● THE NUMBER GAME

THE SECTOR-WISE ESTIMATE FOR Q4, DECIPHERED FROM THE THREE QUARTER ESTIMATES AND THE SECOND ADVANCE ESTIMATE FOR THE WHOLE YEAR, DOES NOT MAKE MUCH SENSE

Making sense of GDP estimates

M GOVINDA RAO

Councillor, Takshashila Institution and chief economic adviser, Brickwork Ratings.
Views are personal

THE SECOND ADVANCE ESTIMATES of GDP for the current year, along with the third quarter estimates, released by the Ministry of Statistics and Programme Implementation (Mospi) do not come as a surprise. The estimates of 1% GVA and 0.4% growth in GDP mark the end of the recessionary phase.

As expected, agriculture continues to perform well. In fact, all the sectors except (i) mining and quarrying, (ii) trade, hotels, transport and communication services and (iii) public administration, defence and other services have recorded positive growth in the third quarter; even in other sectors, the contraction is lower by varying magnitudes. And industry as a whole too has moved into the positive territory. Services, which face higher restrictions due to social distancing norms, continued to shrink, but by just 1%. Significant improvement is seen in the performance of construction, up from -7.2% in Q2 to 6.2% in Q3, and financial and real estate sector (up from -9.5% in Q2 to 6.6% in Q3). The contraction in trade, hotels and transport continues to be high at -7.7% in Q3, though this is a significant improvement from -15.3% in Q2.

Public administration, defence and other services performed better than the -9.3% growth recorded in Q2, but continued to contract at -1.5% in Q3. It was hoped that increase in the Centre's spending after October would take it to positive growth. However, the state governments, which contribute to over 70% of public consumption spending, seem to continue their austerity given the revenue constraints. Sectors like education and healthcare too have not recovered to the pre-Covid levels. The increased GST collections of more than ₹1 lakh crore and the record collection of ₹1.2 lakh crore in January also indicated recovery. However, increased collections seem to as much due to an increase in consumption as due to better enforcement. With the technology platform stabilising, the government could use the data to undertake invoice matching to detect taking false input tax credit through fake invoicing. With businesses having turnovers of more than ₹100 crore required to issue e-invoicing from January 2021, both enforcement and compliance of the tax are likely to show further improvement in the coming months.

It is, however, too early to celebrate the news of the economy entering the positive growth phase. It is true that there has been a steady recovery of almost all the sectors, as indicated by the leading indicators. In fact, the median market expectation for the third quarter was a growth of 0.6%. While it is futile to quibble over a few decimal points, it is necessary to note that one reason for the lower than the expected growth is the significant downward revision in the third quarter growth of FY20. The GDP growth in the third quarter of FY20 was revised from 4.1% to 3.3%. There were large revisions in the growth of GVA for several sectors.

For the optimists, the good news is that in Q4, both agriculture, industry and services will see positive growth. It is difficult to make much sense of these estimates, but let us keep our fingers crossed

If the whole year contraction of 8% as against the earlier estimate of 7.7% holds true, then the fourth-quarter estimate of GDP will be negative 1.1%, though the GVA will continue to be positive at 2.5%. The downward revision of GDP in the first quarter from 23.9% to 24.4%, even though there was a marginal upward revision in the second quarter, reduces the overall growth rate for the year as well as for the fourth quarter.

Besides, as the GDP at constant prices is now estimated at market prices rather than factor cost, indirect taxes and subsidies also pull down the GDP estimate for the year as well as for the fourth quarter. It must be noted that the revised estimate of subsidies for FY21 is at ₹5.9 lakh crore as against the budget estimate of ₹2.5 lakh crore. This seems to be mainly due to the clearing of the off-budget liabilities on food subsidies arising from FCI borrowing from the NSSF.

While it is a favourite pastime of economists to quibble on the growth rates on a few decimal point differences from what they had expected, it is important to note for the current year, all these estimates are likely to undergo substantial revisions. The revision in the first quarter estimate from 23.9% to 24.4% is not surprising. Even in normal years, significant revisions are made, as was seen in the case of Q3 in FY20, and in this abnormal year, as more information on the urban informal sectors become available, there would be further revisions. In the meantime, we will continue to characterise growth in terms of alphabets we choose—"V", "K", or "W".

The sector-wise estimate for the fourth quarter, deciphered from the estimates for the three quarters and the second advance estimate for the whole year, does not make much sense. Agriculture and allied sectors are estimated to grow just at about 1.9% in Q4, it has already registered an average growth of 3.4% in the three quarters, and the whole year growth of the sector is pegged at 3%! The mining sector is estimated to contract by 9.2% during the year and having progressively reduced the contraction from 18% in Q1 to 5.3% in Q3, it is estimated to contract by 16.3% in the fourth quarter! In contrast, the construction sector is estimated to show a negative growth of 10.3% during the year, and that would require it to register a positive growth of 12.5% in Q4. Even a sector like trade, hotels, transport and communication is estimated to register positive growth in Q4 at 1.8%. For the optimists, the good news is that in Q4, both agriculture, industry and services will see positive growth. It is difficult to make much sense of these estimates, but let us keep our fingers crossed.

Perhaps we should wait for the provisional estimates of GDP, which are supposed to be released in May, to get a better sense of the recovery.