

Private investment and government spending support economic growth in the second quarter

According to official data, the Indian economy recorded growth of over 8% in the second quarter of 2021-22. This was driven by a surge in government spending and a recovery in private investment, supported by a wide range of vaccination coverage. However, economists warned that the economic recovery could remain vulnerable amid the imminent upward risks to growth posed by the new COVID-19 variant Omicron.

Gross domestic product increased 8.4% in the second quarter of this fiscal year, driven by a low (-) 7.4% base for the same period last year, as data from the National Bureau of Statistics showed on Tuesday. This is the fourth consecutive quarter of economic expansion, with GDP slightly above pre-Covid levels of 2019-20 by 0.3%. This suggests that the ground lost by the Covid-19 pandemic has been partially restored by the economy. GDP in the first half of 2021-22 is 4.4% lower than the corresponding period during the same period.

GDP increased by 20.1 percent in the first quarter of the fiscal year and 13.7 percent in the first half of the fiscal year.

Economists have fixed their full-year growth rate close to 9%, and the pace of expansion may slow in the second half of the year due to the high base effect and the re-emergence of Covid-19 concerns.

The services sector recorded a modest recovery, but manufacturing activity in the second quarter continued to be curtailed as economic demand recovery in the pre-festival quarter was not optimal.

“Healthy GDP growth is primarily due to basic effects, but it shows that the economy is recovering rapidly since Covid 2.0. In fact, second quarter GDP is on a level basis in 2019-20. It is higher than the corresponding period of time. Sunil Kumar Sinha, Lead Economist of Ratings and Research in India, said:

Total fixed capital formation, a substitute for private investment, increased 11% in the second quarter, 1.5% above 2019-20 levels. Its share of GDP has increased to 28.4%. This is an increase from 27.2% in the previous quarter and 26.2% in the corresponding quarter last year.

“A 1.5% increase in total fixed capital formation in the second quarter of 2021-21 compared to the second quarter of 2019-20 seems to be the only silver lining. The revival of economic growth is still sustained. I haven’t.” Chief Economist, ICRA Ltd., added that expanding vaccine coverage and fuel tax cuts could boost confidence and revitalize demand, while concerns about price increases could include a recovery in consumption in the second half of the year. rice field.

Soumya Kanti Ghosh, Chief Economic Advisor of SBI Research, said this year’s new investment announcements seem encouraging, with investment announcements of around Rs. 860 billion so far in the seven months of 2020. (Approximately 11 trillion rupees were reported last year). The private sector has contributed about 67 percent of this, or 5.80 rupees, and the revival of private investment seems imminent. “

Private final consumer spending, which means economic demand, increased 8.6% year-on-year in the second quarter, but was 3.5% lower than 2019-20 levels. Frequent economic data in October and November suggest a recovery in consumer demand, but economists remain vigilant.

“Consumer demand, which was a concern because the pandemic affected consumer finances and self-confidence, is picking up thanks to the festival. Potential variants for transmission and vaccines, and thus the sustainability of consumer spending. The impact is what we do. Monitor. “

EY India’s chief policy adviser, DK Srivastava, said investment recovery is showing positive signs, but consumer spending demand will recover with employment and income growth in the small and medium-sized sectors, especially in the services sector. rice field. Trade, hotels, etc. al. Sector. “This can happen at 2HFY22, unless economic activity is again plagued by Covid’s new stock, Omicron,” Srivastava said.

Overall, the services sector recorded growth of 10.17% compared to 11.4% growth in the first quarter and a 11.4% reduction in the corresponding quarter last year.

The trade, hotels and transportation sector increased by 8.2% compared to a 16.2% contraction in the same quarter last year. However, it was 9.2% lower than the 2019-20 level.

“Broadcasting-related trade, hotels, transportation, telecommunications and services” remains the most affected sector, where the real loss of Rs. 260 billion needs to be regained. Overall, the economy is still operating at 95.6% of what it was before. -At the pandemic level (“broadcast-related trade, hotels, transportation, telecommunications, services” is still 80%), it should take another quarter to recover the loss, “said SBI Research’s Chief Economic Advisor. Soumya Kanti Ghosh states in a memo. ..

Manufacturing recorded a year-on-year growth of 5.5% in the second quarter, compared to 49.2% in the first quarter, but was 4% higher than the 2019-20 level.

The agricultural sector grew 4.5% during the quarter, as it did in the first quarter.

Government, defense and other services sectors reported growth of 17.4% during the quarter, compared to 5.8% in the first quarter, reflecting rising government spending to support economic recovery.

“A significant contribution to growth was the sharp rise in government, defense and other services, mainly due to the sharp rise in public spending in the second quarter after conservative spending in the first quarter. It was ... “said M Govinda Rao. Chief Economic Advisor of Brickwork Ratings.