

**DECODING GROWTH AGAINST CONFLICTING SIGNS WITH Q3FY22 GDP
PEGGED AT 5.8%, FY22 GDP AT 8.8% : PER CAPITA AGRI INCOME HAS
IMPROVED TO 25% OF PER CAPITA NON AGRI INCOME IN FY21 FROM 18%
IN FY13: FY23 GDP TO GET A BOOST AT 8%+**Issue No. 60, FY22
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Based on **SBI Nowcasting model**, the forecasted GDP growth for Q3 FY22 would be 5.8%, with a downward bias. Interestingly, GVA will be higher than GDP because of a distorted base. The full year (FY22) GDP growth is now revised downwards to 8.8% from our earlier estimate of 9.3% factoring the fatigue accruing on account of continued fight against the chimeric virus and the spill over of ripple effects intermingling in somewhat indecipherable ways. With this, the real GDP will be around Rs 2.35 lakh crore / 1.6% more than the pre-pandemic FY20 real GDP of Rs 145.69 lakh crore. The good thing though is a part of this growth will be frontloaded into FY23 with SBI GDP forecast at 8%+, higher than RBI and Government estimates at ~7.8% or so. Our 'Nowcasting Model' is based on 41 high frequency indicators associated with industry activities, service activities and, global economy. The model uses the dynamic factor model to estimate the common or representative or latent factor of all the 41 high frequency indicators from Q4 of FY13 to Q3 of FY22. This slower growth momentum reconfirms recent assertion that incipient growth recovery needs to be supported by accommodative policy longer than anticipated. **We thus expect liquidity normalisation may be delayed. This could have a further softening impact on G-sec yields from current 6.7% towards ~6.55% or so.**

Recovery in domestic economic activity is yet to be broad-based, as private consumption remains at below pre-pandemic levels, though February has seen high frequency indicators gaining traction. The high frequency indicators had suggested some weakening of demand in Q3, also continuing to January 2022 reflecting the drag on contact-intensive services. Rural demand indicators, say two-wheeler and tractor sales, have continued to decline since Aug'21. Amongst the urban demand indicators, consumer durables and passenger vehicle sales contracted in Q3 while domestic air traffic weakened in the wake of Omicron variant spread. Investment activity though, is displaying a traction in pick up, with merchandise exports remaining buoyant.

Globally, recovery across geographies seems to be taking divergent pathways, with a downward spiral in select powerhouses as the average real GDP y-o-y growth in Q4 for 28 economies at 4.5%, though same as it was in Q3, saw GDP growth for certain major economies witnessing deceleration in Q4. China's economy grew at the slowest pace in 1-1/2 years (@4%) in Q4, dragged by weaker demand due to property market meltdowns, curbs on debt and stricter COVID-19 measures. UK's GDP growth decelerated from 7.0% in Q3 to 6.5% in Q4. The German economy, Europe's largest economy, decelerated to 1.7% in Q4 as micro-chip shortages hit production in the car industry and COVID-19 restrictions further slowed down the recovery. The silver lining has been the growth in USA, backed by a resurgent job market though unbridled inflation lurks round the corner to derail the story.

The decline in growth of real rural wages since FY17 is a concern particularly in the pandemic era accentuated by tepid growth in nominal wages (from Rs 298 per day in FY17 to Rs 364 per day in FY22). After two years, the terms of trade in agriculture have once again gone against farming due to high inflation, notwithstanding projected growth in farm sector at a robust 3.9% in FY22. Further, as per our estimate, the per capita agricultural GDP (in current prices) was around Rs 55,000 while Non Agriculture per capita GDP was Rs 2,20,000 in FY21.

A closer look at the quarterly ASCBs data from RBI in recent past, coupled with our internal market trends analysis and dissection of quarterly results released by banks foretells the asymmetrical growth in deposit accretion across various geo-population groups as the lingering pandemic appears to be taking a toll on the nascently recovering rural economy with a strong likelihood of subdued sequential deposit growth in Q3 at rural centres. Even the metro regions, with largest chunk of deposit base, are expected to show lesser growth in the preceding quarter though here the reasons could be more affiliated to allocation towards capital markets/ other assets classes by domestic investors who have of late anchored the buying on dips prophecy as FIIs press sell button.

Government can offer livelihood loans, say up to Rs 50,000 to rural poor to tide over the predicament. This loan may be given on the premise that interest-servicing alone will keep the loan standard with subsequent loan renewal linked to successful repayment record. If Government were to bear, say, 3% interest subsidy, on a portfolio of Rs 50,000 crore, the outlay would be only Rs 1500 crore during 2022-23. And these loans will also act as a big consumption booster at subsistent levels. The additional advantage of these micro livelihood loans is that they will help the banking system prepare a comprehensive database and credit history of marginal borrowers that can be further leveraged to create new credit-worthy borrowing classes. The present overdraft facility for PMJDY accounts in banking system, in existence for sometime can be streamlined and tech enriched with a central nodal agency/bank to monitor and promote the scheme meaningfully. **Given the significant success of vaccination in third wave in rural pockets, the livelihood loans can be the silver bullet catapulting the broader economy to unprecedented highs.**

GDP GROWTH IS ESTIMATED AT 5.8% IN Q3 FY22

- ◆ The First advance estimate (FAE) of GDP for FY22 indicates GDP growth at 9.2% and GVA growth estimate is 8.6%, surpassing its pre-pandemic (2019-20) level. All major components of GDP, barring private consumption, exceeded their 2019-20 levels. However, NSO has revised the FY21 GDP number on 31st Jan'22, by which the FY22 GDP automatically declined to 8.8% from the FAE of 9.2%. This may be revised in the second advance estimate, which is scheduled to be released on 28 Feb'22 along with the Q3 numbers.
- ◆ However, RBI has not changed their estimates for FY22, which is consisting of 6.0% in Q3 and 5.9% in Q4 (based on Fan chart).
- ◆ **As per our (SBI) 'Nowcasting Model', the forecasted GDP growth for Q3 FY22 would be 5.8%, with a downward bias. The full year (FY22) GDP growth is now revised downwards to 8.8% from our earlier estimate of 9.3%. With this the real GDP will be around Rs 2.35 lakh crore more / 1.6% higher than the FY20 Real GDP of Rs 145.69 lakh crore.**
- ◆ Our 'Nowcasting Model' is based on 41 high frequency indicators associated with industry activity, service activity, and global economy. The model uses the dynamic factor model to estimate the common or representative or latent factor of all the 41 high frequency indicators from Q4 of FY13 to Q3 of FY22. The details of the full model were shared in *SBI Ecowrap dated 20 Nov'20 & again on 10 Feb'21*.
- ◆ Recovery in domestic economic activity is yet to be broad-based, as private consumption remained below pre-pandemic levels. The high frequency indicators suggest some weakening of demand in Q3, also continuing to January 2022, reflecting the drag on contact-intensive services. Rural demand indicators, say two-wheeler and tractor sales, continued to decline since Aug'2021. Amongst the urban demand indicators, consumer durables and passenger vehicle sales contracted in Q3 while domestic air traffic weakened due to Omicron variant spread. Investment activity though has displayed an upturn. Merchandise exports have continued to remain buoyant.

FY22 Real GDP Projections		
	SBI	RBI
Q1	20.1%	
Q2	8.4%	
Q3 P	5.8%	6.0%
Q4 P	5.5%	5.9%
Annual P	8.8% (Earlier: 9.3%)	9.2% (NSO)

Source: RBI; SBI Research

COUNTRY-WISE Q4 2021 (OR Q3 FY22) GDP GROWTH

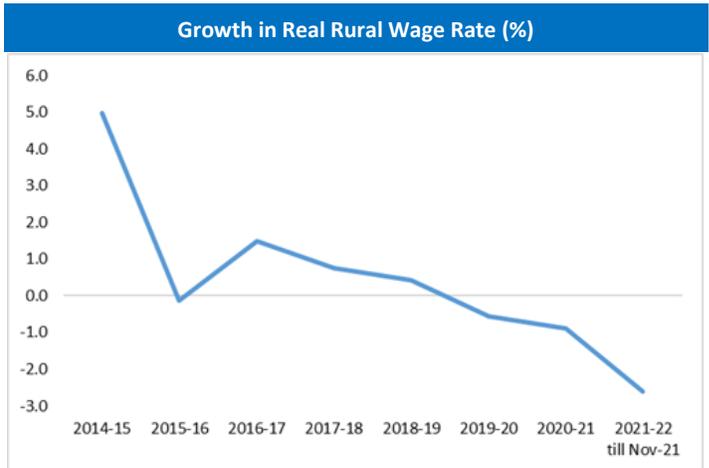
- ◆ While the average real GDP y-o-y growth in Q4 for 28 economies at 4.5% though same as it was in Q3 but the GDP growth for some major economies witnessed deceleration in Q4. China's economy grew at the slowest pace in 1-1/2 years (at 4%) in Q4, dragged by weaker demand due to a property downturn, curbs on debt and strict COVID-19 measures. UK's GDP growth decelerated from 7.0% in Q3 to 6.5% in Q4. The German economy, Europe's largest economy, decelerated to 1.7% in Q4 as microchip shortages hit production in the car industry and further COVID-19 restrictions slowed down the recovery.

Country	Country-wise Real GDP growth (% YoY)				
	2020	2021			
	Q4	Q1	Q2	Q3	Q4
Poland	-2.5	-1.0	11.0	5.5	7.6
Hungary	-3.4	-1.3	18.0	6.9	7.2
United Kingdom	-6.4	-5.0	24.6	7.0	6.5
Italy	-6.4	-0.3	17.3	4.0	6.4
Saudi Arabia	-3.5	-3.2	1.9	6.9	6.4
Netherlands	-3.1	-2.3	10.7	5.1	6.1
Sweden	-2.0	0.0	9.6	4.7	5.9
Belgium	-4.4	0.0	15.1	4.9	5.6
Portugal	-6.8	-5.7	16.1	4.2	5.5
United States	-2.3	0.5	12.2	4.9	5.5
France	-4.3	1.7	19.0	3.5	5.4
Austria	-6.1	-4.1	12.8	5.6	5.4
Spain	-8.8	-4.3	17.7	3.4	5.2
Indonesia	-2.1	-0.7	7.0	3.7	5.1
Lithuania	-0.2	0.8	8.9	6.0	4.8
China	6.4	18.3	7.9	4.9	4.0
Korea	-1.1	1.9	6.0	4.0	4.0
Denmark	-0.5	-0.2	8.7	3.6	3.9
Bulgaria	-2.9	-1.4	7.1	4.6	3.8
Finland	-1.6	-0.9	8.0	3.9	3.8
Latvia	-1.8	-0.2	10.3	5.1	3.5
Czech Republic	-5.3	-2.4	8.5	3.3	3.4
Canada	-3.1	0.3	11.8	4.0	3.4
Mexico	-4.5	-2.8	19.6	4.7	2.7
Romania	-2.0	-0.4	13.4	7.6	2.7
Germany	-2.9	-2.8	10.4	2.9	1.4
Slovak Republic	-2.3	0.2	10.0	1.2	1.1
Japan	-0.8	-1.8	7.3	1.2	0.7
Average (28 Countries)	-3.0	-0.6	11.8	4.5	4.5

Source: OECD; SBI Research

RURAL SLOWDOWN: DECLINING REAL RURAL WAGE

- ◆ **Wages:** The continuous decline in growth of real rural wages (major source of livelihood) since FY17 is a major concern particularly in the pandemic era. The tepid growth in nominal wages (from Rs 298 per day in FY17 to Rs 364 per day in FY22) along-with high inflation is the major reason behind this picture. Further, high prices have been eating into farmer incomes. The latest first advance estimate of national income shows that the farm sector is projected to grow at a robust 3.9% in FY22, but after two years, the terms of trade in agriculture have once again gone against farming due to high inflation.
- ◆ **Income:** As per our estimate, the per capita agricultural GDP (in current prices) was around Rs 55,000 while Non agriculture per capita GDP was Rs 2,20,000 in 2020-21 thereby indicating that per capita agricultural income was around 25% of per capita non-agricultural income, indicating the disparity.
- ◆ **Deposits:** A closer look at the quarterly ASCBs data from RBI in recent past, coupled with our internal market trends analysis and dissection of quarterly results published by banks this season, foretells the asymmetrical growth in deposit accretion across various geo-population groups as the lingering pandemic and the spike during third wave appears to be taking a toll on the nascently recovering rural economy, fatigue accrued in *Bharat* somewhat evident as there seems a strong likelihood of subdued sequential deposit growth in Q3 at rural centres. Even the metro regions, with largest chunk of deposit base, are expected to show lesser growth in the preceding quarter though here the reasons could be more affiliated to capital markets/ other assets classes allocation by domestic investors who have off late anchored the buying on dips prophecy even as FIIs press sell button.
- ◆ Two-wheeler sales and the consumption of fast-moving consumer goods in rural India have been rather tepid in the first few quarters this financial year.
- ◆ However, the continued robust demand for work under the MGNREGA in FY22 despite the lifting of lockdowns and return of normal economic activity in the cities, does point towards a recovery in rural areas. More than 6.8 crore households worked under the scheme in FY22 (till 15 Feb) as against 7.55 crore households worked in FY21 and 5.48 crore in FY20.



Source: SBI Research

	Mar-21	Jun-21	Sep-21	Dec-21 (P)
Rural	3.3	0.5	1.8	0.1-0.5
Semi-urban	2.9	1.4	1.7	1.5-2.0
Urban	4.1	1.4	2.6	2.0-2.5
Metropolitan	5.6	0.1	3.0	1.5-2.0
Total	4.6	0.6	2.6	2.0-2.5

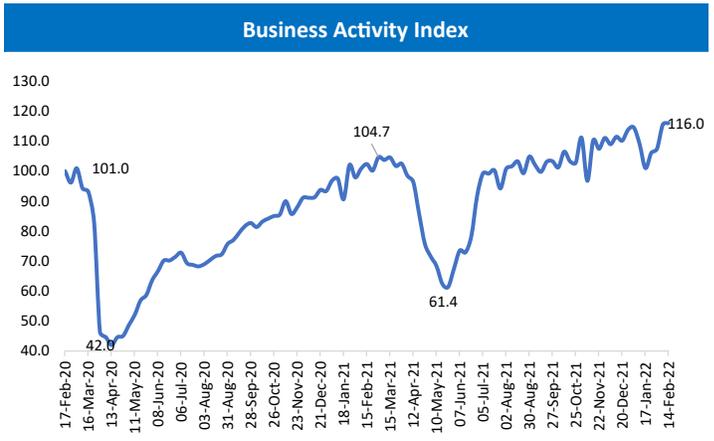
Source: RBI; SBI Research; P: SBI Projection

LIVELIHOOD LOANS FOR THE RURAL POOR

- ◆ Government can offer livelihood loans, say up to Rs 50,000 to rural poor. This loan may be given on the premise that interest-servicing alone will keep the loan current. But loan renewal will be linked to a successful repayment record. If Government were to bear, say, 3% interest subsidy, on a portfolio of Rs 50,000 crore, the outlay would be only Rs 1500 crore 2022-23. And these loans will also act as a big consumption booster at subsistent levels. The additional advantage of these micro livelihood loans is that they will help the banking system prepare a comprehensive database and credit history of marginal borrowers.

HIGHER BUSINESS ACTIVITY & GREATER VACCINATION COVERAGE

- ◆ After a modest decline in the first half of Jan'22 amidst the third wave, economic activity resumed quickly as revealed by our business activity index which rose to an all time high at 116.0 for the week ended 14 Feb'22. The uptick has been majorly due to significant jump in mobility, RTO revenue collection and, electricity consumption. However, our indicator on labour participation is still below the pre-Covid level.
- ◆ Meanwhile, the data shows that India is way past the third wave peak with the daily new cases now moving to around 30,000. Meanwhile, India has distributed more than 173 crore vaccination doses with 74% of the eligible population (above 15 years) already having received both doses.
- ◆ Notably, almost one-third of the new cases during third wave are from rural areas while the pace of vaccination in rural areas during third wave is quite impressive. 73% of total vaccination conducted during the third wave is in rural area.
- ◆ Thus, with a large population already vaccinated (both in rural and urban areas), we believe that momentum of economic growth in FY23 will be better.



Source: SBI Research

Rural and Urban Cases Vs Vaccination: Major states				
States	Rural % Share in new cases(3rd Wave)	Urban % Share in new cases (3rd Wave)	Rural % share in Total vaccination doses(3rd Wave)	Urban % share in Total vaccination doses (3rd Wave)
Andhra Pradesh	80.1	19.9	73.1	26.9
Bihar	87.1	12.9	87.9	12.1
Chhattisgarh	98.1	1.9	71.7	28.3
Gujarat	17.8	82.2	53.9	46.1
Haryana	33.8	66.2	57.7	42.3
Jammu and Kashmi	59.6	40.4	73.9	26.1
Jharkhand	36.6	63.4	81.8	18.2
Karnataka	33.5	66.5	60.0	40.0
Kerala	25.8	74.2	83.3	16.7
Madhya Pradesh	46.3	53.7	62.5	37.5
Maharashtra	25.0	75.0	57.9	42.1
Odisha	64.5	35.5	84.9	15.1
Punjab	36.5	63.5	62.9	37.1
Rajasthan	66.6	33.4	74.7	25.3
Tamil Nadu	20.6	79.4	66.8	33.2
Uttar Pradesh	48.2	51.8	84.5	15.5
Uttarakhand	64.5	35.5	59.2	40.8
West Bengal	46.8	53.2	84.5	15.5
India	34.4	65.6	73.8	26.2

Source: SBI Research

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