

GDP NUMBERS THROW A POSITIVE SURPRISE: CONSTRUCTION SECTOR THE LYNCHPIN OF GROWTH SINCE Q3, ARE CONSUMERS PREPONING LOAN DECISIONS IN ANTICIPATION OF FUTURE RATE HIKES?

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Those looking for impeccable imprints of degrowth in GDP numbers released today, courtesy the persistent inflationary pressure and recalcitrant Omicron variant shadowing activities of last quarter for a sizeable part would do well to remember the state of economy as reflected through latest numbers are a just fraction of the possibilities that could have been had the adversity not gripped us with barely a shorter interval just when things looked emerging from the brutal second wave.

The omicron fuelled days brought the bleak memories from last year. Spike in case loads in select developed economies scared the psyche, the scars of past coming to the fore. Businesses, caught unaware previously and braving essential commodity as well as specialised essentials like Chips shortages (and the ripple effect it had) kept the expectations short.

Against that backdrop, the GDP numbers do not disappoint much and in fact inspires the market!

India's economy grew by 8.7% in FY22 as against the NSO's earlier estimate of 8.9%. There was almost minimal data revisions in Q1, Q2 and Q3 of FY22. For FY22, real GDP has been revised downwards by Rs 360 billion to Rs 147 trillion as per the first advanced estimate released in early Feb'22, of which Rs 270 bn alone is in Q4. Quarterly GDP growth for Q1, Q2 and Q3 have also been revised downwards modestly. The GDP growth for Q1 was revised downwards by 25 bps to 20.1%.

During Q4, apart from manufacturing, all other sectors showed positive growth. Manufacturing declined by 0.2% indicating the slight impact of Omicron variant induced lockdowns. Construction also showed tepid growth of 2.0%. The sequential seasonally adjusted GDP growth is lower than the non-seasonally adjusted GDP growth for Q4 over the past. In FY22 Q4, real GDP growth is 6.7% qoq, however the seasonally adjusted real GDP growth is only 0.71%, showing only a modest improvement over the past quarter and loss of growth momentum.

'Trade, Hotels, Transport, Communication & Services related to broadcasting' is the only sector which is still not out of woods. The FY22 absolute numbers (on constant prices) of this sector are still 10.3% lower than the pre-pandemic level (i.e. FY20). It is still Rs 3.04 lakh crore less than the FY20 levels. **We believe that by Q1 FY23 this sector will reach/cross the pre-pandemic level.** On expenditure side, both the private and Government final consumption expenditure crossed the pre-pandemic level by Rs 1.2 lakh crore and 0.93 lakh crore, respectively.

On expenditure side, while private final consumption expenditure grew by 7.9% in FY22 as compared to contraction in FY21, the Government final consumption expenditure decelerated to 2.6% in FY22 as against 3.6% growth in FY21. **However, if we look at the Q4 growth in PFCE, it has revealed a much lower growth rate at 1.8%, and it shows a continuous decline onwards from Q1FY22.** Gross fixed capital formation grew by whopping 15.8% in FY22. Both valuables and exports exhibited double-digit growth.

The gap between the nominal GDP growth and the real GDP growth has increased between Q2 FY20 and Q1 FY22 owing to higher inflation. It moderated in Q2 and Q3 FY22 but increased modestly in the last quarter of FY22. The growth in deflator has increased modestly to 10.4% yoy in Q4 FY22 compared to 9.8% in the previous two quarters.

The provisional data of ASCBs for the fortnight ending 06 May'22 indicates that Rs 1.5 lakh crore growth in credit and Rs 2.30 lakh crore growth in deposits has happened during the current Financial Year. Interestingly, this is the first time in the last 5 years that during the first 3-fortnights Credit growth has remained positive, which has usually remained negative in first few fortnights.

The sector-wise data for April indicate that credit off-take has happened in almost all sectors. Personal loans segment continued to perform well, registering acceleration in growth to 14.7% in April 2022 and contributes around 90% of the incremental credit during the month, primarily driven by 'housing', 'vehicle loans' and 'Other personal loans' segments. **Customers, especially in retail verticals could be having a feel of future run expected in interest rates, and might be front loading their purchases in days to come giving a fillip to consumer demands in select niche areas.**

The World Economic Outlook (WEO) has cut its global growth forecast for 2022 relative to its January 2022 projection by 0.8 percentage points to 3.6%. China's economy remained deep in a slump in May as lockdowns continued to weigh on activity. The downward revision is sharper for emerging market and developing economies than for advanced economies.

GDP GREW BY 4.1% IN Q4 FY22; 8.7% IN FY22

- ◆ India’s economy grew by 8.7% in FY22 as against the NSO’s earlier estimate of 8.9%. The Q4 FY22 GDP grew by 4.1% (against the imputed growth of 4.8%). The GVA growth for FY22 was 8.1%.
- ◆ During FY22, Agriculture grew by 3.0%. Manufacturing and Construction grew by 11.5% and 9.9%, respectively. Financial, Real Estate & Professional Services grew by only 4.2% in FY22.
- ◆ During Q4, apart from manufacturing all other sectors showed positive growth. Manufacturing declined by 0.2% indicating the slight impact of Omicron variant induced lockdowns. Construction also showed tepid growth of 2.0%.
- ◆ For FY22 real GDP has been modestly revised downwards by Rs 36,000 crore to Rs 147 lakh crore as per the first advanced estimate released in early Feb’22. Quarterly GDP growth for Q1, Q2 and Q3 have also been revised downwards very minimal. The GDP growth for Q1 was revised downwards by 25 bps to 20.1%.
- ◆ The sequential seasonally adjusted GDP growth is lower than the non-seasonally adjusted GDP growth for Q4 over the past. In FY22 Q4, real GDP growth is 6.7% qoq, however the seasonally adjusted real GDP growth is only 0.71%, showing only a modest improvement over the past quarter and loss of growth momentum.

GDP HAS SURPASSED THE PRE-PANDEMIC LEVEL

- ◆ Due to the pandemic, there was a loss of Rs 9.57 lakh crore during FY21, compared to FY20. However, there has been an increase in GDP of RS 11.77 lakh crore during FY22. With this, GDP has surpassed by Rs 2.19 lakh crore in FY22, compared to the FY20 level and RS 7.4 lakh crore compared to FY19 level. If the GDP for FY22 is compared to that of FY20 - before the pandemic hit the economy - it is higher by 1.5%.
- ◆ The ‘Trade, Hotels, Transport, Communication & Services related to broadcasting’ is the only sector still 10.3% lower than the pre-pandemic level (i.e. FY20). It is still Rs 3.04 lakh crore less than the FY20 levels. We believe that by Q1 FY23 this sector will reach/cross the pre-pandemic level. On expenditure side, both the private and Government final consumption expenditure crossed the pre-pandemic level by Rs 1.2 lakh crore and 0.93 lakh crore, respectively.

Quarterly Estimates of GVA(% YoY) at Basic Prices by Sectors										
Sectors	FY21					FY22				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Agriculture	3.0	3.2	4.1	2.8	3.3	2.2	3.2	2.5	4.1	3.0
Industry	-33.7	0.6	6.3	13.4	-3.3	46.6	7.0	0.3	1.3	10.3
Mining & quarrying	-17.8	-7.9	-5.3	-3.9	-8.6	18.0	14.5	9.2	6.7	11.5
Manufacturing	-31.5	5.2	8.4	15.2	-0.6	49.0	5.6	0.3	-0.2	9.9
Electricity, gas, water supply & other utility services	-14.8	-3.2	1.5	3.2	-3.6	13.8	8.5	3.7	4.5	7.5
Construction	-49.4	-6.6	6.6	18.3	-7.3	71.3	8.1	-2.8	2.0	11.5
Services	-20.8	-10.8	-0.9	2.1	-7.8	10.5	10.2	8.1	5.5	8.4
Trade, hotels, transport, communication & services related to	-49.9	-18.8	-10.1	-3.4	-20.2	34.3	9.6	6.3	5.3	11.1
Financial, real estate & professional service	-1.1	-5.2	10.3	8.8	2.2	2.3	6.1	4.2	4.3	4.2
Public administration, defence and Other Services	-11.4	-10.2	-2.9	1.7	-5.5	6.2	19.4	16.7	7.7	12.6
Total GVA at Basic Price	-21.4	-5.9	2.1	5.7	-4.8	18.1	8.3	4.7	3.9	8.1
GDP	-23.8	-6.6	0.7	2.5	-6.6	20.1	8.4	5.4	4.1	8.7

Source: NSO & SBI Research

Revision in GDP and GVA Growth Rates							
Quarter		GVA			GDP		
		Old	New	Change in bps	Old	New	Change in bps
FY22	Q1	18.4	18.1	-25	20.3	20.1	-25
	Q2	8.4	8.3	-8	8.5	8.4	-7
	Q3	4.7	4.7	-3	5.4	5.4	-1
	Q4	4.1*	3.9	-26	4.8*	4.1	-68
	Annual	8.3	8.1	-16	8.9	8.7	-27

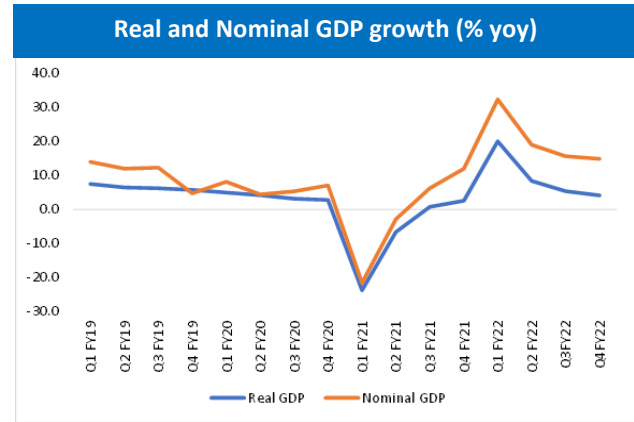
Source: NSO & SBI Research, old(28.02.2022) and New (31.05.2022) release; * Imputed growth

GDP at Constant prices: Recovered to Pre-Pandemic Level		
Industry Level	Loss Recovered	
	FY22/FY20	FY22/FY19
1. Agriculture, forestry & fishing	106.4%	112%
2. Industry	106.7%	105%
2.1 mining & quarrying	101.9%	100%
2.2 Manufacturing	109.3%	106%
2.3 Electricity, gas, water supply & other utility services	103.6%	106%
2.4 Construction	103.4%	105%
3. Services	100.0%	106%
3.1. trade, hotels, transport, communication & services related to broadcasting	88.7%	94%
3.2. Financial, Insurance, real estate & professional Services	106.6%	114%
3.3. Public administration, defence and Other Services	106.4%	113%
GVA at Basic Prices	102.9%	107%
GDP	101.5%	105%

- On expenditure side, while private final consumption expenditure grew by 7.9% in FY22 as compared to contraction in FY21, the Government final consumption expenditure decelerated to 2.6% in FY22 as against 3.6% growth in FY21. Gross fixed capital formation grew by whopping 15.8% in FY22. Both valubles and exports exhibited double-digit growth.

GROWTH IN GDP DEFLATOR

- The gap between the nominal GDP growth and the real GDP growth has increased between Q2 FY20 and Q1 FY22 owing to higher inflation. It moderated in Q2 and Q3 FY22 but increased modestly in the last quarter of FY22.
- The growth in deflator has increased modestly to 10.4% yoy in Q4 FY22 compared to 9.8% in the previous two quarters.
- Growth in GDP deflator for agriculture has increased to 10.7% yoy compared to 6.9% yoy in Q3, indicating the impact of higher food prices. For industry and services growth in deflator has moderated in Q4 but it is still on the higher side.
- For FY22, growth in GDP deflator increased to 10% from 5.6% in FY21, with industry witnessing highest growth in GDP deflator (14% yoy compared to 1.7% yoy).



Source: SBI Research

Growth in Sectoral Deflator (YoY%)									
Sectors	FY19	FY20	FY21	FY22				Annual	
				Q1	Q2	Q3	Q4		
Agriculture	4.9	5.0	4.0	5.9	3.6	6.9	10.7	7.0	
Industry	4.7	0.3	1.7	12.8	14.3	16.9	14.7	14.4	
Mining & quarrying	13.3	-3.6	-0.8	41.6	35.7	50.3	40.4	41.5	
Manufacturing	4.0	-1.0	0.8	10.9	11.8	12.3	10.5	11.0	
Electricity, gas, water supply & other utility services	-2.1	9.2	4.9	-2.0	3.2	12.5	16.1	7.5	
Construction	5.8	0.4	3.4	17.9	19.8	19.8	14.7	17.2	
Services	4.8	3.3	3.4	6.9	7.9	8.9	8.7	8.1	
Trade, hotels, transport, communication & services related to broadcasting	3.8	2.5	3.2	9.4	9.6	12.2	12.1	10.8	
Financial, real estate & professional service	5.5	3.0	2.0	7.9	7.6	8.0	7.4	7.7	
Public administration, defence and Other Services	5.2	5.0	4.9	4.6	5.1	5.3	5.7	5.1	
Total GVA at Basic Price	4.7	2.9	3.3	7.0	8.8	10.4	10.9	9.4	
GDP	3.9	2.4	5.6	10.2	9.8	9.8	10.4	10.0	

Source: NSO & SBI Research

Quarterly Estimates(% YoY) of Expenditures on GDP at Basic Prices										
Sectors	FY21					FY22				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Total final consumption expenditure	-17.8	-10.8	0.4	9.6	-4.5	10.2	10.2	6.8	2.3	7.0
Private final consumption expenditure	-23.7	-8.3	0.6	6.5	-6.0	14.4	10.5	7.4	1.8	7.9
Government final consumption expenditure	13.6	-22.9	-0.3	29.0	3.6	-4.8	8.9	3.0	4.8	2.6
Gross fixed capital formation	-45.3	-4.5	-0.6	10.1	-10.4	62.5	14.6	2.1	5.1	15.8
Change in Stocks	-107.4	-111.3	-111.7	-112.4	-110.7	-2301.0	-1659.6	-1581.7	-1574.2	-1723.9
Valuables	-91.4	18.3	37.2	156.9	26.4	515.6	171.7	53.0	-48.9	41.9
Exports	-25.5	-6.4	-8.6	3.7	-9.2	40.8	20.7	23.1	16.9	24.3
Less Imports	-41.1	-17.9	-5.2	11.7	-13.8	61.1	41.0	33.6	18.0	35.5
Discrepancies	17.0	-8.0	-6963.7	-92.0	-39.8	-37.6	-108.1	58.4	344.1	-9.1
GDP	-23.8	-6.6	0.7	2.5	-6.6	20.1	8.4	5.4	4.1	8.7

Source: NSO & SBI Research

BANK CREDIT GROWTH IS ROBUST

- ◆ The provisional data of ASCBs for the fortnight ending 06 May'22 indicates that Rs 1.5 lakh crore growth in credit and RS 2.30 lakh crore growth in deposits growth has happened during the current Financial Year. Interestingly, this is the first time in the last 5 years that during the first 3-fortnights credit growth has remained positive, which usually remains negative in first few fortnights.
- ◆ The sector-wise data for April Indicate that credit off-take has happened in almost all sectors. Personal loans segment continued to perform well, registering acceleration in growth to 14.7% in April 2022 and contributes around 90% of the incremental credit during the month, primarily driven by 'housing', 'vehicle loans' and 'Other personal loans' segments.

GLOBAL ECONOMY OUTLOOK

- ◆ The global economic outlook is marred with downside risks due to the ongoing geopolitical upheaval and its impact on trade, output and prices. With sharp increase in most commodity prices and significant tightening of financial conditions due to front-loaded monetary policy actions, and high inflation are posing financial stability concerns.
- ◆ The World Economic Outlook (WEO) cut its global growth forecast for 2022 relative to its January 2022 projection by 0.8 percentage points to 3.6%. China's economy remained deep in a slump in May as lockdowns continued to weigh on activity. The downward revision is sharper for emerging market and developing economies than for advanced economies.
- ◆ On the trade front, the World Trade Organization (WTO) scaled down its projection for merchandise trade volume growth for 2022 to 3.0% from 4.7% projected earlier, following the Russia-Ukraine conflict and lockdowns in China disrupting seaborne trade.

Incremental Deposits & Credit Growth During the first 3-fortnights of FY (Rs crore)		
Year	Deposits	Credit
FY18	-171573	-250525
FY19	-83297	-104780
FY20	-56379	-146966
FY21	103456	-79503
FY22	230112	155084

Source: RBI

ASCBs Sector-Wise Credit Flow (Rs bn): April 2022						
Sectors	FY22 (YTD)		FY23 (YTD)		YoY %	
	Rs bn	%	Rs bn	%	Apr-21 (FY22)	Apr-22 (FY23)
Agri. & Allied	73	0.6	172	1.2	10.7	10.6
Industry	-141	-0.5	0	0.0	-0.4	8.1
MSE (Priority)	-390	-3.2	318	2.3	-1.5	19.7
Infrastructure	-25	-0.2	89	0.7	0.7	10.2
Services	-580	-2.1	17	0.1	2.4	11.1
NBFCs	-396	-4.1	128	1.2	-0.8	17.4
Personal Loans	-50	-0.2	572	1.7	12.1	14.7
Housing (Including Priority)	79	0.5	219	1.3	9.9	13.7
Other Personal Loans	-123	-1.6	175	2.0	12.7	18.9

Source: SBI Research

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