Press Release

Q2FY22 GDP expected to grow at 8.5% YoY: Acuité Ratings

Improving consumer sentiments but inflation can play spoilsport in H2FY22

25 November 2021

Acuité expects India's GDP and GVA to grow by 8.5% YoY and 7.5% YoY respectively in Q2FY22 amid some support from a favourable statistical base along with a gradual removal of lockdown restrictions by most states towards the end of the last quarter. The steady progress in vaccination and the improvement in consumer sentiments have also been supported by the relative resilience of the industrial sector, a gradual rebound in services sector with improved mobility, buoyancy in exports and improved government capital expenditure.

The revival in economic activity is also corroborated by our **proprietary AMEP (Acuité Macroeconomic Performance) index** which recorded a sequential expansion of 7.2% QoQ in Q2 FY22 from a contraction of 9.3% in Q1 FY22. The uptick in the sequential print was mainly driven by pickup in industrial activity particularly manufacturing, passenger traffic, exports, and few consumption indicators such as E-way bills, GST collection, auto sales and petrol consumption. Accordingly, we expect sequential GDP and GVA print to record a significant expansion in Q2 FY22 from a contraction of 16.9% in Q1 FY22.

Growth momentum in the month of Oct-21, as also highlighted in our AMEP index, saw considerable upside with most high frequency indicators recovering above their pre-pandemic levels (for further details refer: https://www.acuite.in/pdf/PR_Index_Oct-21.pdf). In first half of Nov-21, we however notice some slowdown in incremental economic activity, which we attribute to seasonality on account of Diwali holidays. Nevertheless, the continued tapering of Covid infections, further progress on vaccination along with the festive season augmenting pent-up demand are likely to push India's sequential growth recovery well into Q3 FY22. However, the sustainability of such demand for both manufactured goods as well as services post Q3 FY22 needs to be monitored to gauge the durability of consumption demand beyond the festive boost.

"For FY22, we continue to retain our GDP growth forecast at 10.0% albeit with some downside risks emanating from global supply chain disruptions, elevated commodity prices that may tighten inflationary pressures as demand makes a comeback and a potential volatility in global markets as central banks attempt a normalization of monetary policies." **– says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research.**

Supply chain disruptions have already hit the availability of semiconductors which may continue to impact the production of automobiles as well as electronic goods in Q3-Q4 FY22. Higher commodity prices have already led to a surge in input costs in several manufacturing sectors, which is likely to weigh on producer margins in the manufacturing sector in Q3FY22 and beyond. While the pass through of higher input costs to manufactured goods and services has been calibrated so far, it is increasingly in evidence in sectors such as FMCG, auto and electronics and the extent of transmission is expected to increase with further demand recovery. Lastly, global inflation appears to be more prolonged in nature than earlier expected which may translate into a faster normalization of monetary policies in some of the developed economies, reflecting in heightened financial market volatility and thereby clouding a stronger growth outlook.

Chart 1: Sequential growth of AMEP index in line with India's growth trajectory

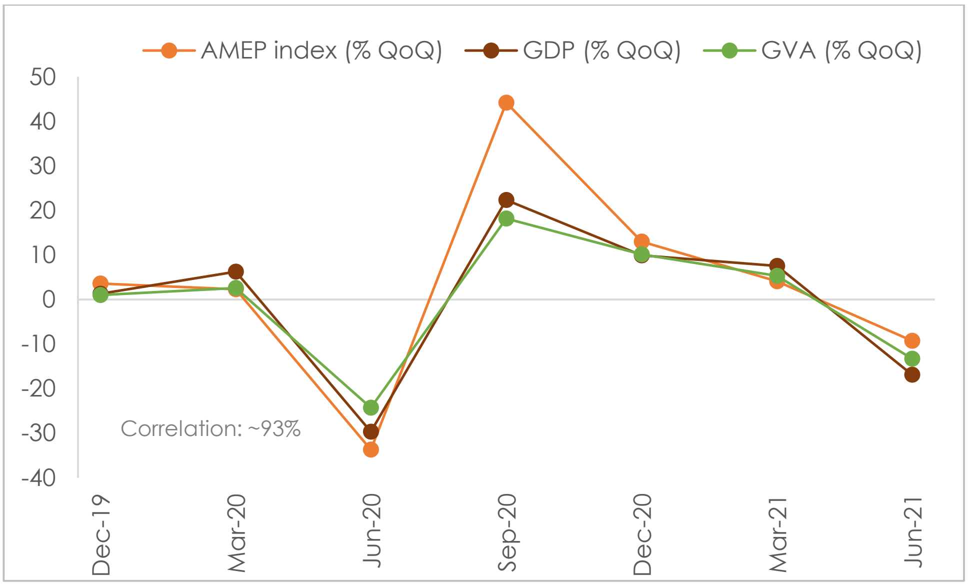
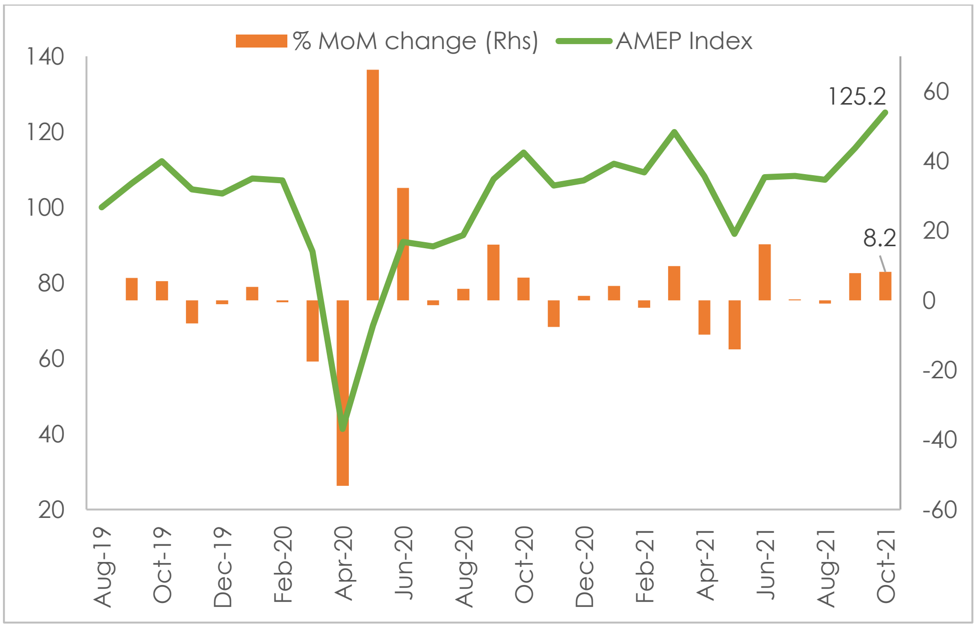


Chart 2: The uptick in momentum to continue in Q3FY22 as evidenced in AMEP index



About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,900 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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