



## Economic recovery underway; 10-10.5% growth expected in FY22: Brickwork Ratings

**Brickwork Ratings, Bengaluru, 03 November 2021:** Many economic growth indicators are suggesting a faster-than-expected revival in economic activities, instilling greater confidence in economic agents as the number of new COVID-19 cases declines and leading to a sustained improvement in growth prospects. Most states have already relaxed restrictions on economic activities; with the progress achieved in vaccinating a sizeable proportion of the population, economic activities are likely to gather momentum.

The pandemic toll on the economy has been huge, and contact-intensive sectors and supply disruptions may take some more time to fully recover. The economy is slowly and gradually getting back to normalcy, and this is evident from the recent revival in production activities and consumption demand.

Despite the disruptions caused by the second wave, the Q1FY22 GDP grew at 20.1%. The resilience in withstanding the restrictions due to the second wave of the pandemic is evident in contact-intensive sectors such as trade, hotels and transport. Although the second wave has adversely impacted the construction sector, disruption in the sector seems to be much less than that witnessed last year. After having witnessed sequential decline in Q1FY22, reflecting a demand slowdown due to lockdowns, industrial activities have shown significant growth recently. The recovery seems to be broad-based, with the manufacturing PMI improving in October to an eight-month high of 55.9 and the services PMI at 58.4, the strongest in ten-and-a-half years.

Amid the waning possibility of a third wave, we expect the economy to register better growth in the remaining part of the year. The downside risks of a possible third wave to growth too are limited due to the progress achieved in vaccination. However, most importantly, downside risks emanating from rising international crude oil prices, mineral products, steadily increasing costs of raw materials and freight rates, disruptions in semi-conductor supply and coal supply shortages are likely to downplay the growth momentum. After remaining cautious in increasing its expenditures, the government is also confident of being able to contain the fiscal deficit at the budgeted level, aided by buyout revenues. The capital expenditure has been increased in the recent months, which will pave the way for accelerating growth. Pent-up demand during the festival season is likely to improve demand conditions further, paving the way for improved capacity utilisation during the third and fourth quarters.

GDP and GVA Estimates (y-o-y growth in % at constant prices)						
Economic Activity	2020-21 *			2021-22 #		
	Q1	Q2	Full Fiscal	Q1*	Q2	Full Fiscal
<b>Agriculture, forestry and fishing</b>	<b>3.5</b>	<b>3.0</b>	<b>3.6</b>	<b>4.5</b>	<b>6.0</b>	<b>4.3</b>
<b>Industry</b>	<b>-35.8</b>	<b>-3.0</b>	<b>-7.0</b>	<b>46.1</b>	<b>11.2</b>	<b>14.5</b>
Mining and quarrying	-17.2	-6.5	-8.5	18.6	41.0	17.5
Manufacturing	-36.0	-1.5	-7.2	49.6	7.1	13.4
Electricity, gas, water supply and other utility services	-9.9	2.3	1.9	14.3	10.8	10.1
Construction	-49.5	-7.2	-8.6	68.3	13.7	17.3
<b>Services</b>	<b>-21.5</b>	<b>-11.4</b>	<b>-8.4</b>	<b>11.4</b>	<b>5.6</b>	<b>7.8</b>
Trade, hotels, transport, storage and communication	-48.1	-16.1	-18.2	34.3	3.9	12.0
Financial services, real estate and professional services	-5.0	-9.1	-1.5	3.7	9.0	6.6
Public administration, defence and other services	-10.2	-9.2	-4.6	5.8	1.2	4.5
<b>Gross Value Added (GVA)</b>	<b>-22.4</b>	<b>-7.3</b>	<b>-6.2</b>	<b>18.8</b>	<b>7.3</b>	<b>9.2</b>
<b>Gross Domestic Product (GDP)</b>	<b>-24.4</b>	<b>-7.4</b>	<b>-7.3</b>	<b>20.2</b>	<b>8.3</b>	<b>10 to 10.5</b>
* CSO's provisional estimates, # BWR estimates						
Source: MOSPI, BWR Research						

To sum up, the economy has been recovering well from the devastation caused by the second wave, and most of the growth indicators are performing better on a year-on-year basis. The level of GDP in the economy is likely to reach close to pre-COVID levels in Q2FY22.

***We expect GDP growth for Q2FY22 at 8.3% (year-on-year), on the back of a 7.4% contraction in Q2FY21. The subsequent quarters too will see recovery if there is no resurgence of the virus in the form of a third wave. Subsequently, we revise our GDP estimates for FY22 to 10-10.5% from 9% estimated earlier.***



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