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Q1GDP REVEALS DEEPER MALAISE: WE NOW ESTIMATE FY21 REAL GDP AT –10.9% (-6.8% PREVIOUSLY)

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India's GDP growth plunged to 23.9% in Q1 FY21 due to the nation-wide lockdown imposed on 25 Mar'20 in the wake of Covid-19 pandemic and is much worse than market and our estimates. This is India's worst growth performance since the country started reporting quarterly GDP data in 1996. In the 2004-05 base, India's lowest quarterly GDP growth was 1.66% in Q3FY03. Till now GDP growth data of 60 countries has been released. Apart from China and Vietnam all economies exhibited decline in growth. The average decline of 60 economies in Apr-June 2020 is 12.2% as compared to 1.4% decline in Jan-March 2020.

The only saving grace in these times is the growth of 3.4% in Agriculture & Allied activities, though the growth in nominal Agri GDP was at 5.7%, as against an average 13.5% in previous 2 quarters. This was expected as from the beginning itself Government has imposed least restrictions on this sector. Also till Jun'20 the spread of COVID-19 was primarily in urban areas and rural areas were almost unscathed from the pandemic. However, Q2 could see a reversal of sorts with rural areas now in grip of COVID-19. Industry is the worst affected sector with decline of 38.1% in Q1 FY21 as compared to 4.2% growth in Q1 FY20. Services sector exhibited a decline of 20.6% in Q1 FY21 in comparison to 5.5% growth in Q1 FY20.

As anticipated Private Final Consumption Expenditure (PFCE) growth collapsed as COVID containment measures reduced consumption to mostly essential items. With investment demand not seeing recovery due to unutilised capacity, the share of private consumption expenditure will remain on the higher side in overall GDP estimate. **Assuming that it remains at 57% of GDP in nominal terms, we will see at least around 14% decline in PFCE growth in FY21, as against an average of 12% growth for the 9 year period ended FY20. This indicates an average swing of 26% in current fiscal indicating a consumption washout.**

The curious case in the data is the Government Consumption which has expanded by 20% on the expenditure side but the Public Administration and Defence has contracted by 5%. We believe, Public Administration and Defence includes other services such as Education (private tuition/coaching centres), Health (Nursing Homes / Personal Care services) and other services such as Social and Personal services which were in a complete lockdown mode in Q1FY21. It is also possible that State Governments and particularly Local Bodies were in lockdown mode in Q1FY21 that impacted this number. The pandemic has significantly impacted expenditure pattern under individual consumption expenditure components like health and education.

After a decline of 23.9% real GDP growth in Q1 now the question arises how much growth will decline in subsequent quarters. It is now clearly visible that Q2 decline will also be in double digits. Our preliminary estimate indicates that all the four quarters of FY21 will exhibit negative real GDP growth and decline of full year growth will likely be in double digits (around 10.9%). **Q2 real GDP decline will be in the range of –12% to –15%, Q3: -5% to –10% and Q4: -2% to-5%.** It seems that momentum of economic pick-up has slowed down in Q2 FY21 and our Business Disruption Index is nearly at the same level as on Aug 24 as it was at end June.

Amidst all these numbers, we hasten to add 2 positives. First, RBI sector-wise credit-data for the month of July indicates that except Industry, credit has increased in all other major sectors in July. **There has been a significant increase in credit to MSE, Agri & Allied and Personal Loans. It is heartening to see that the banking sector has largely been able to insulate itself from the disruption due to greater technology integration and quick role out of work from home measures and banking being an essential service. Second, some of the sectors where new projects announcements were seen during Q1 include Roadways, Basic Chemicals, Electricity, Community Services such as Hospital, Water Sewage Pipeline etc.**

We now believe sectors such as construction, trade and hotels, aviation need to be revived. Restoring transportation services and giving push to infrastructure by issuing special bonds to RBI like perpetual bonds must also be explored apart from supporting states through fiscal measures in their endeavor .

INDIA'S GDP GROWTH PLUNGED 23.9% IN Q1 FY21:WORSE THAN EXPECTATIONS

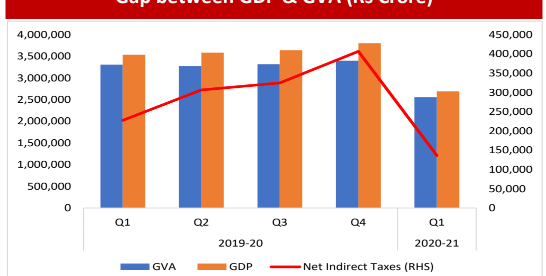
- India's GDP growth plunged to 23.9% in Q1 FY21 due to the nation-wide lockdown imposed on 25 Mar'20 in the wake of Covid-19 pandemic. The real GVA declined by 22.8% as almost all sectors except agriculture have registered huge decline. The surprising part is 10.3% decline in 'Public Administration, Defence and Other Services' where it was expected that Covid-19 had the least effect. If we leave aside the Agri and Government component, the slowdown is even more severe, with our real core GVA growth coming at -29.6% and nominal core GVA growth at -29.7%.
- This is India's worst growth performance since the country started reporting quarterly GDP data in 1996. In the 2004-05 base, India's lowest quarterly GDP growth was 1.66% in Q3FY03, thereafter it has increased continuously but declined in recent period.
- **Agriculture:** The only saving grace in these times is the growth of 3.4% in Agriculture & Allied activities. This was expected as from the beginning itself Government has imposed least restrictions on this sector. Also till Jun'20 the spread of COVID-19 was primarily in urban areas and rural areas were almost unscathed from the pandemic. However, Q2 could see a reversal of sorts with rural areas now in grip of a COVID-19 scare.
- **Industry:** Industry is the worst affected sector with decline of 38.1% in Q1 FY21 as compared to 4.2% growth in Q1 FY20. Lockdown had completely shut down the economic activities in Mining, Manufacturing and Construction, which has subsequently impacted their GVA growths. Only 'Electricity, Gas, Water Supply & Other Utility services' declined by 7% which largely remained active during the lockdown.
- **Services:** Services sector exhibited a decline of 20.6% in Q1 FY21 in comparison to 5.5% growth in Q1 FY20. 'Trade, Hotels, Transport, Communication ' is the worst affected sector.
- The net taxes, the gap between GDP and GVA at constant prices has reduced significantly in Q2 FY21 to Rs 1.36 lakh crore. Interestingly, this is the lowest net taxes collected in 32 quarters with Rs 1.30 lakh crore as net taxes in Q1 FY13.

GVA at Basic Price by Economic Activity (%)

Sectors	FY20				FY21
	Q1	Q2	Q3	Q4	Q1
Agriculture	**3.0**	**3.5**	**3.6**	**5.9**	**3.4**
Industry	**4.2**	**0.5**	**-0.3**	**-0.6**	**-38.1**
Mining & 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 & other utility services	**8.8**	3.9	-0.7	4.5	**-7.0**
Construction	**5.2**	2.6	0.0	-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 service	**6.0**	6.0	3.3	2.4	**-5.3**
Public administration, defence and Other Services	**7.7**	10.9	10.9	10.1	**-10.3**
Total GVA at Basic Price	**4.8**	**4.3**	**3.5**	**3.0**	**-22.8**
GDP	**5.2**	**4.4**	**4.1**	**3.1**	**-23.9**

Source: NSO,SBI Research

Gap between GDP & GVA (Rs Crore)



Source: SBI Research

DEFLATOR

- Yearly percentage changes in deflator reveal that it has increased in agriculture and services. Within services, the deflator has increased significantly in case of public administration, defence and other services, which we expect is a statistical anomaly as the deflator used is CPI-Services that was largely imputed in Q1. Deflator for Mining and Quarrying registered a steep decline in Q1 FY21. While the gross value added at constant prices has reduced to Rs 71,902 crore (from Rs 92,807 crore in Q1 FY20), at current price it has reduced significantly to Rs 61,586 crore (from Rs 1,04,945 crore in Q1 FY20), thereby leading to huge contraction in deflator growth.

EXPENDITURE STORY: GOVERNMENT DOING HEAVY LIFTING BUT UNLIKELY TO SUSTAIN

- The expenditure side estimates of the GDP shows the demand impulses in the economy, contracted by 22.6%. All the heads except Government Consumption contracted under the influence of the COVID-19 lockdown. The slowdown in valuables is significant and large indicating the breakdown of valuables during Akshay Tritiya.
- As anticipated Private Final Consumption Expenditure (PFCE) growth collapsed as COVID containment measures reduced consumption to mostly essential items. The real growth was at -26.7% and the % share in GDP also came down to 54.3% in real terms. In FY20, when the economy was facing pressures, private consumption had provided support to overall GDP numbers and was on an average 57% in real terms, in all the quarters. With COVID impacting this pillar of the economy, the recovery prospects look grim. We believe that consumer demand will be a washout in FY21, based on the savings and income data of the households. The numbers of PFCE, further, corroborate this story, that households will continue to curtail unnecessary expenditure and not provide a push for consumption expenditure. However, in Q4 FY2019-20, Capacity Utilization at the aggregate level increased to 69.9% from 68.6% in the previous quarter; it, however, was much lower vis-à-vis the corresponding quarter a year ago (76.1%).
- With investment demand not seeing recovery due to unutilised capacity, the share of private consumption expenditure will remain on the higher side in overall GDP estimate. **Assuming that it remains at 57% of GDP in nominal terms, we will see at least around 14% decline in PFCE growth**. The non-discretionary items, viz, food, electricity, health and education were around 50% of the PFCE in 2018-19 and they will provide some support to the numbers. The transport sector which was around 16% of the PFCE in 2018-19, has suffered a huge shock with lockdown measures. With gradual lifting of lockdown, transport sector will recover. But it will be gradual as people stay cautious. Another major expenditure item, clothing and footwear, which constituted around 6% of PFCE, will also see reduction in the wallet share. Till confidence and security is not provided, the behaviour towards spending will be cautious and recovery path looks drawn out.
- What is providing support to the overall consumption story is the Government Expenditure, which grew by 16.4% in real terms and 19.1% in nominal terms. The highest growth registered in new base. Going forward, Government will have to maintain the momentum in supporting the recovery, as the outlook on other components in the expenditure side is not bright. Overall, the % share of Consumption expenditure in GDP stay elevated to more than 70%.
- The curious case of the Government Consumption which has expanded by 20% on the expenditure side but the Public Administration and Defence has contracted by 5%. Two points can be made on this. First the Public Administration and Defence includes other services such as Education (private tuition/coaching centres), Health (Nursing Homes / Personal Care services) and other services such as social and personal services was in a complete lockdown mode in Q1FY21. It is also possible that State Governments and particularly Local Bodies were in lockdown mode in Q1FY21.
- Second, Government GVA is sum of intermediate consumption; compensation of employees; consumption of fixed capital; and other taxes, less subsidies, on production. Of these the sudden fall in intermediate consumption includes reduction in contingent expenditure such as office supplies, rent, rates and taxes, fuel & light, printing, travel expenses, telephone & telegraph charges, and purchase of other commodities and services for current operations.
- Another way to look at this is the sudden shift in expenditure priority of the Government between the individual consumption expenditure by Government (Health, Education etc.) and collective consumption expenditure by Government (Judiciary, Defence, Law and order etc). The pandemic has impacted expenditure pattern under individual consumption expenditure. While the compensation of employee is not impacted, the intermediate consumption is impacted. Further increase in social security transfers don't add to GDP and are deducted.

Growth in Sectoral Deflator (%)

Sectors	FY20				FY21
	Q1	Q2	Q3	Q4	Q1
Agriculture	**5.5**	**4.8**	**10.0**	**6.7**	**2.2**
Industry	**1.9**	**0.0**	**-0.4**	**1.6**	**-2.2**
Mining & quarrying	**2.1**	-4.8	-6.7	0.3	**-23.5**
Manufacturing	**1.5**	-0.1	-0.7	0.4	**0.0**
Electricity, gas, water supply & other utility services	**0.7**	-0.4	1.9	7.6	**1.9**
Construction	**2.7**	0.9	1.1	2.2	**-2.3**
Services	**3.1**	**1.9**	**2.6**	**3.5**	**2.8**
Trade, hotels, transport, communication & services related to broadcasting	**2.7**	1.0	1.2	2.5	**-0.7**
Financial, real estate & professional service	**2.3**	0.6	0.8	2.0	**1.0**
Public administration, defence and Other Services	**4.6**	4.6	5.6	5.8	**5.8**
Total GVA at Basic Price	**3.1**	**1.8**	**3.4**	**3.7**	**2.9**
GDP	**2.7**	**1.4**	**3.2**	**4.3**	**1.8**

Source: NSO,SBI Research

GDP by Expenditure Side (YoY %)

Levels at Current Price	FY20				FY21
	Q1	Q2	Q3	Q4	Q1
Total final consumption expenditure	8.6	10.4	11.9	9.4	-16.7
Private final consumption expenditure	8.5	8.9	10.8	7.7	-24.5
Government final consumption expenditure	9.5	17.5	18.8	20.1	20.2
Gross fixed capital formation	7.9	-1.6	-3.3	-4.1	-47.9
Change in Stocks	10.2	4.7	3.9	4.4	-17.6
Valuables	17.0	16.9	8.5	5.0	-89.7
Exports	6.4	-0.4	-2.4	-5.0	-17.1
Less Imports	5.4	-7.7	-8.7	-3.3	-38.5
Discrepancies	-30.1	-137.8	-240.4	195.6	-79.2
GDP At Market Price	**8.1**	**5.9**	**7.4**	**7.5**	**-22.6**

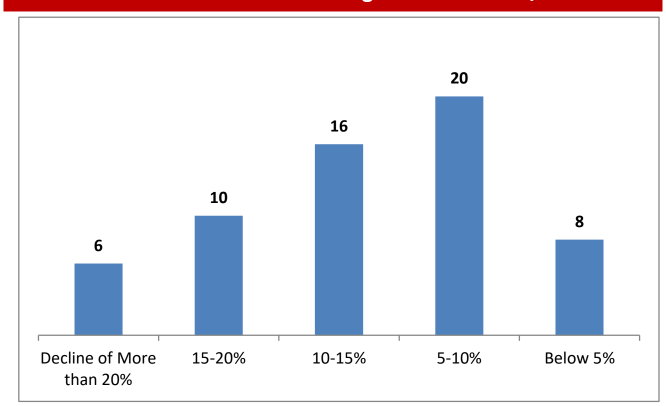
Source: NSO,SBI Research

- The MOSPI data shows that owing to weak global demand, as well as, lockdown impacting production and movement of goods and services, the exports declined by 17% in Q1 FY21. In FY20, merchandise exports decline had started and this year also we expect exports to decline by 15% in dollar terms. However, with falling crude and lack of demand of inputs, the decline in imports is higher and net exports is expected to be higher this year than last year. To support the economy, Government is pushing exports. However, the fragile global outlook will limit the scope of support exports can provide and it is the domestic consumption that needs to be pushed.

INDIA'S GROWTH IS ONE OF THE WORST AFFECTED IN WORLD

- Till now GDP growth data of 60 countries has been released. Apart from China and Vietnam all economies exhibited decline in growth. India is one of the worst affected country and only Macau (-67.8%) and Peru (-30.2%) have declined more than India. The average decline of 60 economies in Q2 2020 is 12.2% as compared to 1.4% decline in Q1 2020.

Number of Economies according to GDP Growth/Decline



Source: SBI Research

INFORMAL SECTOR

- One of the areas where the Q1 estimates have to be taken with caution is the how the informal sector has been incorporated in the estimates. The informal manufacturing is generally incorporated by taking IIP as proxy. However with pandemic and reverse migration how the informal sector has been impacted can only be known by full survey. Thus full impact of the COVID-19 in Q1 is not known completely.

REVISED FISCAL DEFICIT ESTIMATE OF CENTRE

- We believe Centre is likely to have a revenue shortfall of Rs 7.3 lakh crore in FY21 (including shortfall in disinvestment receipts of Rs 1.5 lakh crore). Additionally, there will be a fiscal impact of Rs 2 lakh crore on account of stimulus package announced by the Government. This in turn will increase the Centre's fiscal deficit to Rs 17.3 lakh crore from Rs 7.96 lakh crore as per FY21 BE. Taking into account FY21 GDP contraction at -10.9%, fiscal deficit of the Centre is likely to be 9.3% of GDP.
- With Centre estimating GST revenue shortfall for States at Rs 3 lakh crore, the State's fiscal deficit will also be pushed to 5% of GDP unless they go for expenditure cut.

CORPORATE RESULTS Q1FY21

- In Q1FY21 corporate results in listed space, we see impact of Covid-19 and subsequent lockdown across sectors. Overall, as per the result available of around 1600 entities, we observed top line degrowth of 26%, whereas EBIDTA and PAT de-grew by 19% and 57% respectively.
- Sectors such as Automobiles, Textiles, Consumer Durable, Reality, Constructions, Gems & Jewellery, Auto Ancillary etc. are worst affected and reported top line degrowth in the range of 50%-75%. In many sectors such as Automobile, Textile, Auto Ancillary, Reality etc. there was reduction in expenses including employee expenses. Sector wise growth in key parameters is given in the adjacent table.

INVESTMENT SCENARIO

- During the COVID-19 affected three months (Q1FY21), the country saw announcement of 1021 new projects entailing a total investment of Rs 1.04 lakh crore which is 74% less than previous year. During the same period, a year ago, the country had seen announcement of around 2,300 new projects worth Rs 4.03 lakh crore. It is also pertinent to mention that around 60% of the investment announced during Q1FY21 is by Government sector as compared to 60% by private sector in Q1FY20.
- Some of the sectors where new projects announcements were seen include Roadways, Basic Chemicals, Electricity, Community Services such as Hospital, Tourism, Water Sewage Pipeline etc.

CREDIT GROWTH REMAIN MUTED

- Credit offtake from ASCBs remains muted. For the fortnight ended 31st July 2020, credit has increased by 5.5% on YoY basis, however declined on YTD basis. On a positive note, except one fortnight, credit has been increasing continuously since May'20.
- Credit demand has been ebbing away across all sectors, despite the post-IL&FS shift among large borrowers, including NBFCs and housing finance companies (HFCs), away from non-bank sources and towards the banking system for meeting funding requirements. The unabated weakening of economic activity, coupled with deleveraging of corporate balance sheets and risk aversion by banks due to asset quality concerns, was accentuated towards the close of the year by the pandemic woes, producing a reduction in the incremental credit-deposit ratio. The credit-to-GDP gap remained wide during 2019, reflecting the slack in credit demand.
- RBI has released the sector-wise credit-data for the month of July, which indicate that except Industry, credit has increased in all other major sectors in July. There has been a significant increase in credit to MSE, Agri & Allied and Personal Loans. One good thing that the credit demand in personal loans coming back to traction in all sub-segments like housing, vehicle loans & other personal loans.

Growth in key parameters (select sectors) Q1FY21 vis-à-vis Q1FY20

Sector	Net Sales	Total Expenditure	Employee Expenses	EBIDTA	PAT
IT - Software	3	2	6	10	-5
Pharmaceuticals	8	0.1	8	33	43
Steel	-37	-33	-4	-53	-70
FMCG	-6	-7	13	-3	6
Automobile	-71	-65	-16	-112	-131
Cement	-33	-34	-8	-31	-32
Chemicals	-33	-31	-4	-44	-49
Capital Goods - Electrical Equipment	-38	-35	-8	-61	-72
Textiles	-55	-49	-27	-90	-170
Auto Ancillaries	-65	-57	-28	-118	-153
Consumer Durables	-51	-46	-8	-86	-104
Capital Goods-Non Electrical Equipment	-49	-41	-12	-104	-114
Realty	-59	-58	-25	-62	-97
Healthcare	-11	-8	-4	-31	-80
Diamond, Gems and Jewellery	-74	-55	-12	-142	-175

Source: Cline; SBI Research

Fresh investment announcements (Rs Lakh crore)

Investment Projects by Ownership	Q1FY20	Q1FY21	Growth %
Government	1.62	0.61	-62
Private sector	2.41	0.43	-82
Total	**4.03**	**1.04**	**-74**

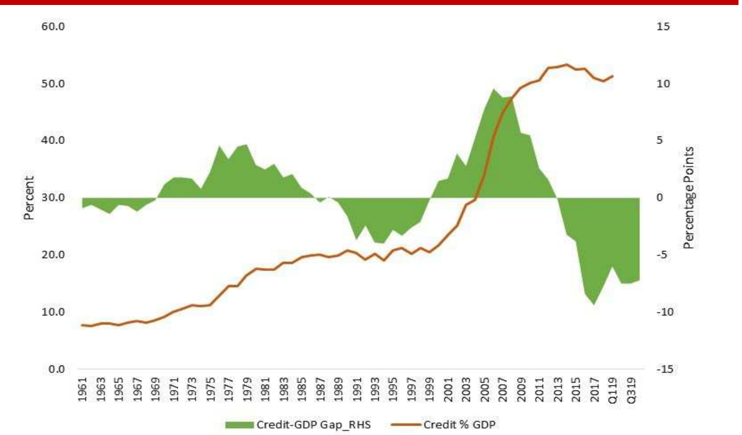
Source: Projects Today; SBI Research

Fresh investment announcements in Q1FY21 major sectors

Sectors	No of Projects	Amount Rs crore
Roadways	154	18138
Community Services	324	15910
Basic Chemicals	90	12690
Coal	20	8055
Electricity	38	7796
Iron & Steel	10	4078
Power Distribution	58	3852
Machinery	16	3678
Non Conventional Energy	12	3110

Source: Projects Today; SBI Research

Credit to GDP Gap



Source: SBI Research, BIS, RBI

Sector-Wise Credit Flow (Rs bn): July 2020											
Sectors	YTD (Apr-Jul, FY20)		Monthly Growth (Rs bn)					YTD % (Apr-Jul, FY21)		% YoY	
	Rs bn	%	Mar'20	Apr'20	May'20	Jun-20	Jul-20	Rs bn	%	Jul'19	Jul'20
Agri. & Allied	-23	-0.2	18	-65	-51	67	163	115	1.0	6.8	5.4
Industry	-874	-3.0	1123	-208	-228	136	-539	-838	-2.9	6.1	0.8
MSE (Priority)	-197	-1.8	542	-486	-231	46	182	-488	-4.2	7.8	5.1
Infrastructure	-212	-2.0	352	13	0	139	-146	7	0.1	14.0	1.9
Services	-1027	-4.3	1611	-208	-311	-146	187	-477	-1.8	15.2	10.1
NBFCs	-45	-0.7	1037	50	-81	-58	-51	-139	-1.7	34.5	24.6
Personal Loans	548	2.5	216	-629	-119	115	409	-224	-0.9	17.0	11.2
Housing (Including Priority)	397	3.4	100	-83	-16	68	117	86	0.6	19.2	12.3
Other Personal Loans	301	5.0	88	-269	10	9	205	-45	-0.6	24.3	13.3
Gross Bank Credit	-1133	-1.3	2830	-1100	-442	271	121	-1151	-1.2	11.5	6.9

Source: SBI Research

- Meanwhile, credit data released today reveal within industry, credit growth to 'food processing', 'mining & quarrying', 'petroleum, coal products & nuclear fuels', 'leather & leather products', 'wood and wood products', 'construction' and 'paper & paper products' accelerated in July 2020. However, credit growth to 'chemicals & chemical products', 'rubber plastic & their products', 'infrastructure', 'gems & jewellery', 'glass & glassware' and 'beverage & tobacco' decelerated/contracted.
- Credit to the personal loans accelerated in July 2020 with a ick up in growth of other personal loans.

FY21 GDP GROWTH AT –10.9%

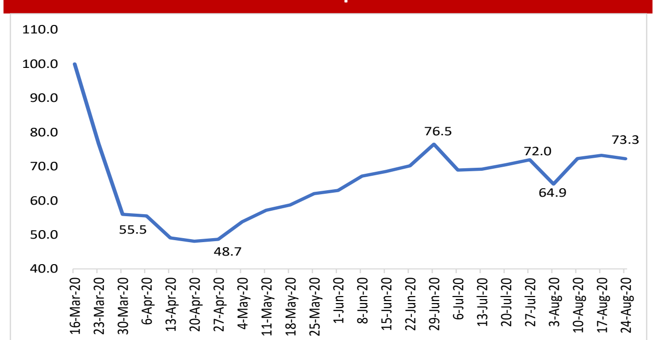
- After a decline of 23.9% real GDP growth in Q1 now the question arises how much growth will decline in subsequent quarters. It is now clearly visible that Q2 decline will also in double digits. Our preliminary estimate indicates that all the four quarters of FY21 will exhibit negative real GDP growth and decline of full year growth likely be in double digits and will be around 10.9%. **Q2 real GDP decline will be in the range of –12% to –15%, Q3: -5% to –10% and Q4: -2 to-5%.**
- ***Economic Momentum slowdown in July and August:*** When we look at the activity index, in July there has been some disruption compared to June end as seen by the fall in our business disruption index. However, in August it increased again with the latest weeks showing some moderation. This is also visible when we see the percentage of leading indicators showing acceleration which declined to 11 in July from 15 in June and again increase to 17 in August. The monthly indicators also show a dip in July compared to June. There has been an increase in some indicators namely automobile sales, passenger traffic at airports, railway traffic, power demand, RTO revenue collection, exports, non-oil non-gold imports, GST e-way bill, steel output and fertiliser sales price. On the other hand, diesel consumption, bank credit growth, tractor sales, coal and cement output declined in July. Meanwhile, August again witnessed some moderation.
- To sum up, it seems that momentum of economic pick-up has slowed down in Q2 FY21 and our Business Disruption Index is nearly at the same level as on Aug 24 as it was at end June.

REVIVING GROWTH

- Under the current situation, it is advisable to approach the policy from the point of view of demand. The current stimulus package under Atamanirbharat Package has 40% monetary stimulus that is through RBI and remainder is fiscal stimulus.
- Within the fiscal stimulus, the Government has taken reforms which are essentially supply side measures such de-risking MSME. The sectors such as construction, trade and hotels need to be revived. Restoring transportation services and giving push to infrastructure by issuing special bonds to RBI like perpetual bonds must be explored.

FY21 GDP Growth Projection: SBI	
FY20 Real GDP	Rs 145.7 lakh crore
FY21 Real GDP	Rs 129.7 lakh crore
FY21 Loss in Real GDP *Of which Q1 Loss*	Rs 16.0 lakh crore *Rs 8.5 lakh crore*
Real GDP Growth for FY21	**-10.9%**
Source: SBI Research	

Business Disruption Index



Source: SBI Research

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