

India's slow economic activity in April may hit quarterly GDP

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UBS leverages its Evidence Lab data on traffic congestion and other high-frequency data on electricity demand, passenger traffic, vehicle registration, e-way bill generation, unemployment levels, work demand under rural employment programme etc to gauge the impact of the rising covid-19 cases and ensuing restrictions on the wider economy. (AFP)

Economic activity in India decelerated in April with an indicator developed by UBS averaging 95, down 7 percentage point from 102 in March. The investment bank expects activity levels to further weaken sequentially, with most states extending mobility restrictions to flatten the curve of covid-19 infections, which is expected to adversely impact real gross domestic product growth in the June quarter.

"This compares with contraction of -12% month-on-month and -25.5% m-o-m registered in March and April 2020 during the nation-wide lockdown. We note that the adverse impact on growth momentum is still much lower than in 2020, as restrictions are lighter than those in 2020 and households and businesses have adjusted to the 'new normal'. While spending on essentials and precautionary items will continue, the recovery in high contact services consumption will get further delayed," Tanvee Gupta Jain, economist, UBS Securities India Pvt. Ltd, said.

UBS leverages its Evidence Lab data on traffic congestion, besides other high-frequency indicators, such as electricity demand, vehicle registration, passenger traffic, e-way bill generation, unemployment and demand under the rural employment scheme to gauge the impact of the rising rate of infections and ensuing restrictions on the wider economy.

According to the activity tracker, electricity demand and rail freight volumes were still holding on, while e-way bill generation for movement of trucks has dipped in April by 11%. Vehicle registration was down 28% with 30-40% of sales from dealerships operating in states under lockdown or strict restrictions. Domestic air passenger traffic was one-third of the 2021 baseline, while railway passenger numbers were down 40%.

However, labour force participation rate has been resilient so far. Unemployment rate in urban areas spiked in April compared to the 2021 baseline, but was manageable in the rural areas. Demand under the rural job guarantee scheme in April has not seen any impact following the reverse migration of labourers from urban centres.

Bank credit growth remains muted at 5.3%, while deposit growth was strong at 10.9%. Traffic congestion data showed a decline across key cities due to mobility restrictions.

According to the Google foot traffic indicators, average mobility in India was down 40% from the 2021 baseline with the highest decline in retail and recreational stores.

While most forecasters have pinned their hopes on faster inoculation to lift economic activity, UBS said the run rate of vaccinations in India has slowed from 3.5 million doses per day in the first half of April to 2.5 million doses per day in the second half.

Jain said UBS's base case for vaccine production will be at 2.5-3 million doses per day until end-May, before beginning to ramp up to 6 million by November. "The next few weeks should show how pulls and pushes around differential market pricing on vaccines pan out and supply actually ramps up. In our base case, we expect India to be able to inoculate 43% of total population or 64% of adult population by end-December 2021," she added.

After India reported 400,00 coronavirus cases in a day, many states were forced to announce localized lockdowns and night curfews, which is expected to delay the strong recovery in domestic economic activity.

Brickwork Ratings on Tuesday revised its FY22 economic growth projection for India to 9% from 11% estimated earlier, saying that the presumptions of a V-shaped economic recovery is unlikely as the deadly second wave of covid-19 has brought an abrupt halt to India's nascent economic recovery. Last week, S&P's said a drawn-out covid-19 outbreak will impede the economic recovery.