

Private investment, government spending holds up economic growth in Q2

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The Indian economy clocked an over 8 per cent growth in the second quarter of 2021-22 led by a spike in government spending and pick up in private investment supported by wide vaccination coverage, official data showed. However, economic recovery may remain fragile going forward amid looming upside risks to growth posed by the new COVID -19 variant Omicron, economists cautioned.

The gross domestic product grew by 8.4 per cent in the second quarter of the current fiscal, led by a low base of (-) 7.4 per cent in the corresponding period last year, data by the national statistical office showed on Tuesday. It is the fourth straight quarter of economic expansion, with the GDP even marginally surpassing the pre-Covid level of 2019-20 by 0.3 per cent. It suggests that the economy has partially recovered the ground lost due to the Covid-19 pandemic. The GDP in the first half of 2021-22 is still 4.4 per cent lower than the corresponding period in the same period.

The GDP grew by 20.1 per cent in the first quarter of the fiscal and 13.7 per cent in the first half of the fiscal.

Economists have pegged the full year growth at close to 9 per cent, with the pace of expansion likely to weaken in the second half on the back of a high base effect and re-emergence of Covid-19 fears.

While the services sector posted a modest pick-up, manufacturing activity in the second quarter remained subdued amid sub-optimal recovery in the economic demand during the pre-festive quarter.

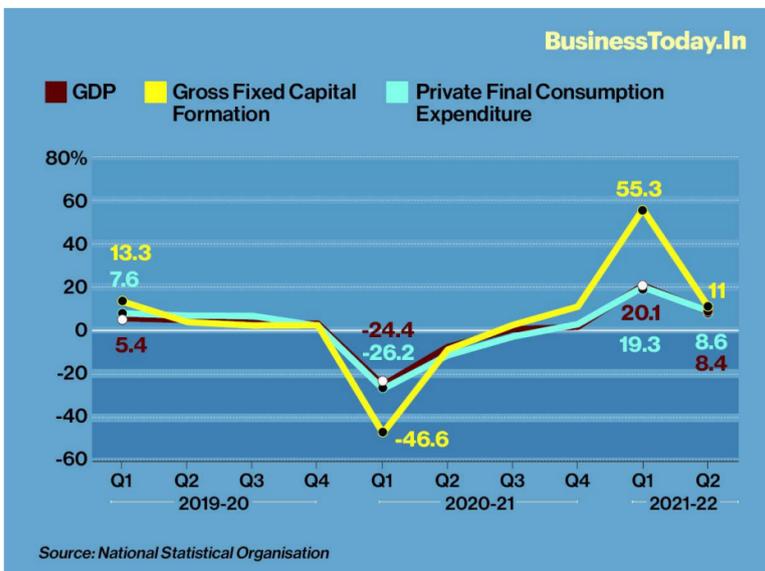
"Although the healthy GDP growth numbers are mainly due to the base effect, it indicates that the economy is recovering quickly post Covid 2.0. In fact, the second quarter GDP in level terms is now higher than the corresponding period in 2019-20. However, we believe that the economic recovery will require both fiscal and monetary policy support in the near term to ensure that recovery continues despite the threat posed by the new COVID -19 variant omicron," said Sunil Kumar Sinha, Principal Economist, India Ratings and Research.

Gross fixed capital formation, a proxy for private investment, grew by 11 per cent in the second quarter and also surpassed the 2019-20 levels by 1.5 per cent. Its share in GDP increased to 28.4 per cent, compared to 27.2 per cent in the previous quarter and 26.2 per cent in the corresponding quarter last year.

"The 1.5 per cent rise in gross fixed capital formation in Q2 2021-21 relative to Q2 2019-20 appears to be the lone silver lining. After a broadly healthy festive season, many indicators have displayed a flagging momentum in November 2021, suggesting that the revival in economic growth is yet to become durable," said Aditi Nayar, Chief economist, ICRA Ltd. She added that while rising vaccine coverage and fuel tax cuts will boost confidence and re-energize demand, the spectre of higher prices may contain the consumption recovery in the second half of the fiscal.

Soumya Kanti Ghosh, chief economic adviser, SBI Research said that new investment announcements in the current year looks encouraging with around Rs 8.6 lakh crore investment announcements made so far in the seven months of FY22 (around Rs 11 trillion reported in last year)." With private sector contributing around 67 per cent of this i.e. Rs 5.80 lakh crore, it seems private investment revival is on the horizon," he said.

The private final consumption expenditure, signifying demand in the economy grew by 8.6 per cent in Q2 year-on-year, but was 3.5 per cent lower than the 2019-20 levels. While the high frequency economic indicators in October and November have suggested a rebound of consumer demand, economists maintain caution.



Graph: Pragati Srivastava

"Consumption demand, which has been a concern as the pandemic impacted consumer finances and confidence, is picking up owing to the festivals. The potential impact of the variants on transmissibility and vaccines, and thereby on the sustainability of consumer spending, is something we will monitor," said Rumki Majumdar, Economist, Deloitte India.

D.K. Srivastava, Chief Policy Advisor, EY India said that while the investment pick-up provides a positive signal, private consumption demand would pick up with employment and income growth in the small and medium sectors which is linked to the recovery in the services sectors especially the trade, hotels et. al. sectors. "This may happen in 2HFY22 provided economic activities are not beset again by Covid's new strain, Omicron," said Srivastava.

Services sector as a whole posted a 10.17 per cent growth compared to 11.4 per cent growth in the first quarter and an 11.4 per cent contraction in the corresponding quarter of last year.

Trade, hotels and transportation sector grew by 8.2 per cent, compared to a 16.2 per cent contraction in the same quarter last year. It was, however, 9.2 per cent lower than the 2019-20 levels.

"Trade, Hotels, Transport, Communication & Services related to Broadcasting' are still the most affected sectors and the real loss of Rs 2.6 lakh crore is still needed to be recouped in this sector. Overall, economy is still operating at 95.6% of pre-pandemic level (with 'Trade, Hotels, Transport, Communication & Services related to Broadcasting' still at 80%) and should take one more quarter to recoup the losses," said Soumya Kanti Ghosh, chief economic adviser, SBI Research in a note.

Manufacturing posted a 5.5 per cent growth year-on-year in Q2 compared to 49.2 per cent in Q1, but was 4 per cent higher than the 2019-20 levels.

Agriculture sector grew by 4.5 per cent during the quarter, the same as the first quarter.

Public administration, defense and other services component reported a 17.4 per cent growth, during the quarter compared to 5.8 per cent in Q1, reflecting an increase in government spending to support economic revival.

"An important contributor to the growth has been the sharp increase in public administration, defence and other services. This was mainly due to the sharp increase in public expenditures in the second quarter after conservative spending in the first quarter..." said M Govinda Rao, Chief Economic Adviser at Brickwork Ratings.