

ECOWRAP

Q1 FY22 GDP COULD BE 18.5% AND UPWARDS: WATCH OUT FOR GDP AND GVA DIVERGENCE

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Based on SBI Nowcasting model, the forecasted GDP growth for Q1 FY22 would be around 18.5% (with upward bias). The GVA is estimated at 15%. What is important is the possibility of a wide divergence between GVA and GDP because of strong tax collections. This is lower than RBI's expectations of 21.4%. If the corporate results announced so far is looked at, a substantial recovery is visible in corporate GVA (EBIDTA + Employee cost) in Q1 FY22. Overall, the corporate GVA of 4069 companies registered a growth of 28.4% in Q1 FY22. However, this is lower than growth in Q4FY22, thereby corroborating the lower GDP estimate than what was anticipated earlier.

Higher growth in the second quarter of 2022, or Q1 FY22 is mainly on account of low base. Almost all the countries have registered double-digit (or near to double-digit) real GDP growth. The average real GDP growth for 17 economies has improved from -0.1% in Q1 2022 to 12.2% in Q2 2022.

Another interesting point is the difference in the perceptions and expectations as revealed by RBI consumer confidence survey. RBI Bi-monthly releases Consumer Confidence Survey which tracks perceptions and expectations on general economic situation, employment scenario, overall price situation and own income and spending in 13 major cities, viz., Ahmedabad; Bengaluru; Bhopal; Chennai; Delhi; Guwahati; Hyderabad; Jaipur; Kolkata; Lucknow; Mumbai; Patna; and Thiruvananthapuram. Interestingly the correlation (since Q1 FY19) between the % yoy growth of Consumers Future Expectations Index and real GDP growth, which was highly positive (0.76) till Q4 FY21 decelerated sharply to 0.66 if we include the RBI's Q1 GDP growth number. This indicates that there is a disconnect between what the consumers expect and the growth numbers. One of the reasons may be huge base effect which also impacts statistics but not the expectations.

It is globally noted that lower mobility leads to lower GDP and the higher mobility to higher GDP but the response is asymmetric. The relationship between the two has become weaker as can be seen in Q1 FY22 when mobility has declined, however GDP growth is high and positive. But higher yoy growth is mainly on account of base effect.

Meanwhile, business activity index based on ultra high frequency indicators show further increase in Aug'21 with the latest reading for the week ended 16 Aug'21 at 103.3. RTO collection, electricity consumption along with the mobility indicators have revived in Q2 FY22, indicating positive momentum in economic activity going forward.

GDP GROWTH FOR Q1FY22

- ◆ SBI has developed 'Nowcasting Model' with 41 high frequency indicators associated with industry activity, service activity, and global economy in collaboration with State Bank Institute of Leadership (SBIL), Kolkata. We have used the dynamic factor model to estimate the common or representative or latent factor of all the 41 high frequency indicators from Q4 of FY13 to Q4 of FY21. The details of the full model were shared in *SBI Ecwrap dated 20 Nov'20 & again on 10 Feb'21*.
- ◆ Based on our model the forecasted **GDP growth for Q1 FY22 would be around 18.5% (with upward bias)**. Our estimate is lower than RBI expectation of 21.4%.
- ◆ The corporate results announced so far indicate that there is substantial recovery in corporate GVA (EBIDTA + Employee cost) in Q1 FY22. The corporate GVA of 4069 companies registered a growth of 28.4% in Q1 FY22. However, this is lower than growth in Q4FY22, thereby corroborating the lower GDP estimate than what was thought earlier.

Q1 FY22 Real GDP Projections

	SBI	RBI
Q1	18.5	21.4
Q2	7.5-8.0	7.3
Q3	6.0-6.5	6.3
Q4	6.0-6.5	6.1
Annual	9.0-9.5	9.5

Source: RBI; SBI Research

Corporate GVA

Quarter	No of Companies	Growth (%YoY)
Q1 FY21	4069	-18.5%
Q2 FY21	3640	22.1%
Q3 FY21	4164	13.0%
Q4 FY21	3960	63.2%
Q1 FY22	4069	28.4%

Source: SBI Research; Cline; listed entities; Corporate GVA as represent by EBIDTA+Employee cost

- Due to huge base effect almost all economies exhibited double-digit (or near to double-digit) real GDP growth in Q2 2022 or (Q1 FY22). The average real GDP growth for 17 economies has improved from -0.1% in Q1 2022 to 12.2% in Q2 2022.

RBI'S CONSUMER CONFIDENCE SURVEY VIS-À-VIS GDP GROWTH

- RBI bi-monthly releases Consumer Confidence Survey which tracks perceptions and expectations on general economic situation, employment scenario, overall price situation and own income and spending in 13 major cities, viz., Ahmedabad; Bengaluru; Bhopal; Chennai; Delhi; Guwahati; Hyderabad; Jaipur; Kolkata; Lucknow; Mumbai; Patna; and Thiruvananthapuram. Responses are obtained from 5,384 households across these cities.
- Interestingly the correlation (since Q1 FY19) between the % yoy growth of Consumers Future Expectations Index and real GDP growth, which was highly positive (0.76) till Q4 FY21 decelerated sharply to 0.66 if we include the RBI's Q1 GDP growth number. This indicates that there is clear-cut divergence between that the consumers expect and what the RBI thinks. One of the reasons may be huge base effect which also impacts statistics but not the expectations.

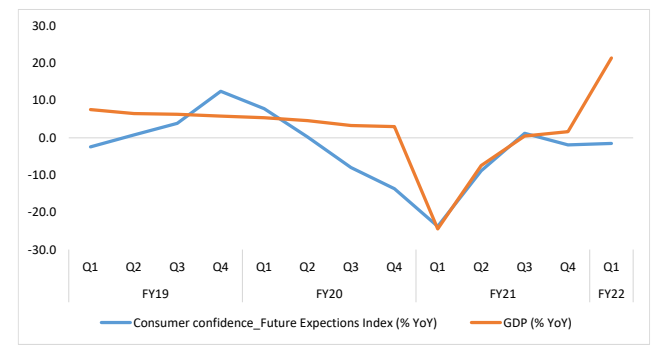
MOBILITY AND GDP LOSS

- It is globally noted that lower mobility leads to lower GDP and the higher mobility to higher GDP but the response is asymmetric. With decline in mobility the economic activity declines and thus GDP growth, however with increase in mobility the GDP growth does not increase in the same proportion. The relationship between the two has become weaker as can be seen in Q1 FY22 when mobility has declined, however GDP growth is high and positive. But higher yoy growth is mainly on account of base effect.
- Meanwhile, business activity index based on ultra high frequency indicators show further increase in Aug'21 with the latest reading for the week ended 16 Aug'21 at 103.3. RTO collection, electricity consumption along with the mobility indicators have revived in Q2 FY22, indicating positive momentum in economic activity going forward.

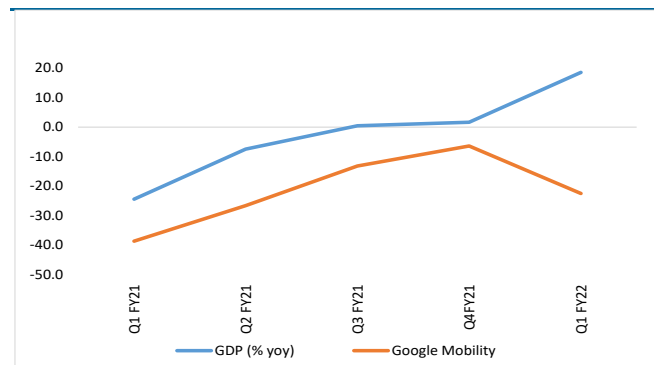
Country-wise Real GDP growth (% YoY)					
Country	2021			2022	
	Q2	Q3	Q4	Q1	Q2
Austria	-13.2	-3.4	-5.9	-4.5	11.4
Belgium	-14.0	-4.3	-4.9	-0.5	14.5
Canada	-12.6	-5.1	-3.1	0.3	13.8
Czech Republic	-10.9	-5.4	-5.3	-2.4	7.8
France	-18.7	-3.6	-4.2	1.7	18.7
Germany	-11.3	-3.7	-2.9	-3.2	9.2
Italy	-18.2	-5.2	-6.5	-0.7	17.3
Korea	-2.7	-1.0	-1.1	1.9	5.9
Lithuania	-4.7	0.1	-1.1	1.4	8.5
Latvia	-8.6	-2.8	-1.8	-1.2	10.1
Mexico	-18.7	-8.6	-4.6	-2.8	18.7
Portugal	-16.4	-5.6	-6.1	-5.3	15.4
Spain	-21.6	-8.6	-8.9	-4.2	19.8
Sweden	-8.1	-1.8	-1.8	-0.1	9.3
United States	-9.1	-2.9	-2.3	0.5	12.2
China	3.2	4.9	6.5	18.3	7.9
Indonesia	-5.2	-3.4	-2.2	-1.0	7.2
Average	-11.2	-3.5	-3.3	-0.1	12.2

Source: OECD; SBI Research

Consumers Future Expectations Index vs. GDP



Google Mobility and GDP growth



Source: RBI, SBI Research

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