

It is likely that the previously published CSO GDP growth for FY21 at -8% might see an upward revision once the numbers are released on 31 May'21. Based on quarterly GDP numbers in FY21 and full year FY21 GDP estimates, Q4GDP was projected to reveal a contraction of 1.1%. Based on SBI Nowcasting model the forecasted **GDP growth for Q4 would be around 1.3% (with downward bias)**. We now expect GDP decline for the full year to be around -7.3% (our earlier prediction: -7.4%).

One likely consequence of any upward revision in FY21 estimates is a concomitant decline in FY22 GDP estimates. Even as we ponder over FY22 GDP estimates, COVID-19 infection is still spreading in rural areas. The share of rural districts in new cases is rising quite rapidly during May, even though overall cases have started to decline from the second week of May. It has increased from 45.5% in end-Apr'21 to 53.6% as per the latest data. Notably, this is same as the peak of 53.7% observed during end-Aug'20. Top 20 rural districts now account for around 15% of country-wise new cases with hinterlands of Andhra Pradesh, Maharashtra and Karnataka continuing to be the worst affected as per the reported data.

Though the impact of the second wave on the real economy was initially thought to be much limited (due to localised nature of lockdowns which have, however, now turned into a de facto national lockdown, better adaptation of people to work from home protocols, increased use of digital payments) in comparison with the first wave, our estimates now indicate that there might be nominal GDP loss of up to Rs 6 lakh crore during Q1 FY22 as compared to loss of Rs 11 lakh crore in Q1 FY21. Real GDP loss would be in the range of Rs 4-4.5 lakh crore and hence real GDP growth would be in the range of 10% -15% (as against RBI forecast of 26.2%) during Q1FY21. However, we believe that in this wave our health crisis has overwhelmed us and hence the impact on GDP in the second wave will be more from health channel than the mobility channel. Sequential momentum of leading indicators is at all time low.

An interesting point to note is that deposits have shown alternate periods of expansion and contraction in FY22 in first 3 fortnights. It is possible that such expansion followed by contraction could indicate household stress as people getting salary credits in first fortnight are withdrawing it in second fortnight for health expenses / stocking up currency for precautionary motive amidst an uncertain scenario. So far, we have got only 3 fortnights of deposit data and this trend would be validated once we have the complete data in the first week of June.

Another interesting anecdote is that though the real GDP data across countries indicates that the situation has improved over one year (after battling from second/third wave of Covid-19), most of the countries are still in recession and their Q1 2021 (or Q4 FY21) real GDP was in contraction mode, with an average contraction of around -0.3% in the range of -6.1% (UK) to 18.3% (China). Very few countries exited recession in Q1 2021. **Interestingly, had India's growth rate crossed 1.7% in Q4FY21, India would have been the second fastest country after China in terms of GDP growth, and going by our estimate of 1.3% GDP growth India would still be the 5th fastest growing country amongst 25 countries (that have released their GDP numbers so far). We hope for such optimism in terms of Covid-19 numbers and vaccination soon!**

GDP GROWTH

- ◆ 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 Ecowrap dated 20 Nov'20 & again on 10 Feb'21**.
- ◆ Based on our model the forecasted **GDP growth for Q4 would be around 1.3% (with downward bias)** as against NSO projection of a negative -1%. We now expect GDP decline for the full year to be around 7.3% (compared to our earlier prediction of -7.4%).

Real GDP Growth (%)					
Quarter	FY20		FY21		FY22
	YoY	QoQ	YoY	QoQ	
Q1	5.4%	-4.2%	-24.4%	-29.6%	-
Q2	4.6%	-0.1%	-7.3%	22.4%	
Q3	3.3%	1.3%	0.4%	9.4%	
Q4 P	3.0%	6.3%	1.3% (NSO: -1%)	5.8% (NSO:4.6%)	
Annual (P)	4.0%		-7.3% (NSO: -8.0%) (RBI: -7.5%)		Less than 10% (RBI: 10.5%)

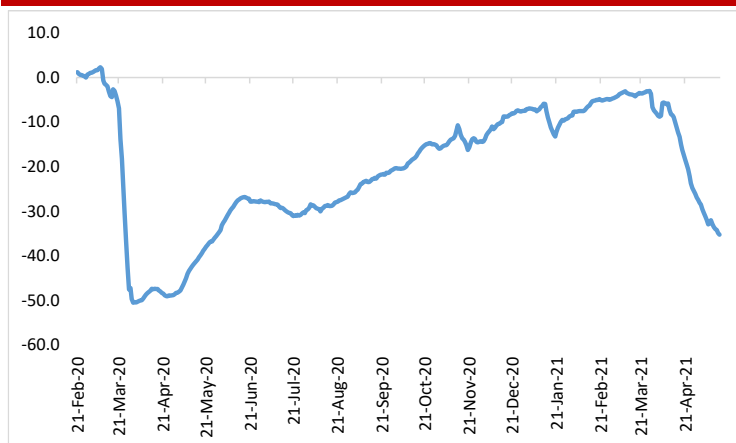
Source: SBI Research; (P) SBI Estimates for FY21

- ◆ However, due to renewed lockdowns in almost all states since Apr'21 owing to rise in infections, we believe that real GDP growth for FY22 would be in single digits as against our earlier forecast of 10.4%.
- ◆ The corporate results so far also reinforce the fact that Q4 growth would be much better than the Q3 growth. The corporate GVA of 625 companies has expanded by 62.04% in Q4 as compared to 12.98% growth in Q3 (of 4164 companies)
- ◆ However the entire projection for Q4 FY21 is dependent on how much the past data will be revised by NSO. Past experience on data revision indicates that apart from providing data for Q4 NSO also revises quarterly data for present/previous fiscal year and annual GDP estimate.
- ◆ Though the country-wise real GDP data indicates that the situation has improved over one year (after battling from second/third wave of Covid-19), most of the countries are still in recession and their Q1 2021 (or Q4 FY21) real GDP growth was in contraction mode. The decline of average real GDP for 24 countries has improved from 2.9% in Q4 2020 to a decline of 0.3% in Q1 2021. Very few countries exited recession in Q1 2021.

MOBILITY AND GDP LOSS

- ◆ It is globally noted that lower mobility leads to lower GDP and it has also been observed that lower mobility in the second wave has lower impact on GDP as compared to that of lower mobility of first wave. In India, too, localised restrictions and lockdowns have resulted in decline in mobility in Apr/May. Initially, it was mostly argued that the impact on GDP due to this lower mobility in this second wave will be minimal as compared to first wave. However, we believe that in this wave our health crisis overwhelmed us. And hence the impact on GDP in the second wave will be more from health channel than the mobility channel.

Change in Google Mobility (7-day Moving Average)



Source: SBI Research

Corporate GVA

Quarter	No of Companies	Growth (% YoY)
Q1 FY21	3708	-18.48
Q2 FY21	3640	22.06
Q3 FY21	4164	12.98
Q4 FY21	625	62.04

Source: CLINE; SBI Research; listed entities; in Q2 FY21 telecom excluded

Revision in Real GDP Numbers

Year	Q1	Q2	Q3	Q4	Annual	Revision
2020-21	-23.9	-7.5			-7.7	IAE
	-24.4	-7.3	0.4	-	-8	2AE
2019-20	5.0	4.5	-	-	5.0	IAE
	5.6	5.1	4.7	-	5.0	2AE
	5.2	4.4	4.1	3.1	4.2	PE
	5.4	4.6	3.3	3.0	4	1RE
2018-19	8.2	7.1	-	-	7.2	1AE
	8.0	7.0	6.6	-	7.0	2AE
	8.0	7.0	6.6	5.8	6.8	PE
	7.1	6.2	5.6	5.7	6.1	1RE
2017-18	7.6	6.5	6.3	5.8	6.5	2RE
	5.7	6.3	-	-	6.5	IAE
	5.7	6.5	7.2	-	6.6	2AE
	5.6	6.3	7.0	7.7	6.7	PE
	6.0	6.8	7.7	8.1	7.2	1RE
	5.8	6.5	7.6	8.2	7.0	2RE
	6.1	5.3	6.7	8.9	6.8	3RE

Source: NSO, SBI Research

Country-wise Real GDP growth (% YoY)

Country	2020			2021
	Q2	Q3	Q4	Q1
Austria	-13.6	-3.8	-5.9	-2.7
Belgium	-14.0	-4.3	-4.9	-1.0
Canada	-12.7	-5.3	-3.2	0.3
Chile	-13.7	-9.8	-0.1	1.2
Colombia	-15.6	-8.3	-3.5	1.7
Czech Republic	-10.8	-5.1	-4.8	-2.1
Denmark	-7.5	-2.2	-1.5	-1.7
Finland	-6.1	-2.7	-1.7	-0.8
France	-18.6	-3.7	-4.8	1.5
Germany	-11.2	-3.8	-3.3	-3.0
Hungary	-13.3	-5.3	-4.0	-1.8
Israel	-8.5	-1.1	-0.7	-0.5
Italy	-18.1	-5.2	-6.6	-1.4
Japan	-10.2	-5.5	-1.0	-1.8
Korea	-2.8	-1.1	-1.2	1.7
Norway	-4.3	-0.2	-1.1	-0.2
Poland	-7.9	-2.0	-2.7	-1.7
Spain	-21.6	-8.6	-8.9	-4.3
Sweden	-7.7	-2.2	-2.1	-0.8
United Kingdom	-21.4	-8.5	-7.3	-6.1
United States	-9.0	-2.8	-2.4	0.4
China	3.2	4.9	6.5	18.3
Indonesia	-5.4	-3.5	-2.3	-0.5
Saudi Arabia	-7.1	-5.1	-3.0	-1.7
Average	-10.7	-4.0	-2.9	-0.3

Source: OECD; SBI Research

WAY FORWARD—PROBABLE GDP LOSS FOR Q1 FY22

- ◆ The ferocity of the current second wave of COVID-19 has shaken the country. On May 6, 2021, India reported 4,14,188 people testing COVID-positive, the highest figure for any country at any point of time during the pandemic. Against this backdrop the biggest question is how the second wave has impacted the economy?
- ◆ Though the impact of the second wave on the real economy seems to be limited so far on paper (due to localised nature of lockdowns which has however now turned into a de facto national lockdown, better adaptation of people to work from home protocols, increased use of e-commerce and digital payments) in comparison with the first wave, still our estimates now indicate that there would be nominal GDP loss of upto Rs 6 lakh crore during Q1 FY22 (Apr-Jun'21) as compared to loss of Rs 11 lakh crore in Q1 FY21. Real GDP loss would be in the range of Rs 4-4.5 lakh crore and hence real GDP growth would be in the range of 10% -15% (as against RBI forecast of 26.2%).

ASCB'S DEPOSITS GROWTH IN FY21 SHOW ALTERNATE PERIODS OF EXPANSION AND CONTRACTION

- ◆ It is well known that both deposits and credit of all the banks decline in April and May. However, it is interesting to note that the trend in deposits has changed from FY21. Deposits had increased by a staggering Rs 2.8 lakh crore in FY21 & in FY22 it has already increased by Rs 1.0 lakh crore till 07 May'21. The interesting point to note is that deposits have shown alternate periods of expansion and contraction in FY22 in first 3 fortnights. It is possible that such expansion followed by contraction could indicate household stress as people getting salary credits in first fortnight are withdrawing it in second fortnight for health expenses / stocking up currency for precautionary motive and an uncertain scenario and the trend continues. So far, we have got only 3 fortnights of deposit data & this trend would be validated once we have the complete data in the first week of June.

WORRYING INCREASE IN RURAL PENETRATION OF COVID-19 INFECTION

- ◆ COVID-19 infection is spreading fast in rural areas. The share of rural districts in new cases is rising quite rapidly during May. It has increased from 45.5% in end-Apr to 53.6% as per the latest data. Notably, this is same as the peak of 53.7% observed during end-Aug'20. Top 20 rural districts now account for around 15% of country-wise new cases. Hinterlands of Andhra Pradesh, Maharashtra & Karnataka continue to be the worst affected.

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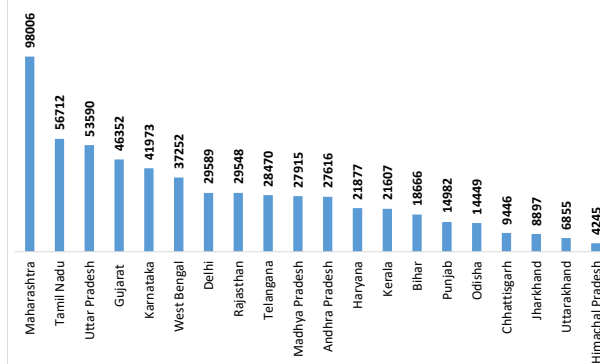
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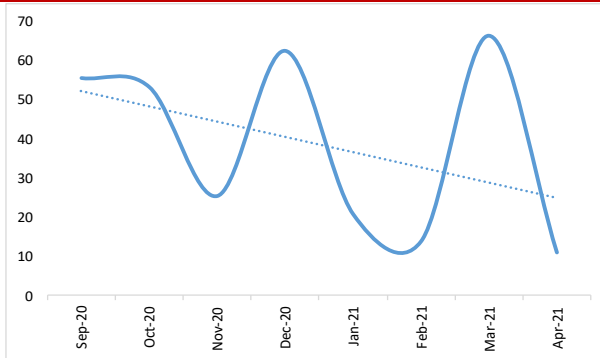


State-wise Probable Impact on GDP (Rs crore)



Source: SBI Research

% of Indicators Showing Monthly Acceleration on a sequential basis



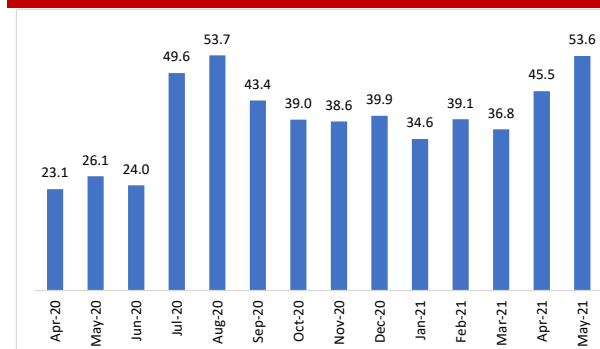
Source: SBI Research

Change in Deposits and Credit of ASCBs during the first 3 fortnights (April to May)

Rs crore	Deposits	Credit
FY18	-171573	-250525
FY19	-83297	-104780
FY20	-56379	-146966
FY21	282876	-119028
FY22	103334	-80025
1st Fortnight	101357	-60333
2nd Fortnight	-80579	-28783
3rd Fortnight	82555	9091

Source: RBI, SBI Research

Share of Rural districts in New Cases (%)



Source: SBI Research