SBI RESEARCH

ECOWRAP

FY22 GDP GROWTH COULD BE 8.2%-8.5%: UNCERTAINTIES PLAGUE Q4FY22 GDP NUMBERS AS CUSTOMARY QUARTERLY DATA REVISIONS ARE QUITE DIFFICULT TO COMPREHEND, BUT WILL IT HIT THE THRESHOLD OF 3%-3.5%?

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Q4 FY22 GDP numbers are due for release on 31 May and it is difficult to comprehend the numbers as a spate of customary quarterly revisions in FY22 (if it is on larger side) on May 31th could make it a forecaster's nightmare. Nevertheless, we believe FY22 GDP numbers could move now closer to 8.5% as Q4GDP numbers as per SBI nowcasting Model. The other big puzzle could be the gap between GVA and GDP numbers in Q4 given the strong growth in tax collections. This could push up the GDP number significantly, even as GVA might be much lower. **We are projecting GDP growth for FY22 at 8.5% and Q4 FY22 at 2.7%. We however believe the GDP projection for Q4 FY22 is clouded by significant uncertainties. For example, even an 1% downward revision in Q1 GDP estimates of FY22 from 20.3%, all other things remaining unchanged could push Q4 GDP growth to 3.8%.**

Here is a break up of numbers. The CSO had projected Q4 GDP at Rs 41.04 lakh crores and FY22 real GDP growth at Rs 147.7 lakh crores, an improvement of 1.7% over pre pandemic levels. SBI Nowcasting model with an unchanged quarterly numbers pegs the growth rate of Q4GDP at Rs 40 lakh crores, that is lower by Rs 1 lakh crores from the CSO preliminary projections. **We believe that downward adjustments in Q1,Q2,Q3 numbers could have a soothing impact on Q4 GDP numbers. Every Rs 10,000 crore revision adds / subtracts 7 basis points from GDP growth.**

Beyond the numbers, early trend of Q4FY22 results from Corporate, in the listed space, reported better growth numbers across parameters as compared to Q4FY21 albeit contraction in operating margin due to higher input cost. Sectors such as Steel, FMCG, Chemicals, IT-Software, Auto Ancillary, Paper, etc. reported better growth numbers. However, sector such as Automobile, Cement, Capital Goods – Electrical Equipment, Edible Oil etc. though reported growth in top line in Q4FY22, registered negative growth in PAT, as compared to Q4 FY22.

Meanwhile globally, while the average real GDP y-o-y growth in Q1 2022 for 25 economies at 5.5% is a tad higher that the preceding quarter, GDP growth is marking an abrupt reversal in major economies (US, France, Italy, Sweden, etc.). The U.S. economy unexpectedly contracted in the Q1 2022 (on sequential basis) amid a resurgence in COVID-19 cases and drop in pandemic relief money from the government. This is the first decline in GDP since the short and sharp pandemic recession nearly two years ago.

Global financial volatility continues amidst the prolonged Russia-Ukraine crisis. However, after touching the level of 3%, that is double its level at the start of the year and the highest since December 2018, US 10-year yield has declined in the recent weeks mainly on account of rising fears of recession. Investors are already wary of rising inflationary pressures, however, certain economic data including new jobless claims rising to a 4-month high and negative leading index have further sparked concerns that pricing pressures are starting to now take a toll on economic growth. Meanwhile, Brent crude has remained sticky. As per the monthly Oil Market repot od OPEC, total world demand of crude for 2022 stands at 100.29 mb/d compared to 96.92 mb/d in 2021. Even the total production is expected to grow 2.53% to 71.23 mb/d from 68.71 mb/d in 2021. **We are sceptical that crude prices may not sustain at this high level for long.**

RBI is expected to hike rates in the June policy meeting and the cumulative rate hike in June and August is likely to be 75 basis points. **A history of monetary and fiscal policy coordination in the Indian context for the 30 year period ended FY2020 reveals statistically insignificant negative correlation between the two, implying least coordinated policies**, even as RBI had successfully staved off automatic monetization and even private placement of fresh issues with RBI, with the enactment of FRBM in 2003. **The best thing that has emerged during pandemic is the coordinated policy response by both the Government and RBI in staving off the pandemic and now inflation.**

In recent times, there has been a lot of debate regarding the coordination of monetary and fiscal policy, as evident in the recently released book by Dr. Viral Acharya, former DG of RBI. The friction in coordination between monetary and fiscal authorities has been a thorny issue globally in recent years particularly after the global financial crisis. **Against this background the policy response by RBI and Government needs to be wholeheartedly complemented**. The RBI has largely been successful in communicating to the market about its intentions and seems to have managed the art of managing expectations much better. In fact, RBI Governor has politely conveyed the message of steadfast resolve of monetary policy support through crisp one liners, the effectiveness of what was discussed in Jackson Hole meeting in Aug 2020!

GDP GROWTH IS ESTIMATED AT SUB-3% IN Q4 FY22

- Economic activity, which gained strength in Q2 FY22 with the ebbing of the second wave, has lost pace since Q3, exacerbated by the spread of the Omicron variant in Q4. The beneficial effects of the rapid ebb of infections have, however, been overwhelmed by the geopolitical conflagration since Feb'22. CPI inflation edged above the upper tolerance band as unfavourable base effects combine with the onset of supply shocks as conflict escalates.
- Against this backdrop, the Q4 GDP numbers are expected to be much lower than Q3 indicating a continuous deceleration in growth since the starting of FY. The NSO imputed Q4 FY22 growth is 4.8%, and GVA growth at 4.1%.
- **GDP Growth as per SBI composite leading indicator (CLI):** The CLI Index (a basket of 41 leading indicators which includes parameters from almost all the sectors) based on monthly data shows early signals of turning-points in economic activity. Out of the 41 high frequency leading indicators, 55% are showing acceleration, compared to 60-75% acceleration in 9MFY22.
- **GDP Growth as per SBI 'Nowcasting Model':** To estimate GDP statistically, we have built a 'Nowcasting Model' with 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 high frequency indicators from Q4 of FY13 to Q4 of FY22. The details of the full model were shared in *SBI Ecowrap dated 20 November 2020.*
- As per our (SBI) 'Nowcasting Model', the forecasted GDP growth for Q4 FY22 would be 2.7%, with a downward bias.
- The Indian economy's recovery remains resilient, although risks stemming from global developments have thwarted the momentum. Inflation risks have become more accentuated in recent months. The increase in international commodity prices also imparts a net terms of trade shock that is widening the trade and current account deficits.

FY22 Real GDP Projections

	SBI	NSO
Q1/Q2/Q3	20.3%/8.5%/5.4%	
Q4 P	**2.5% to 2.9%**	**4.8% (Imputed)**
Annual P	**8.2% to 8.5%**	**8.9% (NSO)**

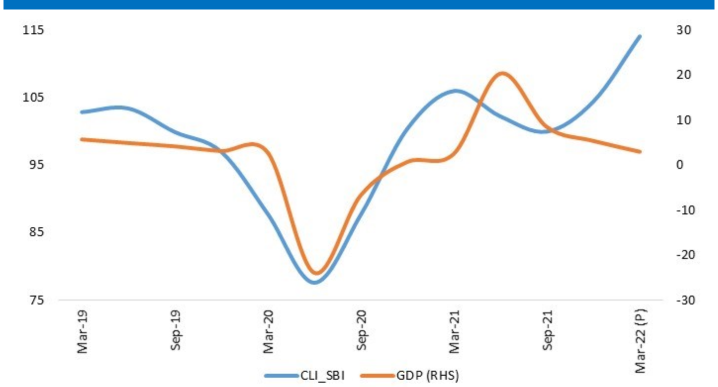
Source: NSO; SBI Research

Mapping of Leading Indicators with GDP Growth

Year	Quarter	% of indicators showing acceleration	GDP Growth (%)
FY18	Q1 FY18	59	6.1
	Q2 FY18	70	5.3
	Q3 FY18	71	6.7
	Q4 FY18	80	8.9
FY19	Q1 FY19	73	7.5
	Q2 FY19	73	6.5
	Q3 FY19	63	6.2
	Q4 FY19	48	5.7
FY20	Q1 FY20	40	4.9
	Q2 FY20	35	4.2
	Q3 FY20	34	3.2
	Q4 FY20	39	2.8
FY21	Q1 FY21	19	-23.8
	Q2 FY21	29	-6.6
	Q3 FY21	50	0.7
	Q4 FY21	59	2.5
FY22	Q1 FY22	75	20.3
	Q2 FY22	69	8.5
	Q3 FY22	60	5.4
	Q4 FY22	55	-

Source: SBI Research

SBI Composite Leading Index vs GDP Growth



Source: SBI Research

- The global growth outlook appears grim as geopolitical tensions linger, commodity prices remain elevated and withdrawal of monetary accommodation gathers speed. Emerging economies face risks of capital outflows and higher commodity prices feeding into inflation numbers.

BUSINESS ACTIVITY INDEX CONTINUOUS TO IMPROVE

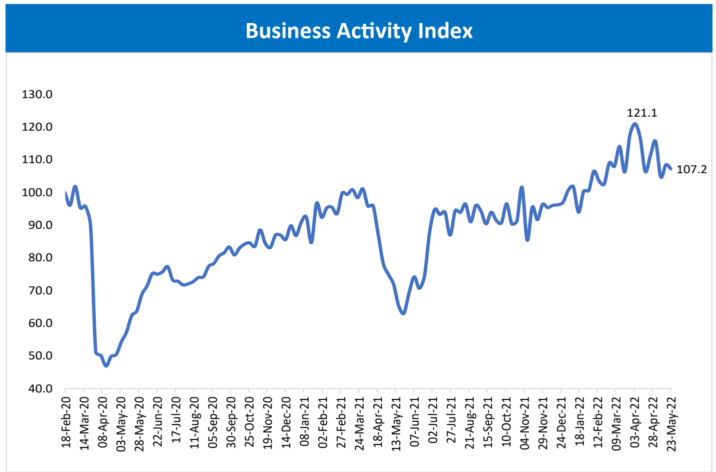
- SBI Business Activity Index also shows pick-up in economic momentum since end-Jan'22, though it has moderated a little in recent months. Google mobility, electricity consumption, weekly food arrival and RTO revenue collection have all shown positive momentum.

DECLINE IN US 10-YEAR YIELD BUT STILL ELEVATED CRUDE OIL PRICE

- Global financial volatility continues amidst the prolonged Russia-Ukraine crisis. However, after touching the level of 3%, that is double its level at the start of the year and the highest since December 2018 US 10-year yield has declined in the recent weeks mainly on account of rising fears of recession.
- Investors are already wary of rising inflationary pressures, however, certain economic data including new jobless claims rising to a 4-month high and negative leading index has further sparked concerns that pricing pressures are starting to now take a toll on economic growth. Meanwhile, Brent crude has remained sticky. As per the monthly Oil Market repot od OPEC, total world demand of crude for 2022 stands at 100.29 mb/d compared to 96.92 mb/d in 2021. Even the total production is expected to grow 2.53% to 71.23 mb/d from 68.71 mb/d in 2021.

COUNTRY-WISE Q1 2022 (OR Q4 FY22) GDP GROWTH

- While the average real GDP y-o-y growth in Q1 2022 for 25 economies at 5.5% is a tad higher that the preceding quarter GDP growth is marking an abrupt reversal in major economies (US, France, Italy, Sweden, etc.) in Q1 2022 as compared to Q4 2021. The U.S. economy unexpectedly contracted in the Q1 2022 (on sequential basis) amid a resurgence in COVID-19 cases and drop in pandemic relief money from the government. This is the first decrease in GDP since the short and sharp pandemic recession nearly two years ago.



Source: SBI Research

Country-wise Real GDP growth (% YoY)					
Country	Q1-2021	Q2-2021	Q3-2021	Q4-2021	Q1-2022
Austria	-4.1	12.7	5.2	5.6	8.7
Belgium	0.1	15.2	5.1	5.7	4.6
Canada	0.2	11.7	3.8	3.3	3.5
Chile	1.5	18.3	17.2	11.7	6.9
Colombia	1.2	18.2	13.9	10.8	8.2
Czech Republic	-2.3	8.7	3.6	3.6	4.6
Denmark	-0.2	8.6	3.8	6.8	6.8
Finland	-0.7	7.8	3.6	3.4	4.0
France	1.6	19.1	3.5	5.5	5.3
Germany	-2.8	10.4	2.9	1.8	3.7
Hungary	-1.3	17.6	6.5	7.0	7.5
Israel	0.3	14.8	7.6	9.2	9.0
Italy	0.1	17.7	3.9	6.2	5.8
Japan	-1.7	7.4	1.2	0.4	0.5
Korea	1.9	6.0	4.0	4.1	3.1
Mexico	-2.8	19.6	4.6	1.1	1.6
Netherlands	-2.0	11.0	5.3	6.4	7.0
Norway	0.2	5.9	5.4	4.7	3.7
Portugal	-5.4	16.5	4.4	5.9	11.9
Spain	-4.1	17.8	3.5	5.5	6.4
Sweden	0.1	9.4	4.1	5.1	3.0
United Kingdom	-5.0	24.5	6.9	6.6	8.7
United States	0.5	12.2	4.9	5.5	3.6
China	18.3	7.9	4.9	4.0	4.8
Indonesia	-0.8	7.5	3.7	4.7	4.8
Average (25 Countries)	**-0.3**	**13.1**	**5.3**	**5.4**	**5.5**

Source: OECD; SBI Research

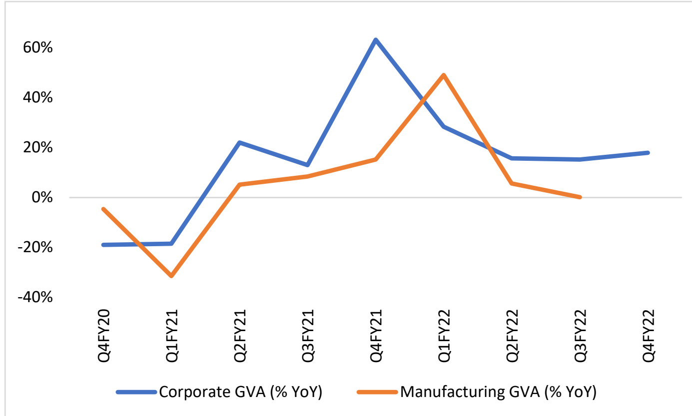
CORPORATE GVA SHOWS MODERATE INCREASE IN Q4 FY22

- The corporate GVA and manufacturing GVA is positively correlated. The corporate GVA is exhibiting decelerating trend since Q4 FY21. The corporate results announced so far indicate that there is only moderate recovery in corporate GVA in Q4 FY22. The corporate GVA of 3782 companies registered a growth of 15.2% in Q3 FY22.

CORPORATE RESULTS Q4FY22

- Early trend of Q4FY22 results from Corporate, in the listed space, reported better growth numbers across parameters as compared to Q4FY21 albeit contraction in operating margin due to higher input cost.
- Around 1000 listed entities, excluding BFSI and refineries, we observed around 28% growth in top line and around 10% growth in EBIDTA. Profit After Tax (PAT) too grew by more than 35% in Q4FY22 as compared to Q4FY21. Sequentially also net sales and PAT grew by around 10% and 25% respectively in Q4FY22. However, on sequential basis EBIDTA grew by 5.7% only.
- Sectors such as Steel, FMCG, Chemicals, IT-Software, Auto Ancillary, Paper, etc. reported better growth number in all key parameters. However, sector such as Automobile, Cement, Capital Goods – Electrical Equipment, Edible Oil etc. though reported growth in top line in Q4FY22, registered negative growth in PAT, as compared to Q4FY22. Table of select sector along with their growth in Key parameters is given below.

Corporate GVA vis-à-vis Manufacturing GVA



Source: SBI Research

- EBIDTA margin for the above set of companies ex BFSI, in aggregate, declined by 246 bps in Q4FY22 to 15.22% as compared to 17.68% in Q4FY21, which was 15.88% in Q3FY22. Contraction in margin is seen in various sectors due to increase in input cost resulting higher expenditure to sales ratio. For example, cement sector reported a 500 bps rise in expenditure to sales ratio in Q4FY22 as compared to Q4FY21 resulting contraction in margin.
- Similarly in Steel, Pharma, Textile reduction in operating margin reported due to rise in input cost. In Textile space, the ratio increased by 500 bps to 93% in Q4FY22 from 88% in both Q4FY21 and Q3FY22 resulting contraction of operating margin from 12% to 7% during the same period.

Growth in key parameters in Q4FY22 over Q4FY21 and Q3FY22

Sector	No of Cos.	Growth over Q4FY21			Growth over Q3FY22		
		Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
IT - Software	61	21	9	40	3	-2	11
Automobile	11	8	-0.5	-10	11	29	35
Steel	33	37	9	28	15	2	41
FMCG	19	11	8	15	3	3	12
Cement	16	7	-18	-4	17	30	56
Chemicals	53	37	37	25	9	10	17
Capital Goods - Electrical Equipment	13	10	-4	-33	13	3	-16
Edible Oil	11	29	28	-7	5	-9	5
Pharmaceuticals	46	11	-8	67	3	-13	44
Capital Goods-Non Electrical Equipment	24	6	-3	80	65	62	178
Auto Ancillaries	44	28	15	23	-1	32	38
Consumer Durables	5	19	20	23	-8	-28	-33
Paper	16	23	10	94	52	76	245
Realty	7	32	29	20	9	14	9

Source: SBI Research; Cline, listed entities

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