

THE GOOD: Q1GDP WILL BE SIGNIFICANTLY BETTER
THE BAD: RAPID COVID SURGE IN RURAL HINTERLAND
THE UGLY: LIVES VS LIVES DEBATE AT CENTRESTAGE WITH ALL
QUARTERS IN FY21 TO WITNESS LARGE GDP DEGROWTH

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The current COVID pandemic is now spreading at a much faster rate in India post the opening up of the economy. The narrative on current COVID takes us back 54 years when the world first witnessed the blockbuster movie "The Good, the Bad and the Ugly"!

First the **GOOD NEWS**.

We revisit our GDP growth estimation for Q1 FY21 (at lower than -20%) and now peg it at much lower contraction: -16.5%, though with the relevant caveats in the current uncertain scenario. Specifically, degrowth in Corporate GVA is significantly better than revenue degrowth in Q1FY21 as far as the results of the listed companies are concerned. In principle, revenue decline of listed companies has been far outstripped by cost rationalization thereby not impacting margins. Our Composite Leading Indicator and Monthly Acceleration Tracker also support the same. Our Business Disruption Index has also shown a decline in the most recent week. However, rural recovery is unlikely to support such pace in subsequent quarters as overall, the per capita monthly expenditure in urban areas is at least 1.8x of rural areas and rural wage growth in real terms might still be negative. This indicates that rural recovery will not have much impact on GDP growth. Thus, it is of utmost importance to unveil further steps to support growth.

Now the **BAD NEWS**.

Over the months of July and August the virus has now significantly penetrated the rural areas. The percentage of cases in rural districts to total new cases has risen to 54% in August. Also, the number of rural districts with less than 10 cases have reduced significantly. Andhra Pradesh and Maharashtra have been impacted more severely with increasing penetration in rural areas. These districts contribute mostly around 2-4% of GSDP of their respective States, indicating that cases are penetrating deep rural hinterlands.

An analysis of positivity rate and test per million indicates that in the states like Maharashtra, Gujarat, Telangana, Bihar and West Bengal the positivity rate is significantly high but tests per million are quite less. This indicates that in these states the peak has not yet come and the situation will remain grave till the time number of tests increase significantly. Going purely by data, there may not be any direct causation between recovery rate and peak rate across countries as Brazil reached its peak rate at 69% recovery rate. However, for the sake of it, the average recovery rate that corresponds to the peak rate is 75% across countries. Currently India's recovery rate is around 71%. However, that may not be the end of the story. In US, the peak has come twice. Apart from this, the current doubling rate in India is around 22 days, with the world average at 43 days and India also has the highest death per million rate amongst major Asian economies.

FINALLY, THE UGLY!

The spread of the COVID pandemic has reignited the debate between lives and livelihood to between lives and lives. **We estimated the state-wise additional mortality in addition to COVID mortality due to a 10% decline in State Domestic Product (the average across all states is 16%). The results are worrisome and indicate that mortality rates may increase by 0.5-3.5% additionally as we are navigating through COVID by imposing restrictions on livelihoods through unplanned exit from lockdowns and unplanned entry into fresh lockdowns across states.** In fact, the isolation beds per 1 lakh population is significantly low in several states like UP, Bihar, West Bengal, while it is highest in Karnataka followed by Maharashtra.

Furthermore, using the bottom-up approach we also estimated total GSDP loss due to COVID-19 is at 16.8% of GSDP. State-wise analysis indicates that top 10 states accounted for 73.8% of total GDP loss with Maharashtra contributing 14.2% of total loss followed by Tamil Nadu (9.2%) and Uttar Pradesh (8.2%). Subsequently, the per capita loss for all India is around Rs 27,000 with states like Tamil Nadu, Gujarat, Telangana, Delhi, Haryana, Goa, etc. exhibiting loss of more than Rs 40,000 per person in FY21. All these numbers do foretell that our earlier GDP estimate at -6.8% has already been significantly overshoot in FY21!

Finally, an interesting anecdote! Lockdown and non-availability of data have led to NSO estimating the various components of CPI Inflation. However, this has been a pure statistical exercise by NSO that underreports the headline CPI. In principle, we need to account for changes in consumption habits during lockdown as services are not getting consumed. Based on adjustments, as per our SBI Computed COVID CPI, the actual headline inflation is much higher than the imputed inflation. **This has already been substantiated by NSO CPI data revisions in June, and our estimates show that July CPI could be higher than 7.5%, instead of 6.9% computed. The bottom line of such is that a negative GDP and a jump in inflation are only pushing back real consumption and hopes of recovery are fading.** We really hope for some good news with both preventative and curative drugs currently being worked out for the virus!

THE GOOD: Q1GDP NUMBERS TO POSITIVELY SURPRISE MARKETS

- ◆ When India had first imposed lockdown, our GDP estimate for FY21 was 2.6% and since then it has been progressively reduced to a negative 6.8% in FY21 (At that time when we published our report India had around 1.5 lakh confirmed cases). Now the situation has changed drastically and India has climbed to 3rd position in overall COVID-19 cases in the world with more than 26 lakh total cases (12% of world total). During Unlock-1 since 01 June the spread of pandemic has increased significantly and almost 93% of total cases have come post 01 June. Owing to this, various states have again imposed partial lockdown (like West Bengal, Bihar, Maharashtra, Rajasthan, etc.) in staggered manner.
- ◆ At that time (on 26 May) we had indicated that the Q1 FY21 GDP growth will exhibit a sharp decline at least in excess of 30%. However, the current situation warrant us to revisit our GDP growth estimation for Q1 FY21. Specifically, degrowth in Corporate GVA (better than expected results of some financial and non-financial companies) has been significantly better than revenue degrowth in Q1FY21 as far as the results of the listed companies are concerned. In principle, revenue decline of listed companies has been far outstripped by cost rationalization thereby not impacting margins. As per our estimates, **Q1 FY21 Real GDP degrowth would be now around -16.5%.**

GDP & GVA Growth for Q1 FY21 (Rs Crore)			
Sectors	Q1 FY20	Q1 FY21 (Lockdown)	Q1 FY21 (% YoY)
Agriculture, forestry & fishing	7,12,222	7,76,322	9.0
Mining & quarrying	1,04,945	44,916	-57.2
Manufacturing	6,94,993	4,46,186	-35.8
Electricity, gas, water supply & other utility services	1,24,751	1,37,226	10.0
Construction	3,50,920	2,29,502	-34.6
Trade, hotels, transport, communication & services related to broadcasting	8,06,915	5,22,881	-35.2
Financing, insurance, real estate & bus. Services	10,56,866	10,06,136	-4.8
Public administration, defence and Other Services	6,37,682	7,33,334	15.0
Nominal GVA	44,89,294	38,96,503	-13.2
Nominal GDP	49,18,228	41,28,129	-16.1
GDP Deflator			0.4
Real GDP			-16.5

Source: SBI Research

- ◆ Apart from ‘Agriculture, Forestry & Fishing’, ‘Electricity, Gas, Water Supply & Other Utility Services’ and ‘Public Administration, Defence and Other Services’ almost all other sectors will exhibit declining trend. So far around 1000 listed entities have announced their results for Q1 FY21. The results indicate more than 25% decline in top line and more than 55% decline in bottom line. However, it is interesting to mention that the decline in corporate GVA is only 14.1%.
- ◆ **GVA Growth as per our composite leading indicator (CLI):** The CLI Index (a basket of 41 leading indicators which includes parameters from almost all the sectors) based on monthly data shows early signals of turning-points in economic activity. Based on the leading indicators yoy performance, we are also expecting the GVA degrowth to be around -14.5% -16.5% in Q1 FY21.
- ◆ Apart from few European economies (where the COVID-19 confirmed cases were the most), the Q2 2020 real GDP growth is greater than -15.0% yoy. Even China and Vietnam exhibited positive growth in Q2. **Overall the situation is bad but not worse.**
- ◆ Out of the 41 high frequency leading indicators, 11 reveal a significant decline in Q1FY21, except in domestic Tractor Sales, Bitumen Consumption and ASCBs bank deposits.

BUSINESS DISRUPTION INDEX HAS DECINED IN FIRST WEEK OF AUGUST ...

- ◆ SBI business disruption index, after reaching a minimum at the beginning of Apr’20 implying maximum disruption, the index started showing a gradual improvement thereafter. After the unlock of the economy in June the pick-up in the index became steep reaching a high by June-end. However, during unlock 2 it plateaued and dipped a little at the beginning of Aug’20. The recent week again showed a pick-up in momentum with the value of the index increasing to above the peak reached by June-end.

..... BUT URBAN RECOVERY IS MUST FOR OVERALL RECOVERY

- ◆ The consumption pattern of rural and urban areas indicates that in urban areas per capita monthly expenditure on food items is almost 1.5x compared to rural areas. In the case of non-food items, the urban consumption is more than twice when compared to rural consumption. Overall, the per capita monthly expenditure in urban areas is 1.8x of rural areas. This indicates that rural recovery will not have much impact on GDP growth.

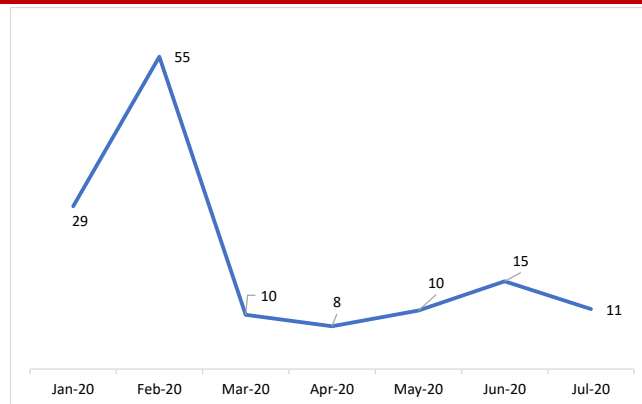
Corporate GVA vis-à-vis Manufacturing GVA				
Qtr	No of compaies	Corporate GVA (EBIDTA + Employee Expenses) In Rs Crore	Corporate GVA Growth	Manufacturing GVA Growth
Q1 FY19	3847	519948		
Q2 FY19	3840	512193		
Q3 FY19	3857	539620	13.3%	5.2%
Q4 FY19	3603	467109	33.2%	2.1%
Q1 FY20	3812	594746	14.4%	3.0%
Q2 FY20	3788	461476	-9.9%	-0.6%
Q3 FY20	3778	541583	0.4%	-0.8%
Q4 FY20	3603	380781	-18.5%	-1.4%
Memo:				
Q1 FY20	1012	416125	-	
Q1 FY21	1012	357516	-14.1%	

Source: Cline; Listed entities; SBI Research

Country-wise Q2 2020 Real GDP Growth (% YoY)					
Country	Q1 CY2020	Q2 CY2020	Country	Q1 CY2020	Q2 CY2020
Spain	-4.1	-22.1	Czech Republic	-2.0	-10.7
UK	-1.7	-21.7	Germany	-2.3	-11.7
France	-5.7	-19.0	US	0.3	-9.5
Mexico	-1.4	-18.9	Hong Kong	-9.1	-9.0
Italy	-5.5	-17.3	Russia	1.6	-8.5
Malaysia	0.7	-17.1	Sweden	0.4	-8.2
Philippines	-0.7	-16.5	Indonesia	3.0	-5.3
Portugal	-2.3	-16.5	Finland	-1.1	-4.9
Euro Area	-3.1	-15.0	South Korea	1.4	-2.9
Belgium	-2.4	-14.5	Vietnam	3.8	0.4
Singapore	-0.3	-13.2	China	-6.8	3.2

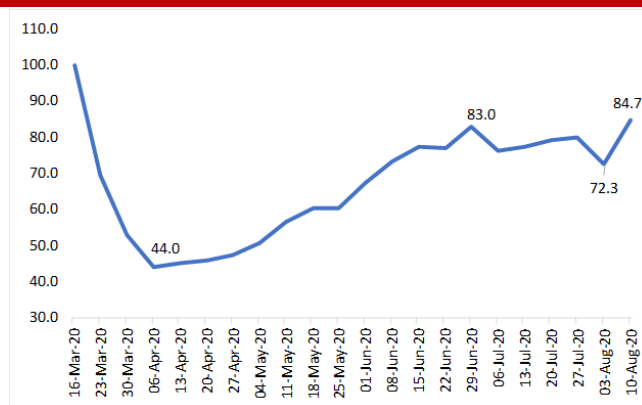
Source: SBI Research

% of Indicators showing acceleration



Source: SBI Research

Business Disruption Index



Source: SBI Research

Break-up of MPCE by 20 broad item groups: all-India, 2011-12

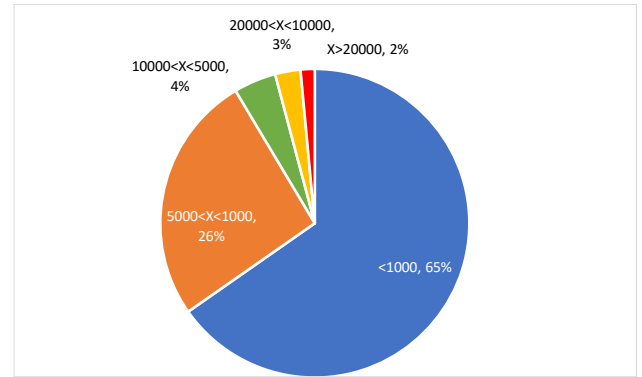
Item Group	Monthly per capita expenditure (Rs)		
	Rural	Urban	Urban/Rural
cereals & cereal substitutes	154	175	1.1
pulses & their products	42	54	1.3
milk & milk products	115	184	1.6
edible oil	53	70	1.3
egg, fish & meat	68	96	1.4
vegetables	95	122	1.3
fruits	41	90	2.2
sugar, salt and spices	76	94	1.2
beverages, refreshments & proc. Food	113	236	2.1
food total	757	1121	1.5
pan, tobacco & intoxicants	46	42	0.9
fuel and light	114	176	1.5
clothing & footwea	100	167	1.7
education	50	182	3.6
medical	95	146	1.5
conveyance	60	171	2.9
other consumer services	57	147	2.6
misc. goods, entertainment	76	152	2.0
rent	7	164	23.4
taxes and cesses	4	22	5.5
durable goods	65	139	2.1
non-food total	674	1508	2.2
All Items	1430	2630	1.8

Source: NSS Report No. 558: Household Consumption of Various Goods and Services in India, 2011-12; SBI Research

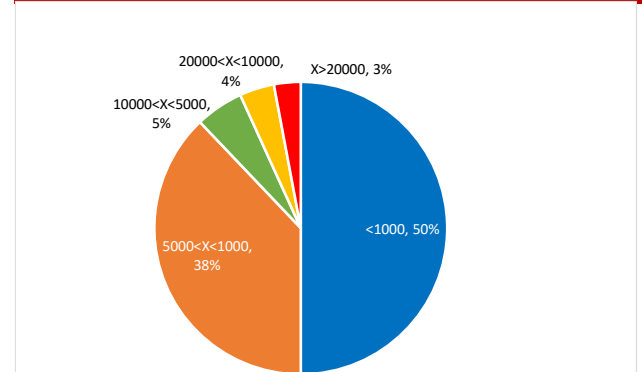
THE BAD: RURAL DISTRICTS ARE THE NEW HOTSPOTS IN INDIA - MAHARASHTRA AND ANDHRA PRADESH AT FOREFRONT

- ◆ We did a detailed district wise analysis of COVID cases, wherein the districts are classified as rural or urban based on its population as per Census 2011. If a district has rural to urban population of more than 60% we classified it as rural district, else urban. The total number of COVID-19 cases across districts reveal that maximum number of districts still lie at the lower bracket with <1000 cases, with all being rural districts. **However, when compared to July-end we clearly see that number of districts with cases between 1000 and 5000 have increased significantly.**
- ◆ **Over the months the virus has significantly penetrated in the rural areas.** This is clearly visible when we look at the trend of new cases in rural districts to total new cases, the percentage of which has risen significantly to 51% in July and further to 54% in August. Also, the number of rural districts with less than 10 cases have reduced significantly.
- ◆ When we look at top 50 districts where maximum number of new cases have occurred in August, Andhra Pradesh comes at the top with 13 districts of which 11 are rural. Next is Maharashtra with a total of 12 districts of which 6 are rural. Interestingly when it is compared with the same in July one finds that Maharashtra has been impacted more severely with increasing penetration in rural areas in the current month so far.
- ◆ Amongst these rural districts, East Godavari district of Andhra Pradesh was impacted the most in July and August, followed by Jalgaon in Maharashtra, Ganjam in Odisha, Srikakulam in Andhra and Ballari in Karnataka. Others among these rural districts include Vizianagaram of Andhra Pradesh, Ahmednagar, Satara and Kolhapur in Maharashtra, Udupi and Davanagere in Karnataka, Gorakhpur in UP and Cachar in Assam. These districts contribute around 2-4% of GSDP of their respective States, except for East Godavari district of Andhra Pradesh which contributes around 11% to the State's economy.

Distribution of Districts according to Total COVID-19 Cases (31 July)

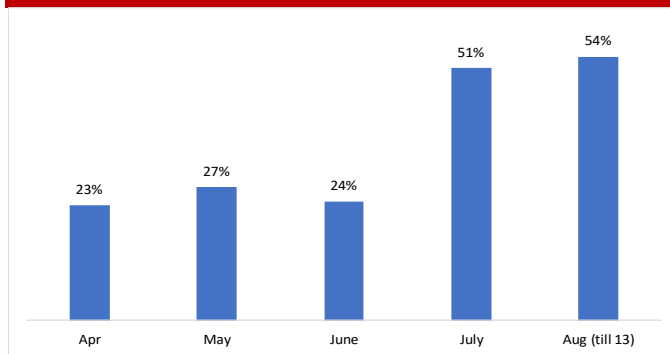


Distribution of Districts according to Total COVID-19 Cases (13 Aug)



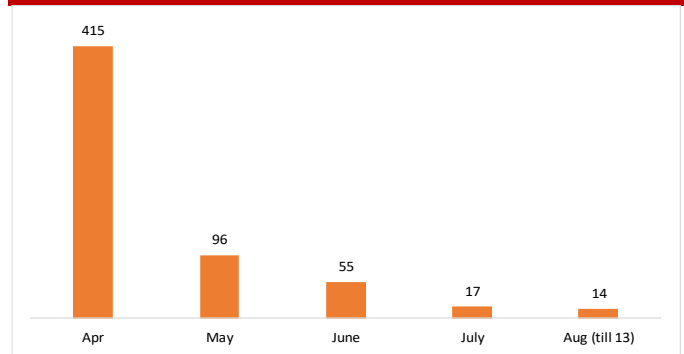
Source: SBI Research

Share of Rural Districts in New Cases



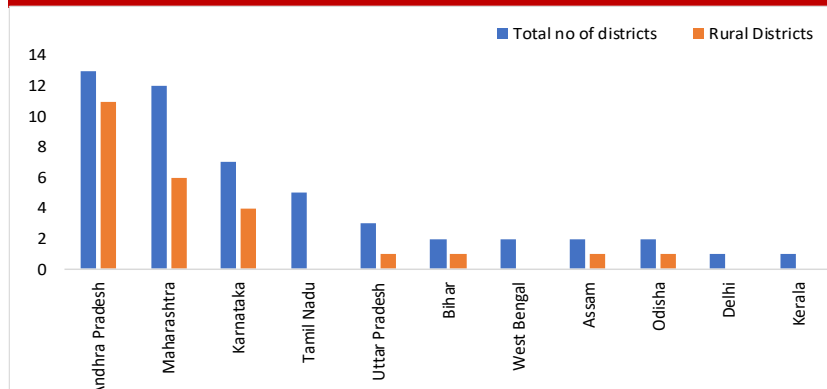
Source: SBI Research

Number of Rural Districts with less than 10 cases



Source: SBI Research

Distribution of Top 50 worst affected Districts with maximum new cases in August



Source: SBI Research

WHEN WILL INDIA REACH THE PEAK?

◆ In the last 15 days (since 30 July), India has reported 10 lakh cases of COVID-19. On an average daily 58,000 cases are being reported in India and still it's a major question as to when will India reach its peak? Based on the select countries peak data and recovery rate we believe that India can technically reach its peak when its recovery rate will cross 75% mark, the average benchmark across countries. However, the data also shows that there is no causation between recovery rate and peak rate, as Brazil reached its peak rate at a recovery rate of 69%. Currently India's recovery rate is around 71%. However, that will not be the end of the story. In US, the peak has come twice.

WHEN STATES WILL REACH THE PEAK?

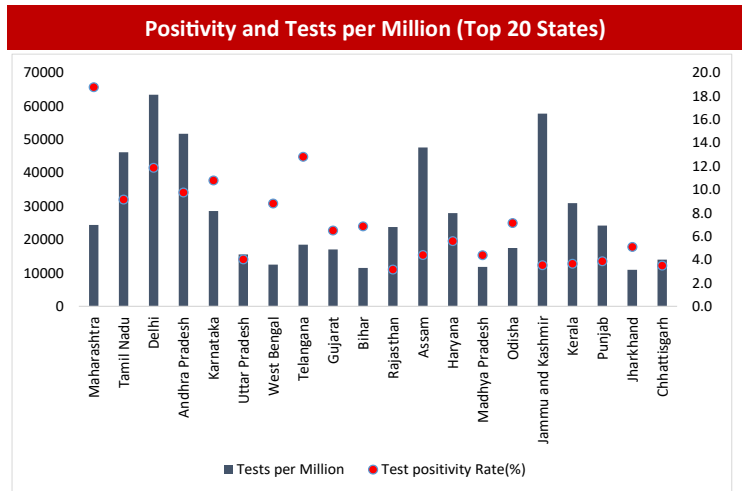
◆ In India the situation of every state is quite unique. In some states it is expected that the peak has already been passed (like Delhi, Tamil Nadu, etc.) while in other states (like Maharashtra, WB, etc.) it is yet to arrive. An analysis of positivity rate and test per million indicates that in the states like Maharashtra, Telangana, Bihar and West Bengal the positivity rate is significantly high but tests per million are quite less. This indicates that in these states the peak has not yet come and the situation will remain grave till the time number of tests increase significantly. Our analysis suggests that at least 22 states, of 27 states we have analysed, are yet to witness a peak. The states that seems to have crossed the peak are: Tamil Nadu, Delhi, Gujarat, J&K and Tripura.

DOUBLING RATE & INDIA'S DEATH RATE VIS-À-VIS ASIAN ECONOMIES

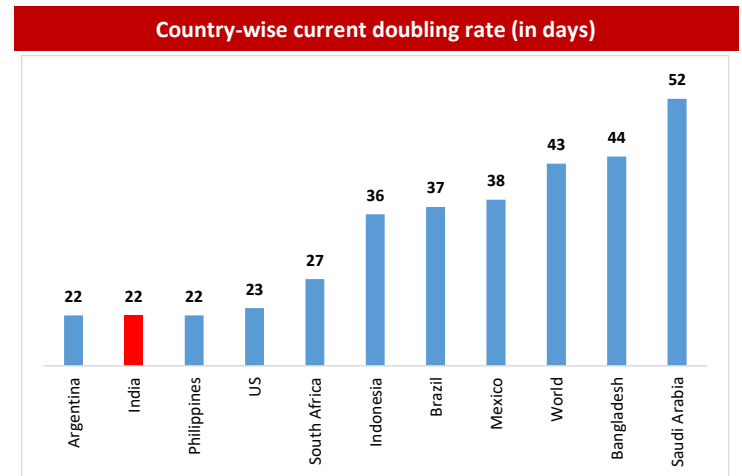
- ◆ Though India took 65 days to reach 1 lakh mark from 100 and another 59 days to reach 10 lakh mark, the current doubling rate in India is around 22 days. India's doubling rate is at par with countries like Argentina and US. The world average is 43 days.
- ◆ Apart from this, India also has the highest death per million rate amongst major Asian economies.

Status of Covid-19 Peak Time					
Country	Peak Date	Daily case at the time of peak	Confirmed cases till Peak date	Recoverd cases till peak date	Recovery rate at the time of peak
Malaysia	04-Jun-20	277	8247	6559	79.5
Iran	04-Jun-20	3574	164270	127485	77.6
Bahrain	26-Jun-20	724	24805	19137	77.1
China	12-Feb-20	14108	58761	42031	71.5
Chile	14-Jun-20	8120	203987	143704	70.4
Saudi Arabia	17-Jun-20	4919	141234	91662	64.9
Brazil	29-Jul-20	70869	2555518	1787419	69.9

Source: SBI Research



Source: SBI Research



Source: SBI Research

Deaths Per Million in Asian countries					
Country	15.05.2020	31.05.2020	30.06.2020	31.07.2020	14.08.2020
India	2	4	12	26	35
Pakistan	4	7	19	27	28
Bangladesh	2	4	11	19	22
Philippines	7	9	11	18	22
Indonesia	4	6	10	18	22
Yemen	0	3	10	16	18
Cyprus	14	14	16	16	17
Lebanon	4	4	5	8	13
Japan	0	0	0	8	8
Brunei	2	5	7	7	7
Tajikistan	4	5	5	6	7
Uzbekistan	0	0	1	4	7
S. Korea	5	5	5	6	6
Singapore	4	4	4	5	5
Malaysia	3	4	4	4	4
Georgia	3	3	4	4	4
China	3	3	3	3	3

Source: SBI Research

THE UGLY: LIVES VERSUS LIVES TAKE CENTRESTAGE WITH FULL YEAR GDP ESTIMATE TO WITNESS A NEGATIVE GDP GROWTH IN ALL QUARTERS

- The ugly part of COVID-19 on economic growth is that as per our estimates all the four quarters of FY21 will exhibit negative real GDP growth and decline of full year growth likely be in double digits. However, the interesting part to see how NSO will report the data on 31 Aug'20.

INCREASE IN MORTALITY RATE DUE TO 10% REDUCTION IN STATE DOMESTIC PRODUCT

- Extending the analysis of Mani and Shashwat (May'20) analysis to a state level, we estimated the state-wise additional mortality in addition to COVID mortality due to 10% decline in State Domestic Product (the average across all states is 16%). The results are worrisome and indicate that mortality rates may increase by 0.55-3.5% across states additionally as we are navigating through COVID by imposing restrictions on livelihoods through unplanned exit from lockdown and entry into fresh lockdowns across states. In fact, the isolation beds per 1 lakh population is significantly low in several states like UP, Bihar, West Bengal, while it is highest in Karnataka followed by Maharashtra.

A BOTTOM UP STATE-WISE GSDP LOSS POTRAYS GRIM REALITIES

- Using the bottom-up approach we also estimated output loss in each state according to level of activity which are then added for the overall GDP loss. We estimated that total GSDP loss due to COVID-19 for states stands at Rs 38.0 lakh crore, which is 16.9% of total GSDP. The loss was estimated after carefully mapping the activities permitted. State-wise analysis indicates that top 10 states accounted for 73.8% of total GDP loss with Maharashtra contributing 14.2% of total loss followed by Tamil Nadu (9.2%) and Uttar Pradesh (8.2%). These top-10 states have accounted for around 81% of total confirmed COVID-19 cases in India.
- Subsequently, the per capita loss for all India is around Rs 27,000 with states like Tamil Nadu, Gujarat, Telangana, Delhi, Haryana, Goa, etc. exhibiting loss of more than Rs 40,000 per person in FY21.

NSO ESTIMATION

- Lockdown and non-availability of data have led to NSO estimating the various components of CPI Inflation through the imputation methodology in which the General CPI is calculated on the basis of the sub-group indices where data was available. However, this has been a pure statistical exercise by NSO without understanding the problem that underreports the headline CPI. In our 'Ecowrap' dated 16 July 2020, we have formulated SBI Computed COVID CPI. In principle, we readjusted the weights based on the changing consumer habits during lockdown. The weights of non discretionary items were concomitantly increased while weights of discretionary items reduced. Based on our new weights, as per our SBI Computed COVID CPI, the actual headline inflation is much higher than the imputed inflation. **This has already been substantiated by upward CPI data revisions in June, and our estimates now show that July CPI could be even higher than 7.5%, instead of 6.93% computed.**

Mortality Rate (per 1000) for Most Affected States					
States	Current Mortality Rate (2018)	Current Covid-19 Mortality Rate	Change in Mortality rate due to 10% decline in NSDP	Overall Mortality rate Post Covid-19	Number of Isolation Beds per 1 lakh Population
	BASELINE MORTALITY RATE / A	LIVES LOST BECAUSE OF COVID / B	LIVES THAT COULD BE LOST BECAUSE OF GDP CONTRACTION / C	A+B+C	HEALTH INFRASTRUCTURE
Maharashtra	5.50	0.34	1.28	7.12	250
Tamil Nadu	6.50	0.17	0.81	7.48	29
Andhra Pradesh	6.70	0.09	0.47	7.26	77
Karnataka	6.30	0.18	0.75	7.23	298
Delhi	3.30	0.28	2.14	5.72	129
Uttar Pradesh	6.60	0.16	3.41	10.17	45
West Bengal	5.60	0.21	0.62	6.43	12
Bihar	5.80	0.05	1.88	7.73	6
Gujarat	5.90	0.36	1.21	7.47	51
Assam	6.40	0.02	2.37	8.79	12
Rajasthan	6.00	0.15	1.86	8.01	33
Odisha	7.30	0.07	1.73	9.10	13
Haryana	5.90	0.11	0.85	6.86	122
Madhya Pradesh	6.70	0.25	1.71	8.66	44

Source: SBI Research: Mortality Rate is regressed as a function of State GDP for arriving at C

State-wise Nominal GSDP Loss (Rs Crore)				
States	Total FY21 Loss	Loss as % of GSDP	State Share in Total Loss	Per Capita Loss (Rs)
Maharashtra	539344	17.6%	14.2%	38841
Tamil Nadu	351140	18.2%	9.2%	45897
Uttar Pradesh	311850	16.1%	8.2%	14006
Gujarat	307041	17.7%	8.1%	45018
Karnataka	254029	14.3%	6.7%	39127
Andhra Pradesh	253925	25.4%	6.7%	47727
Telangana	253512	25.4%	6.7%	67883
West Bengal	184819	13.6%	4.9%	19965
Rajasthan	184406	16.9%	4.8%	24085
Delhi	166977	18.5%	4.4%	87223
Kerala	155745	17.2%	4.1%	44684
Haryana	146985	17.3%	3.9%	52696
Madhya Pradesh	132876	14.2%	3.5%	16374
Punjab	106718	17.5%	2.8%	34081
Bihar	98017	15.2%	2.6%	8739
Odisha	68306	11.9%	1.8%	14745
Jharkhand	47485	13.3%	1.2%	12887
Chhattisgarh	36232	10.0%	1.0%	12182
Uttarakhand	36680	12.9%	1.0%	32262
Assam	34952	9.3%	0.9%	9800
J&K	30553	17.1%	0.8%	20145
Himachal Pradesh	25349	14.3%	0.7%	31857
Goa	16518	18.5%	0.4%	105906
Chandigarh	9258	18.5%	0.2%	77545
Remaining States/UTs	50265	10.2%	1.3%	-

Source: SBI Research

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