2QFY22 GDP estimates upgrades: What are the driving forces?

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As per our compilation, average of GDP estimates given by 8 firms stands at 8.2%. This is higher than RBI's forecast of 7.3% to 7.9% GDP growth in the quarter.

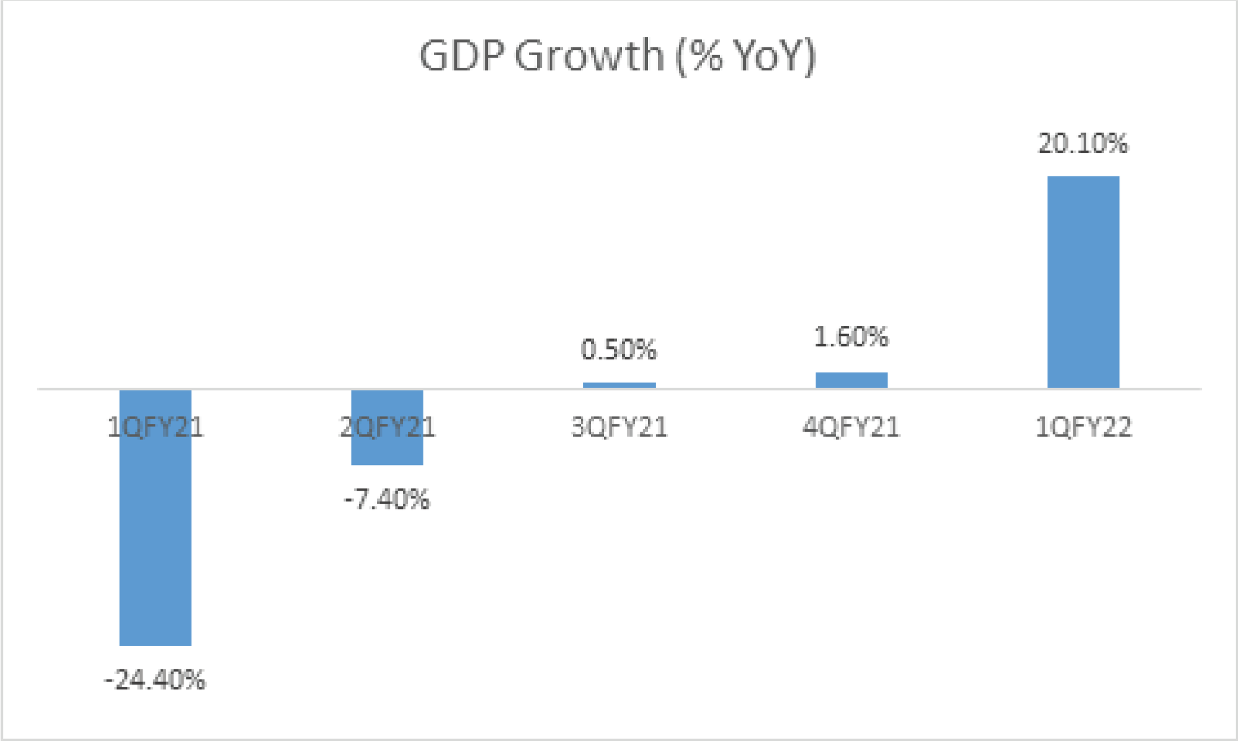
Gross Domestic Product (GDP) number for the quarter ended September 30, 2021 will be announced on November 30. Over the last 8-10 days, several economists have raised their 2Q GDP growth estimates by 20-30 basis points. As per our compilation, average of GDP estimates given by 8 firms stands at 8.2%. This is higher than RBI's forecast of 7.3% to 7.9% GDP growth in the quarter. The higher end of these estimates lies at 9.6% and the lower end at 7.0% (see table).

Sr. No.	Brokerage	2QFY22E YoY growth
1	Nirmal Bang	7.00%
2	Barclays	9.60%
3	SBI	8.10%
4	ICRA	7.90%
5	**Brickwork Ratings**	**8.30%**
6	Axis Bank	8.30%
7	India Ratings	8.26%
8	HDFC Bank	7.80%
	Median	**8.20%**

E: Estimated

So what are the driving factors behind the upgrades? A combination of structural as well as one-time enablers. The low base of last year, when GDP contracted by 7.4% reflecting impact of pandemic-induced lockdowns, is a prominent one-time factor.

Be that as it may, one has to take note of several structural green shoots of recovery in the economy. Economic growth has been improving continuously for the past five quarters at least (see chart). Even during the fourth quarter which witnessed the second wave of COVID-19, the pressure on GDP growth was less severe when compared to the first wave.



Source: NSO, CEIC

Further, swifter-than-expected bounce back in contact-intensive service sectors (read construction, tourism, aviation, and hospitality) has boosted overall GDP. Second quarter also witnessed unleashing of pent up demand, easing of COVID-related restrictions and uptick in vaccination drive across the country. This was reflected in several high frequency indicators, some of them even reached and stayed at pre-second wave levels since August 2021. These include PMI data, exports, GST collections, among others.

For 2Q, consumption by both private sector as well as the government is set to increase. Growth in both agriculture and manufacturing sector could be slower on a year-on-year considering advanced estimates for agricultural production and slowing corporate profitability, respectively. Net exports could be weak as indicated by monthly trade data.
Given that the COVID situation is still evolving, our ability to combat newer mutants and prevent a third wave will be crucial in sustaining momentum in the economy.

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