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Macro Pulse
Report

August 2024

From the desk of the Chief Economist

Dear Readers,

We are almost in the last phase of the second quarter of the fiscal with GDP data for the first quarter to be released shortly. The general momentum of domestic economic activity has witnessed some moderation in the first quarter of the fiscal, with some high frequency indicators indicating an adverse impact of the general elections along with the excessive summer heat conditions in some sectors of the economy. Corporate results of the first quarter indicate some decline in profitability in the industrial sector due to higher input costs which may translate to weaker GVA growth in the manufacturing sector in Q1FY25.

Notwithstanding the growth moderation visible in the first quarter, an expectation of a continuing revival in rural demand driven by an improved monsoon, a pick up in public capital expenditure post elections and a steady rise in private capital expenditure are expected to strengthen growth print in the subsequent quarters. Our full year GDP growth forecast stands at 6.8%.

Globally, interest rates are clearly on a downtrend with largely benign commodity prices despite the geo-political and trade headwinds. US consumer inflation in July has been at 2.9% and there are some signals of a weaker labour market which is likely to lead to the much awaited Fed pivot in Sep-24. While India CPI inflation has surprised somewhat on the downside at 3.5% in Jul-24, RBI is set to look through this data given the large base factor at play and the continuing sequential pressures in food prices. We believe that RBI may take a decision to axe rates in Q3 or Q4 of this fiscal if the headline inflation print stays close to 4.0%, supported by a drop in food inflation. Meanwhile, tighter government borrowings and higher demand from FPIs may bring sovereign bond yields down to 6.7% in the second half of the year. While the INR has witnessed increased pressures and has almost touched 84/USD given the high volatility in the global markets, India's external position remains fairly healthy with a solid accretion to reserves and a moderate current account deficit.

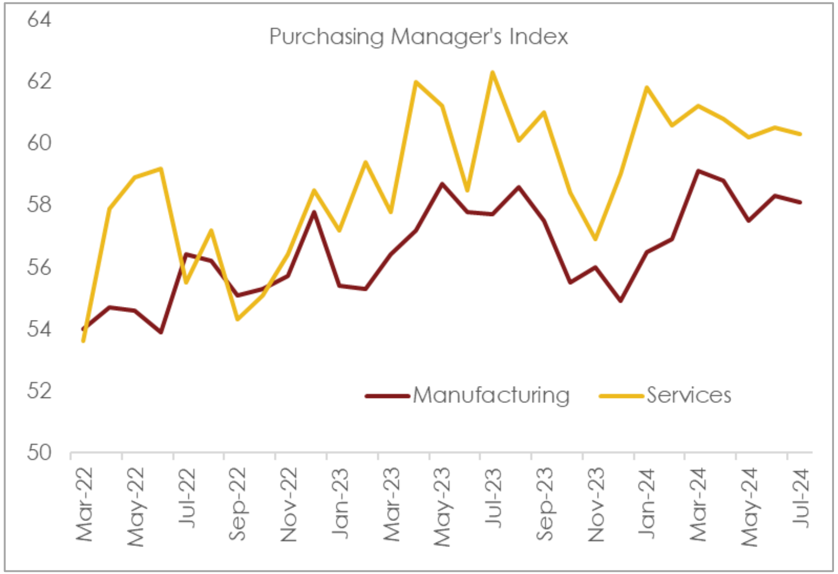
The festive season is coming near and retail purchases are set to pick up which will define the demand trends in the current year.
Cheers,

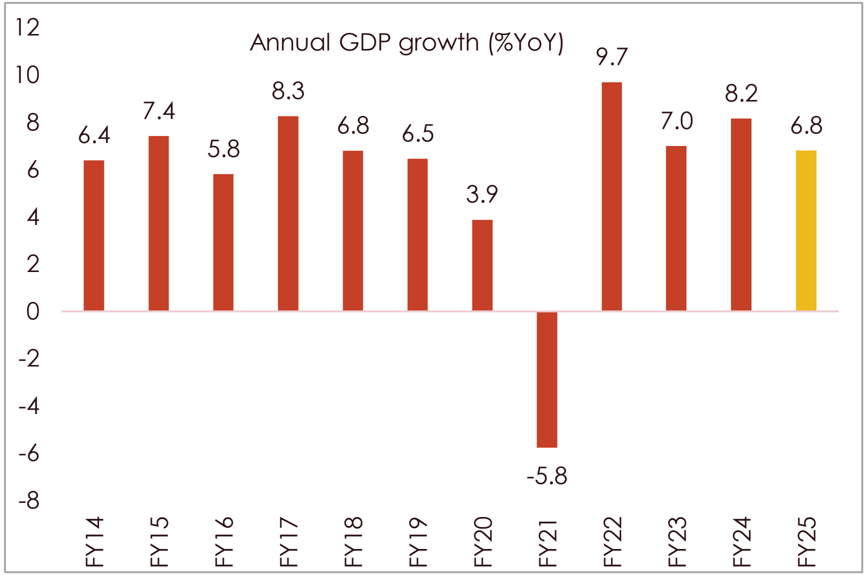
- Suman Chowdhury, Chief Economist and Head – Research

Economic activity remains resilient so far in FY25…

Both PMI for manufacturing and services sectors were only marginally lower in Jul-24 compared to previous month. The composite PMI slipped marginally to 60.7 in Jul-24 compared to 60.9 in Jun-24. PMI indices remained largely steady till July.

RBI in its recent policy marginally lowered Q1 GDP growth forecast by 20 bps to 7.1%. While RBI's GDP growth for the fiscal FY25 is projected at 7.2%, our forecast stands at 6.8%.

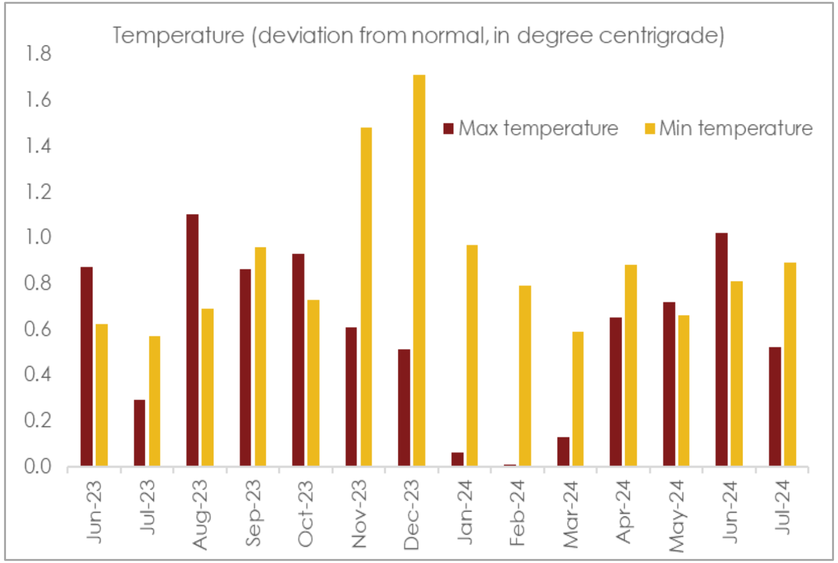


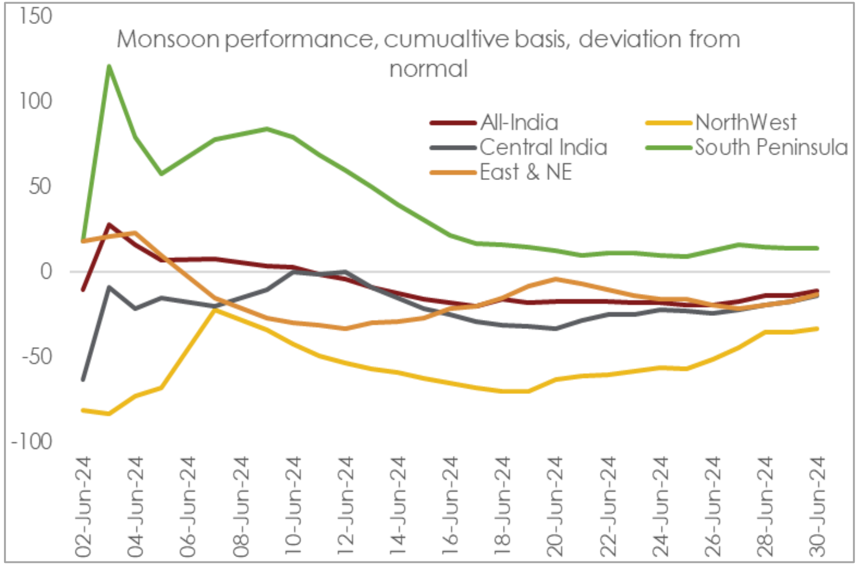


…despite heat waves, delayed rains and the poll season

Unusually warm months May-24 and Jun-24 are likely to have weighed on growth momentum, esp. in some of the consumer-oriented sectors such as auto sales. This period also coincided with polls in the country.

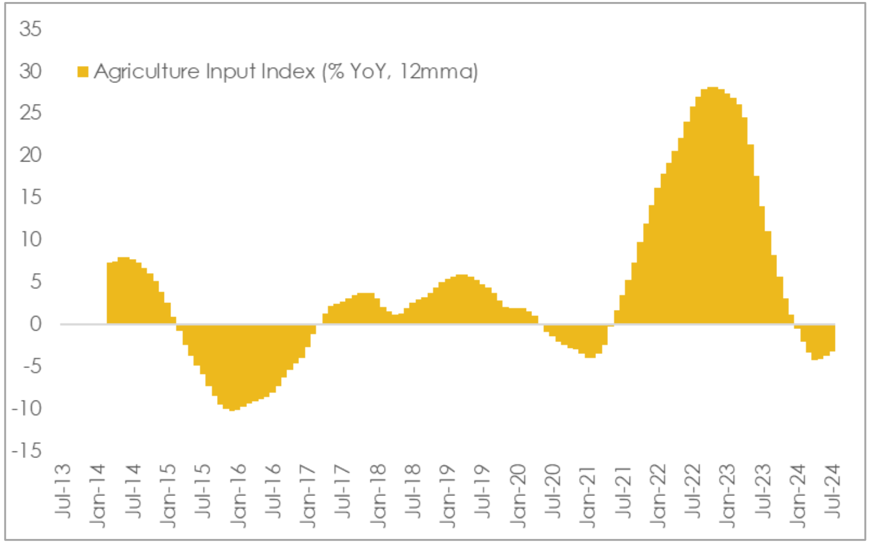
Despite a timely onset, rainfall progress was slow in large parts of the country in Jun-24. Only Southern India received above normal rainfall, with all other regions reeling in deep deficit, especially NW.



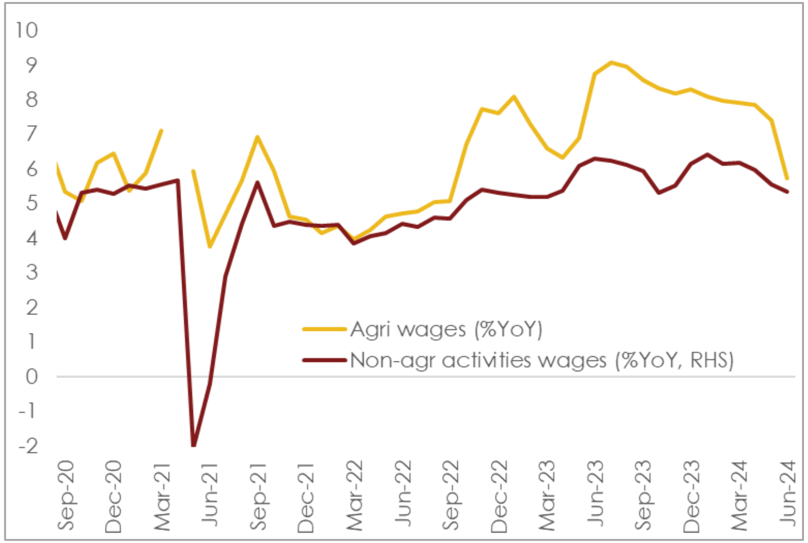


Macroeconomic factors turn conducive to rural economy

Agri input costs, on a trend basis (12mma) remain in contraction over the last 6 months, offering support to the agriculture sector. This brings relief and a scope to rebound, especially after uneven monsoons in 2023 along with climate vagaries, that pushed FY24 agricultural GVA to the lowest level in last 8 years (1.4%)



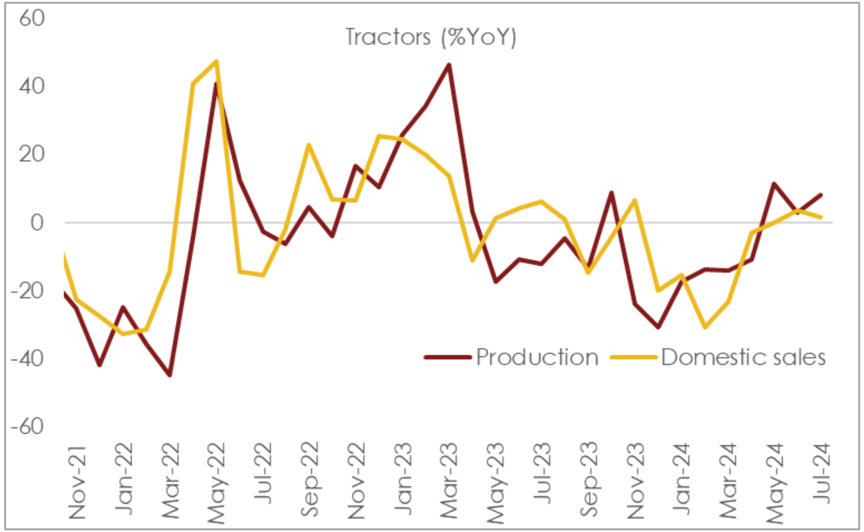
Additional support to agricultural sector comes from faster growth in farm wages in the last three quarters. This is likely to have helped cushion the impact of inflation.

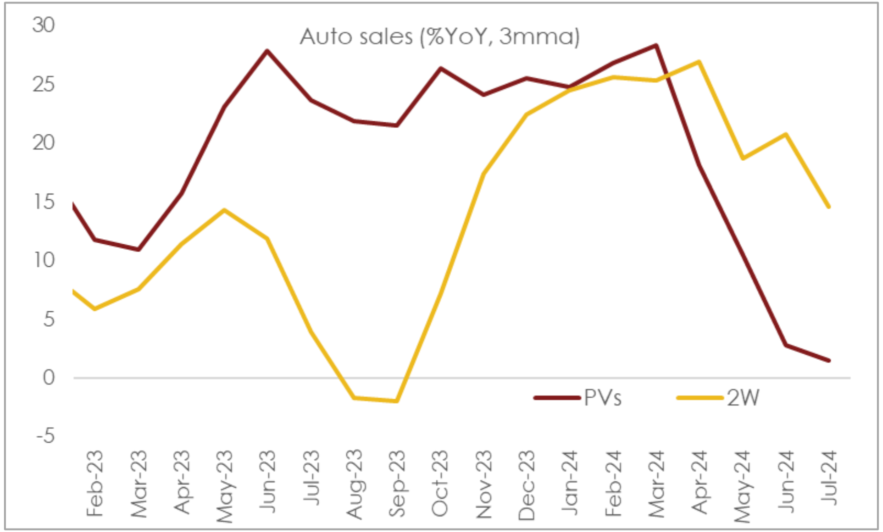


Rural demand shows signs of nascent pick-up

Growth in tractor sales as well as production has moved into positive in recent months, amidst expectations of above normal Southwest monsoon aiding Kharif output this year.

Reflecting the improving rural sentiment, two wheeler sales growth has been holding up well on a FYTD basis, as opposed to passenger vehicles which have seen a marked correction.

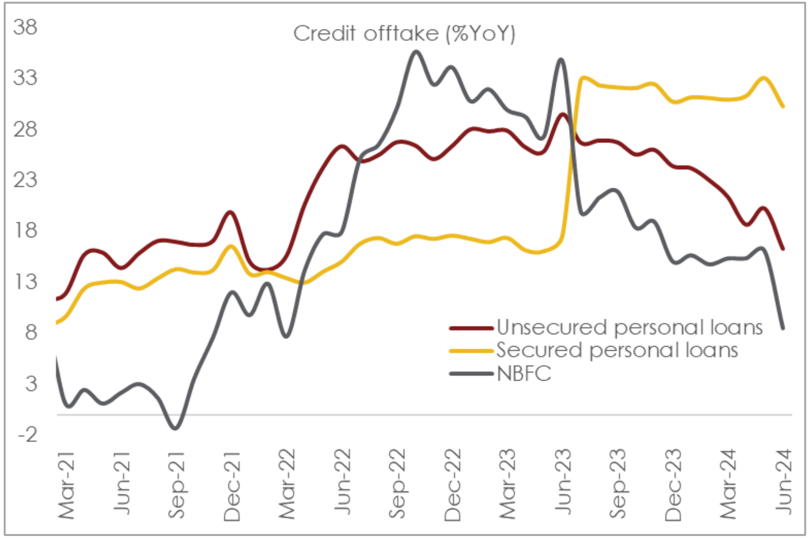


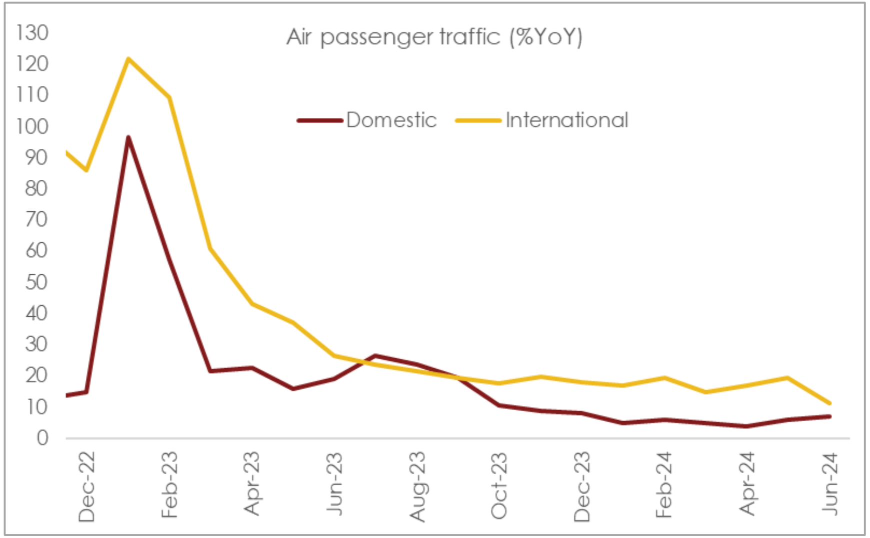


Urban consumption likely to face headwinds

While urban consumption has held up well so far, impact of lagged monetary policy tightening as well as regulatory measures to curb the pace of unsecured lending, are expected to weigh on its pace in FY25, esp. on discretionary demand. Bank lending to NBFC sector has further slowed down in Jun-24.

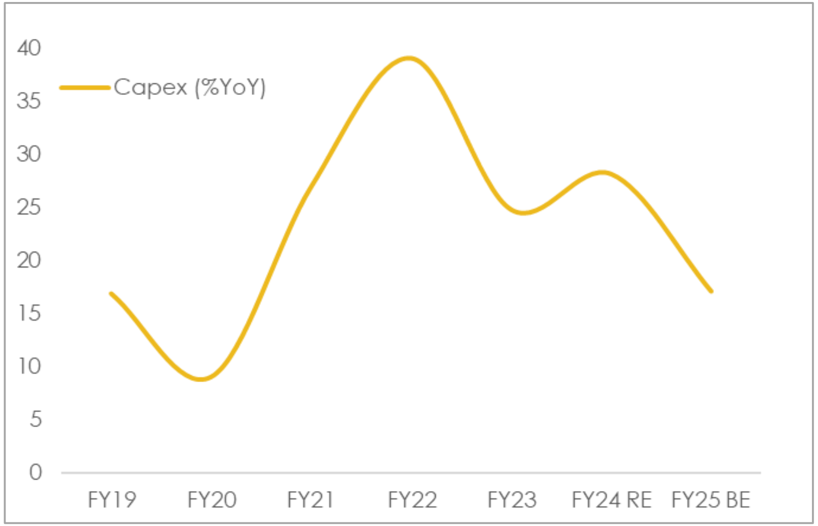
Subdued growth outlook for IT industry, rise in price of discretionary products (cars, televisions and smartphones) could weigh on price-sensitive demand component, along with ongoing normalization in demand for contact-intensive services such as air travel and tourism.



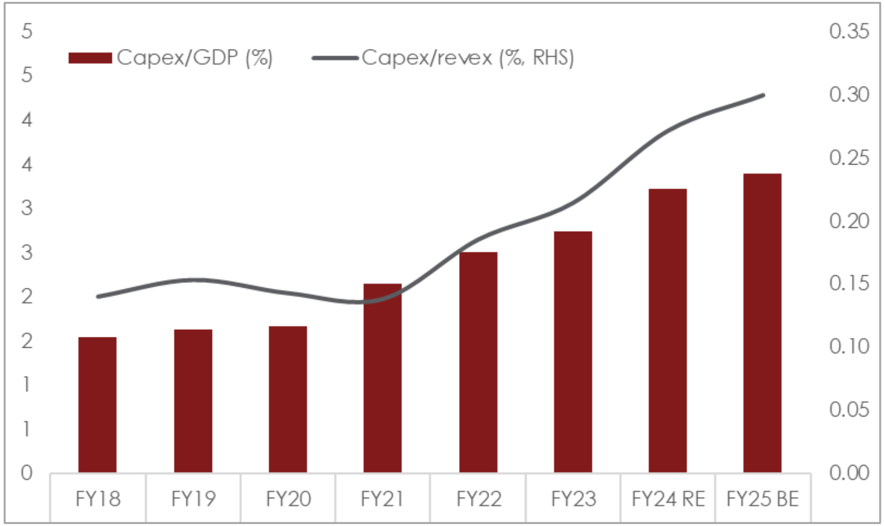


Capex support to growth intact

The Union budget maintained the level of capex at Rs 11.1 tn – i.e. unchanged from the interim budget. In annualized terms, though this translates into a growth of ~17% in FY25, compared to >30% growth on average in the last 4 years; it continues to underpin the thrust of government capex to support growth.



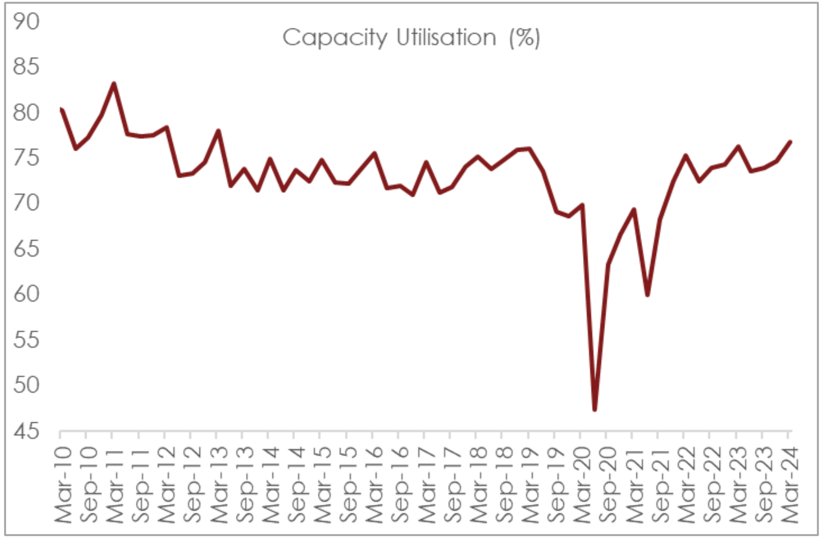
The slowdown in the pace of capex spending notwithstanding, capex as a % of GDP is expected to improve to 3.4% in FY25 from 3.2% in FY24, along with an improvement in quality of spending (ratio of capex/revex)

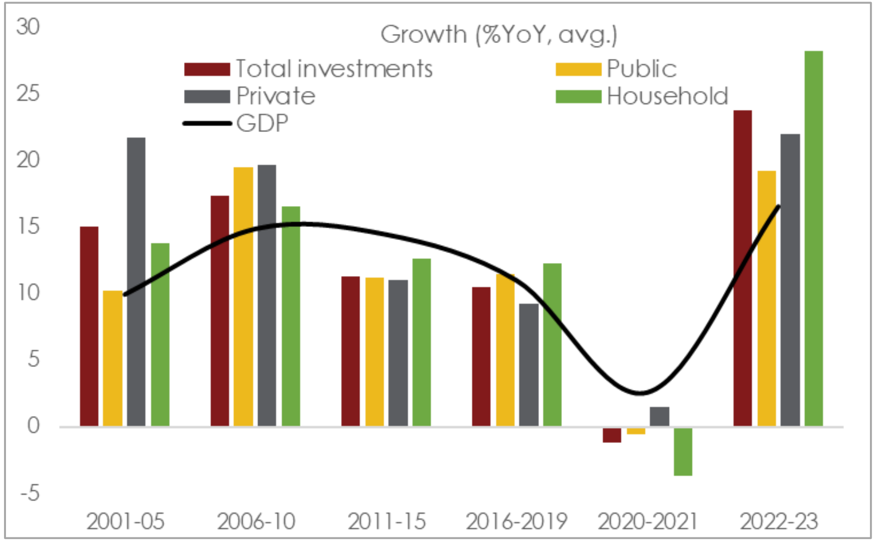


Private capex recovery underway

Capacity utilisation levels have improved to ~75% on trend basis, over the last 5 quarters as per RBI's OBICUS survey. Despite healthier corporate balance sheets and comfort from global commodity cycle (albeit somewhat waning), private capex recovery remains uneven.

Private capex in nominal terms has grown faster than GDP growth in the post pandemic phase. Having said, recovery in private investment to GDP ratio to 10.8% in 2023 still stands significantly below its previous peak of 18.3% in 2008.

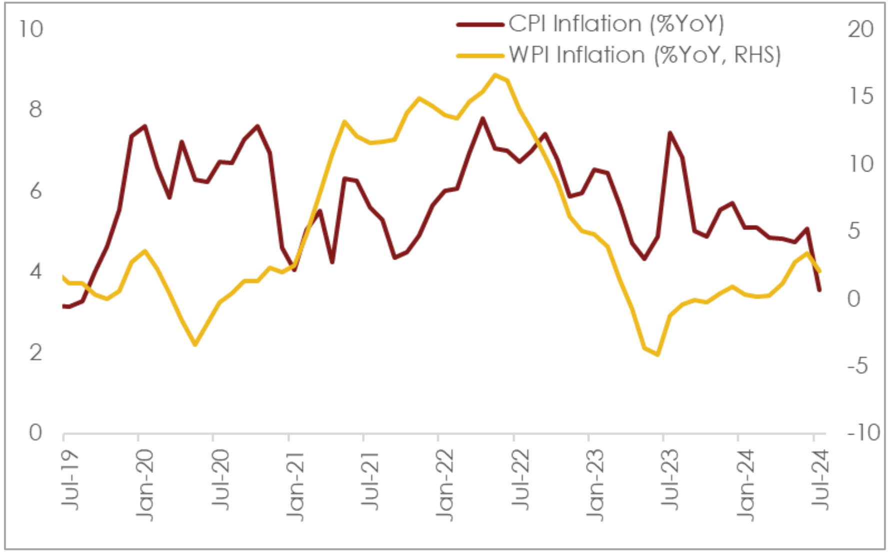


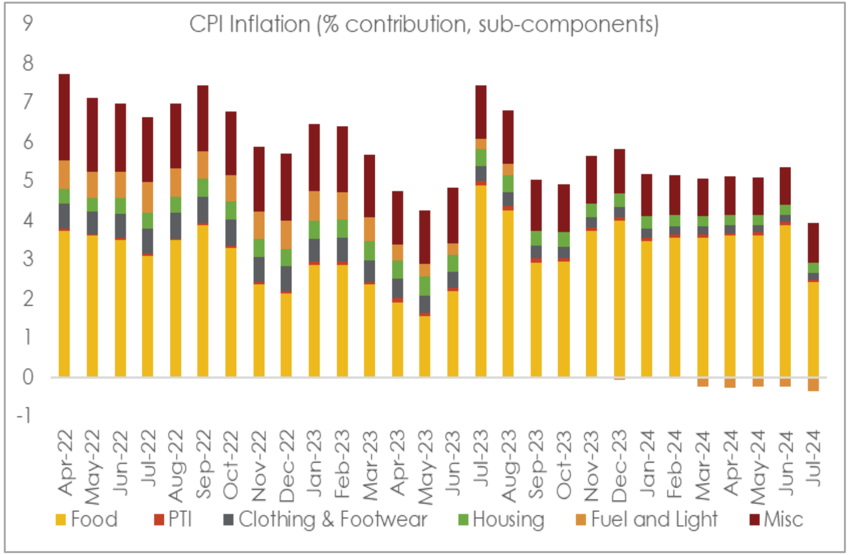


Jul-24 CPI inflation moderates to a 5-year low

A highly favorable base effect, expectedly pushed CPI inflation below 4.0% in Jul-24 after a gap of nearly 5 years. Posting a 3.54%, the annualized print was slightly below market expectations.

However, the contribution of food to the inflation basket still remained elevated. In Jul-24, food prices accounted for nearly 70% of headline print, amidst lingering heatwaves and slow progress of Southwest monsoon.



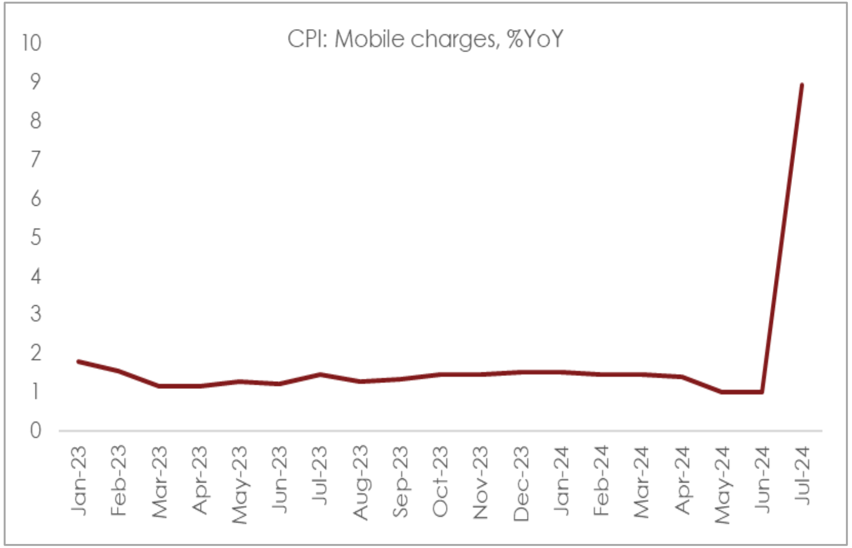


Favourable base masks sequential price pressures

The benign Jul-24 CPI inflation however masked sequential price pressures on two counts – one, continued stubbornness in food prices owing to vegetables, and second, upward revision in mobile charges CPI index following the tariff hikes by key telecom companies.

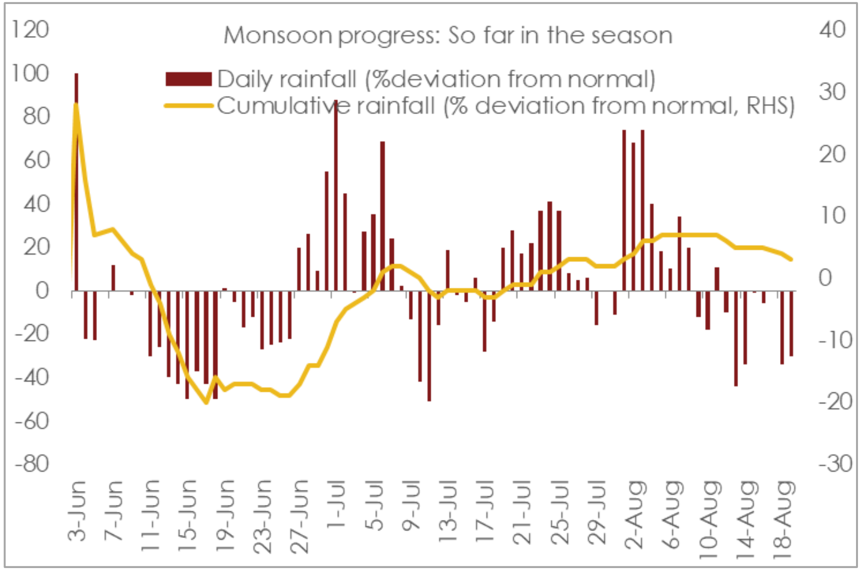
Though the pace of uptick in vegetable prices moderated in Jul-24 (compared to Jun-24), price pressures continued to remain strong led by Tomatoes, Onions and other vegetables.

Vegetables	May-24	Jun-24	Jul-24
Onion	0.5	24.1	20.5
Raddish	14.6	13.9	11.2
Carrot	6.5	5.4	13.7
Garlic	0.8	4.7	5.1
Ginger	4.6	6.8	3.8
Spinach etc.	6.0	11.5	4.9
Tomato	1.7	48.8	41.8
Brinjal	4.2	17.0	12.0
Cauliflower	17.3	16.6	24.5
Cabbage	8.1	14.1	18.0
Green Chillies	-0.8	14.1	4.5
Lady finger	-12.9	3.6	3.0
Parwal	-20.6	-6.4	0.8
Pumpkin, Gour	-6.7	11.5	11.8
Peas	4.1	10.0	31.8
Beans	14.9	11.1	-1.7
Lemon	0.4	-7.4	-10.5
Others	-4.2	7.3	5.3
CPI veggies	**3.3**	**14.2**	**9.3**



Monsoon picks up in Aug-24, distribution improves

Monsoon performance has seen a lagged catch-up, since late Jul-24 and continuing into Aug-24. As of 26th Aug-24, cumulative rainfall for all-India stands at 6% surplus. This has been accompanied by improvement in distribution, esp. to North-West region.



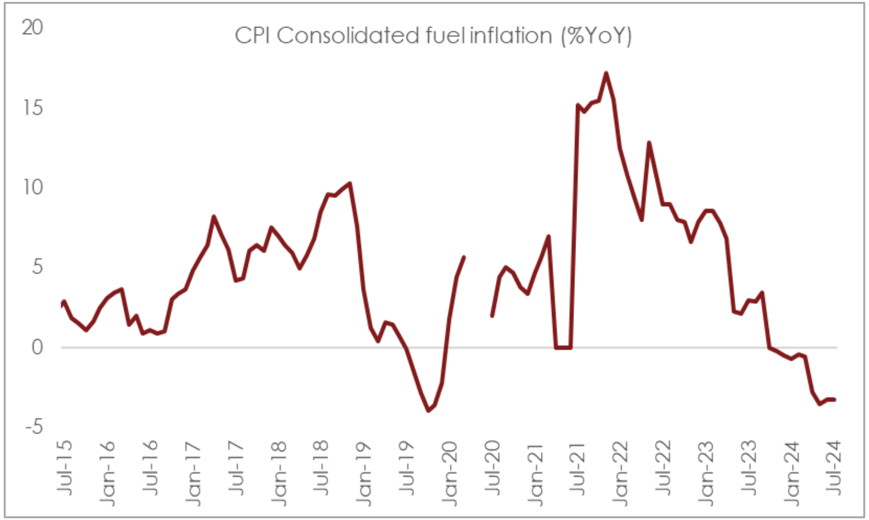
Area sown under Kharif crops continues to remain higher on an annualised basis, up 1.4% as of 12th Aug-24. Rice and Pulses have seen healthy increase in sowing.

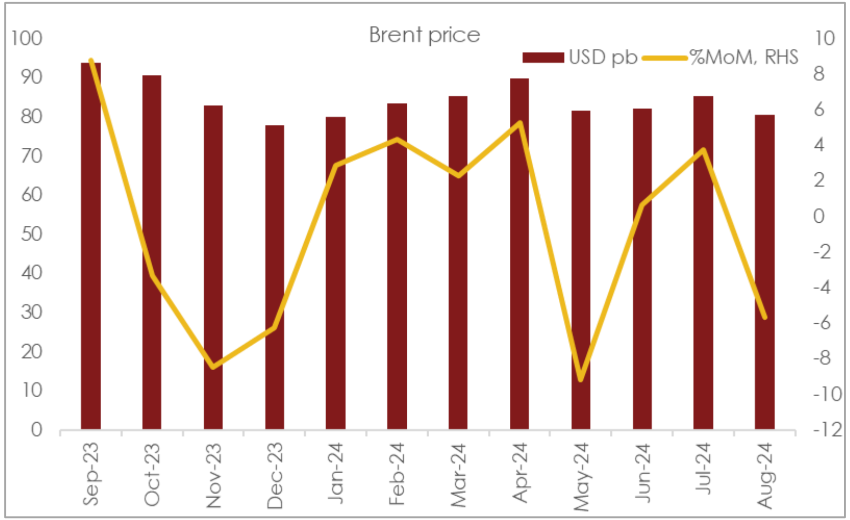
Sowing Progress of Kharif crops (as on 12th Aug-24)			
Crop (in lakh ha)	2023	2024	%YoY
Paddy	**318.2**	**331.8**	**4.3**
Pulses	**110.1**	**117.4**	**6.7**
Arhar	38.5	44.6	15.8
Urdbean	28.8	27.8	-3.7
Moongbean	29.9	32.8	9.7
Coarse Cereals	**171.4**	**173.1**	**1.0**
Jowar	13.3	14.2	7.1
Bajra	68.8	65.7	-4.5
Ragi	5.9	3.6	-38.9
Small millets	4.2	4.4	6.2
Maize	79.2	85.2	7.6
Oilseeds	**182.2**	**183.7**	**0.8**
Groundnut	41.9	45.4	8.4
Soybean	122.9	124.7	1.5
Sesamum	11.1	10.1	-9.0
Sugarcane	**57.1**	**57.7**	**1.0**
Jute & Mesta	**6.3**	**5.7**	**-9.2**
Cotton	**121.2**	**110.5**	**-8.9**
Total	**966.4**	**979.9**	**1.4**

Global crude price moderated in Aug-24

CPI fuel inflation continues to drift lower, offering comfort to inflation granularity. While growth in electricity prices moderated in the month, deflation in Kerosene and coal prices aided the decline.

Global crude oil prices have eased in Aug-24 on recession fears emanating from U.S. and concerns of demand weakening in China. In addition, easing fears of wider Middle East war have also played a supporting role.



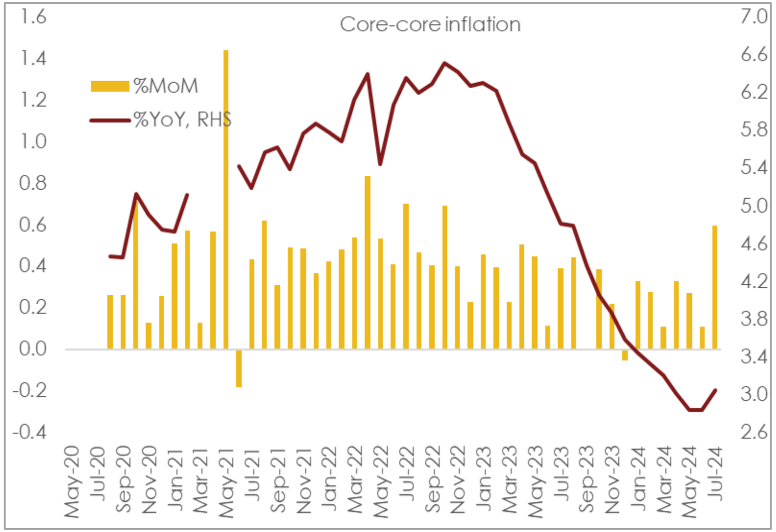


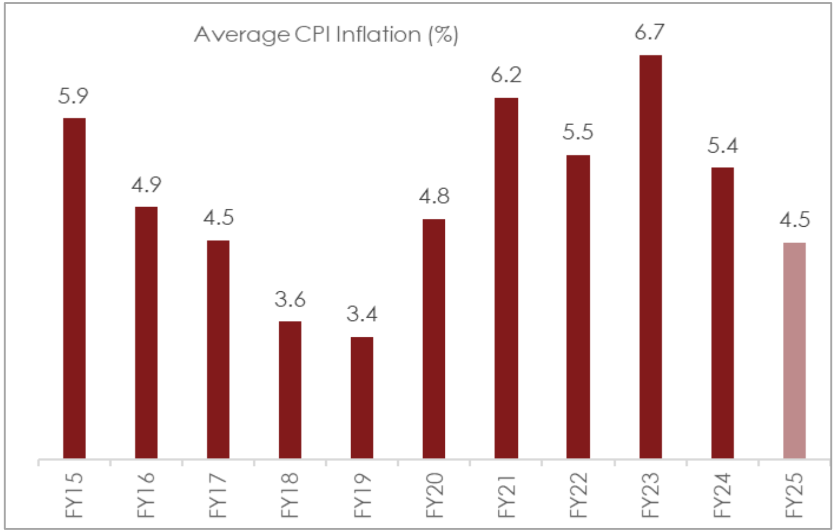
CPI inflation to align closer to target in FY25

Core-core CPI inflation moved higher in Jul-24 to 3.0% from a record low of 2.8% in Jun-24. This marks the first increase in core inflation in the past 22 months. Notably, the sequential momentum was solid at 0.59%MoM (highest in more than 2 years) amidst increase in mobile telecom charges coming on board partially…

…this will impart a marginally ascending trajectory to core inflation here on, though capped by the recent moderation in international commodity prices as well as cut in domestic custom duties on gold and silver.

We expect CPI inflation to average at 4.5% in FY25 vs. 5.4% in FY24.





Snapshot of Apr-Jun FY25 fiscal performance

The cumulative fiscal deficit for the period Apr-Jun FY25 stood at 8.4% of the budget estimates, significantly lower than 27.3% of actuals in the corresponding period in FY24. Higher momentum in revenue receipts along with moderation in expenditure momentum (attributed largely to the election season) resulted in lower accretion to fiscal deficit on FYTD basis.

Key Fiscal Variables (Cumulative position, as of June)				
	% of FY Actual/Target		%YoY	
	FY24	FY25	FY24	FY25
Revenue Receipts	21.6	26.5	3.6	41.0
Net Tax	18.6	21.3	-14.3	26.8
Non-Tax	38.6	51.3	149.3	80.7
Non-Debt Capital Receipts	17.7	5.8	-61.8	-57.8
Total Receipts	**21.5**	**26.0**	**0.5**	**39.2**
Revenue Expenditure	22.1	21.3	-0.1	2.2
of which, Interest Payments	22.9	22.7	6.6	8.3
of which, Major Subsidies	21.1	23.7	28.0	3.6
Capital Expenditure	29.4	16.3	59.1	-35.0
Total Expenditure	**23.6**	**20.1**	**10.8**	**-7.7**
Fiscal Deficit	**27.3**	**8.4**	**-**	**-**

Tax collection maintains strong momentum, divestments yet to start

On aggregate basis, tax collection depicts strong FYTD momentum, thereby hinting at a likelihood of exceeding the budgeted target for FY25. A realistic assumption on Nominal GDP growth @ 10.5% by Union Budget would aid.

Growth in key tax categories	Apr-Jun FY24 (% YoY)	Apr-Jun FY25 (% YoY)	FY25 BE (% change)
Gross Tax	3.3	23.7	10.8
Corporate Tax	-13.9	26.2	12.0
Income Tax	11.0	49.9	13.6
Customs	34.9	-4.3	2.0
Excise	-15.4	-0.9	4.5
GST	11.5	9.1	11.0
Net Tax	-14.3	26.8	11.0

Note: Annualized change for Apr-Jun FY24 is on provisional basis

E-way bills generated, clocked a strong pace over the months of May-Jun-Jul-24, at above 10 cr. This is likely to keep GST collections supported, though annualized growth is expected to slip into single-digits in the coming months.

Coinciding with the election season, nil realization of disinvestment revenue was seen over Apr-Jul FY25. This marks 4 consecutive months of no disinvestment activity – the last time this happened was during COVID times in 2020, 2009 general elections, and during the Global Financial Crisis in 2008. Meeting FY25 target of Rs 500 bn could hence be operationally challenging in the remaining 8 months.

Notwithstanding some moderation, quality of spending to improve in FY25

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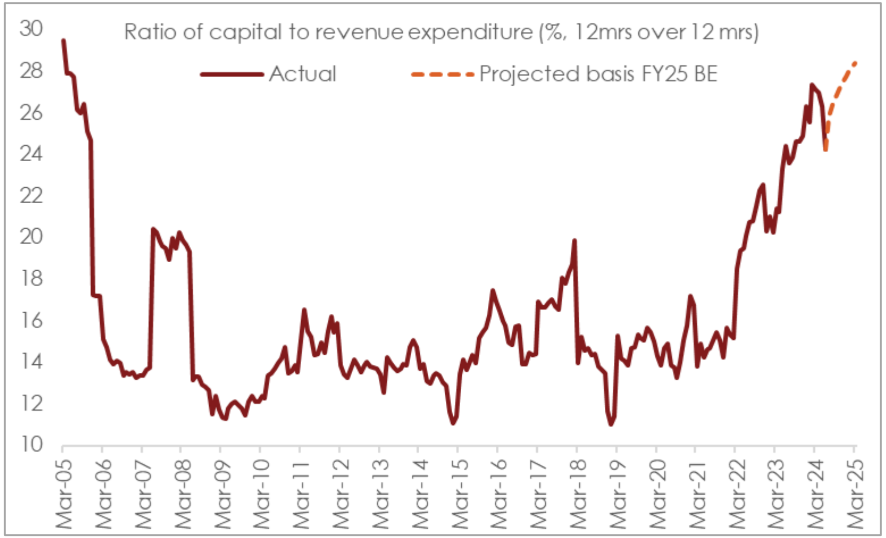
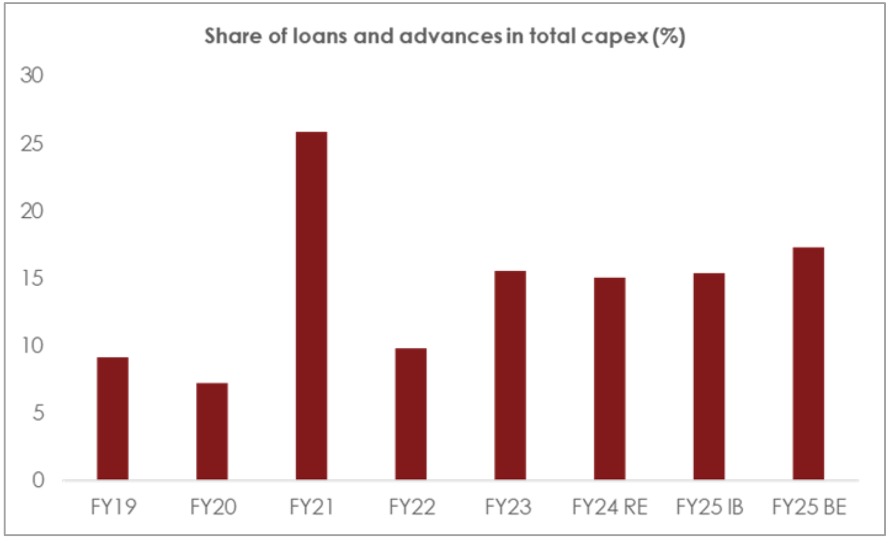
Election related freeze on spending resulted in some moderation in the quality of spending (decline in capex/revex ratio) over Apr-Jun FY25. However, the FY25 BE indicates that the trend would reverse in the remaining 9 months.

Although, interim budget's capex target of 3.4% of GDP was retained, the composition has tilted modestly towards incrementally higher long-term loans to states (tied to specific policy objectives).



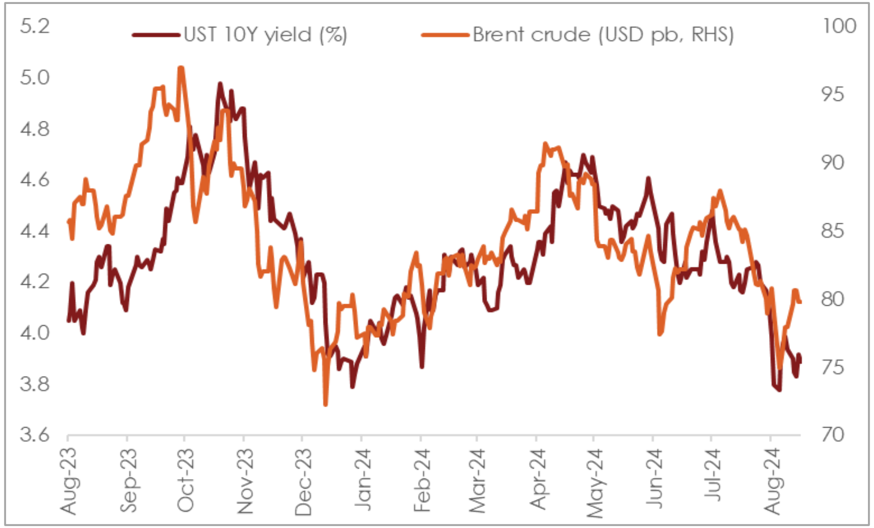


We expect FY25 fiscal deficit target of 4.9% of GDP to be met.

G-sec yield eases to a 2-year low

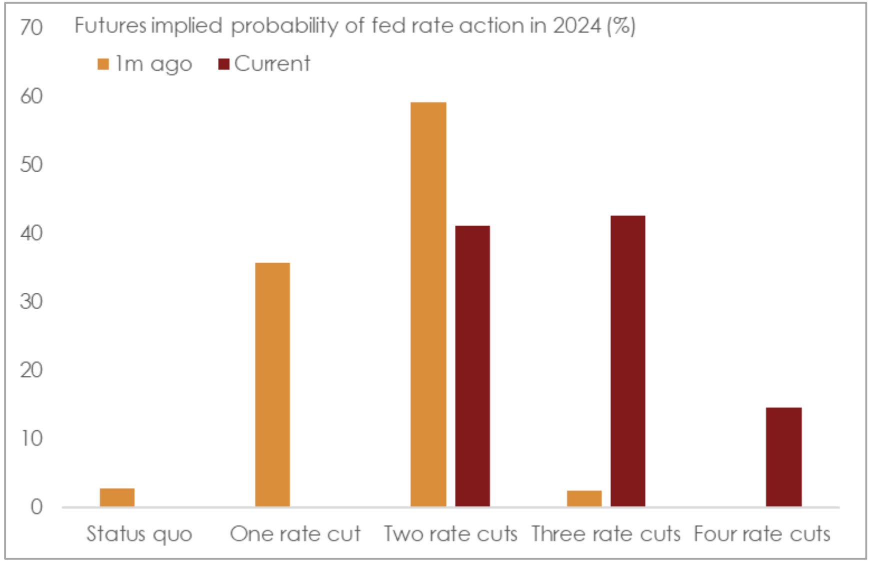
India's 10Y g-sec yield moderated for second month in a row. It is currently trading at 6.86%, down 15 bps since end Jun-24. This is the lowest level of 10Y g-sec yield since the RBI started hiking its monetary policy rates in Apr-22.

Key global transmission metrics have remained supportive on FYTD basis, with 10Y UST yield dropping by 31 bps and international crude oil price correcting by 7.6%.

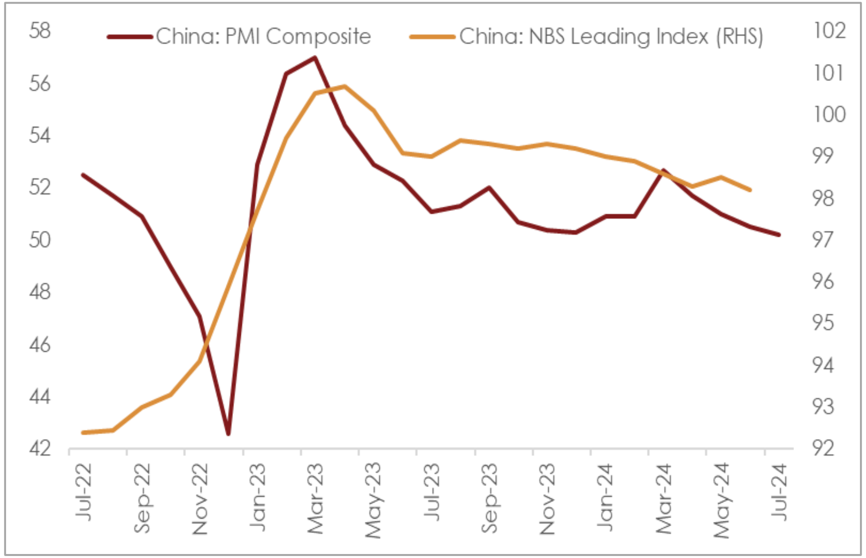


Global factors remain in favour

Most US economic indicators have on a cumulative basis turned soft. This has led the market participants to re-price Fed rate expectations for 2024.



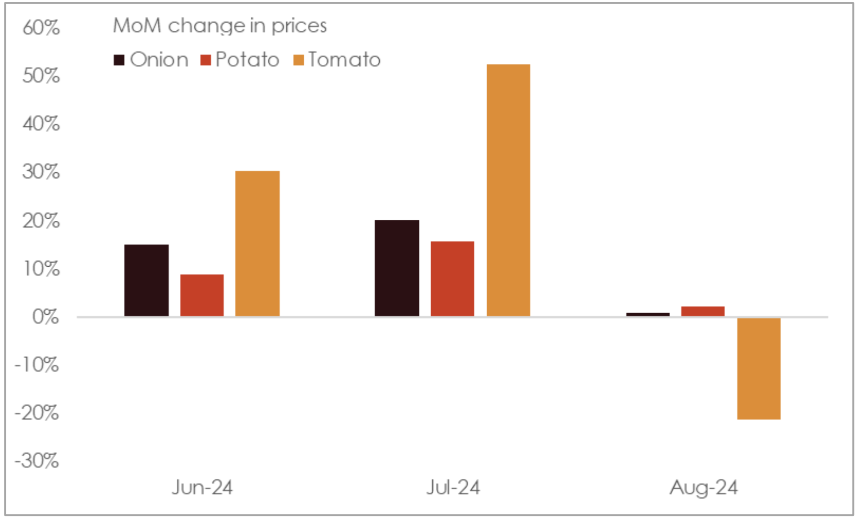
Moderation in Chinese economic growth (as reflected by key survey indicators) is weighing upon commodity prices, including crude oil.

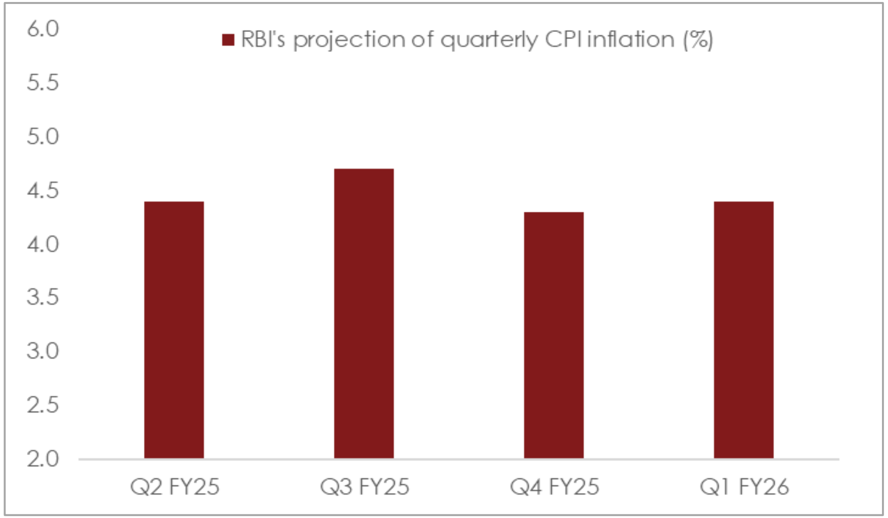


Headline domestic CPI inflation appears comfortable

After a spike in Jun-Jul 2024, high frequency data suggests the onset of correction in tomato prices in Aug-24, while signalling a likely peaking of prices of onion and potatoes.

RBI expects CPI inflation to average at 4.5% over the next four quarters, with min-max range of 4.3-4.7%.

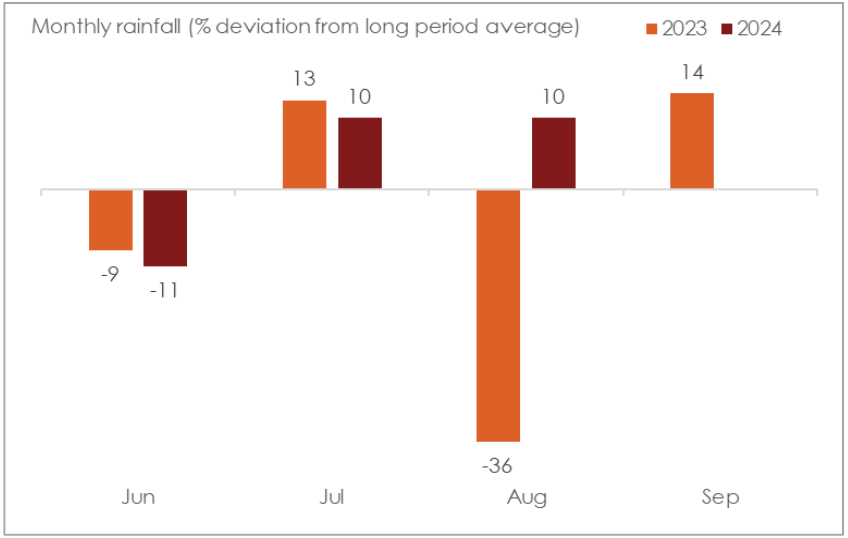


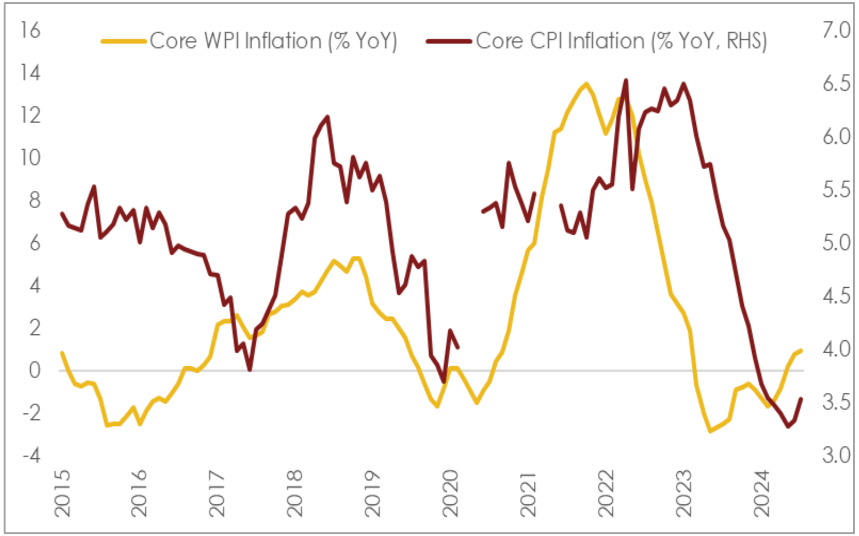


MPC to maintain pause in the near-term, opt for a shallow rate easing cycle thereafter

While South-West monsoon performance during Jun-Jul 2024 was nearly identical to Jun-Jul 2023, the month of Aug-24 has marked a significant divergence with Aug-24 rains turning out to be better than Aug-23. This could lower the pressure on food inflation in next 1-3 months.

On the back of upward pressure on commodity prices seen over last few months (esp. metals), input prices (Core WPI) have started to harden. This could potentially have a lagged impact on output prices (Core CPI).



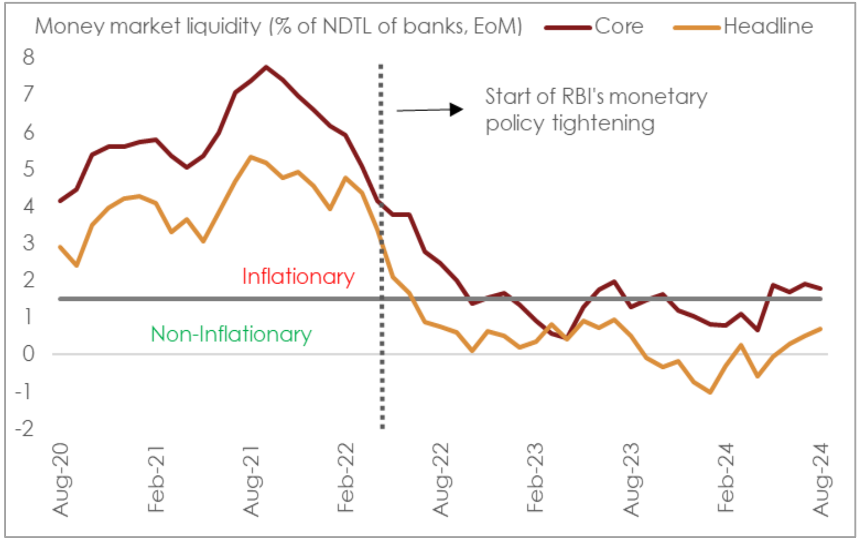


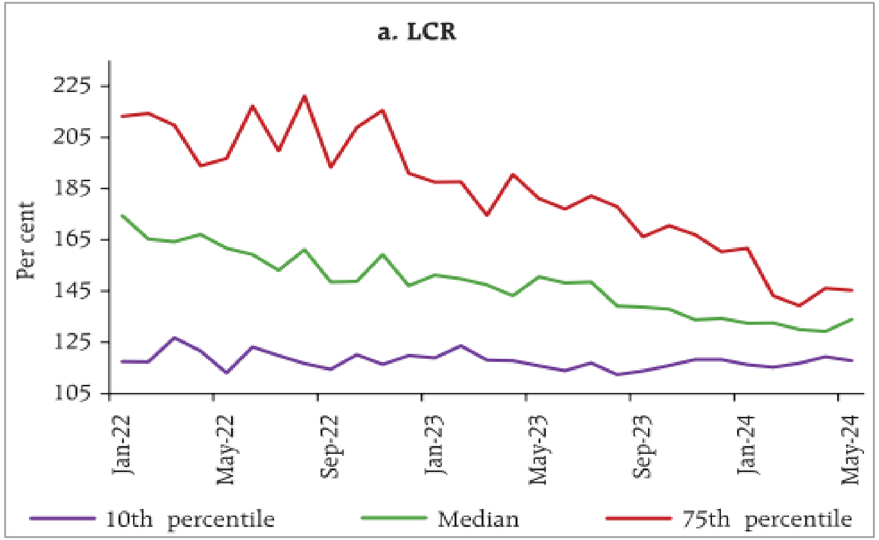
With likelihood of first rate cut from the US Fed in Sep-24, we expect the RBI to pivot in Q3/Q4 FY25, assuming food inflation pressures are contained. Our expectation of cumulative rate cut from the RBI in FY25 stands at 50 bps.

Gradual decline in g-sec yields expected

With core liquidity surplus breaching the comfort threshold, RBI has started conducting OMO sales (Rs 142 bn sold so far since Jul-24). This could continue amidst bond index inflows.

RBI's draft circular on the proposed changes in the Basel III framework on banks' liquidity standards (effective Apr-25) could result in ~10% decline in the LCR, thereby potentially spurring g-sec demand worth Rs 4 trillion.



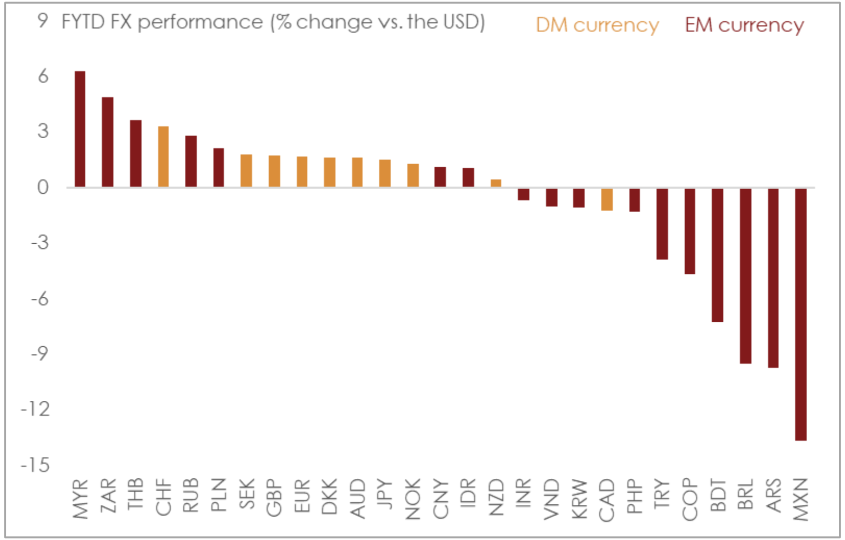


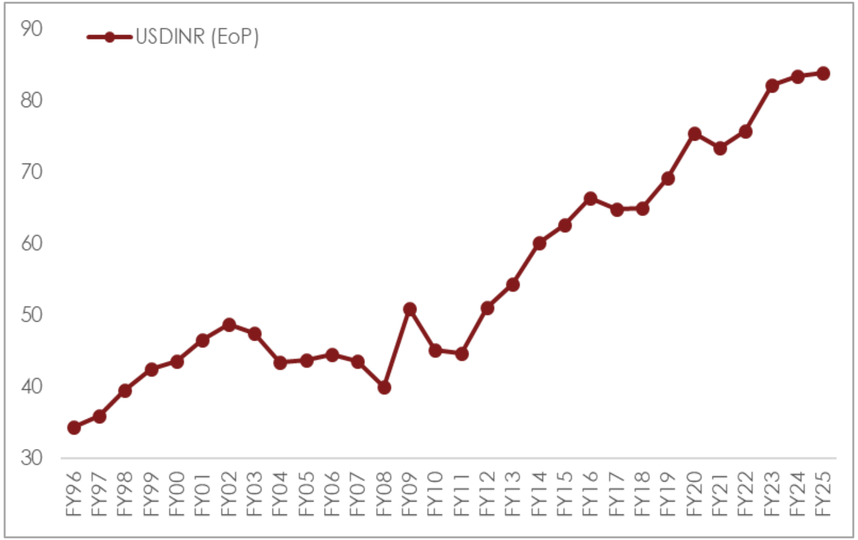
We continue to expect 10Y g-sec yield to slide lower towards 6.75% by Mar-25. Geopolitical uncertainty and less than desirable downward move in domestic food inflation could potentially provide an upside risk.

Notwithstanding low volatility, INR continues to slip to record lows

INR weakened by 0.7% on FYTD basis, staying insulated from high volatility seen across major DM and EM FX crosses.

However, rupee continues to slide to record low levels (currently trading close to 83.9 levels), albeit at a gradual pace.



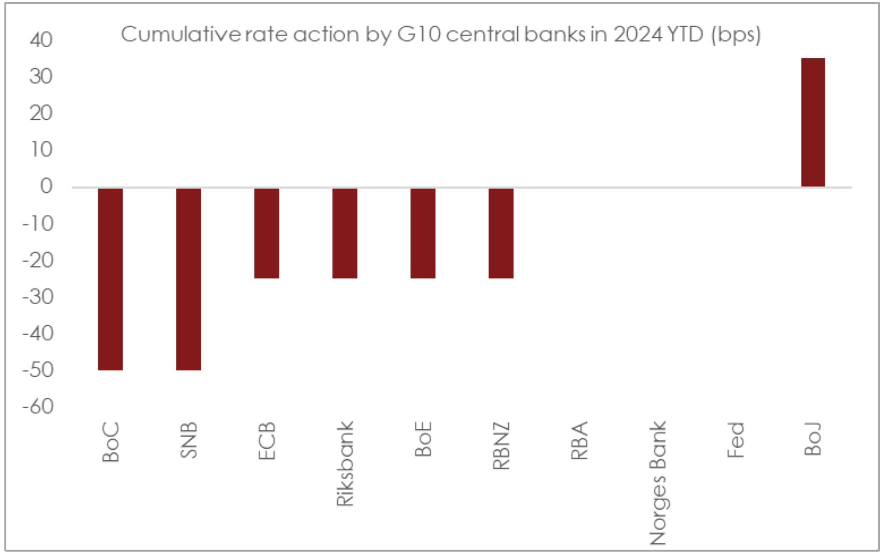


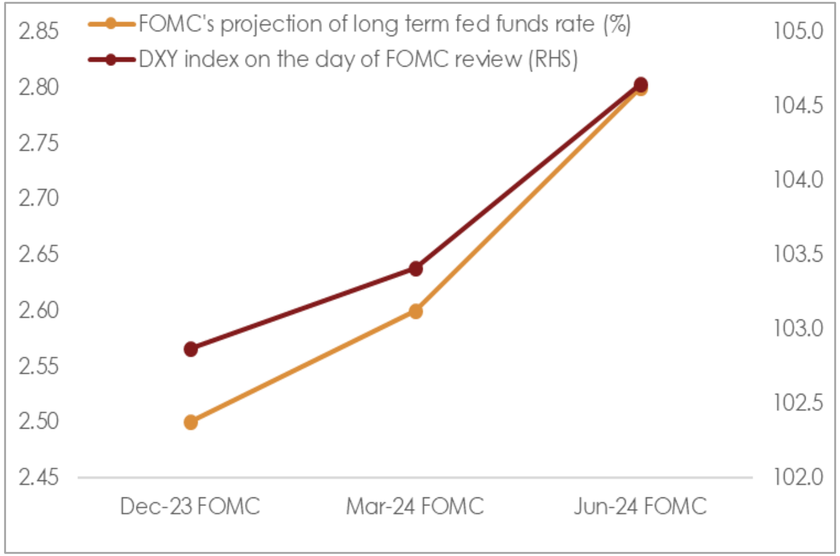
Note: For FY25, EoP refers to data for Aug 16, 2024

Would Fed's pivot aid the USD?

Amongst G10 central banks, six have already cut policy rates in 2024 (of which, two have done it twice). Despite market participants pricing in start of US monetary easing cycle from Sep-24, the Fed could remain on hold for longer.

FOMC's projection of long-term fed funds rate has seen a 30 bps jump to 2.8% since Dec-23. This curtails the scope of deeper rate cuts in the anticipated rate easing cycle. But the dollar index declined sharply by 3.4% since Aug 1, 2024



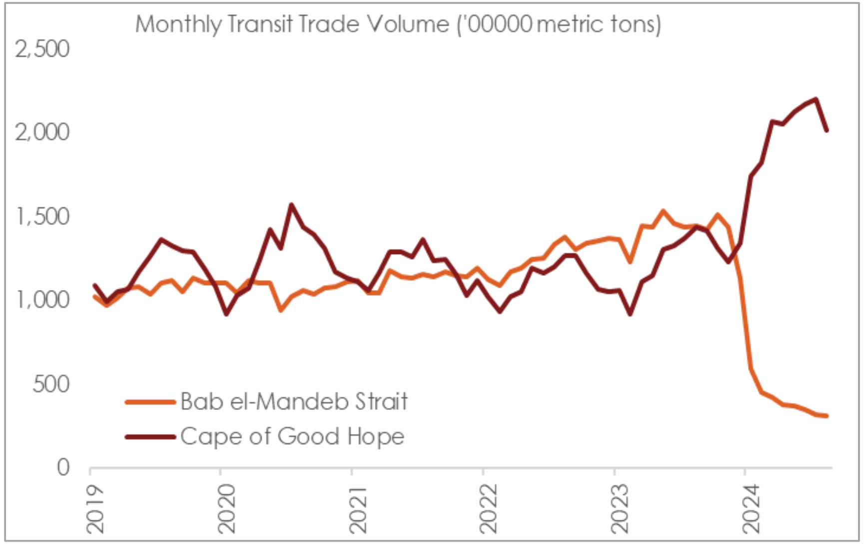


Downside to USD could be limited with trailing of US monetary easing along with marginal reduction in its total scope.

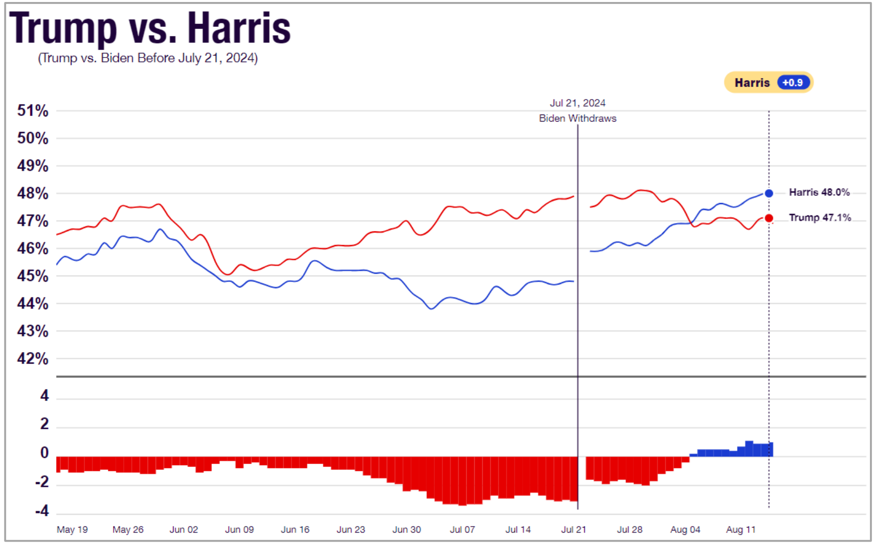
Global trade and political uncertainty needs a close watch

The ongoing Red Sea disturbance has led to a massive rerouting of merchant ships, thereby resulting in time and cost escalations.

Upcoming election cycle in the US has led to a higher threat of protectionist rhetoric, esp. targeted at China. This could once again undermine the spirit of trade-backed globalization.



Note: Extrapolation for Aug-24 (basis preliminary data) indicates moderation in trade activity at Cape of Good Hope (the alternate route for avoiding the Red Sea)



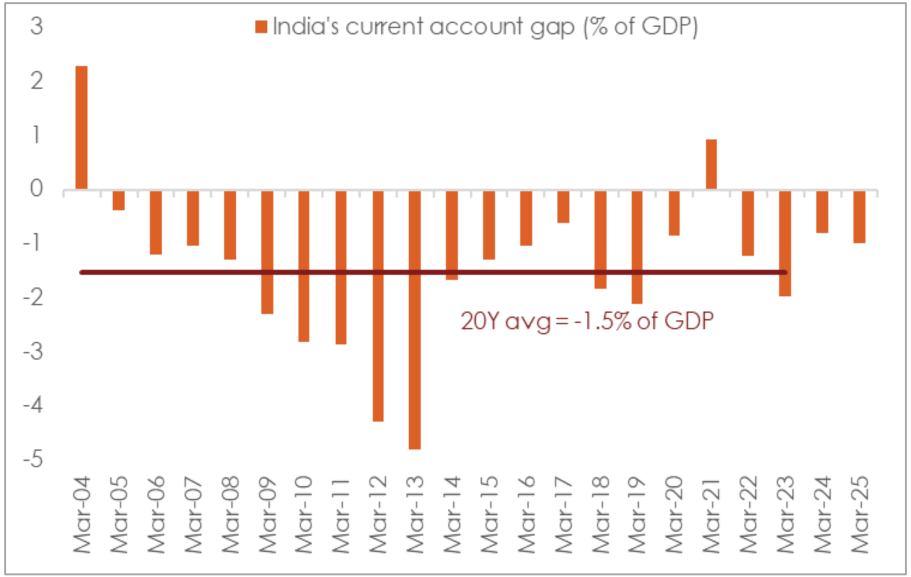
Note: US Presidential betting odds as per average of polls estimated by Real Clear Politics as of Aug 15, 2024.

However, key domestic macro parameters remain in support

IMF projects India to be the fastest growing country within G20 over the course of 6-years.

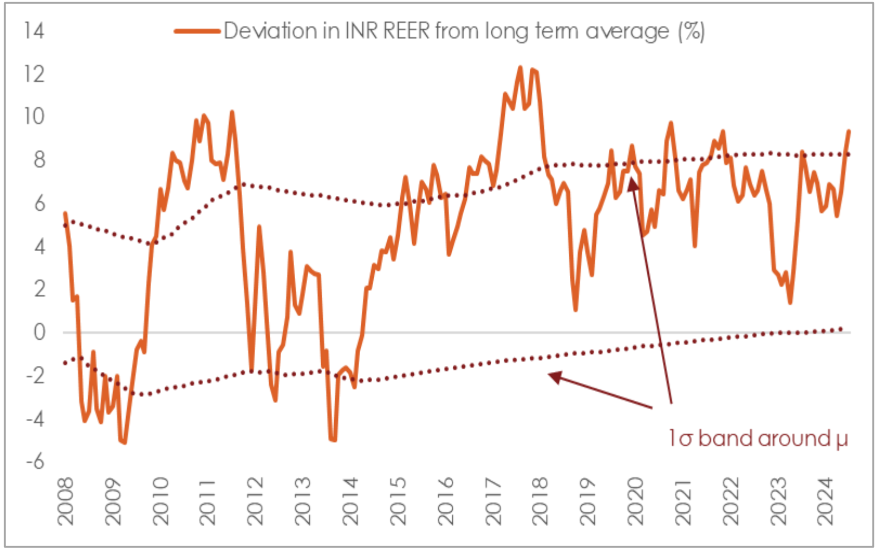
After printing at 0.7% of GDP in FY24, India's Current Account Deficit is projected to remain below its long-term trend in FY25, at 0.9% of GDP (with some upside risk).

Year	Fastest Growing G20 Country	GDP growth of fastest growing country	Average G20 GDP growth excl. fastest growing country
2024	India	6.8%	1.8%
2025	India	6.5%	2.5%
2026	India	6.5%	2.3%
2027	India	6.5%	2.2%
2028	India	6.5%	2.1%
2029	India	6.5%	2.1%

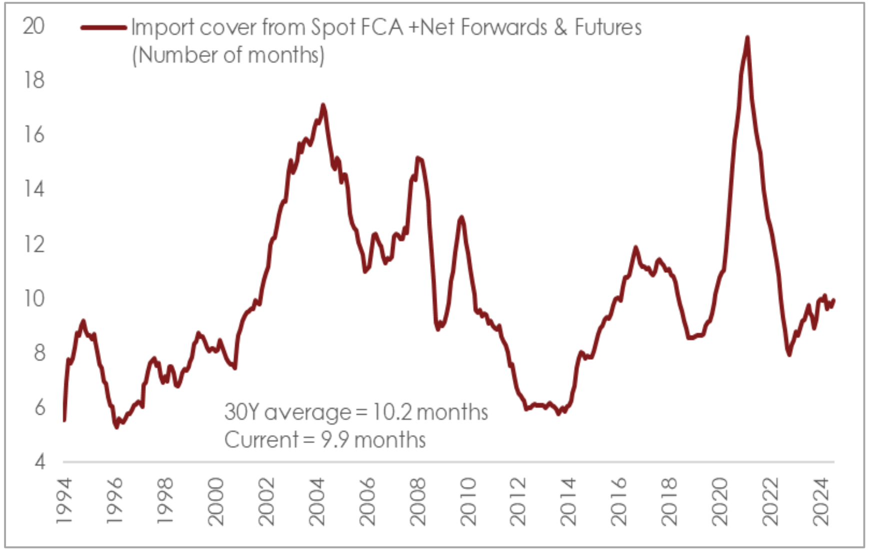


Rupee outlook

INR is currently ~9% overvalued basis the REER metric. This points towards space for some adjustment.



The RBI has been building its import cover to bolster country's FX firepower. We expect the same to continue in FY25.

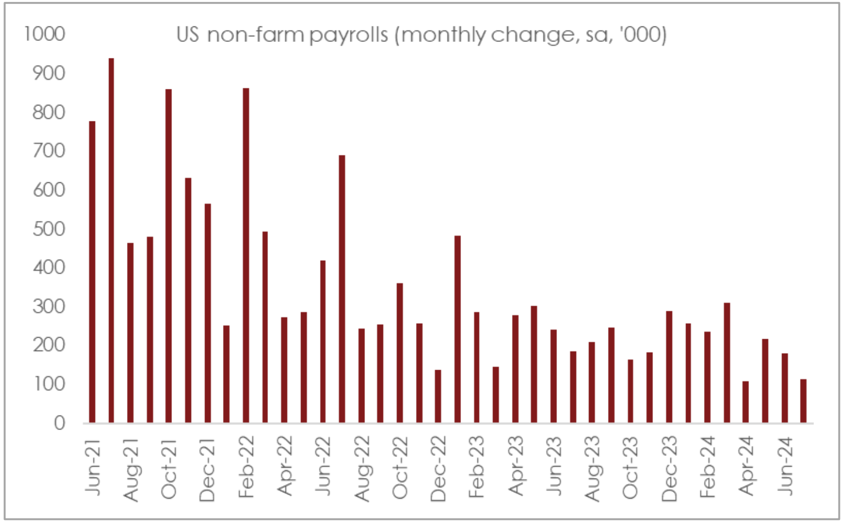


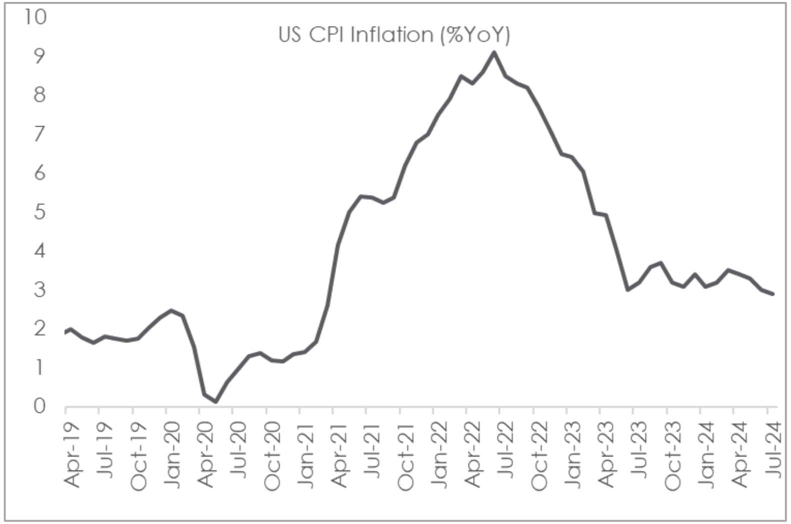
We continue to expect INR to post a mild depreciation in FY25, with a move towards 84.5 by Mar-25. Worsening of geopolitical risks and further unwinding of JPY carry trade could however put INR under some pressure.

U.S. economy: Non-farm payrolls send jitters

Since the release of the Jul-24 NFP data which marked two back-to-back decline in pace of NFP additions, broader macroeconomic data has been somewhat better than expected. Nonfarm Payrolls (NFP) rose by 114k in Jul-24, following the 179k increase (revised from 206,000) recorded in Jun-24.

U.S. CPI inflation moderated to 2.9%YoY in Jul-24, marking the first time inflation easing below 3% since Mar-21. On a sequential basis, index increased in line with expectations by 0.2%. The modest monthly gain was underpinned by restrained food and energy inflation.

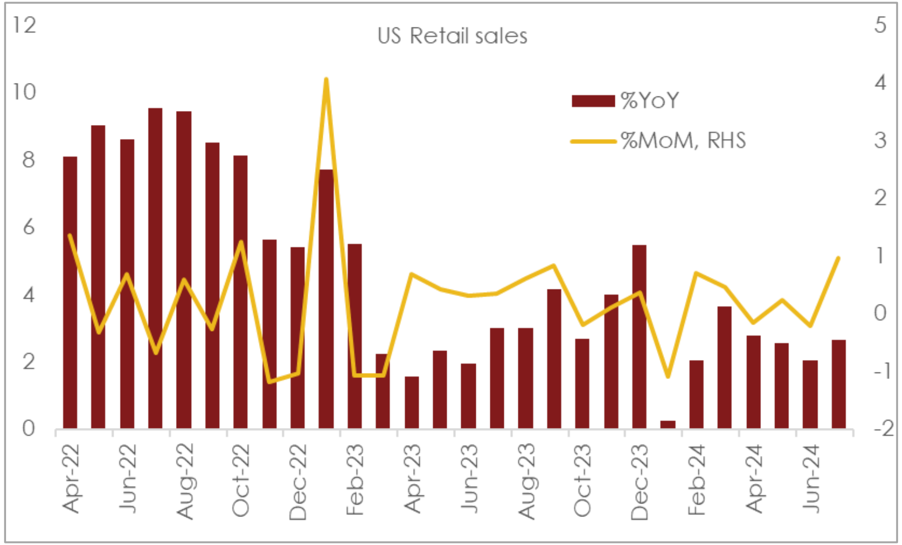


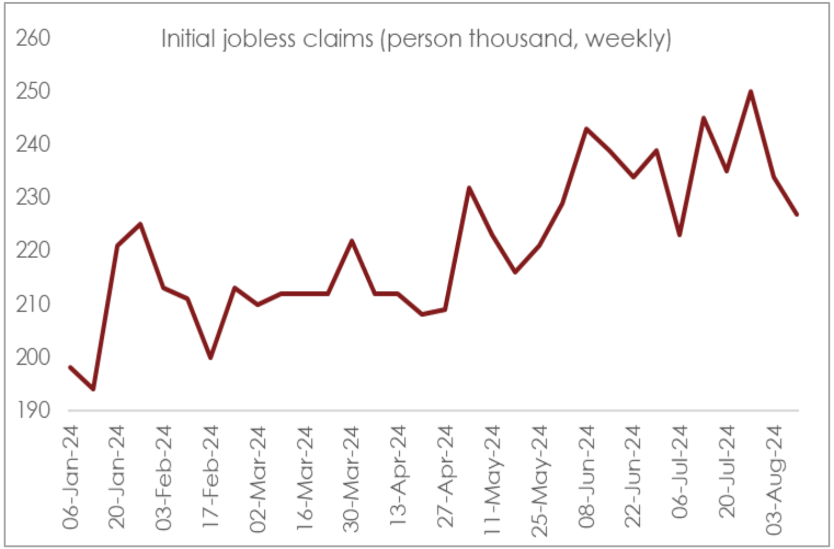


…but macroeconomic data supportive

Spending at retail stores and food service places rose a better-than-expected by 1.0%MoM in Jul-24. The sales uptick poses an upside bias to real personal consumption expenditures in Q3-24

Meanwhile, jobless claims surprisingly moderated to 227k from 234k (consensus 235k) with continuing claims dipping to 1864k from 1871k (consensus 1870k). This is the second consecutive slowing in initial jobless claims and is the lowest number since the first week of Jul-24

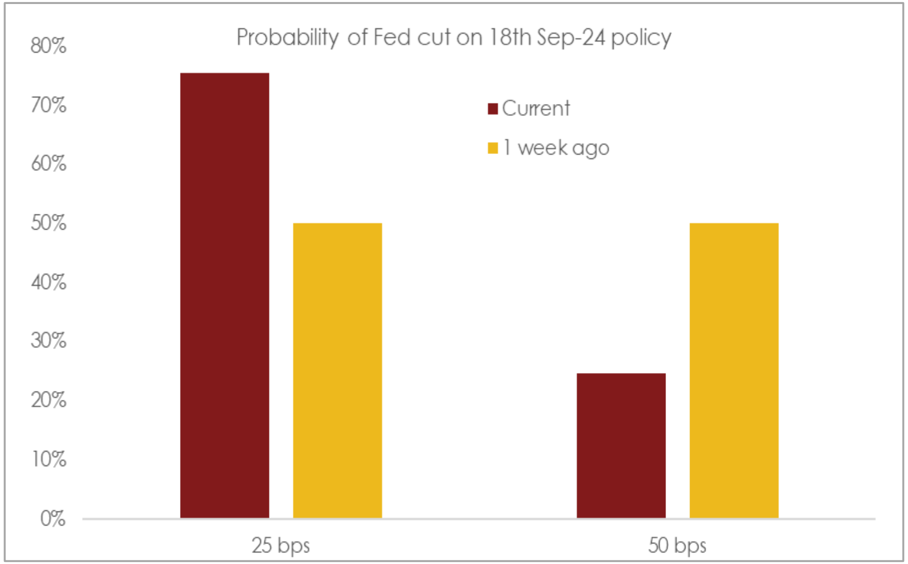


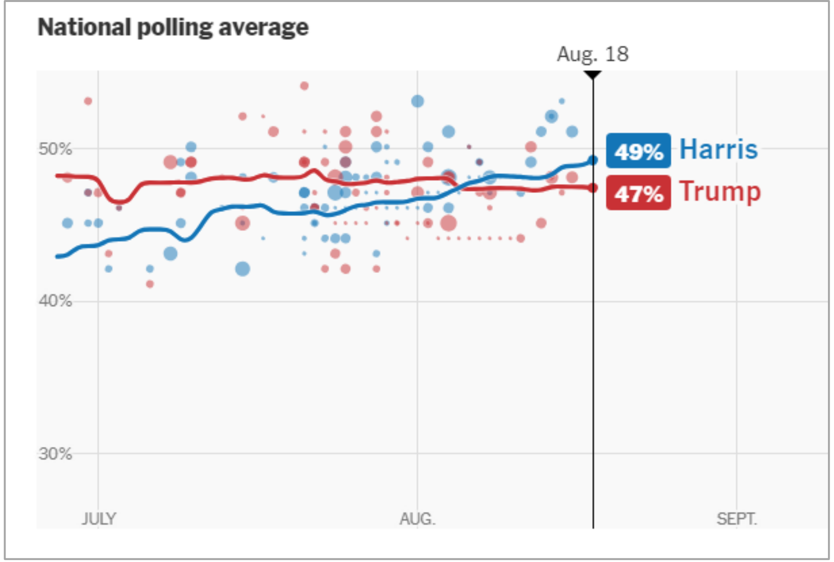


Locking in Sept-24 Fed rate cut – 25 or 50 bps?

It appears that the rise in U.S. unemployment rate is being caused by increased labour supply exceeding labour demand rather than job lay-offs. This accompanied by stronger data is now making many participants expect a 25 bps cut in Sep-24 than a 50 bps cut. But significant uncertainty remains around it.

U.S. elections continue to remain on close watch, with Kamala Harris in marginal lead as per leading polls.





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