Fact Sheet: Gross Domestic Product
November 2020

GDP contracts by 7.5% in Q2 2020-21

- *India's GDP at market prices contracted at a much slower pace in Q2 2020-21 compared to the double-digit decline witnessed in the first quarter. GDP declined by 7.5 percent in Q2 2020-21 vis-à-vis 23.9 percent fall noted in the previous quarter. The latest data released by the National Statistics Office indicates a stronger than anticipated recovery of the Indian economy*
- *While agriculture sector continued to display resilience, what came in as a pleasant surprise was the manufacturing sector growth entering the positive territory after reporting contraction for four consecutive quarters*
- *The phase wise opening of the economy June 2020 onwards has led to improved functioning of supply chain networks and economic activity is gradually gaining momentum. Employment generation across sectors is also gradually catching up*
- *Another noteworthy point is the recovery in investment outpacing the pickup in consumption. Also, the investment rate increased to 28.9 percent in Q2 2020-21, vis-à-vis a rate of 22.3 percent in Q1 2020-21*
- *However, the significant fall in government spending during the quarter does come across as worrisome*

GVA and Components (% YoY)

	GVA	Agriculture, forestry and fishing	Industry	Manufacturing	Services
Q2 FY20	4.3	3.5	0.5	-0.6	6.5
Q3 FY20	3.5	3.6	-0.3	-0.8	5.7
Q4 FY20	3.0	5.9	-0.6	-1.4	4.4
Q1 FY21	-22.8	3.4	-38.1	-39.3	-20.6
Q2 FY21	**-7.0**	**3.4**	**-2.1**	**0.6**	**-11.4**

GDP and Components (% YoY)

	GDP	PFCE	GFCE	GCF	GFCF	Exports - goods & services	Imports- goods & services
Q2 FY20	4.4	6.4	14.2	-2.9	-3.9	-2.2	-9.4
Q3 FY20	4.1	6.6	13.4	-4.3	-5.2	-6.1	-12.4
Q4 FY20	3.1	2.7	13.6	-5.8	-6.5	-8.5	-7.0
Q1 FY21	-23.9	-26.7	16.4	-47.5	-47.1	-19.8	-40.4
Q2 FY21	**-7.5**	**-11.3**	**-22.2**	**-8.9**	**-7.4**	**-1.5**	**-17.2**

- GVA at basic prices contracted by 7.0 percent in Q2 2020-21 as compared to 22.8 percent contraction reported in the previous quarter. This can be mainly attributed to good performance of agriculture, manufacturing and electricity, gas, water supply and other utilities segments which registered positive y-o-y growth during the quarter
- Agriculture and allied sectors reported 3.4 percent growth in Q2 2020-21. A favorable monsoon season coupled with adequate supply of fertilizers as well as record high kharif sowing is expected to continue supporting strong growth in agriculture this year. Industrial growth improved significantly and reported a growth of (-) 2.1 percent in Q2 2020-21 as compared to (-) 38.1 percent growth recorded in Q1 2020-21. While improvement was noticed across industry sub-segments, growth of 0.6 percent in manufacturing as well as 4.4 percent growth in electricity, gas, water supply and other utility services segment majorly contributed to better performance during the quarter. The return to growth in case of manufacturing from a steep 39.3 per cent contraction in the quarter ending June 2020 can be attributed to an extra-ordinary profit performance by listed manufacturing companies in the second quarter. While in case of electricity, gas, water supply and other utility services segment significant emphasis on universal piped water supply and household electrification, improved power consumption due to resumption of economic activities and distribution of free LPG cylinders to the beneficiaries of Pradhan Mantri Ujjwala Yojana played a major role in driving growth. Under services sector, trade, hotels, transport, storage and communication was the only segment that reported some improvement in Q2 2020-21. Other segments reported steeper y-o-y fall in Q2 vis-à-vis Q1 2020-21
- On the expenditure side, private final consumption expenditure continued to witness a double-digit contraction – falling by (-) 11.3 percent in Q2 2020-21 as compared to (-) 26.7 percent in the previous quarter. While, on the other hand, improvement in capital formation was more pronounced. Gross fixed capital formation contracted at a much slower rate of 7.4 percent in Q2 2020-21 vis-à-vis a contraction of 47.1 percent reported in the previous quarter
- Government spending, however, reported a contraction by 22.2 percent in the second quarter of the current fiscal year as compared to 16.4 percent growth noted in the previous quarter due to tight fiscal balances. In fact, a contraction in government spending is being witnessed after five years

Source: *CMIE, FICCI Research*

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Break-up of Broad Sectors(% Y-o-Y Growth)

	Q2 2019-20	Q1 2020-21	Q2 2020-21	Factors impacting growth
Agriculture & Allied Services	3.5	3.4	**3.4**	• Good monsoon season, record high kharif sowing • Unseasonal rains causing floods and crop damage in some areas
Mining and quarrying	-1.1	-23.3	**-9.1**	• Slew of reforms announced in Atmanirbhar Bharat Package • Disruptions in supply chains, non-availability of labor, high risk of spread of pandemic, disrupted port operations
Manufacturing	-0.6	-39.3	**0.6**	• Series of initiatives including provision of emergency credit, tax refunds, extension or productivity linked incentive scheme, steps to boost demand to aid recovery • Likelihood of fresh localized lockdowns on the back of rising covid-19 cases in the country, impact on demand due to renewed emphasis on social distancing
Electricity, gas, water supply and other utility services	3.9	-7.1	**4.4**	• Economic activity has gathered momentum as most sectors are open for business, emphasis on providing piped water to every household to provide an impetus • Lower incomes could result in people opting out of utility services, weak demand for manufactured goods
Construction	2.6	-50.3	**-8.6**	• Greater impetus on infrastructure creation and housing • Non-availability of labor, impositions of fresh lockdowns, risk of spread of infections
Trade, hotels, transport, storage and communication	4.1	-47.0	**-15.6**	• Storage sector is likely to get a boost with both central and state governments emphasizing on the need for enhanced storage facilities for Covid-19 vaccine, greater digitization, revival of trade • Tourist activity is likely to stay lower for some more time, extension of international travel bans, fear of contracting the virus
Financial services, real estate and professional services	6.0	-5.3	**-8.1**	• Series of measures announced to maintain financial stability to support financial services sector • Real estate and professional services remain impacted due to social distancing norms
Public administration, defence and other services	10.9	-10.3	**-12.2**	• Greater focus on defence sector in Atmanirbhar Bharat package, improvement in government e-services and spending • Significant Fiscal constraints, technological constraints

Performance of Some Lead Indicators (% Y-o-Y Growth)

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
PMI Manufacturing	50.6	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46	52	56.8	58.9
PMI Services	49.2	52.7	53.3	55.5	57.5	49.3	5.4	12.6	33.7	34.2	41.8	49.8	54.1
Passenger Vehicle Sales	-9.3	-6.9	-6.9	-10.2	-8.0	-54.7	-98.6	-86.6	-58.0	-24.4	-8.6	6.4	3.7
Two Wheeler Sales	-11.8	-9.6	-11.9	-10.8	-14.8	-35.9	-97.6	-81.4	-37.9	-19.6	0.2	11.3	18.1
Total GST Collections	-5.3	6.0	8.9	8.1	8.4	-8.4	-71.6	-38.2	-9.0	-14.4	-12.0	3.9	10.3
E-way Bill Generation	-1.2	18.5	10.8	11.6	14.3	-26.0	-83.6	-53.0	17.7	-7.3	-3.5	9.6	21.4

Source: *CMIE*

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India's growth prospects for the remaining part of the ongoing fiscal year seem promising so far. Buoyant sentiments during the festive season has led to a better than anticipated economic recovery. Various lead indicators including passenger car sales, two-wheeler sales, GST collections, e-way bills generation, purchasers' managers' indices are pointing towards a faster turnaround. However, the festival season has also brought along a surge in covid-19 cases which has been quite worrisome and has the potential to reverse the optimism floating across economic segments. Therefore, all efforts must be made to contain the spread of the virus to ensure that recovery is sustained over the coming quarters. Any resumption of local lockdowns, if necessary, should be done in accordance with a set of predefined procedures to minimize disruptions.

Global Glimpse

OECD: Quarterly GDP Growth Trends(% Y-o-Y)

	Q2 2020	Q3 2020
China	3.2	4.9
Japan	-10.3	-5.9
United States	-9.0	-2.9
France	-18.9	-4.3
Italy	-17.9	-4.7
Germany	-11.3	-4.2
United Kingdom	-21.5	-9.6

Countries across the world have witnessed an improvement in economic growth during the July-September 2020 quarter. International trade volumes also noted some improvement on the back of strong trade performance in the months of June and July. However, this optimism is subject to high level of uncertainties especially with a fresh spurt of covid-19 cases being observed in many advanced economies. Fresh series of economic lockdowns being observed in some countries (especially across Europe) is likely to impact global recovery. Nonetheless, the progress on the development of a vaccine has been encouraging.

Source: *OECD*

FICCI's Comments

A smaller than anticipated decline in GDP growth for the second quarter has come in as a pleasant surprise. This clearly reflects that the Indian economy is on a sharp recovery mode. The positive, albeit marginal, growth noted in the manufacturing sector in the second quarter is truly encouraging. Many of the high frequency indicators were showing swift correction moving into the green zone and we have also seen an improvement in the incoming corporate results for the second quarter. All these trends are quite reassuring and speak of the resilience of the Indian industry and economy.

The policy guidance provided by the government so far has been encouraging and we hope to see continued momentum on that front. We are at a critical point on the growth trajectory and it is important that all levers are used to sustain this improvement.

Going ahead, the government should keep a close watch on the demand side. While the demand-oriented measures announced in October will remain in effect for some time, we feel it will be important to lend further support to consumption activity. The government can look at extending the consumption voucher idea to all rather than just government employees. The multiplier effect of consumption vouchers is more than 2 and it is an effective way to boost retail demand in the short term. Also, exchange rate can be focused on as a policy tool to boost demand. Additionally, government must continue to invest heavily in the infrastructure sector as it can be a real driver for growth and employment.

The latest Atmanirbhar Bharat Package 3.0 will give a further boost to the economy. The PLI scheme for additional ten champion sectors can prove to be truly transformational and reiterates the government's resolve to make India a manufacturing hub.