India’s second COVID wave: More cases, smaller economic impact

Insights for What’s Ahead

- **Caseload may have peaked** - With a rapidly rising caseload, India was at the epicenter of the global pandemic in May, accounting for about half of globally known new cases. As rapid as it went up, newly recorded cases are now declining.

- **Implications for the Indian Economy** - The economic impact of the second wave is likely to be smaller compared to last year’s national lockdown, but it will add to further permanent output losses. GDP growth for the calendar year 2021 is forecasted at 9.3, reflecting the low base from 2020, while permanent output losses are estimated at 10% of prepanademic projected medium-term GDP.

- **Despite export restrictions, vaccine rollout remains slow** - As a major producer and exporter of affordable vaccines, India’s export restrictions will delay the vaccine rollout in many emerging and developing nations, particularly in sub-Saharan Africa and Southeast Asia. Despite these restrictions, India’s vaccine rollout has so far failed to pick up speed, and as of early June about 13 percent of the population has received at least one shot, which is a bit higher than most countries in the region but below most other major emerging markets and well below those of Europe and the US.

- **Impact on global oil markets** - India’s pandemic is likely to have a mild impact on global oil demand given strong economic trends in other major economies, and ongoing vaccination campaigns that would ease COVID-19 related restrictions and increase mobility. However, India’s second COVID-19 wave may exercise negative pressure on oil prices as OPEC+ economies gear up to increase production by July 2021. Ultimately, another oil stock rebuild as a result of increased supply and lower oil demand, might push prices below $60/bbl in Q3 before going back to $70/bbl by end of 2021.
COVID-19 Update

In May of 2021, India became the epicenter of the global pandemic, accounting for about half of globally known new cases. Confirmed cases of COVID-19 in India started to increase rapidly in early April of this year and may have peaked about a month later in early May when an average of 350 to 400 thousand tests per day returned positive. The second wave was much more severe and with a more rapid buildup than the first (Chart 1). The magnitude of India’s second wave may be understated as many cases may go undetected (see Chart 1, right hand scale). However, on a per capita basis, the second wave peak was lower than those seen in other economies. For example, whereas the peak in May in India saw 283 officially reported cases per million persons, comparable figures put the tally at 361 in March 2021 in Brazil, and 315 in January 2021 in South Africa. In Europe and the US, comparable figures are even higher, though a higher testing capacity in these economies likely accounts for a large part of the difference.

When the global pandemic intensified rapidly towards the end of March of 2020, India went into a particularly strict national lockdown, in comparison with other economies. Due to the strong public backlash the Indian federal government received for imposing a full country lockdown in 2020, it passed on the decision to restrict mobility in 2021 to state governments. While at present certain Indian states have implemented restrictions on activity—including curfews and shutting of non-essential shops and workplaces—no nationwide lockdown has been implemented. Nonetheless, mobility indicators dropped rapidly since early April and in May were not that far from their 2020 troughs, which likely contributed to the rapid decline in recorded cases (Chart 2).
Impact on the Indian economy

The second COVID-19 wave is dampening Indian oil demand. Activity restrictions and curfews are negatively affecting oil demand and interrupting its recovery path, although the impact is relatively smaller compared to Q2 2020 (Chart 3). India witnessed a sharp contraction in petroleum products consumption in April and May of 2020, recording the first annual decline in 20 years during the fiscal year 2020-2021 (beginning April 2020 and ending March 2021). Since then, demand for petroleum products recovered progressively and even surpassed pre-pandemic levels in March 2021, supported by the lift of lockdown, festive season, and political rallies. However, the severe second wave of COVID-19 cases curtailed the nascent recovery as a result of renewed regional lockdowns and mobility restrictions, reducing petroleum products consumption by 9.4 percent month-on-month in April 2021. Oil demand is expected to remain subdued for the rest of Q2 before trending upward during the second half of the year.

Motor Spirit (MS) or petrol used for transportation, demand suffered drastically during the early months of the pandemic in 2020, but quickly recovered once mobility restrictions were lifted. This time around, despite the April 2021 monthly decline, we do not expect demand for MS to decline since no full national lockdown measures were imposed. Meanwhile, renewed international and domestic travel restrictions have added further pressure on already weak demand. Indeed, aviation fuel consumption is down 14 percent month-on-month in April 2021 and 44 percent since December 2019 and might remain anemic until travel bans are lifted (Chart 4).
Select industries are suffering more than others amid second-wave disruptions. India’s Purchasing Manager Index (PMI) for the total economy as well as the manufacturing PMI trended downward in May 2021 (Chart 5). The total economy index fell into contractionary territory at 48.1, the lowest since August 2020 while the manufacturing PMI was 5 points lower than the previous month at 50.8. While most industries continue to work with limited capacity, iron and steel industries are diverting resources to produce liquid oxygen to support COVID patients.

Leading indicators of Indian economic activity point to a decline in output in 2Q 2021. Demand for High-Speed Diesel (HSD), the most consumed fuel in the country and considered a good leading indicator of India’s economic activity, fell by half in March 2020, but improved rather quickly upon lifting of the national lockdown (Chart 6). In April 2021, HSD consumption decreased by 7.5 percent month-on-month and is expected to decline even further in May as more regional lockdowns across the country are imposed.

![Chart 5: India’s PMIs flat or trending downward in Q2 2021 but remain above the 50 “expansionary” level](source: The Conference Board calculations using data from Haver Analytics)

![Chart 6: India’s diesel consumption hints to a weaker LEI recovery in Q2 2021](source: The Conference Board; Haver Analytics)
While GDP is expected to register a severe contraction in the second quarter of 2021, the magnitude of the decline is projected to be notably smaller than last year’s second quarter contraction (Chart 7). Two main assumptions underly this forecast. The first is that confirmed cases will continue their downward trend over the coming weeks, leading to relaxation of restrictions and a rebound in mobility indicators from June onwards. The second assumption is that second- or third-wave lockdowns generally have a much more limited impact on economic activity, evidenced in the experiences of other economies that suffered multiple waves. Restrictions are often more targeted towards specific economic activities and firms have largely adapted to the lockdowns by shifting to online commerce and remote work. There is possibly also less fear among consumers to go out as more information on the main transmission mechanisms of COVID-19 are available.

India may experience significant loss in GDP over the medium term. The Conference Board forecasts annual real GDP growth for India in the calendar year 2021 at 9.3 percent year over year, up from a contraction of 7.1 percent in the calendar year 2020. However, the strength of this growth rate is deceiving given a comparison with the low base in 2020. Furthermore, this growth rate still falls short of bringing Indian real GDP back to its prepandemic trajectory as the pandemic may have caused a permanent reduction in Indian GDP of about 10 percent (Chart 8). To close this gap, a massive fiscal stimulus program would be required, for example as seen in the US. However, unlike the US, the Indian government lacks the resources and means to further expand fiscal spending which would push the budget deeper into deficit territory.
Global impact may be limited

The impact of the second wave resurgence of COVID-19 infections in India on global trade and supply chains is likely to be most urgently felt in the chemicals sector in general and vaccine production in particular, as the country is home to the world’s largest vaccine makers, including the Serum Institute.¹ Vaccine export restrictions were implemented in mid-April as the focus shifted towards domestic use. Before then, India shipped over 66 million doses worldwide, mostly to economies in the developing world (Chart 9).² These supply shortages could delay the vaccine rollout in these economies, and consequently economic recoveries, even as developed economies may start to share more of their excess doses.³

Further ripple of effects on global trade may be limited. India is a large outsource destination of back-office business, including in telecommunications, computer, and information services (Chart 10). However, this sector is not likely to be negatively affected by current restrictions on activity. Indeed, in 2020, exports of these services continued to grow as employees shifted to telework. However, absenteeism due to sickness and workers caring for ill family members has been a challenge, leading to some disruptions in this sector.⁴ On the goods side, India is an important exporter of agricultural goods and textiles, but impacts of the second wave are likely to be limited as regional mobility restrictions are not targeted towards these sectors.

¹ According to their own estimates, about two-thirds of children in the world receive at least one vaccine manufactured by the Serum Institute. [https://www.seruminstitute.com/about_us.php](https://www.seruminstitute.com/about_us.php)
² Ministry of External Affairs, Government of India, [https://www.mea.gov.in/vaccine-supply.htm](https://www.mea.gov.in/vaccine-supply.htm)
³ COVAX, a worldwide initiative aimed at equitable access to COVID-19 vaccines, was supposed to receive half of the total two billion vaccines this year from India. See ‘India’s Covid crisis hits Covax vaccine-sharing scheme’, BBC news, 5/17/2021, [https://www.bbc.com/news/world-57135368](https://www.bbc.com/news/world-57135368)
⁴ ‘India’s back office business faces a reckoning from Covid-19’, Financial Times, 23 May 2021
Despite India being a major contributor to global oil consumption, ranking third behind China and the United States at an average of 4.9mb/d in 2019 and 4.4mb/d in 2020, The Conference Board anticipates that the second pandemic wave in India will have a small impact on global oil demand in 2021. In fact, the decline in India’s oil demand would be compensated for during the second half of 2021 as the pandemic recedes, and consumers increase travel during the Northern Hemisphere summer and Winter Holiday seasons, keeping 2021 global oil demand growth between 4.8-5.5 mb/d. Downside risks remain high during H2 2021 as more transmissible and deadly variants continue to appear, risking another global outbreak.

Under a “mild shock” scenario where India’s oil consumption decreases by around 7 percent in Q2 2021, followed by a gradual recovery in the second half of the year, global oil demand would rise by 4.1 mb/d in 2021, 780kb/d lower than our base case scenario (Chart 11). In parallel, the mutant virus cases do not escalate into renewed outbreaks in Europe and the US, allowing those economies to welcome back vaccinated tourists during their summer season, pushing mobility and travel to rise. A more pessimistic scenario would be a long second wave in India that would continue well into Q3 2021, where the mutant virus causes renewed lockdowns in OECD economies. Global oil demand would then end 2021 at around 97.1mb/d.

India’s pandemic and OPEC+ moving forward with its planned increase in production in Q2 and Q3 will limit the oil price recovery in the upcoming months. In a “mild shock” scenario, oil prices are expected to decline below $60/bbl in Q3 before rising to $65/bbl by the end of 2021 due to weaker oil demand and increased OPEC+ production (Chart 12). However, a decision by OPEC+ to postpone further production increases in Q3 would allow prices to rise to $70/bbl.
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