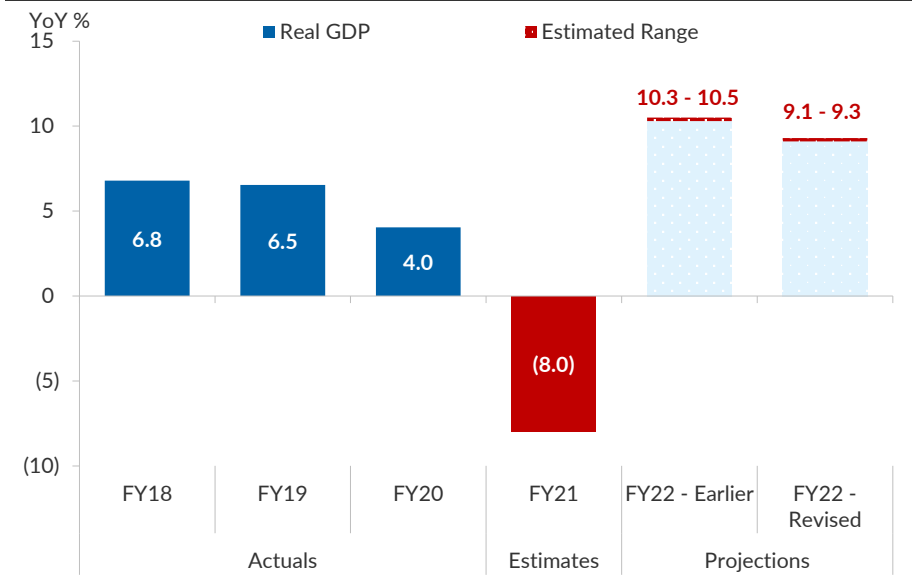


# Re-assessing the 2<sup>nd</sup> COVID wave

With the second wave induced lockdowns and restrictions spanning 15-30 days in various states, it is imperative to reassess the economic impact of the curtailed demand and supply side of the equation. We have downgraded our earlier estimates on FY22 GDP projection given that the pandemic lockdowns and restrictions have permeated across the length and breadth of the country, having a much higher magnitude than we initially assessed. We now see India FY22 real GDP growth at 9.1-9.3%, when compared with our initial estimate of 10.3-10.5%. For instance, we projected in April that stringent measures will be only confined to 7-8 states. Our initial GDP estimate was built on the assumption of a lockdown spanning 30-45 days. Although stringent measures in many states will likely ease by the end of May, we assess now that around 12 states may extend the stringent measures at least till mid-June, entailing some degree of economic impact on around 33% of India's GDP.

Glancing through the prism of high frequency indicators, a deceleration in the aggregate demand is quite palpable during the month of April, with subdued economic conditions extending in May as well. As a case in point, our estimates suggest that GST collections can fall to 1.05-1.15 trillion in May and 0.8-0.95 trillion in June. However, we see moderate economic recovery during June, as states which will relax stringency measures, will likely retain 90-95% of its potential economic output from our assumption of 75-80% in April and May.

## Exhibit 1: Higher than expected magnitude of the lockdown makes us downgrade GDP projections...



Source: YES Sec - Research; Note: Earlier FY22 GDP projection based on 45 days of stringent measures in states contributing 44% of GDP

[For our earlier GDP projection, click here](#)

**Assessing the 2<sup>nd</sup> COVID wave**

**A BUMP IN THE ECONOMIC EXPRESSWAY**

We reflect on the evolving second wave of the pandemic in India and assess the economic impact of the localized lockdowns and restrictions. Active COVID cases in major economic states during the second wave has doubled the peak of the previous wave, entailing stringent restrictions. With some states like Maharashtra, Delhi already announcing lockdowns for few weeks, other states are likely to follow given the rising load on the creaking healthcare infrastructure.

In terms of the economic impact, we infer that a two-week lockdown/stringent restriction in 5-6 major states like Maharashtra, Gujarat, Haryana, UP, Rajasthan and Madhya Pradesh, which account for ~45% of India GDP, will shave 40-60bps from the FY22 GDP growth. In case, the restrictions are extended or widened to other states, we have enumerated the economic cost in the following table.

Stringent measures scenario	Impact on GDP growth	FY22 revised GDP Projection
15 Days	-0.4% to -0.6%	11.5% - 11.7%
30 Days	-0.9% to -1.1%	10.8% - 11.0%
45 Days	-1.4% to -1.6%	10.3% - 10.5%

\*Less Stringent Measures in 2 States mentioned in Exhibit 1

Although restrictions during the 2<sup>nd</sup> wave will not be of similar magnitude when compared with the harsh lockdowns witnessed during the 1<sup>st</sup> wave, demand disruption, supply disruption and its consequential effect on employment will likely hamper the economic recovery. Though we are not an epidemiological expert, global trends suggest that the second wave should peak much earlier than the duration of the first wave. Also, the vaccination drive will gain much more traction, given that government will now inoculate the younger population as well. Wider vaccination coverage along with herd immunity could lead the economy activity getting back to normal soon.

Notwithstanding the transient headwinds, we believe the structural recovery within the economic remains very much in place. Improving Corporate balance sheet, government thrust on manufacturing/capital expenditure, accommodative monetary conditions will provide the much-needed impetus to the economy.

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**Exhibit 2: ...stringent COVID measures seen across the length and breadth of the country during May, though restrictions may ease in June, some states will retain stringency**

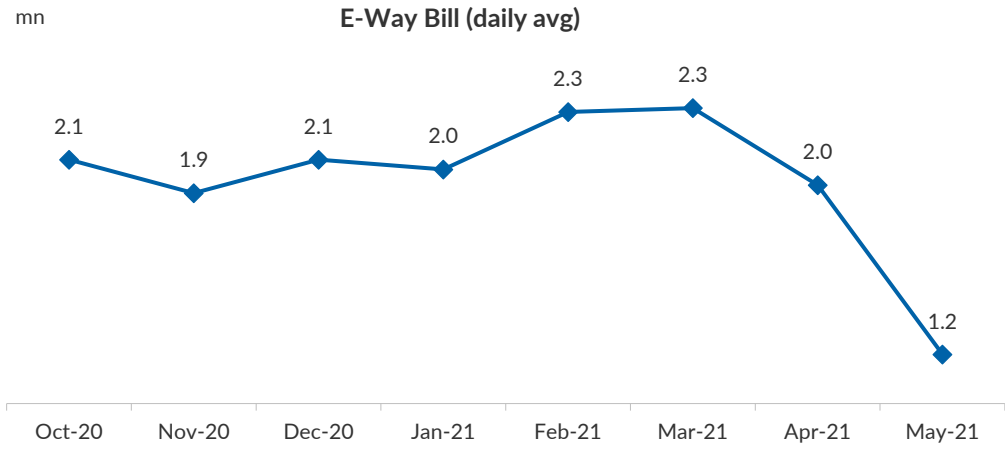
Contribution GSDP to GDP (%)	States	Measures		
		April	May	June
13.5	Maharashtra	Stringent	Stringent	Moderate to Lax
8.8	Tamil Nadu	Moderate	Stringent	Stringent
8.1	Uttar Pradesh	Stringent	Stringent	Moderate to Lax
7.9	Gujarat	Stringent	Moderate	Moderate
7.8	Karnataka	Lax	Stringent	Stringent
6.0	West Bengal	Lax	Stringent	Stringent
4.8	Rajasthan	Stringent	Stringent	Moderate
4.6	Andhra Pradesh	Lax	Stringent	Stringent
4.6	Telangana	Lax	Stringent	Moderate to Lax
4.5	Madhya Pradesh	Stringent	Moderate	Moderate
4.1	Kerala	Lax	Stringent	Moderate
4.0	Delhi	Moderate	Stringent	Moderate to lax
3.7	Haryana	Moderate	Stringent	Moderate
2.9	Bihar	Lax	Stringent	Moderate to lax
2.7	Punjab	Moderate	Moderate	Moderate
2.5	Odisha	Lax	Stringent	Stringent
1.7	Assam	Lax	Moderate	Stringent
1.6	Chhattisgarh	Stringent	Moderate	Moderate
1.6	Jharkhand	Moderate	Stringent	Moderate to lax
1.2	Uttarakhand	Lax	Stringent	Stringent
0.8	Himachal Pradesh	Lax	Moderate	Moderate
0.8	Jammu and Kashmir	Lax	Moderate	Stringent
0.4	Goa	Moderate	Stringent	Moderate
0.3	Tripura	Lax	Moderate	Moderate
0.2	Meghalaya	Lax	Moderate	Stringent
0.2	Sikkim	Lax	Stringent	Stringent
0.2	Nagaland	Lax	Stringent	Stringent
0.2	Manipur	Moderate	Moderate	Stringent
0.1	Arunachal Pradesh	Lax	Moderate	Moderate
0.1	Mizoram	Moderate	Stringent	Stringent

**Key Assumptions for Measures in June:**

1. Stringent: Active case load is in proximity to 90% of the peak
2. Moderate: Current active cases are between 60-90% of the peak
3. Moderate to Lax: Current active cases are below 60% of the peak

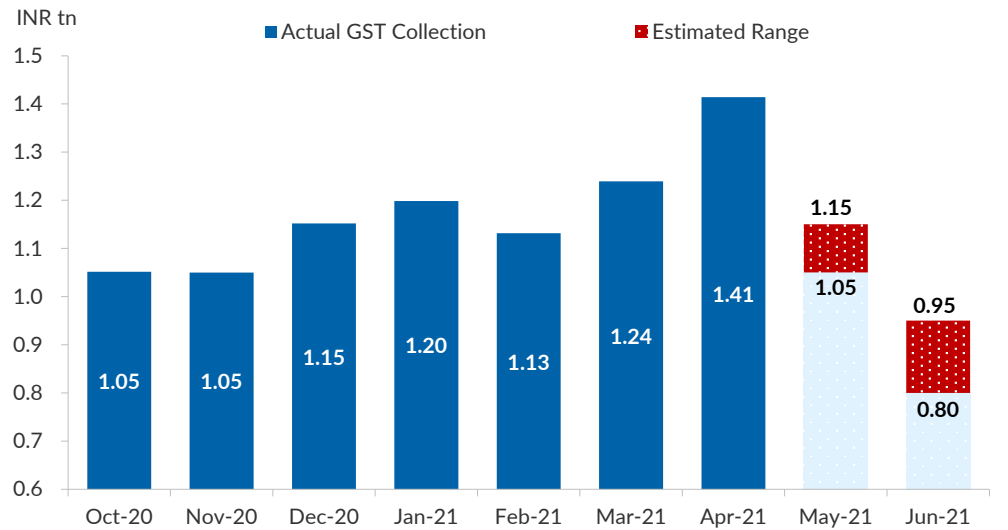
# Re-assessing the 2nd COVID wave

**Exhibit 3: Lockdowns across the country leads to sharp fall in movement of goods...**



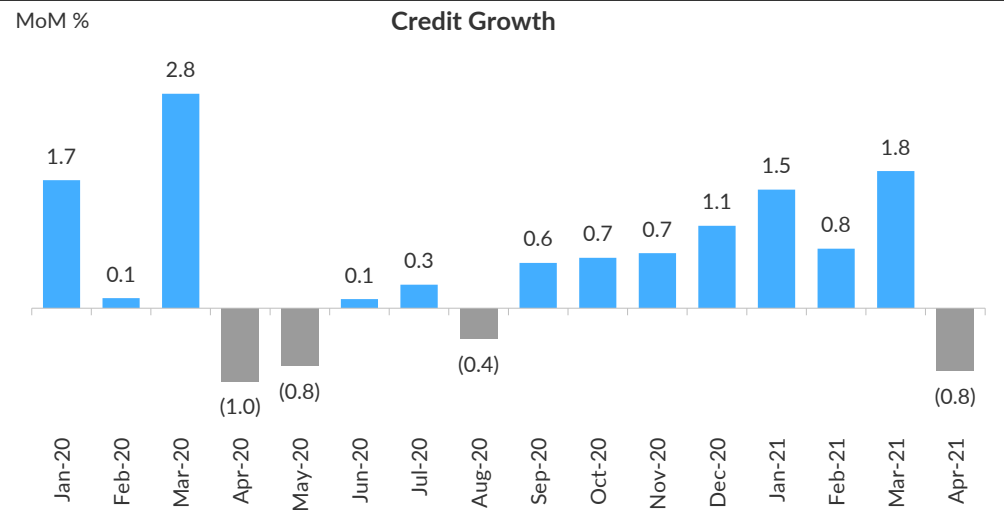
Source: CEIC, YES Sec - Research

**Exhibit 4: ...we extrapolate GST revenues to recede in May and June**



Source: CEIC, YES Sec - Research

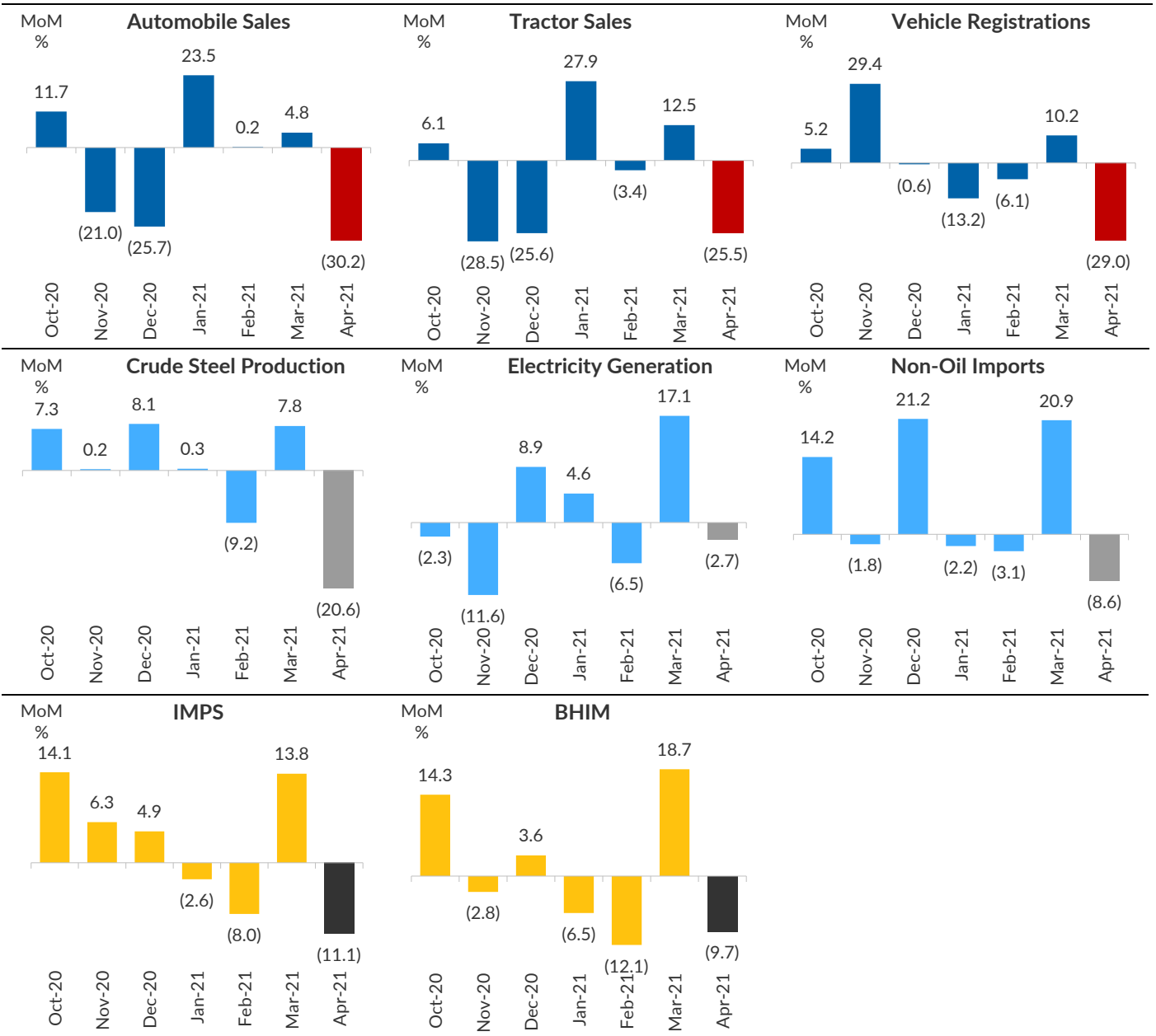
**Exhibit 5: Bank credit growth in April replicates the pain of first Covid wave**



Source: CEIC, YES Sec - Research

# Re-assessing the 2nd COVID wave

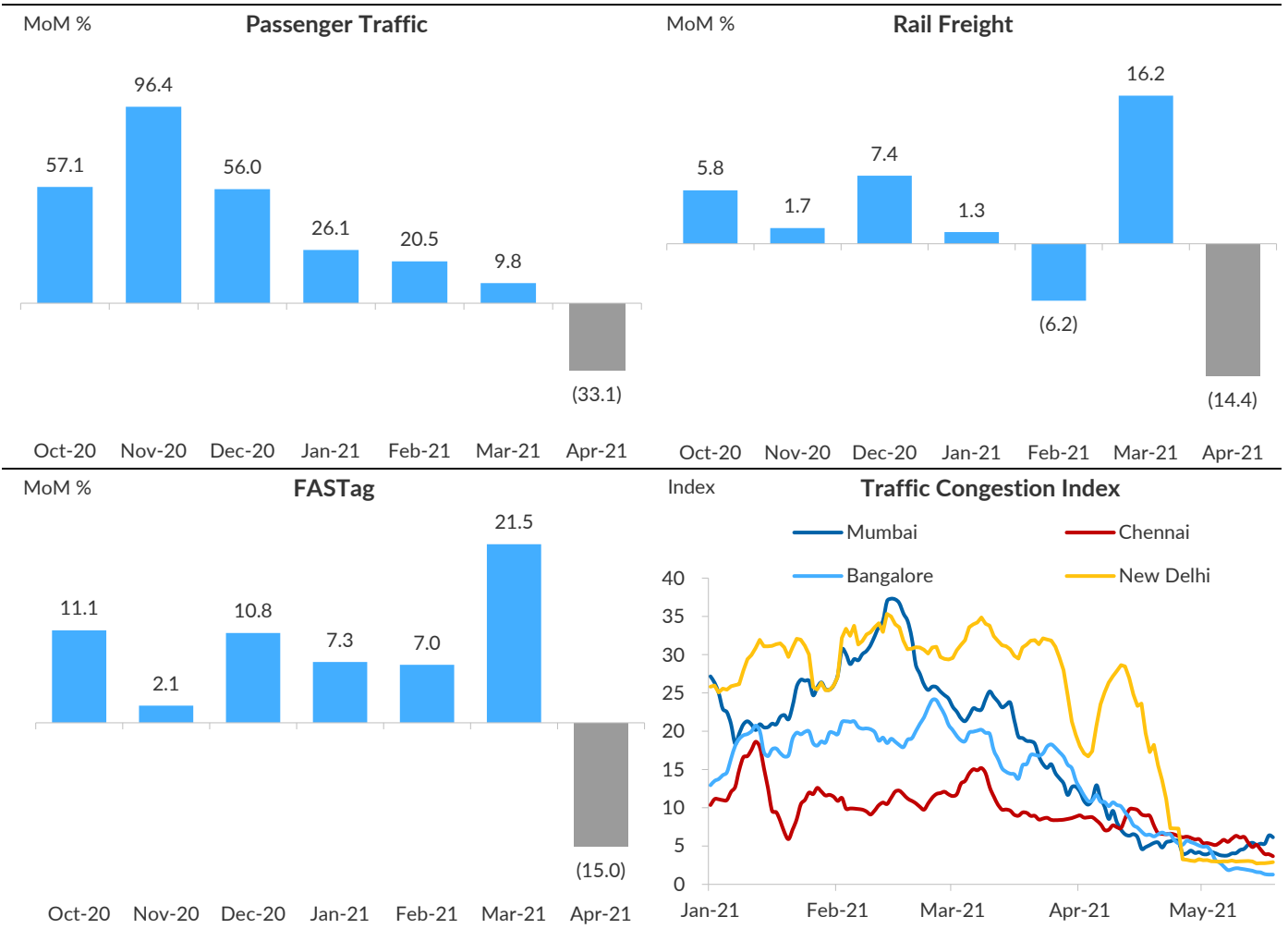
**Exhibit 6: Frequency indicators portray deceleration across the board...**



Source: CEIC, YES Sec – Research

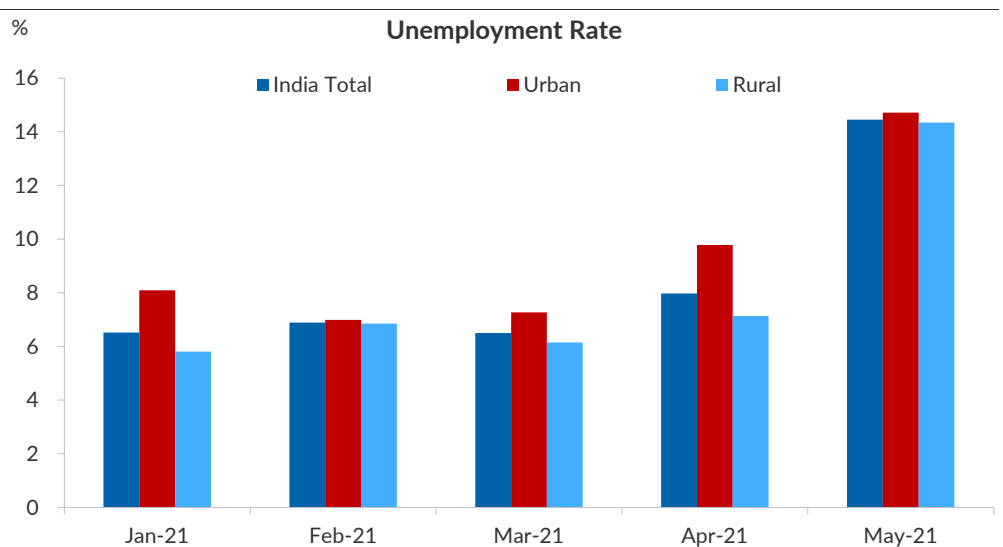
# Re-assessing the 2nd COVID wave

**Exhibit 7: ...lower mobility quite evident**



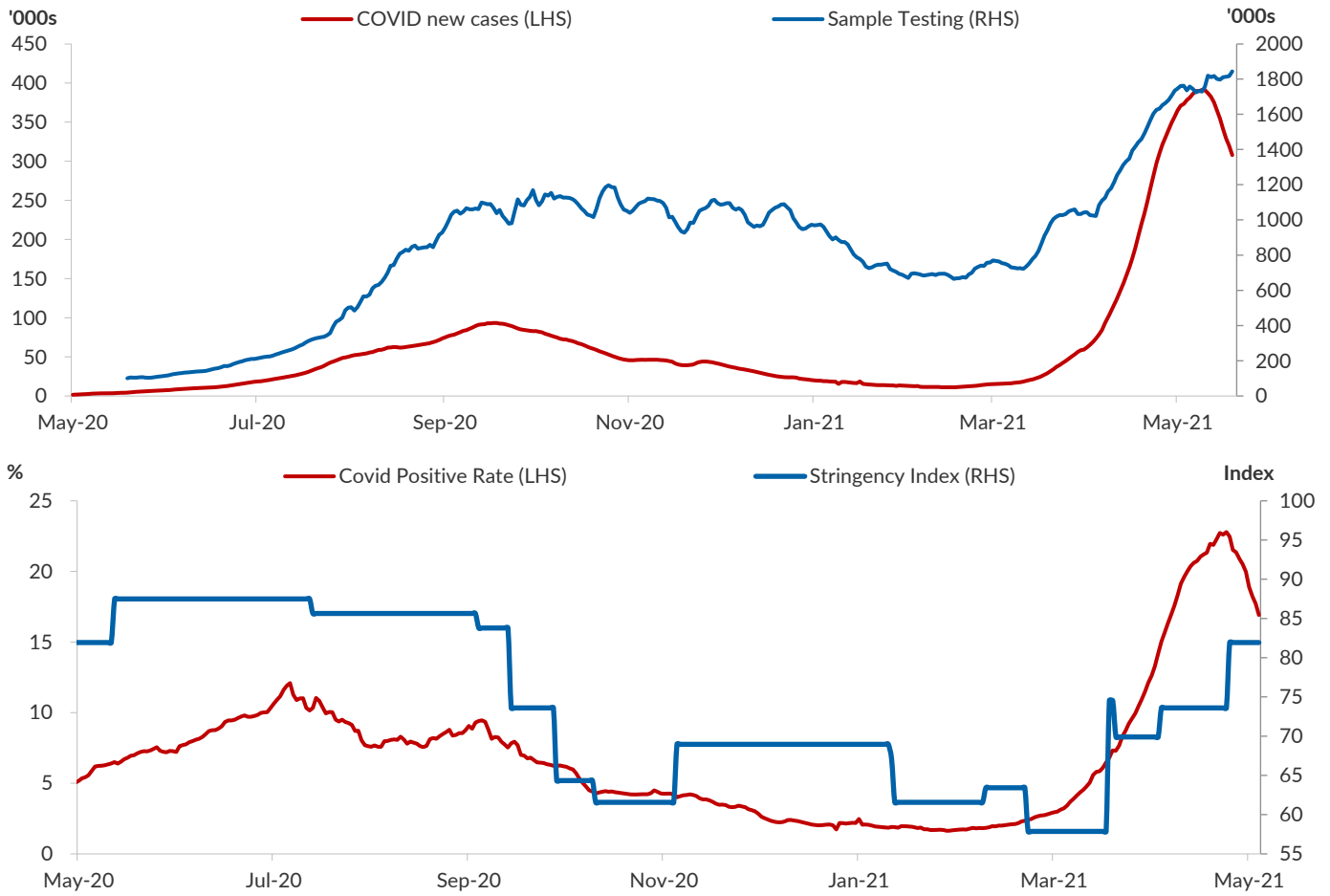
Source: CEIC, YES Sec – Research

**Exhibit 8: COVID has no discrimination, India's rural and urban unemployment at similar levels**



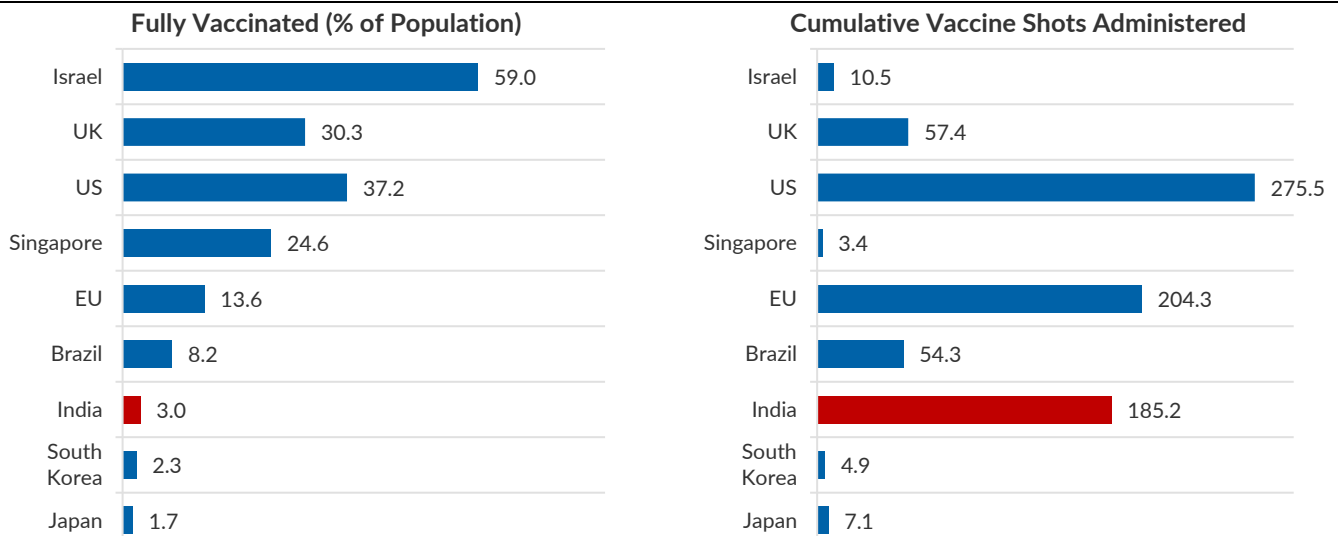
Source: CEIC, YES Sec – Research

**Exhibit 9: New COVID cases peaking amid higher Stringency measures**



Source: CEIC, YES Sec – Research

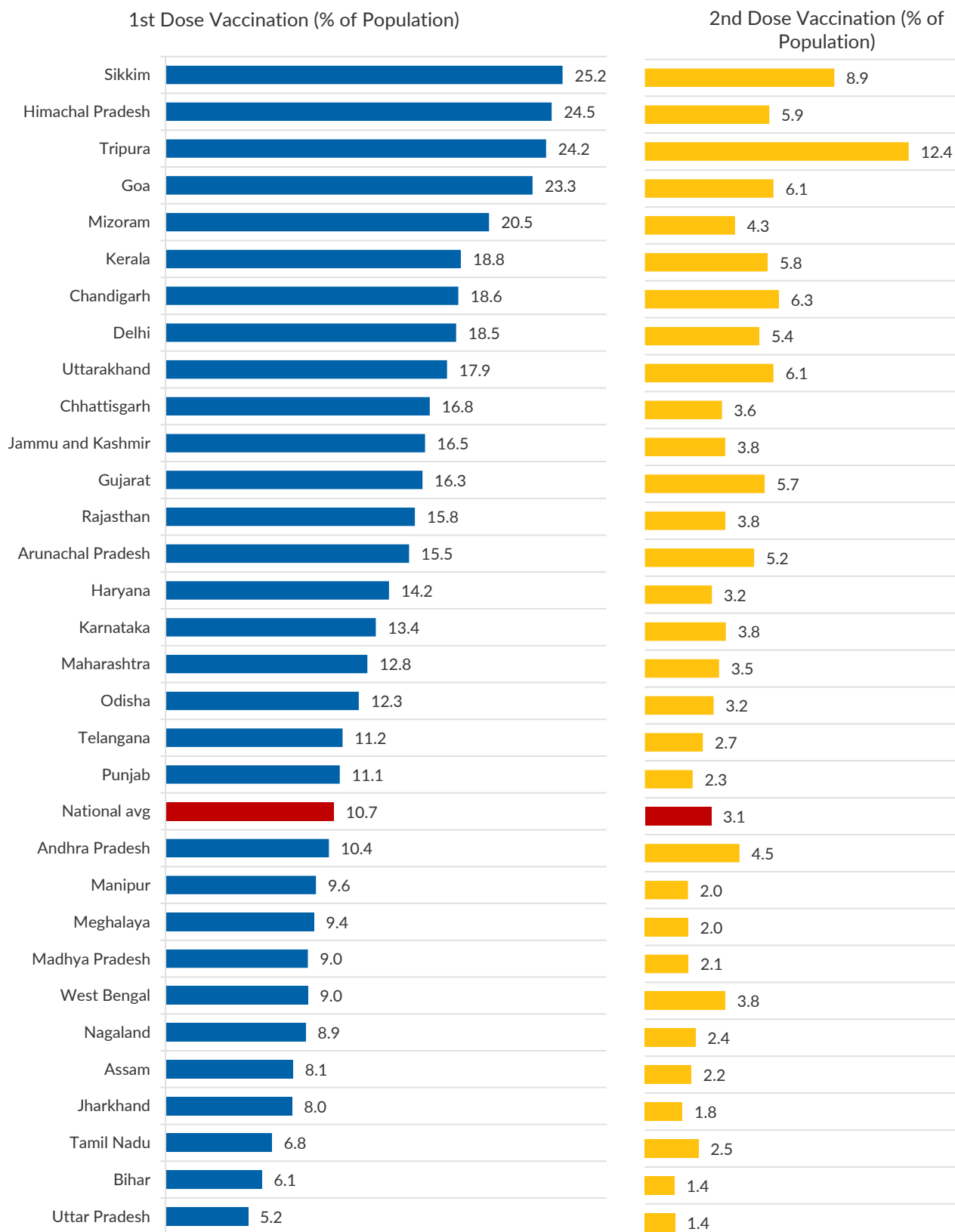
**Exhibit 10: India vaccination drive lagging behind some of prominent countries, however, total inoculation is second highest in the world**



Source: CEIC, YES Sec – Research

# Re-assessing the 2nd COVID wave

**Exhibit 11: Vaccination drive in Sikkim & Tripura among the best, while densely populated states like Bihar and UP way behind the national average**



Source: CEIC, YES Sec – Research

**Exhibit 12: Impact of Shut down of malls & restaurants in Tier I cities visible...**

Retail & Recreation	27-Mar	3-Apr	10-Apr	17-Apr	24-Apr	1-May	8-May	15-May
India	(21)	(27)	(27)	(34)	(46)	(55)	(61)	(64)
Maharashtra	(35)	(44)	(54)	(62)	(71)	(71)	(68)	(67)
Uttar Pradesh	(7)	(20)	(14)	(24)	(41)	(42)	(61)	(56)
Gujarat	(29)	(34)	(37)	(46)	(51)	(59)	(61)	(57)
Rajasthan	(18)	(25)	(21)	(32)	(56)	(61)	(67)	(72)
Madhya Pradesh	(22)	(37)	(35)	(57)	(68)	(69)	(71)	(70)
Delhi	(26)	(36)	(31)	(44)	(72)	(76)	(76)	(76)
Haryana	(16)	(22)	(16)	(22)	(31)	(44)	(65)	(64)
Tamil Nadu	(17)	(16)	(19)	(21)	(24)	(40)	(46)	(66)
Karnataka	(25)	(25)	(26)	(32)	(46)	(68)	(73)	(78)
West Bengal	(20)	(26)	(22)	(23)	(31)	(40)	(51)	(47)
Andhra Pradesh	(14)	(14)	(11)	(15)	(28)	(38)	(51)	(56)
Telangana	(23)	(27)	(25)	(32)	(43)	(47)	(48)	(61)
Kerala	(12)	(11)	(10)	(16)	(33)	(46)	(63)	(79)
Bihar	(1)	(18)	(8)	(15)	(26)	(34)	(46)	(50)
Punjab	(26)	(24)	(22)	(24)	(29)	(46)	(55)	(51)

Source: CEIC, YES Sec – Research



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