

India COVID-19 chartbook

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Economics - India

A pivot at play

- ◆ From pandemic to endemic, from few towards mass vaccines, and from goods to services demand, a pivot is at play
- ◆ And yet, the pace of domestic revival is a tad sluggish, likely led by the growth cost of rising inequality
- ◆ Thankfully two 'new' growth drivers, namely high-tech exports and new-age tech firms, could offset some of the growth scars the pandemic leaves behind

From pandemic to endemic. India's daily new COVID-19 cases continue to fall gradually. The reproduction rate remains under 1 and the positivity rate is steady at 2%. Experts believe that if new worrying variants don't emerge, COVID-19 may be heading towards an endemic stage in India. That said, the risk of a third wave persists due to local flare-ups. But may be of a smaller magnitude compared to the previous waves.

From few towards mass vaccination. In September, daily vaccinations averaged 8m jabs a day, a considerable increase from the mid-2021 levels. At these rates, over 50% of India's population will be doubly vaccinated by end-2021. Currently, around 45% of India's population has taken at least one jab.

From goods to services. Higher vaccination rates augur well for a rise in services demand. In fact, the services PMI in August rose faster than the manufacturing PMI. A similar trend was noted in railway traffic where passenger reservations grew faster than freight. After lagging its rural counterpart, urban demand has also caught up.

Having said that, the recovery momentum isn't strong enough, in our view. Our recovery tracker may have shot up from its lows, but it is *just 7%* above pre-pandemic levels (which was 18 months ago). The June GDP official release illustrated this point the best. Exports came in *17% above* pre-pandemic levels, but domestic private consumption was *7% below* pre-pandemic levels. This sluggishness, we believe, reflects the cost of growing inequality. 80% of India's labour force is in the informal sector, and about half of them have borne the brunt of the disruption which the pandemic has unleashed. And which is now weighing on demand.

In better news, two 'new' growth drivers have sprung up recently. We find that high-skill exports (e.g. mobile phones, pharma and IT services) have been gaining global market share (though not low-skill labour-intensive exports). Also, the exuberance around new-age tech firms bode well for jobs, capex and growth. These two 'new' sectors are still small, but may help limit the fall in India's post-pandemic potential growth (see [India's 'new' economy: Will exports and digital firms lead?](#), 8 Sep 2021).

This is an abridged version of a report of the same title published on 28-Sep-2021. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Aayushi Chaudhary

Economist

HSBC Securities and Capital Markets (India) Private Limited

Pranjul Bhandari

Chief Economist, India

HSBC Securities and Capital Markets (India) Private Limited

Priya Mehrishi

Associate

Bangalore

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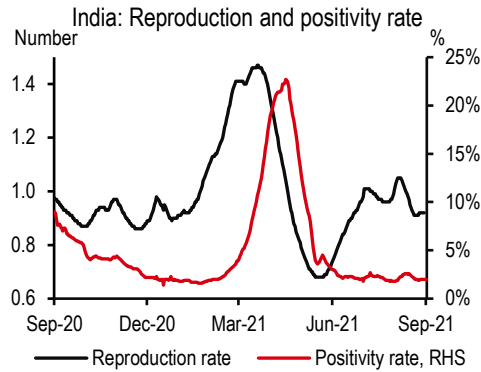
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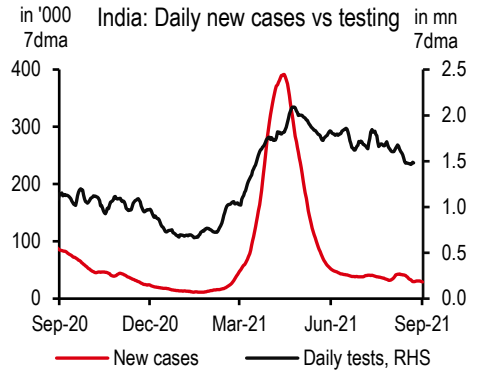
From pandemic to endemic¹

1: Reproduction rate remains under 1 and positivity rate is steady at 2%



Source: Our World in Data, HSBC

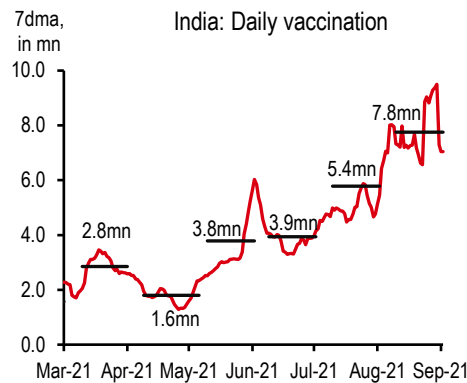
2: Daily testing rates remain stable at June levels despite the sharp drop in new cases



Source: CEIC, HSBC

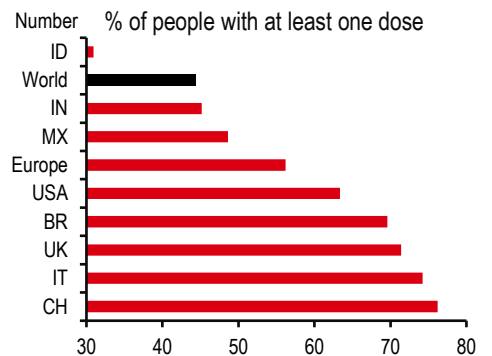
From few towards mass vaccination

3: Daily vaccination rates have picked up quickly in recent months



Source: CEIC, HSBC

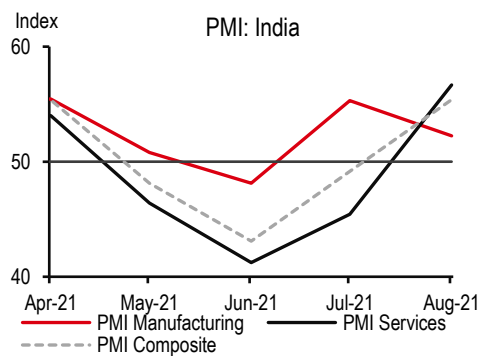
4: Currently, around 45% of India's population has received at least one jab, a touch above the global average



Source: Our World In Data, HSBC

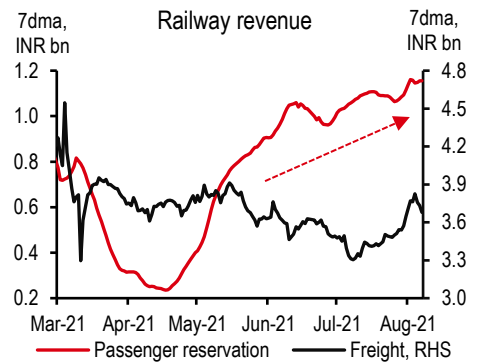
From goods to services demand

5: For the first time in the pandemic, services PMI accelerated faster than manufacturing PMI in August



Source: IHS Markit, HSBC

6: This trend was mirrored in railway earnings too; passenger reservations grew faster than freight

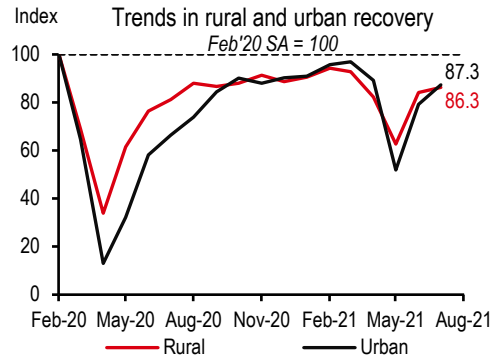


Source: CEIC, HSBC

¹ Hindustan Times: Covid-19 may be heading towards endemic stage in India, says virologist Gagandeep Kang, 20 Sep'21

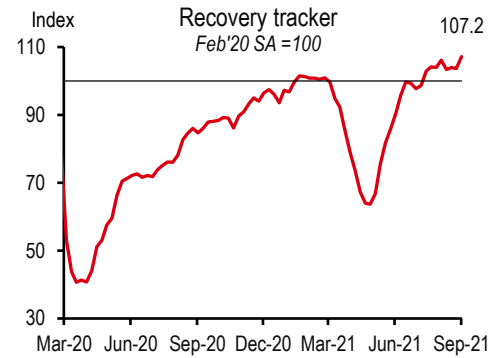
And yet, the recovery isn't good enough

7: After lagging its rural counterpart, urban demand has risen too



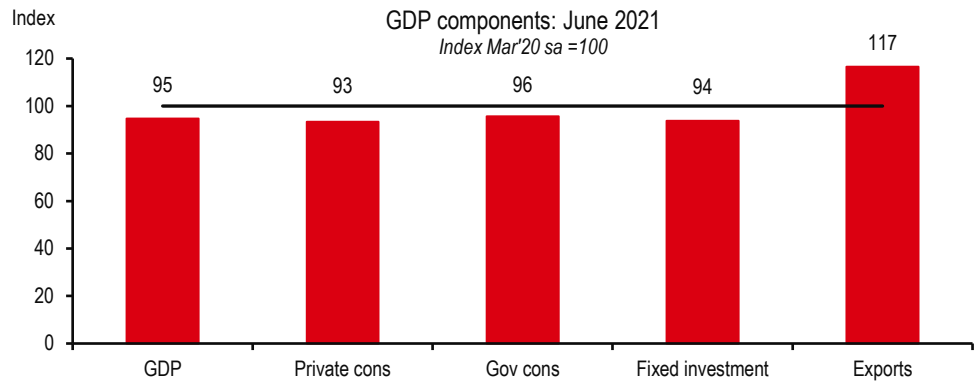
Source: CEIC, HSBC

8: Yet, our recovery tracker is close to January 2020 levels; implying slow growth



Source: CEIC, CMIE, HSBC

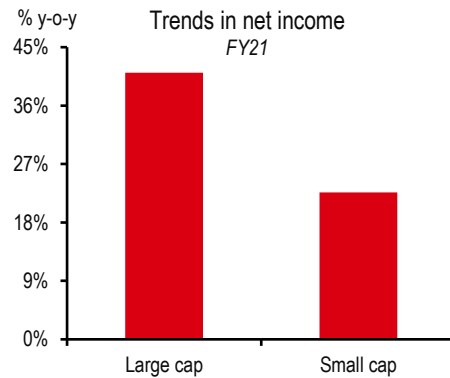
9: The June GDP official release made it all too clear – external demand has bounced back faster than domestic consumption



Source: CEIC, HSBC

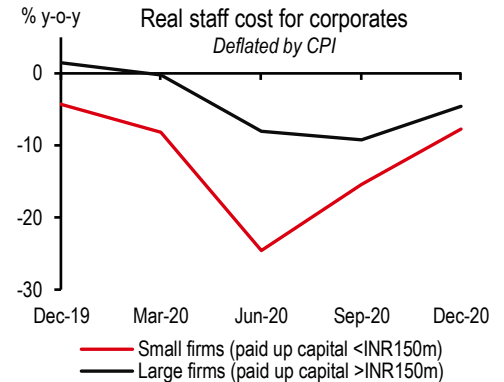
Can't escape the cost of rising inequality

10: At the firm level: Large listed firms have done relatively better than smaller listed firms



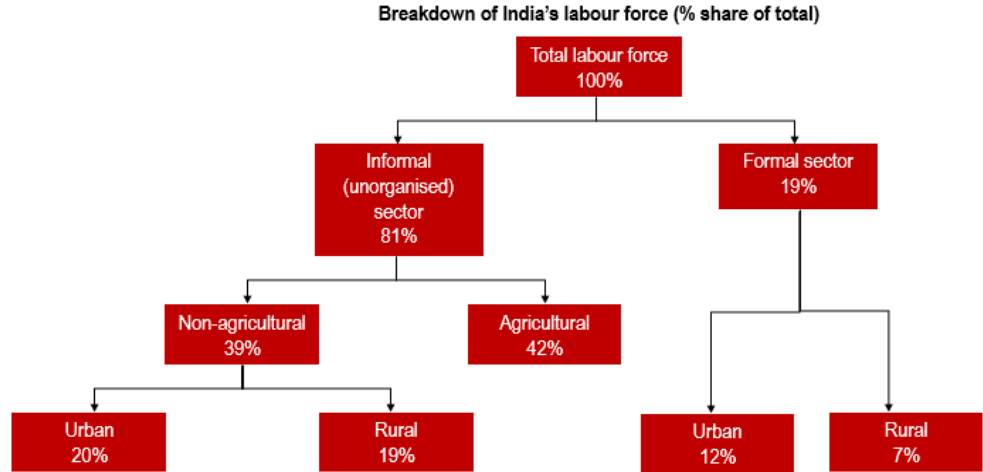
Source: Based on latest constituents of BSE large and small cap indices

11: At an individual level: Salaries of individuals at large listed firms have held up better than smaller firms



Source: RBI's database of the performance of the private corporate business sector, CEIC, HSBC

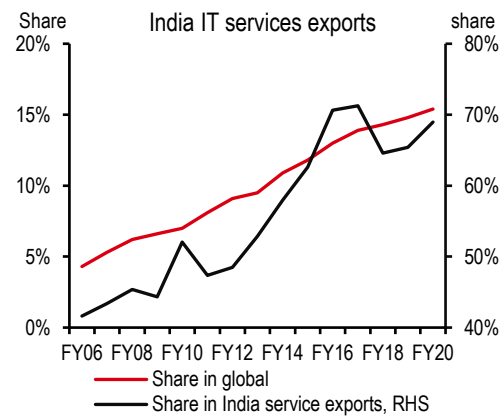
12: Non-agricultural informal workers (c40% of the total labour force) who do not have well-defined social welfare schemes are at the receiving end of forced-formalisation



Source: PLFS, NSS and census data, HSBC estimates

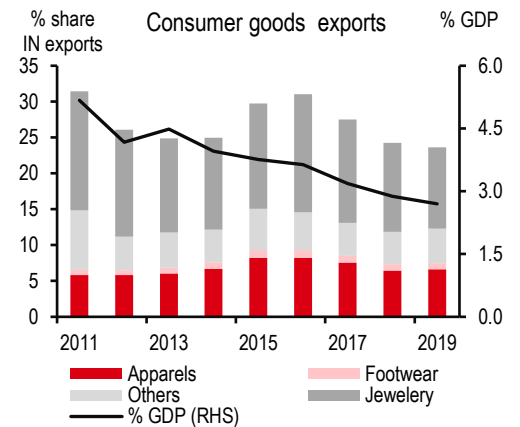
Thankfully, two 'new' growth drivers have emerged

13: High-skill exports – mobile phones, machines, pharma products and IT services – have been gaining market share



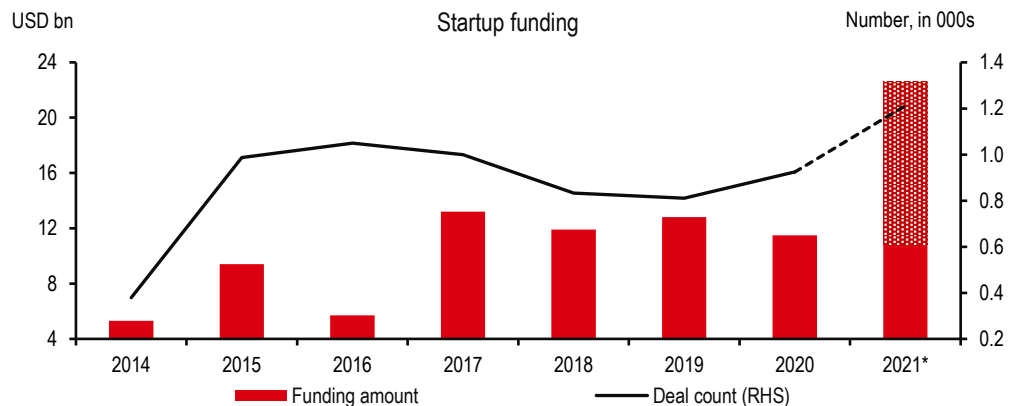
Source: Nasscom, CIEC, HSBC

14: Though low-skill exports have been losing market share



Source: International Trade Centre, HSBC

Chart 15: The sharp rise in new-age tech firms, could add to jobs, capex and growth



Source: INC42 Plus, HSBC. Note: *1H2021 is actual, 2H2021 is estimated

Disclosure appendix

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Issuer of report

HSBC Securities and Capital Markets (India) Private Limited

Registered Office

52/60 Mahatma Gandhi Road

Fort, Mumbai 400 001, India

Telephone: +91 22 2267 4921

Fax: +91 22 2263 1983

Website: www.research.hsbc.com

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