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Economy out of recession, 0.4% growth in October-December

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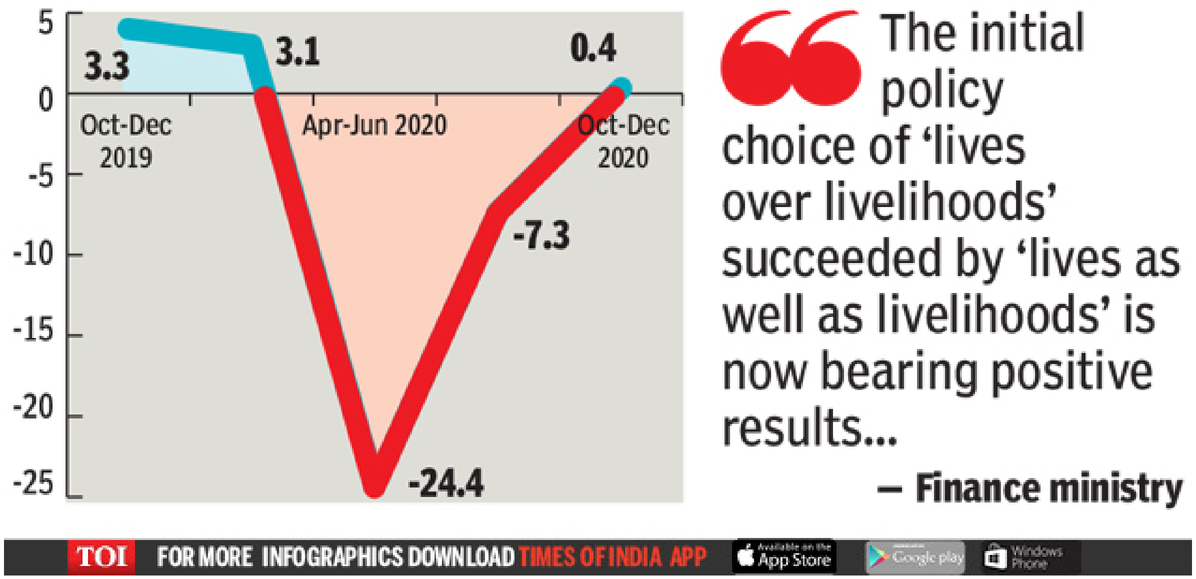
NEW DELHI: Growth returned to the economy in the October-December quarter of 2020-21 helping it to move out of the recession that had gripped following one of the strictest lockdowns imposed last year to ward off the spread of the Covid-19 pandemic.

Data released by the National Statistical office (NSO) on Friday showed the economy grew 0.4% in the three months ended December powered by manufacturing, farm, electricity, construction, financial, real estate and professional services.

The numbers showed the contraction in the June quarter was sharper at 24.4% than the previous estimate of 23.9%, while the decline in the September quarter was revised to 7.3% from the earlier 7.5%. An economy is said to be in recession after posting two consecutive quarters of contraction.

The second advance estimate for the full year showed the economy is forecast to contract by 8%, higher than the 7.7% projected earlier and more or less in line with other estimates.



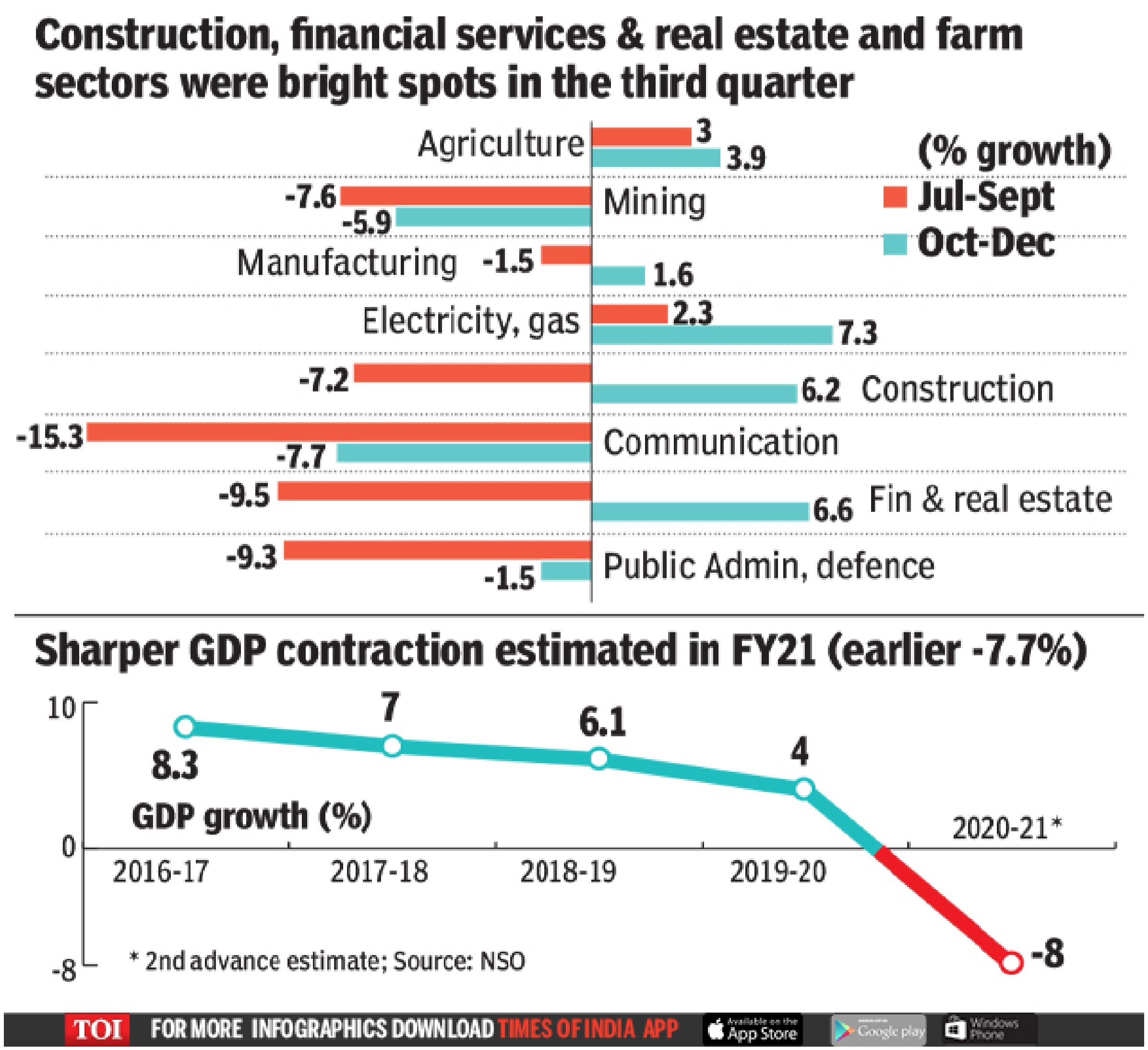
The December quarter data also showed that India had joined China, Vietnam and Taiwan, a select group of economies, which have posted growth during the three-month period against the backdrop of sharp declines in major economies of the world hit hard by the pandemic. The Reserve Bank of India (RBI) had earlier estimated that growth would return in the third and fourth quarters of the current fiscal year that ends in March.

Recent estimates by multilateral agencies and economists have pointed to a rebound in the Indian economy. The International Monetary Fund (IMF) has also forecast India to be one of the fastest growing major economies in the world in 2021-22 as growth momentum gathers pace. The rollout of the vaccination programme has added to the optimism, but the resurgence of the virus in some parts of the country has emerged as a risk factor.

The finance ministry said the October-December quarter data was also a reflection of a further strengthening of the V-shaped recovery that began in the second quarter of 2020-21 after a large GDP contraction in the April-June quarter, which followed one of the strictest lockdowns imposed by the government relative to other economies.

It said the sharp V- shaped recovery has been driven by rebounds in both private final consumption expenditure (PFCE) and gross fixed capital formation (GFCF) as a combination of astute handling of the lockdown and a calibrated fiscal stimulus that has allowed strong economic fundamentals to trigger quick resumption of high activity levels in the economy.

The farm sector, which has been one of the bright spots, grew by 3.9% in the December quarter compared to a 3% growth in the year earlier period. The manufacturing sector posted growth after four quarters while the construction sector also returned to positive territory rising an annual 6.2% in the December quarter. The unlocking of the economy has helped both these crucial sectors.



But the contact-intensive services sector continued to be under pressure. The sector contracted 1% in the December quarter, lower than the 11.3% decline in the second quarter and below the 7% expansion in the year ago quarter.

Private consumption, a key driver of the economy grew 1% during the three month period, a sharp improvement from the 25% decline in the June quarter. Government consumption too witnessed an improvement, growing by nearly 7% in the third quarter from the year earlier period. Gross fixed capital, a gauge of investment increased by 6% compared to a growth of 1.4% in the third quarter of 2019-20, rising after three quarters.

Economists expect the growth momentum to sustain in the quarters ahead although they cautioned that the surge of infections in some states could have an impact on the recovery.

“The pace of commercial and business activity in the domestic activity is expected to gather pace on the back of vaccination-driven optimism and policy support. Although there is the vaccination driven optimism regarding the revival of commercial and business activity, domestic economic growth continues to be underscored by uncertainty given the resurgence in Covid infections across states that has raised the spectre of fresh pandemic restriction just as the economy is in the throes of recovery,” Madan Sabnavis and Kavita Chacko, economists at Care Ratings said in a note.

The finance ministry also sounded a note of caution.

“India is not yet out of the danger of the pandemic. Social distancing continues to be the most effective tool to combat the pandemic as activity levels continue to rise in the economy boosted by the rapidly escalating inoculation drive in the country,” said the statement.