source of new lockdowns in the intervening months.

GVA AT BASIC PRICES

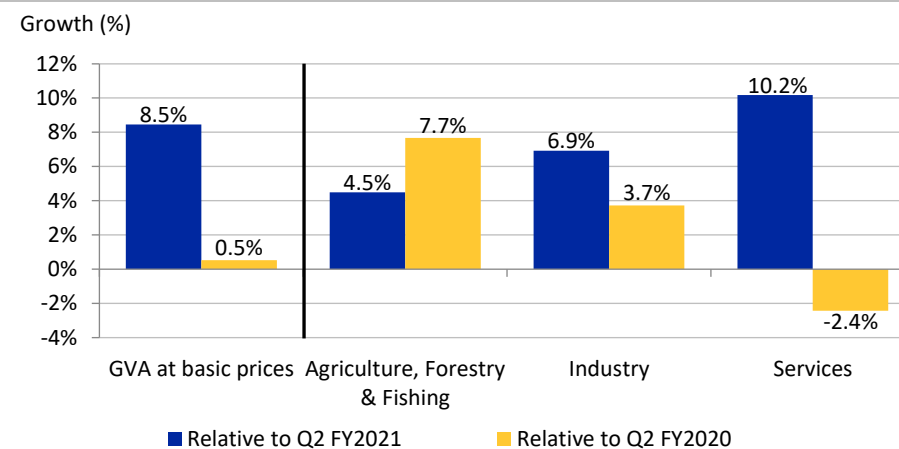
Growth in GVA eased to 8.5% in Q2 FY2022: The YoY growth in GVA at basic prices eased to 8.5% in Q2 FY2022 (-7.3% in Q2 FY2021) from 18.8% in Q1 FY2022 (-22.4% in Q1 FY2021) due to a normalising base, while surpassing our expectations (+7.4%). The decline in GVA growth in Q2 FY2022 relative to Q1 FY2022 was led by a base-effect led easing in industry (to +6.9% from +46.1%) and to some extent, services (to +10.2% from +11.4%), while the growth in agriculture, forestry and fishing was steady at 4.5% in Q2 FY2022 (refer Exhibit 9). However, the GVA in Q2 FY2022 surpassed the pre-Covid level of Q2 FY2022 by 0.5%, in contrast to the 7.8% contraction in Q1 FY2022, relative to Q1 FY2020.

Industrial sector eased to 6.9% in Q2 FY2021: The YoY expansion in industrial GVA decelerated considerably to 6.9% in Q2 FY2022 (-3.0% in Q2 FY2021) from 46.1% in Q1 FY2022 (-35.8% in Q1 FY2021), led by construction (to +7.5% in Q2 FY2022 from +68.3% in Q1 FY2022), manufacturing (to +5.5% from +49.6%), electricity, gas, water supply and other utility services (to +8.9% from +14.3%), and mining and quarrying (to +15.4% from +18.6%; refer Exhibit 10). Industry accounted for a modest 2.1% of the 8.5% GVA growth in Q2 FY2022, led by manufacturing (contribution of +1.0%), construction (+0.6%), mining and quarrying (+0.3%) and electricity, gas, water supply and other utility services (+0.2%). Overall, industrial output in Q2 FY2022 surpassed the pre-Covid level by 3.7%, driven by the 11.4% increase in the GVA of electricity, gas, water supply and other utility services, followed by mining and quarrying (+7.9%) and manufacturing (+3.9%). In contrast, construction GVA trailed the pre-Covid level by a mild 0.3% in Q2 FY2022.

The YoY expansion in manufacturing GVA stood at 5.5% in Q2 FY2022 (-1.5% in Q2 FY2021), lower than the volume growth of manufacturing output of 7.6% (-6.3% in Q2 FY2021), as per the IIP data, suggesting margin compression. Moreover, the YoY growth of construction GVA stood at 7.5% in Q2 FY2022 (-7.2% in Q2 FY2021), higher than the volume growth of steel (+5.4%), but much lower than that of cement (+22.3%).

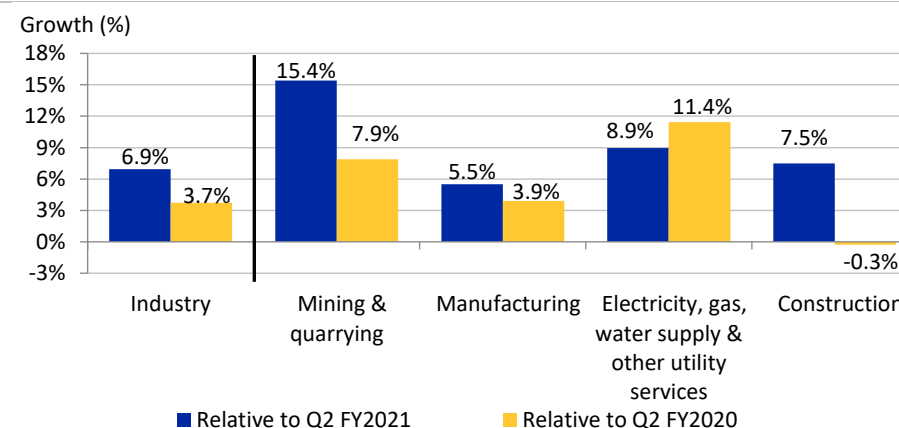
The GVA of mining and quarrying expanded by 15.4% on a YoY basis in Q2 FY2022 (-6.5% in Q2 FY2021), trailing the volume growth of mining output of 17.1% in Q2 FY2022 (-7.0% in Q2 FY2021), as per the IIP data. The high growth of mining output had been supported by the longer window for mining offered by the sub-par rainfall in July-August 2021.

EXHIBIT 9: Performance of GVA and its Components in Q2 FY2022 relative to Q2 FY2021 and Q2 FY2020 (pre-Covid)



Source: NSO; CEIC; ICRA Research

EXHIBIT 10: Performance of Industry and its Components in Q2 FY2022 relative to Q2 FY2021 and Q2 FY2020 (pre-Covid)



Source: NSO; CEIC; ICRA Research

The YoY growth in GVA of electricity, gas, water supply and other utility services stood at 8.9% in Q2 FY2022 (+2.3% in Q2 FY2021), with a rise in demand amid the lull in rainfall during July-August FY2022 (15% below LPA).

Agricultural GVA stood at 4.5% in Q2 FY2022: The GVA growth of agriculture, forestry and fishing was steady at the previous quarter's level of 4.5% in Q2 FY2022, despite an uneven monsoon, while exceeding the 3.0% rise in Q2 FY2021. This sector accounted for a mild 0.6% of the 8.5% GVA growth in Q2 FY2022, while surpassing the Q2 FY2020 level by 7.7%. The Ministry of Agriculture and Farmers' Welfare in its 1st Advance Estimates (AE) for FY2022, indicated a robust trend in the output of the major crops, such as pulses (+8.7%), sugarcane (+5.0%), rice (+2.5%) and cotton (+2.4%; refer Exhibit 11). However, the output of coarse cereals (-6.7%) and oilseeds (-2.7%) is likely to decline in FY2022, relative to FY2021.

Services sector GVA growth eased to 10.2% in Q2 FY2022: The YoY growth in the GVA of the services sector recorded a mild easing to 10.2% in Q2 FY2022 (-11.4% in Q2 FY2021) from 11.4% in Q1 FY2022 (-21.5% in Q1 FY2021; refer Exhibit 12), mirroring the trend for THTCS sector, even as the YoY GVA growth of FRP and PADOS improved, in line with our expectations. Services accounted for 5.8% of the 8.5% GVA growth in Q2 FY2022, driven by PADOS (+2.3%), FRP (+2.0%) and THTCS (+1.4%). However, the absolute GVA of the services sector in Q2 FY2022 trailed the pre-Covid level by 1.3%, driven by THTCS (-9.2%) and FRP (-2.0%). In contrast, PADOS surpassed the pre-Covid level by 6.6%.

The GVA growth of PADOS stood at a high 17.4% in Q2 FY2022 (-9.2% in Q2 FY2021), exceeding our forecasts. Moreover, the PADOS growth surpassed the 15.0% expansion in the GoI's non-interest revenue expenditure in that quarter, as well as the revenue expenditure growth of 13.1% for the 22 state governments for which data is available.

The GVA of THTCS recorded a YoY growth of 8.2% in Q2 FY2022 (-16.1% in Q2 FY2021), on a low base. Moreover, the YoY growth in the GVA of FRP stood at 7.8% in Q2 FY2022 (-9.1% in Q2 FY2021), higher than the uptick of 6.8% in non-food bank credit growth.

As expected, other than FRP, and PADOS, all the other sub-sectors of industry and services recorded a base effect led slowdown in YoY growth in Q2 FY2022 relative to Q1 FY2022.

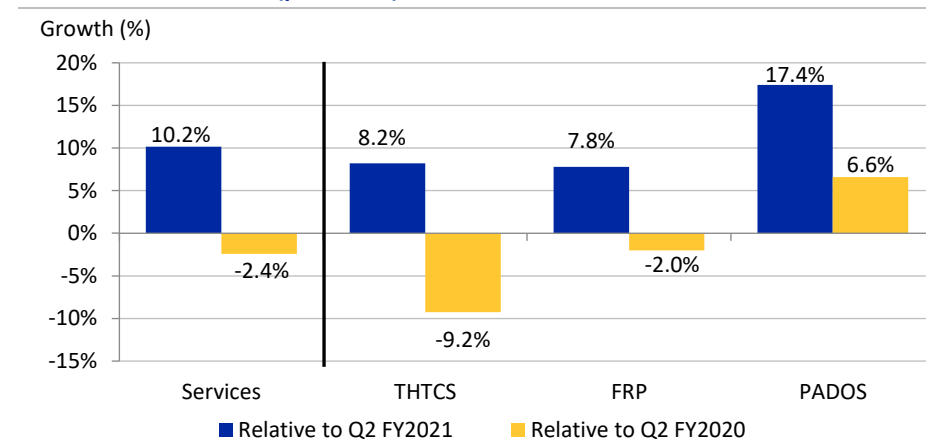
EXHIBIT 11: Trends for production of kharif crops (Million Tonnes) as per 1st AE for FY2022

In Million Tonnes	Kharif Production		
	4 th AE FY2021	1 st AE FY2022	Growth
Rice	104.4	107.0	2.5%
Coarse Cereals	36.5	34.0	-6.7%
Pulses	8.7	9.5	8.7%
Oilseeds	24.0	23.4	-2.7%
Cotton*	35.4	36.2	2.4%
Sugarcane	399.3	419.3	5.0%

AE: Advance Estimates; *Million bales of 170 kgs. each

Source: Ministry of Agriculture, GoI; CEIC; ICRA Research

EXHIBIT 12: Performance of Services and its Components in Q2 FY2022 relative to Q2 FY2021 and Q2 FY2020 (pre-Covid)



Source: NSO; CEIC; ICRA Research

COMPONENTS OF GDP

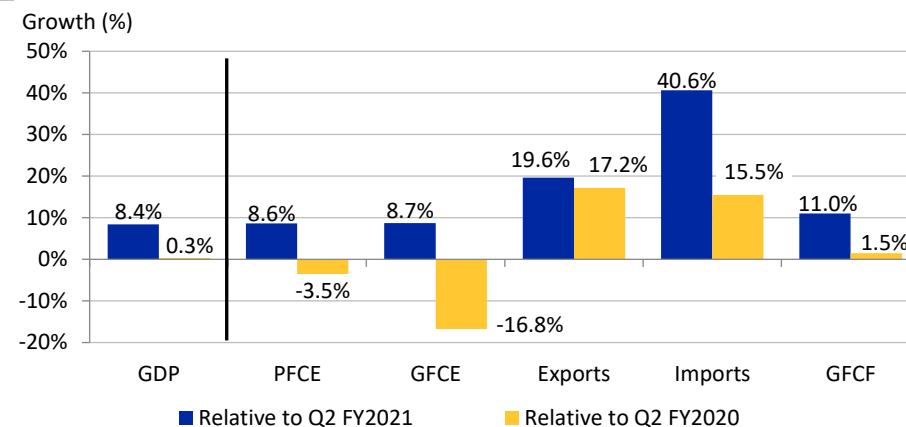
YoY GDP growth eased to 8.4% in Q2 FY2022, while mildly surpassing pre-Covid level:

The YoY expansion in Indian GDP (at constant 2011-12 prices) eased, albeit to a higher-than-expected 8.4% in Q2 FY2022 (ICRA exp: +7.9%; -7.4% in Q2 FY2021) from 20.1% in Q1 FY2022 (-24.4% in Q1 FY2021), on account of the base normalisation. The YoY expansion of GFCF (+11.0% in Q2 FY2022; +55.3% in Q1 FY2022) and PFCE (+8.6%; +19.3%) expectedly moderated in Q2 FY2022, relative to Q1 FY2022, whereas GFCE posted a YoY growth of 8.7% in Q2 FY2022, after having contracted by 4.8% in Q1 FY2022. Additionally, net exports exerted a deeper drag on the GDP growth in the just-concluded quarter, relative to Q1 FY2022. Encouragingly, GDP in Q2 FY2022 exceeded its pre-Covid or Q2 FY2020 level by a mild 0.3%, in contrast to the second wave-related shrinkage of 9.2% in Q1 FY2022 (relative to Q1 FY2020). This was mainly driven by GFCF (+1.5% in Q2 FY2022 vs Q2 FY2020; -17.1% in Q1 FY2022 vs Q1 FY2020) and PFCE (-3.5%; -11.9%).

GFCF expanded by 11.0% YoY in Q2 FY2022, and rose above its pre-Covid level: GFCF recorded a YoY expansion of 11.0% in Q2 FY2022 and was a mild 1.5% higher than Q2 FY2020. This echoed the trend in capital goods' output, which recorded a YoY growth of 16.0% in Q2 FY2022, and was 1.1% higher than Q2 FY2020 level, as per the IIP data. Moreover, the capital outlay of the aforesaid 22 state governments, posted a sizeable YoY expansion of 71.4% in Q2 FY2022, and was also 26.8% higher than the Q2 FY2020 level. While the Govt's capital expenditure and net lending in Q2 FY2022 grew by a robust 55.3% on a YoY basis, it was 5.4% lower than the level in Q2 FY2020. GFCF accounted for 3.4% of the GDP growth of 8.4% in Q2 FY2022. Moreover, GFCF as a percentage of GDP (at current prices) rose to 28.4% in Q2 FY2022 from 27.2% in Q1 FY2022 and 26.9% in Q2 FY2021.

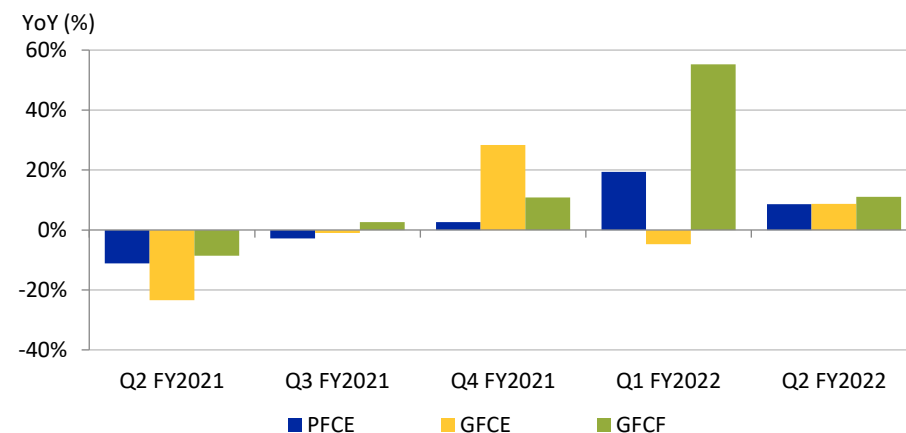
At constant 2011-12 prices, the valuables expanded by 183.3% YoY in Q2 FY2022, and exceeded the Q2 FY2020 level by a sizeable 170.5% or Rs. 0.8 trillion, much higher than the absolute rise of Rs. 0.1 trillion in GDP during this time period. **This is the chief reason why we are not enthused despite the Q2 FY2022 GDP exceeding our forecast.** At current prices, valuables displayed a similar trend (+184.2% in Q1 FY2022; +530.0% in Q1 FY2022). This was led by trend in combined value of gold and silver imports, whose YoY expansion stood at 166.6% in Q2 FY2022 (+527.7% in Q1 FY2022; source: Ministry of Commerce) and

EXHIBIT 13: Performance of GDP and its Components in Q2 FY2022 relative to Q2 FY2021 and Q2 FY2020 (pre-Covid)



Source: NSO; CEIC; ICRA Research

EXHIBIT 14: YoY Growth of PFCE, GFCE and GFCF (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

the absolute value was nearly thrice as high as Q2 FY2020 (+197.3%), benefitting from the elevated prices, as well as the pick-up in domestic demand after lifting of second Covid wave related state-wise restrictions.

In constant terms, the YoY growth in inventories declined to a muted 2.7% in Q2 FY2022 from 45.9% in Q1 FY2022, while exceeding the pre-Covid level by 6.2%. Inventories as a percentage of GDP (at current prices) in Q2 FY2022 was in line with Q1 FY2022 level at 1.0%, while mildly lower than the 1.1% seen in Q2 FY2021.

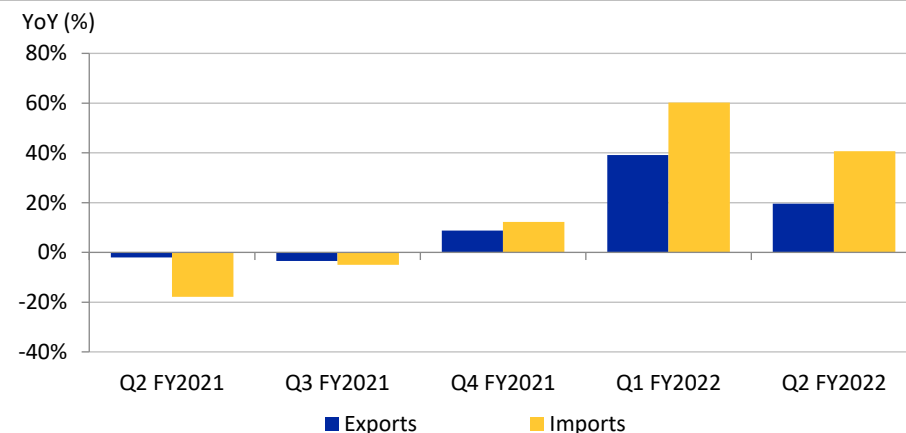
PFCE grew by 8.6% YoY in Q2 FY2022, continued to trail its pre-Covid level: As the economy re-opened after the second Covid-19 wave subsided, and confidence improved with rising vaccine coverage, PFCE recorded a YoY growth of 8.6% in Q2 FY2022 (-11.2% in Q2 FY2021; refer Exhibit 14). However, it remained 3.5% lower than the pre-Covid level of Q2 FY2020 (-11.9% in Q1 FY2022 relative to Q1 FY2020), in line with the pessimism recorded in urban consumer confidence, as per the RBI's latest consumer confidence survey of urban households. Similarly, the output of consumer goods (YoY growth: +3.8% in Q2 FY2022; +44.6% in Q1 FY2022) trailed the Q2 FY2020 level by a modest 0.7% (as per the IIP data), with demand for big-ticket items compressed by income uncertainty.

PFCE accounted for 4.7% of the GDP growth of 8.4% in Q2 FY2022, the highest amongst the components. However, PFCE as a percentage of GDP (at current prices) rose to 57.3% in Q2 FY2022 from 55.8% in Q1 FY2022, while being lower than 57.6% in Q2 FY2021.

GFCE turned around to a YoY growth in Q2 FY2022, while trailing pre-Covid level: GFCE recorded a YoY growth of 8.7% in Q2 FY2022 (-4.8% in Q1 FY2022), supported by healthy revenue expenditure by Central as well as State governments. The Govt's non-interest revex rose by 15.0% YoY in Q2 FY2022 (-7.3% in Q1 FY2022), whereas revex of the 22 state governments for which data is available, grew by 13.1% in Q2 FY2022 (+10.6% in Q1 FY2022). However, GFCE trailed the pre-Covid level by 16.8% and accounted for a muted 0.9% of the GDP growth in Q2 FY2022. GFCE as a percentage of GDP (at current prices) dipped to 11.1% in Q2 FY2022 from 13.7% in Q1 FY2022 and 11.3% in Q2 FY2021.

Net exports exerted a deeper drag on GDP growth in Q2 FY2022: The YoY growth in exports and imports, at constant prices, stood at 19.6% and 40.6%, resp., in Q2 FY2022 (+39.1% and +60.2%, resp. in Q1 FY2022; refer Exhibit 15).

EXHIBIT 15: YoY Growth of Exports and Imports (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

With a sharper growth in imports relative to exports in Q2 FY2022 compared to Q1 FY2022, the drag of net exports on the GDP deepened to Rs. 1.4 trillion from Rs. 0.6 trillion, respectively. Moreover, exports and imports exceeded the Q2 FY2020 levels by 17.2% and 15.5%, respectively.

At current prices, the data released by the NSO indicates that the YoY expansion in exports and imports stood at 30.1% and 54.0%, respectively, in Q2 FY2022 (-0.4% and -16.9% in Q2 FY2021). Similarly, the data released by the Ministry of Commerce indicates that in US\$ terms, both merchandise exports and imports witnessed a YoY expansion of 38.6% and 69.8%, respectively, in Q2 FY2022, driven by the base effect as well as widening domestic and global economic recovery amidst elevated commodity prices. Additionally, the data released by the RBI reveals that, in US\$ terms, services exports and imports recorded a YoY growth of 17.3% and 19.7%, respectively, in Q2 FY2022.

Discrepancies rose in Q2 FY2022: Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components, such as PFCE, GFCE and GFCF. The discrepancies in the GDP data for Q2 FY2022 rose considerably to (+) Rs. 960.9 billion (at 2011-12 prices) from (+) Rs. 168.6 billion in Q1 FY2022, indicating that the components of GDP are likely to undergo revision in the subsequent quarters.

ANNEXURE A

EXHIBIT 16: GVA at Basic Prices and its Components (YoY Growth, Constant 2011-12 Prices)

	Q2 FY2021	Q3 FY2021	Q4 FY2021	Q1 FY2022	Q2 FY2022	FY2020 RE	FY2021 PE	H1 FY2022
GVA at Basic Prices	-7.3%	1.0%	3.7%	18.8%	8.5%	4.1%	-6.2%	13.2%
Agriculture, Forestry & Fishing	3.0%	4.5%	3.1%	4.5%	4.5%	4.3%	3.6%	4.5%
Industry	-3.0%	2.9%	7.9%	46.1%	6.9%	-1.2%	-7.0%	22.9%
Mining & Quarrying	-6.5%	-4.4%	-5.7%	18.6%	15.4%	-2.5%	-8.5%	17.1%
Manufacturing	-1.5%	1.7%	6.9%	49.6%	5.5%	-2.4%	-7.2%	22.9%
Electricity, gas, water supply & other utilities	2.3%	7.3%	9.1%	14.3%	8.9%	2.1%	1.9%	11.5%
Construction	-7.2%	6.5%	14.5%	68.3%	7.5%	1.0%	-8.6%	30.0%
Services	-11.4%	-1.2%	1.5%	11.4%	10.2%	7.2%	-8.4%	10.7%
Trade, Hotels, Transport, Communication & Services related to Broadcasting	-16.1%	-7.9%	-2.3%	34.3%	8.2%	6.4%	-18.2%	18.4%
Financial, Real Estate & Professional Services	-9.1%	6.7%	5.4%	3.7%	7.8%	7.3%	-1.5%	5.8%
Public Administration, Defence and Other Services	-9.2%	-2.2%	2.3%	5.8%	17.4%	8.3%	-4.6%	12.0%

RE: Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT 17: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)

	Q2 FY2021	Q3 FY2021	Q4 FY2021	Q1 FY2022	Q2 FY2022	FY2020 RE	FY2021 PE	H1 FY2022
GDP	-7.4%	0.5%	1.6%	20.1%	8.4%	4.0%	-7.3%	13.7%
PFCE	-11.2%	-2.8%	2.7%	19.3%	8.6%	5.5%	-9.1%	13.5%
GFCE	-23.5%	-1.0%	28.3%	-4.8%	8.7%	7.9%	2.9%	1.0%
Exports	-2.0%	-3.5%	8.8%	39.1%	19.6%	-3.3%	-4.7%	28.2%
Imports	-17.9%	-5.0%	12.3%	60.2%	40.6%	-0.8%	-13.6%	49.0%
Gross Capital Formation	-8.0%	3.0%	13.8%	56.7%	17.2%	2.3%	-10.1%	32.3%
GFCF	-8.6%	2.6%	10.9%	55.3%	11.0%	5.4%	-10.8%	28.3%
Change in Stocks	3.3%	6.7%	12.2%	45.9%	2.7%	-39.7%	-2.6%	19.8%
Valuables	-4.5%	10.7%	107.2%	456.2%	183.3%	-14.2%	2.0%	201.7%
Discrepancies	89.4%	-42.9%	-129.9%	-53.3%	87.6%	-15.5%	-104.3%	29.4%

RE: Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

ANNEXURE B

EXHIBIT 18: Composition of GVA at Basic Prices (Constant 2011-12 Prices)

	Q2 FY2021	Q3 FY2021	Q4 FY2021	Q1 FY2022	Q2 FY2022	FY2020 RE	FY2021 PE	H1 FY2022
GVA at Basic Prices	100%	100%	100%	100%	100%	100%	100%	100%
Agriculture, Forestry & Fishing	12.9%	19.2%	15.5%	16.0%	12.4%	14.8%	16.4%	14.1%
Industry	30.3%	29.3%	31.9%	30.5%	29.9%	29.6%	29.3%	30.2%
Mining & Quarrying	2.0%	2.2%	2.6%	2.7%	2.1%	2.4%	2.4%	2.4%
Manufacturing	18.3%	16.6%	18.0%	17.8%	17.8%	17.1%	16.9%	17.8%
Electricity, gas, water supply & other utilities	2.6%	2.3%	2.3%	2.7%	2.6%	2.3%	2.5%	2.7%
Construction	7.4%	8.2%	9.0%	7.3%	7.3%	7.8%	7.6%	7.3%
Services	56.8%	51.5%	52.7%	53.6%	57.7%	55.6%	54.3%	55.7%
Trade, Hotels, Transport, Communication & Services related to Broadcasting	17.7%	18.3%	20.4%	15.2%	17.6%	20.3%	17.7%	16.5%
Financial, Real Estate & Professional Services	25.9%	19.8%	18.9%	25.9%	25.7%	22.0%	23.1%	25.8%
Public Administration, Defence and Other Services	13.3%	13.4%	13.4%	12.4%	14.4%	13.3%	13.5%	13.4%

RE: Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

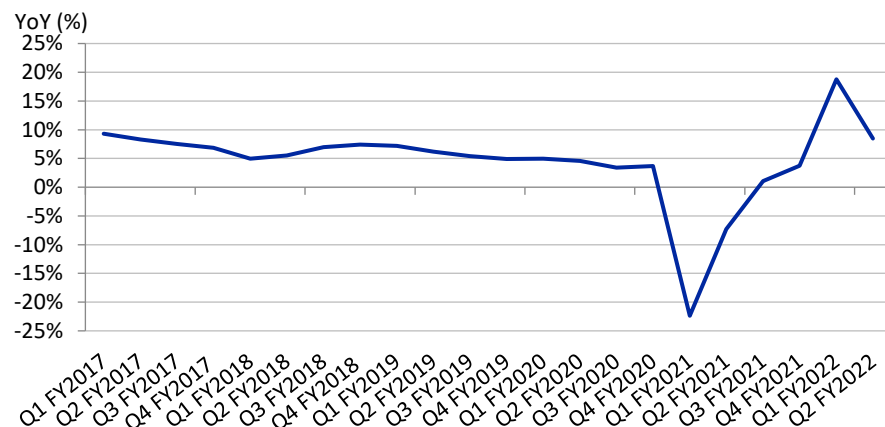
EXHIBIT 19: Composition of GDP and Final Expenditures (Constant 2011-12 Prices)

	Q2 FY2021	Q3 FY2021	Q4 FY2021	Q1 FY2022	Q2 FY2022	FY2020 RE	FY2021 PE	H1 FY2022
GDP	100%	100%	100%	100%	100%	100%	100%	100%
PFCE	54.4%	58.3%	55.4%	55.1%	54.5%	57.1%	56.0%	54.8%
GFCE	10.1%	9.8%	11.7%	13.0%	10.1%	10.6%	11.7%	11.5%
Exports	21.1%	18.8%	19.6%	23.7%	23.3%	19.4%	19.9%	23.5%
Imports	20.9%	21.1%	23.0%	25.7%	27.1%	22.8%	21.2%	26.4%
Gross Capital Formation	33.7%	35.2%	37.6%	33.3%	36.5%	34.7%	33.6%	35.0%
GFCF	31.2%	33.0%	34.3%	31.6%	32.0%	32.5%	31.2%	31.8%
Change in Stocks	1.2%	1.1%	1.2%	1.2%	1.2%	1.1%	1.1%	1.2%
Valuables	1.3%	1.1%	2.1%	0.5%	3.3%	1.1%	1.2%	2.0%
Discrepancies	1.6%	-1.1%	-1.4%	0.5%	2.7%	1.0%	0.0%	1.7%

RE: Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

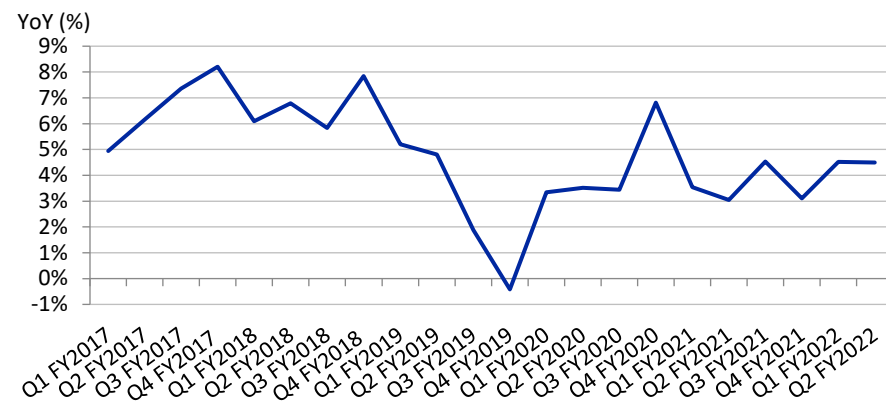
ANNEXURE C

EXHIBIT 20: Growth in GVA at Basic Prices (Constant 2011-12 Prices)



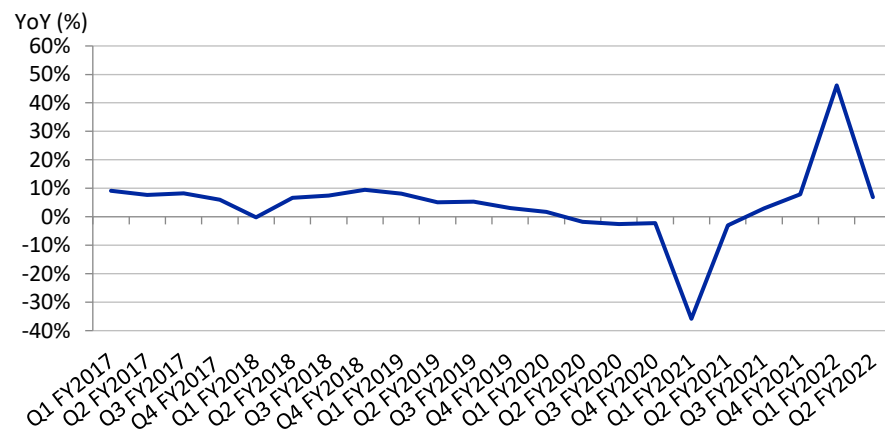
Source: NSO; CEIC; ICRA Research

EXHIBIT 21: Growth in Agriculture, Forestry & Fishing (Constant 2011-12 Prices)



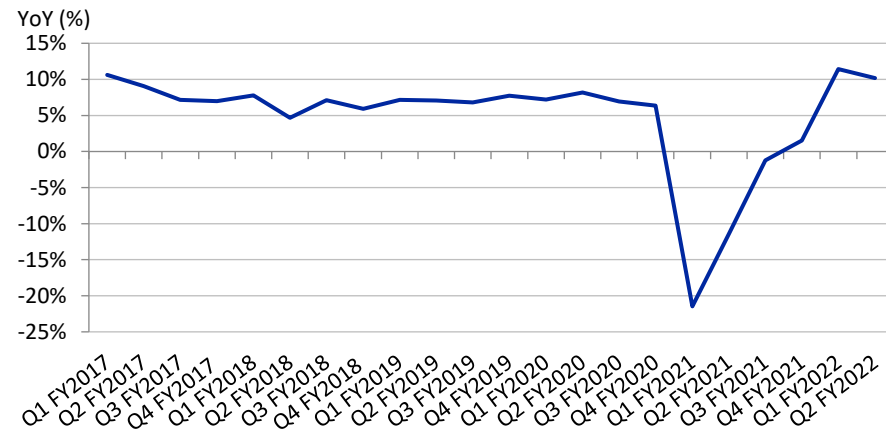
Source: NSO; CEIC; ICRA Research

EXHIBIT 22: Growth in Industry (Constant 2011-12 Prices)

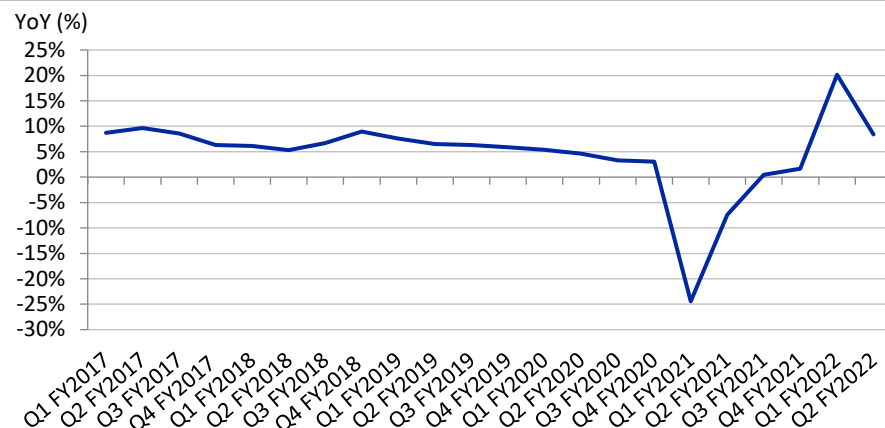


Source: NSO; CEIC; ICRA Research

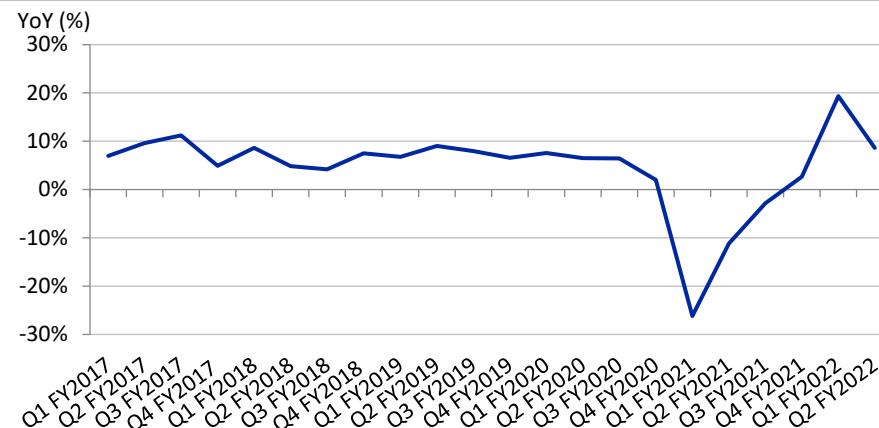
EXHIBIT 23: Growth in Services (Constant 2011-12 Prices)



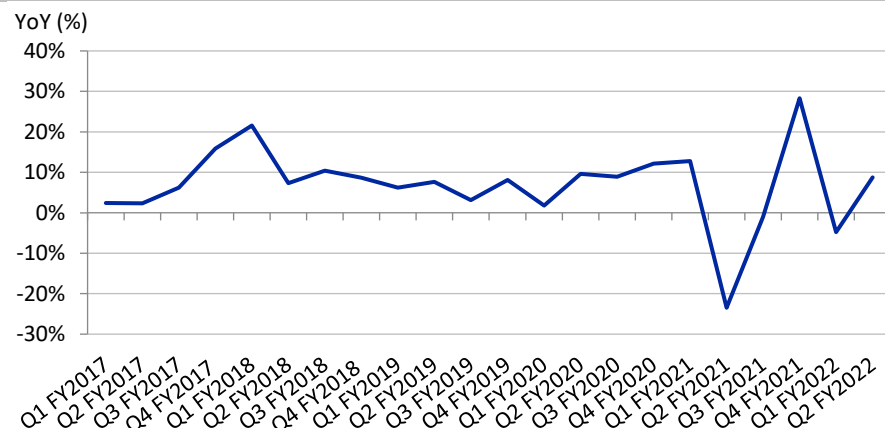
Source: NSO; CEIC; ICRA Research

EXHIBIT 24: Growth in GDP (Constant 2011-12 Prices)


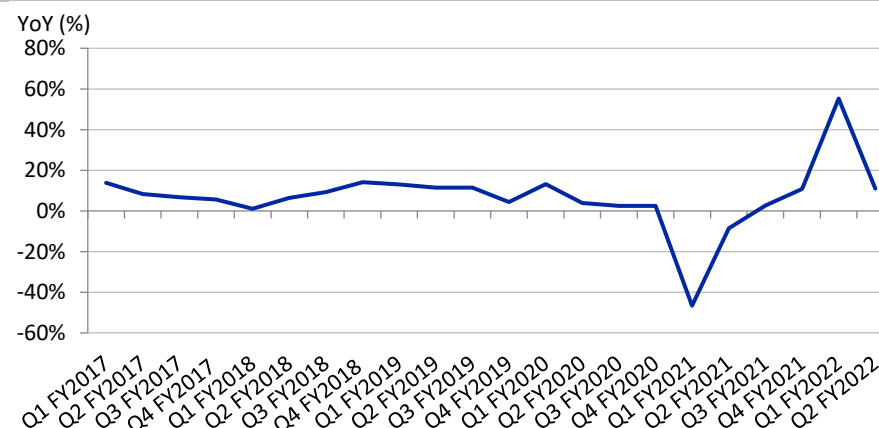
Source: NSO; CEIC; ICRA Research

EXHIBIT 25: Growth in PFCE (Constant 2011-12 Prices)


Source: NSO; CEIC; ICRA Research

EXHIBIT 26: Growth in GFCE (Constant 2011-12 Prices)


Source: NSO; CEIC; ICRA Research

EXHIBIT 27: Growth in GFCF (Constant 2011-12 Prices)


Source: NSO; CEIC; ICRA Research



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