Acuité RATINGS & RESEARCH

MACRO PULSE REPORT

DECEMBER 2023

From the desk of the Chief Economist

Dear Readers,

Wishing you a healthy and happy English New Year! This is the fourth consecutive year since January 2020 when we started the publication of the **Acuité Macro Pulse**.

CY2023 has been a special year for the Indian economy when the performance of the economy exceeded expectations. GDP growth was well over 7.0% in two quarters of the year albeit supported by a favourable base. Government capital expenditure did the heavy lifting for the economy, driving core sector activity and demand for commodities such as steel, cement and coal. Urban demand has been strong as reflected by a step up in passenger vehicle sales, on-line food deliveries, airline traffic and hotel occupancies. On the other hand, there were indications of a weaker rural demand due to the El Nino phenomenon and the shortfall in the kharif crop

CY2024 promises to be an interesting year with a confluence of some tailwinds and headwinds. The resilience in urban demand is one of the primary drivers of the current momentum in the Indian economy albeit there may be some impact of the latest RBI circular which seeks to tighten the sharp growth in consumer lending. The robust growth of 7.7% in H1FY24 is clearly not sustainable in the second half of the fiscal but there is a likelihood of the overall growth print reaching near 7.0% for FY24, given the momentum that has caught on to the economy. Nevertheless, one can't ignore the risks accruing from the weaker agricultural growth, the geo-political risks and the possibility of a deeper global slowdown in CY24. We had revised our growth forecast for FY24 to 6.5% with some upside but we prefer to remain cautious on the growth prospects for FY25 at this stage.

The outlook on the global markets, however, appears better in CY24. The expected reversal in Fed policy stance, India's inclusion in J P Morgan bond indices and the slowdown in the developed economies is expected to induce higher capital flows to India unless there are new geo-political risks and surprises in the upcoming Indian election outcomes. Interest rates in India are set for a gradual albeit back ended moderation. Let's hope that the Indian economy will continue to show its resilience despite all the anticipated turbulence. Cheers,

- Suman Chowdhury, Chief Economist and Head – Research

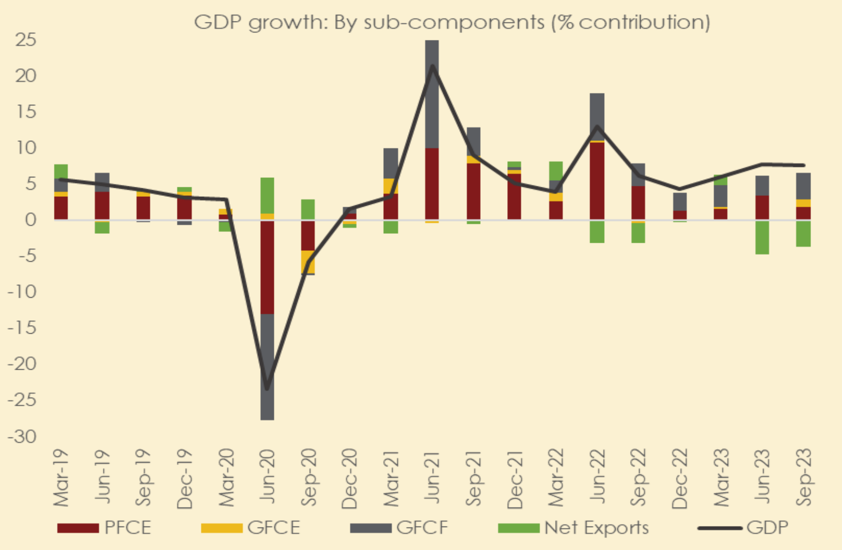
India Q2 FY24 GDP growth: Exceeded expectations

India's Q2 FY24 GDP growth coming in at 7.6% YoY, posted a significant positive surprise, as it exceeded market consensus expectation of 6.8%, by a wide margin. This translated into a GDP growth of 7.7% in H1FY24.

Internals depict a mixed outturn. On the demand side, strong government consumption expenditure and gross fixed capital formation neutralized the drag from net exports and moderation in private consumption. On the supply side, strong momentum in industrial GVA compensated for moderation in agriculture and services.

	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
GVA	**5.4**	**4.7**	**6.5**	**7.8**	**7.4**
Agri and allied activities	2.5	4.7	5.5	3.5	1.2
Mining and Quarrying	-0.1	4.1	4.3	5.8	10
Manufacturing	-3.8	-1.4	4.5	4.7	13.9
Electricity, Gas, Water Supply etc.	6	8.2	6.9	2.9	10.1
Construction	5.7	8.3	10.4	7.9	13.3
Trade, Hotels, Transport, Communication	15.6	9.6	9.1	9.2	4.3
Financial, Real Estate & Professional Services	7.1	5.7	7.1	12.2	6
Public Administration, Defence & Others	5.6	2	3.1	7.9	7.6

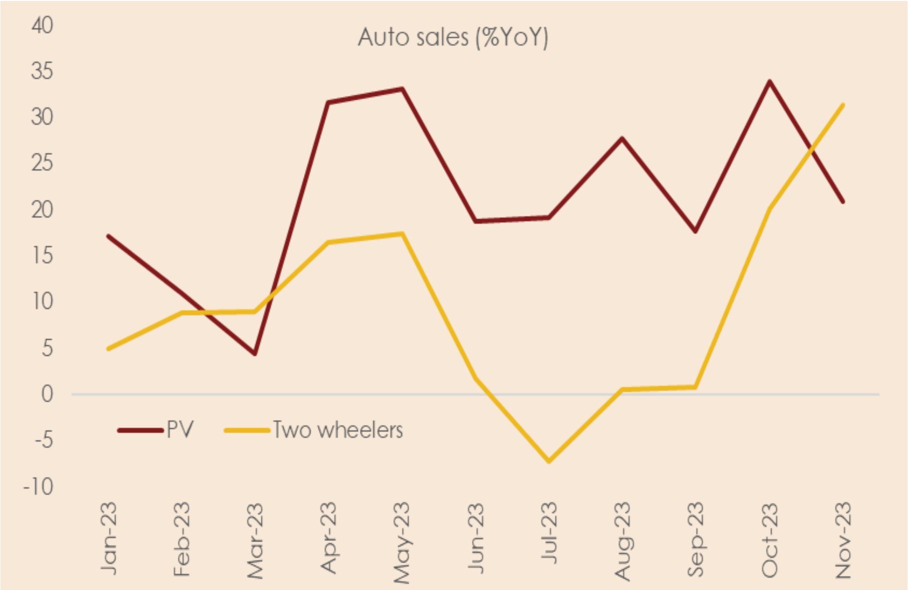
	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
GDP	**6.2**	**4.5**	**6.1**	**7.8**	**7.6**
Private Final Consumption Expenditure	8.3	2.2	2.8	6	3.1
Government Final Consumption Expenditure	-4.1	-0.6	2.3	-0.7	12.4
Investments	9.6	8	8.9	8	11
Exports	12.2	11.1	11.9	-7.7	4.3
(Less) Imports	23.1	10.7	4.9	10.1	16.7



Festive season buoys Q3 FY24 consumption

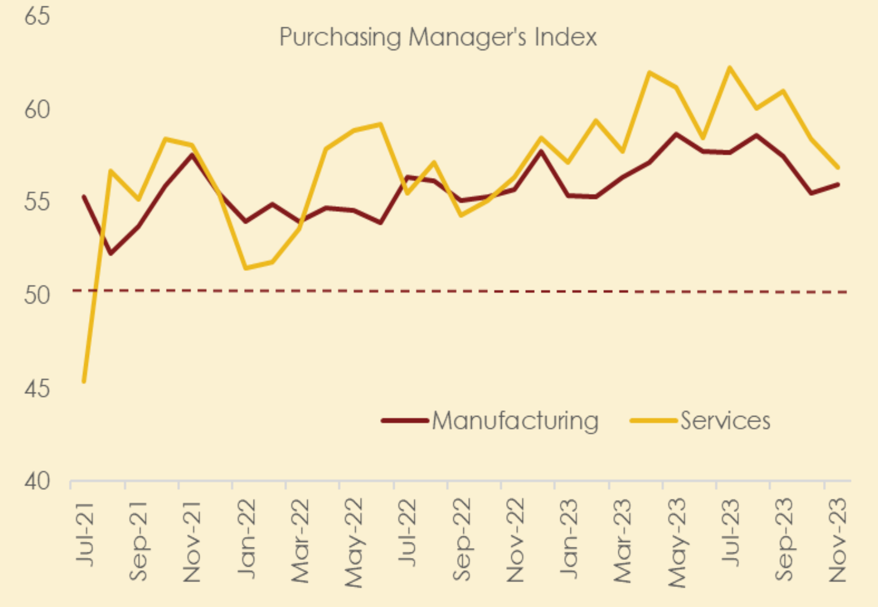
Festive season augured well for consumption boost to sectors such as auto, electronics, appliances, real estate, among others. The Cricket World Cup season coinciding with festive season, further boosted consumption at the start of Q3 FY24.

- Sales of passenger vehicles were at a record high in Oct-23 and YTD volume growth at 7.9% (Apr-Nov'23)
- Air passenger traffic continues to remain elevated near record highs

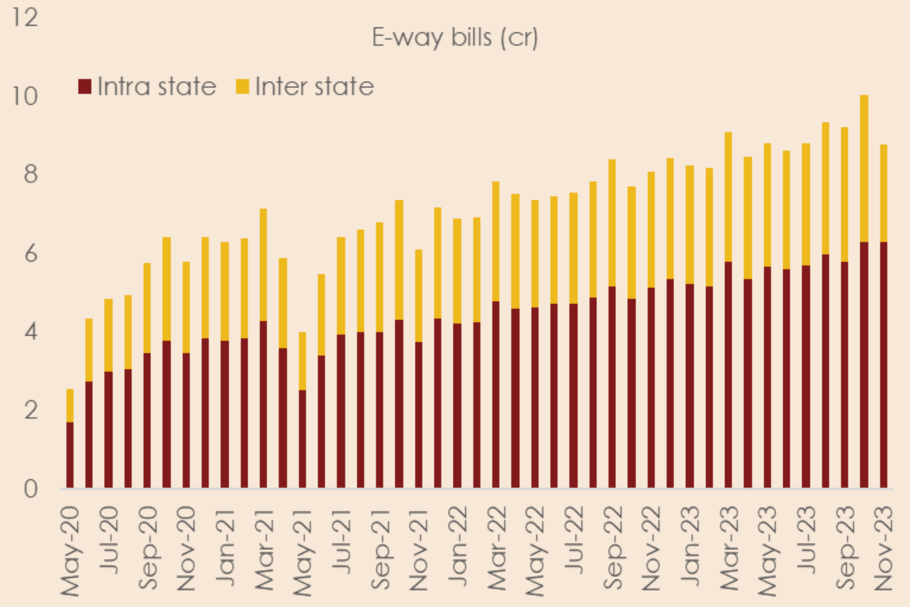


Can the momentum sustain?

Some of the lead indicators are showing signs of post festive fatigue in the month of Nov-23. Also, lower number of working days due to timing of Diwali holidays in Nov-23, is likely to have weighed. PMI services index slipped to a 1-year low of 56.9 in Nov-23



E-way bills generated in Nov-23 slipped to 8.8 Cr, from a record high of 10.0 Cr in Oct-23



Can the momentum sustain?

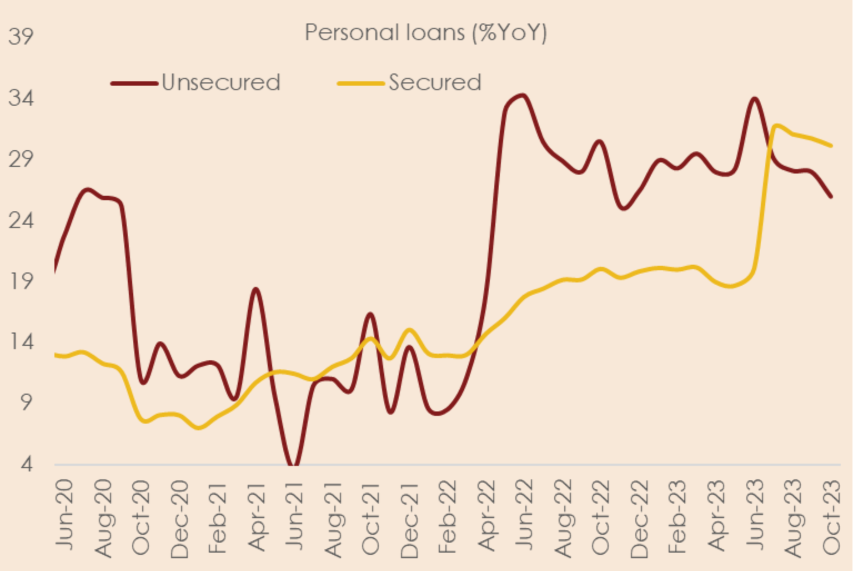
There is an excess of inventory overhang in some sectors such as auto, FMCG etc. The dissipation of this inventory build-up is critical and will be dependent on the strength of domestic demand in H2 FY24.

As per FADA (Federation of Auto Dealers) – "The period following the festivities saw a noticeable slowdown, coupled with a critical challenge of slow-moving inventory due to a mismatch in demand and supply which is still not resolved. This issue casts a shadow over the otherwise positive trends, highlighting the need for strategic adjustments in inventory management".

Auto Inventory level (in days)			
Sector	Nov-22	Oct-23	Nov-23
PVs	35-40	63-66	61-64
2W	30-35	40-45	32-37

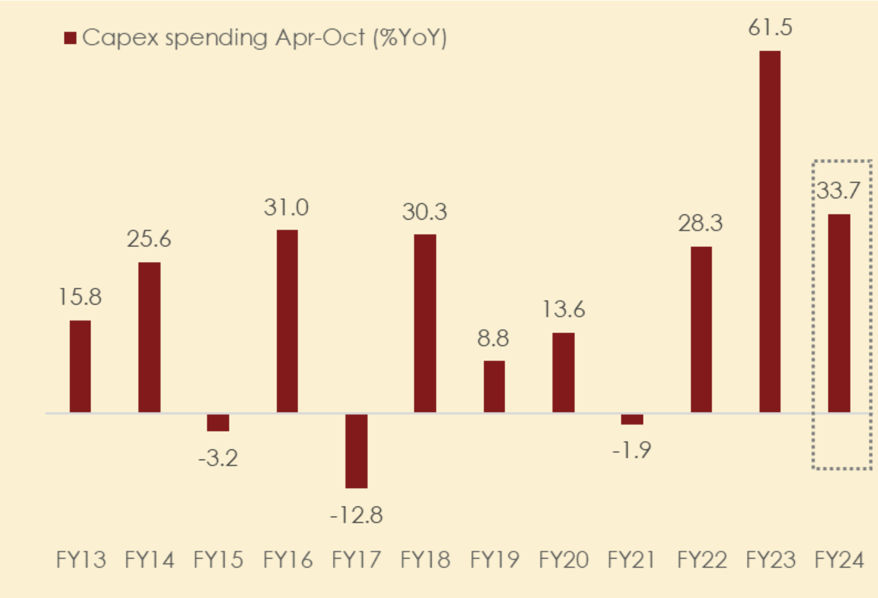
Source: FADA

RBI measures to rein in unsecured lending is already weighing on growth in unsecured credit growth. This could probably weigh on discretionary demand more materially in the coming months



Fiscal support to growth to remain key…

Government capex after expanding at a strong pace in H1 FY24, has seen some pull-back in Oct-23. This was largely anticipated in a bid to meet BE. As such, annualised pace of capex growth in H2 is likely to slow down vs. H1. Having said so, we expect fiscal support to growth to remain intact in the run up to national elections in early 2024



Some of the fiscal measures that have been announced in recently

Extension of free foodgrains scheme for next 5 years

- This could keep the food subsidy elevated

Reduction in LPG cylinder price by Rs 200

- Another Rs 100 reduction for Ujjwala beneficiaries

Hike in DA for government employees

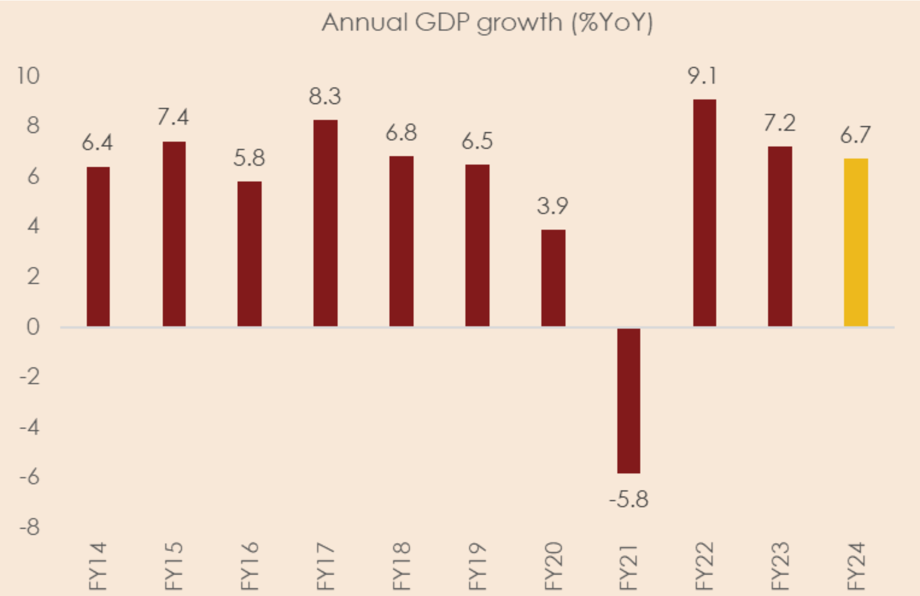
- By 4.0% for central govt. employees, also announced by select states including TN and UP

Wheat MSP hiked by 7.0%

- The highest increment in over a decade

...but GDP growth to wane in H2 FY24

With overall momentum exceeding expectations in Q2 FY24 and slowdown in headline number yet to reflect in any concerning manner, we revise up our forecast for FY24 GDP growth to 6.5% from 6.0% (with upside risk) earlier.



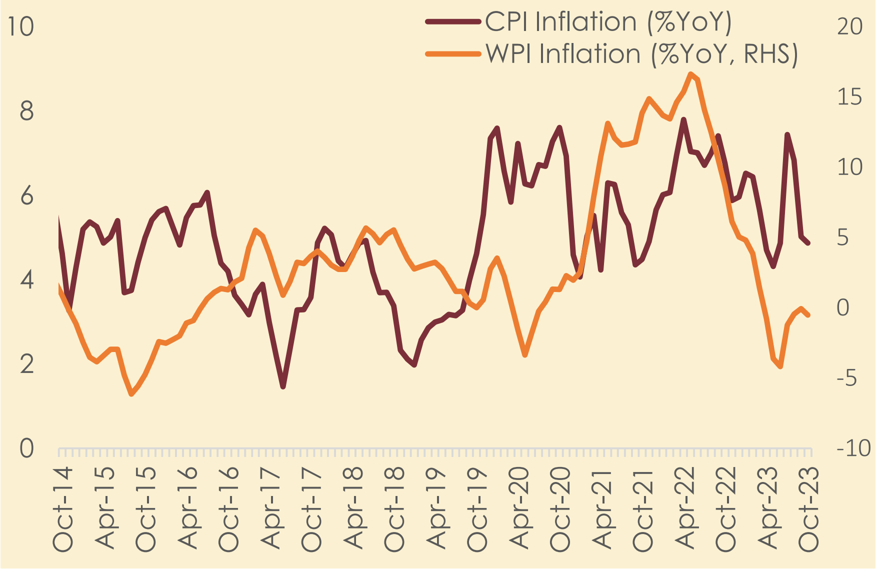
There are four key factors that would weigh upon H2 FY24 GDP

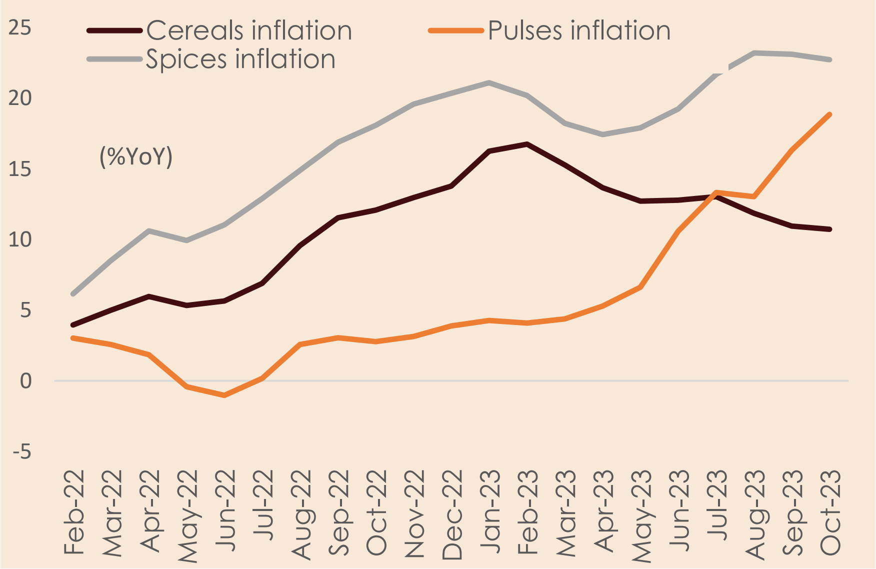
- Adverse spillover from the anticipated (albeit somewhat delayed) global slowdown.
- Fading of pent-up demand (esp. services)
- Lagged impact of domestic monetary tightening and of RBI measures on uncollateralised retail lending will restrain leveraged urban demand
- Downside to Kharif crop yields post monsoon deficiency in 2023

Nov-23 CPI adjusts higher led by food

Reversing the declining trend seen in last three months, India's CPI inflation accelerated to 5.55% YoY in Nov-23 from 4.87% in Oct-23 expectedly led by food items

Some categories within food such as cereals, pulses and spices continued to see elevated price pressures yet again in Nov-23





Food price pressures could linger on

The outlook on food inflation remains somewhat clouded amidst the expected downside to Kharif yields, especially pulses and oilseeds as per Government's 1st advance estimates

Crop	% Change vs. 2022	
	Area Sown	1st advance estimate: output
Rice	1.9	1.3
Maize	3.8	-2.7
Tur	-4.9	-12.1
Moong	-6.0	-19.7
Urad	-1.3	-18.2
Oilseeds	-1.6	-8.6
Groundnut	*-3.6*	*-6.5*
Soybean	*0.7*	*-10.6*
Sugarcane	7.6	-6.5

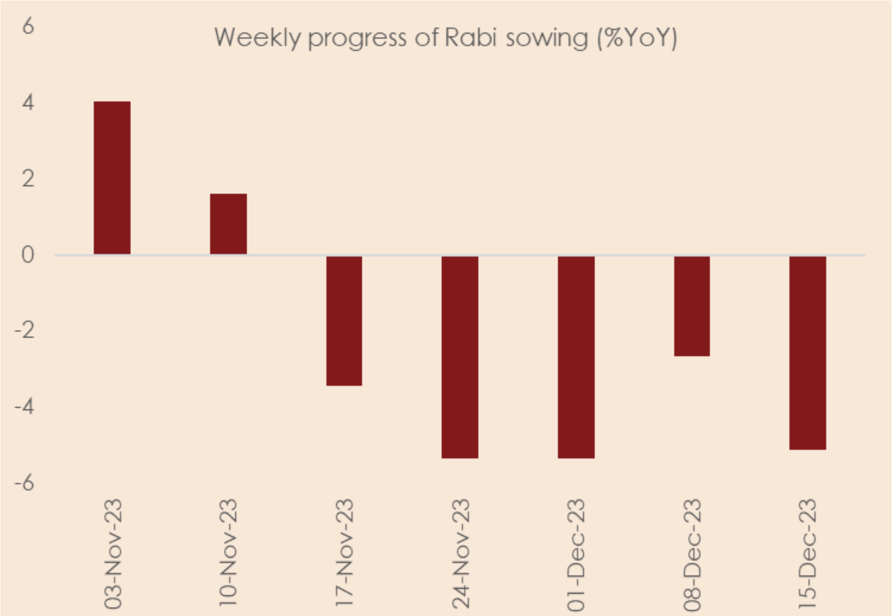
Following the build-up in vegetable price pressures in Oct-Nov-23 (due to Tomato and Onion prices), Dec-23 so far is yet to see the winter seasonality set in

Vegetables (%MoM)	Oct-23	Nov-23	Dec-23
Bitter Gourd	8.9	-12.9	14.7
Brinjal	14.9	-23.5	-7.3
Cabbage	-0.7	-4.7	0.1
Cauliflower	14.5	-21.8	-14.8
Chilly	17.2	-21.6	-11.5
Garlic	-1.0	4.3	17.8
Ginger	-12.4	-7.4	-0.3
Okra	12.3	-4.7	19.7
Onion	19.2	41.1	0.3
Peas	53.3	-9.1	-53.6
Potato	-1.4	11.9	-1.2
Tomato	-14.3	45.1	-0.7
All Vegetables	**5.2**	**5.8**	**1.3**
Historical avg.	**7.0**	**1.0**	**-10.8**

All eyes on Rabi season

While Rabi sowing had begun on a healthy note, recent weeks have seen a deterioration in area sown. As of end Dec-23, total area sown is lagging 2.5% vis-à-vis last year

On a crop level basis, the decline in rabi sowing vis-à-vis last year has been led by wheat and pulses – the two dominant Rabi crops.



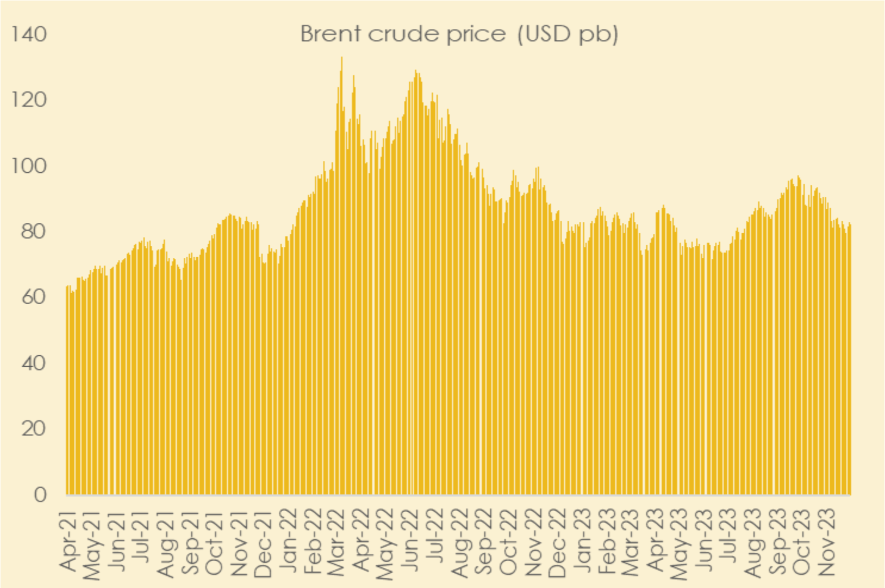
Crop	Area sown (%YoY)
Wheat	-6.4
Rice	-9.7
Total Pulses	-8.2
Total Coarse	0.6
Total Oilseeds	1.1
Total Rabi	-5.1

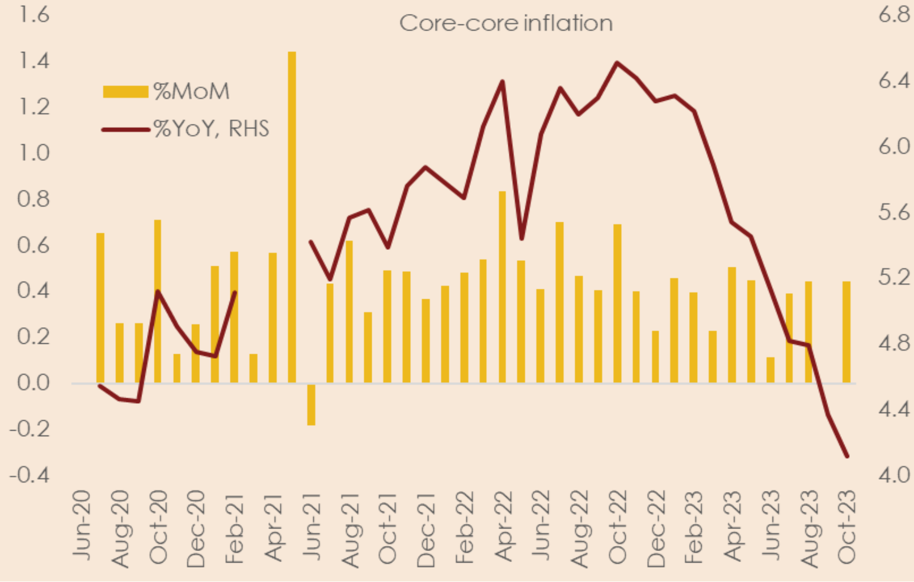
*As on Dec 15, 2023

Fuel and core inflation offer comfort

At a granular level, fuel and core within CPI inflation continue to provide comfort. Brent crude oil price has corrected by a cumulative 18.9% since end Sep-23, withstanding the lingering global geopolitical uncertainty.

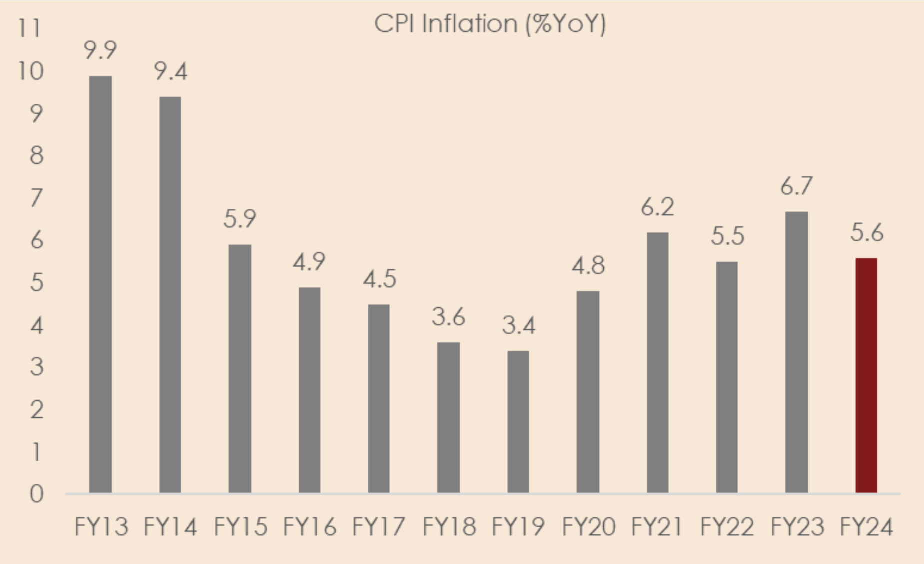
Core CPI inflation is estimated to have slipped to 4.2% YoY in Nov-23, to mark the lowest core inflation level in the post Covid phase.





CPI inflation: To average at 5.6% in FY24

We hold on to our FY24 average CPI inflation estimate of 5.6%



Upside risks to watch on inflation
Impact of Israel-Hamas tensions
Impact of El Nino on global food production in the coming months. NOAA expect El Nino to remain strong at least through spring of 2024. This could have downside risks to Rabi output
Durability of price pressures seen in cereals, pulses and spices, despite administrative measures
Impact of deficient monsoon on Kharif crop production

Snapshot of Apr-Oct FY24 fiscal performance

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The FYTD accretion to fiscal deficit stood at 39.3% of budget estimates (BE) for FY24, higher than 35.8% seen in the corresponding period in FY23. While both receipts and expenses registered a faster pace of accrual/disbursal in FYTD24 vs. FYTD23, relatively faster pace of expenditure this year has driven the fiscal deficit moderately higher on FYTD basis.

Key Fiscal Variables (Cumulative position, Apr-Oct)				
	% of FY Actual/Target		%YoY	
	FY23	FY24	FY23	FY24
Revenue Receipts	49.1	53.1	8.2	19.5
Net Tax	48.2	49.8	9.9	14.7
Non-Tax	55.1	78.5	-1.7	50.2
Non-Debt Capital Receipts	47.4	24.0	88.7	-41.0
Total Receipts	**49.0**	**52.2**	**9.5**	**17.7**
Revenue Expenditure	42.9	46.5	6.0	10.0
of which, Interest Payments	47.0	44.8	19.6	10.9
of which, Major Subsidies	38.1	55.1	9.9	3.8
Capital Expenditure	46.6	49.0	49.5	43.1
Total Expenditure	**43.5**	**47.1**	**12.2**	**16.2**
Fiscal Deficit	**35.8**	**39.3**	**-**	**-**

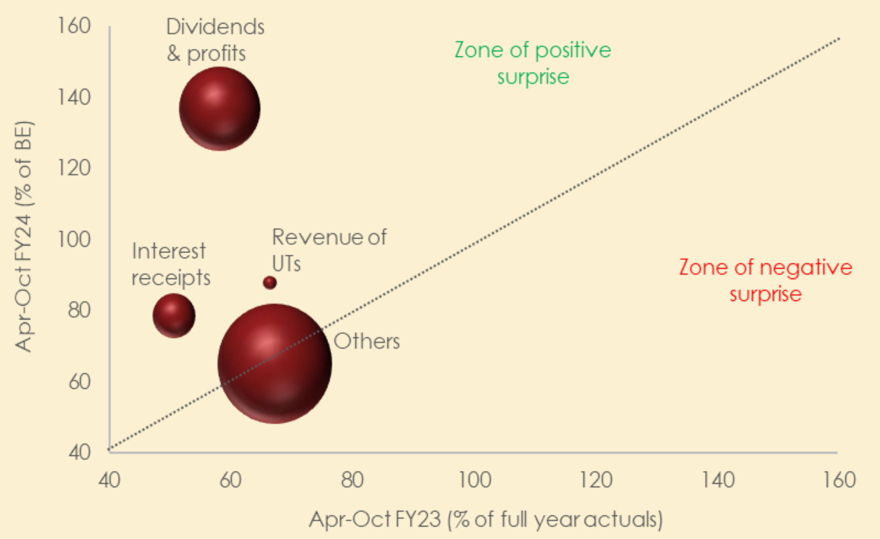
Revenue could see a moderate positive surprise

Direct tax collection is running at a healthy pace, while indirect tax collection momentum has slowed down. Although on cumulative basis, tax collections have maintained a healthy momentum, likelihood of lower than budgeted nominal GDP in FY24 could potentially weigh upon tax collections in H2.

Non-tax revenue has not just benefitted from the higher than budgeted surplus transfer from the RBI but continues to find support from strong dividend payout from PSUs and spectrum income. However, cumulative divestment activity is slow (Rs 80 bn until Oct-23 vs. Rs 246 bn until Oct-22), thereby raising the likelihood of a high deficit in that segment.

Growth in key tax categories	Apr-Oct FY23 (% YoY)	Apr-Oct FY24 (% YoY)	FY24 BE (% change*)
Gross Tax	**18.0**	**14.0**	**10.1**
Corporate Tax	24.1	**17.4**	11.7
Income Tax	27.7	**31.1**	11.4
Customs	9.5	**1.2**	9.2
Excise	-18.8	**-9.3**	6.3
GST	27.2	**8.4**	12.1

* Implied growth over FY23 actuals



Note: Size of bubble denotes the FY24 (BE) share in non-tax revenue

Focus on superior expenditure quality; fiscal risks appear neutral, but need monitoring

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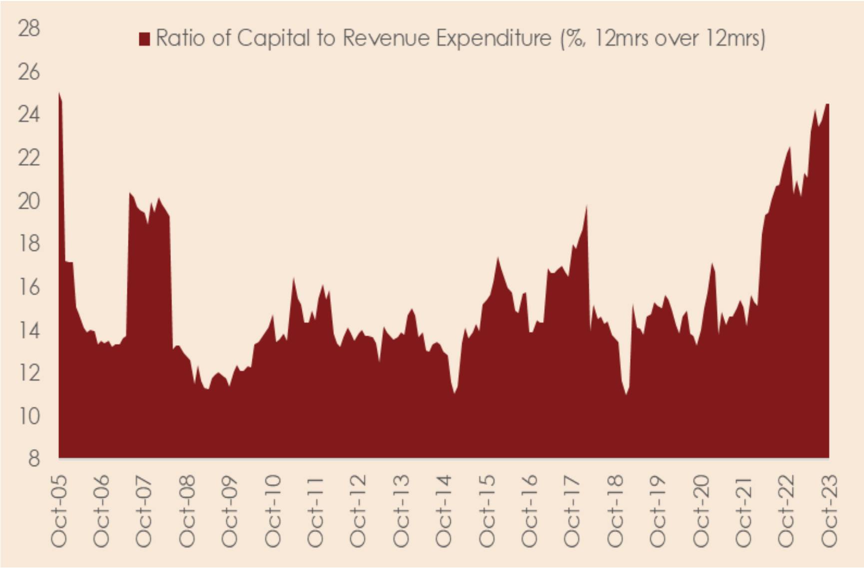
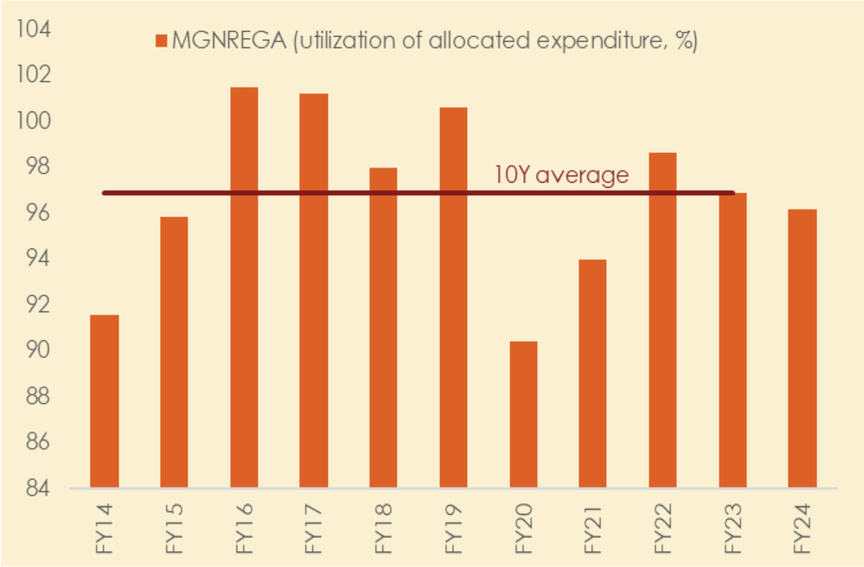
Capex continues to receive priority over revex; upcoming elections may have driven the front-loaded disbursals



Downsizing rural spending would be challenging amidst the erratic weather patterns and upcoming elections



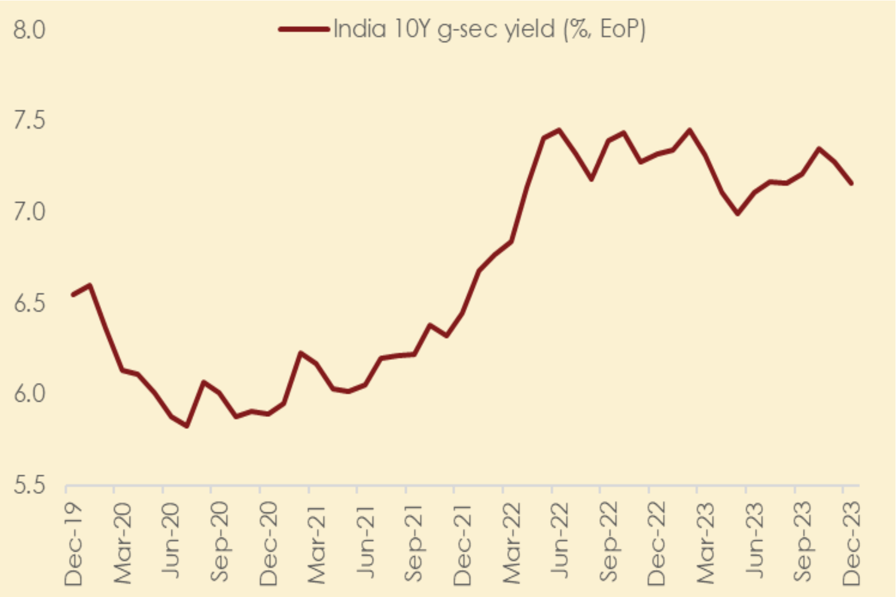
Note: MGNREGA spend has touched 96.2% of FY24 BE as of Dec 3rd

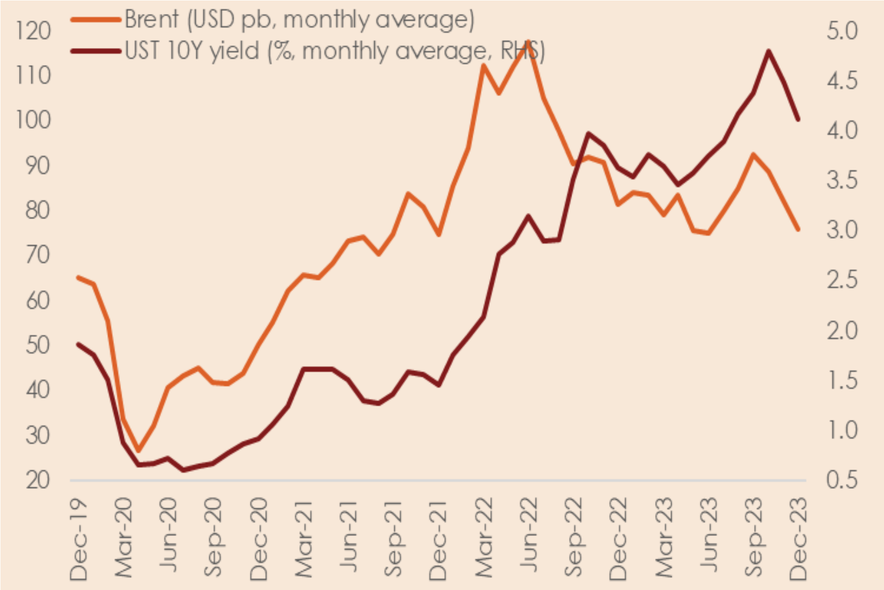
We continue to expect FY24 fiscal deficit target of 5.9% of GDP to be met (with expenditure compression in Q4 and some cushioning from non-tax revenues) with risks appearing neutral at this stage but needs monitoring.

Moderation in g-sec yield continues for 2nd month

From its recent monthly high of 7.35% in Oct-23, India's 10Y g-sec yield has moderated to less than 7.20%. The 12 bps drop in yield in Dec-23 (is the largest monthly decline seen in last 6-months.

In the month of Dec-23 (so far), both UST yields and crude oil price are trading at their respective 6-month low levels.

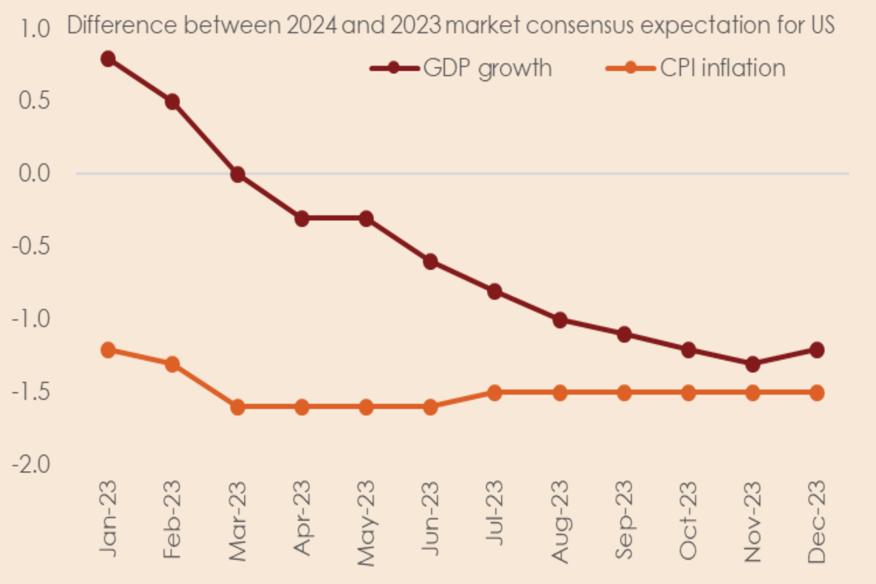


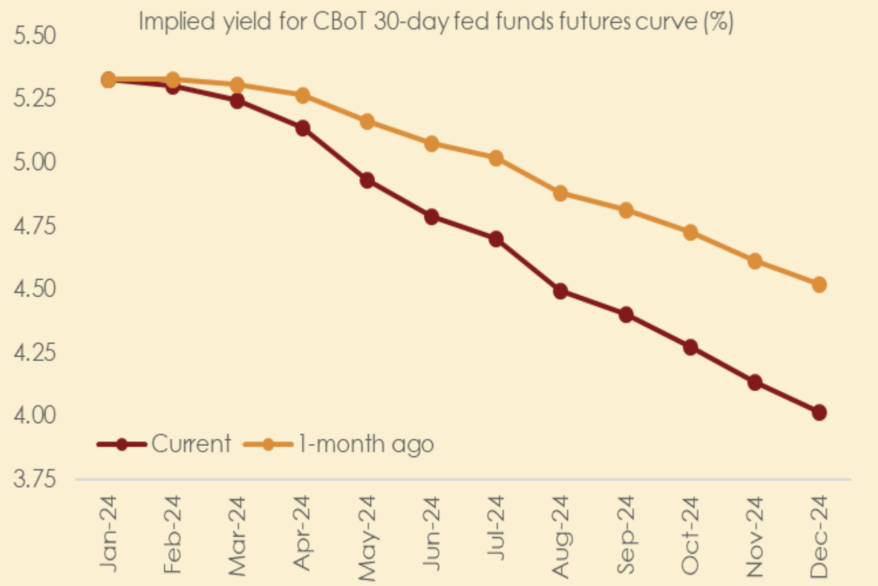


Slowdown concerns fueling 'Fed pivot' expectations

Although US economic resilience is now completely priced in for 2023, market participants expect a significant slowdown in 2024, even though expectations with respect to inflation have remained relatively stable.

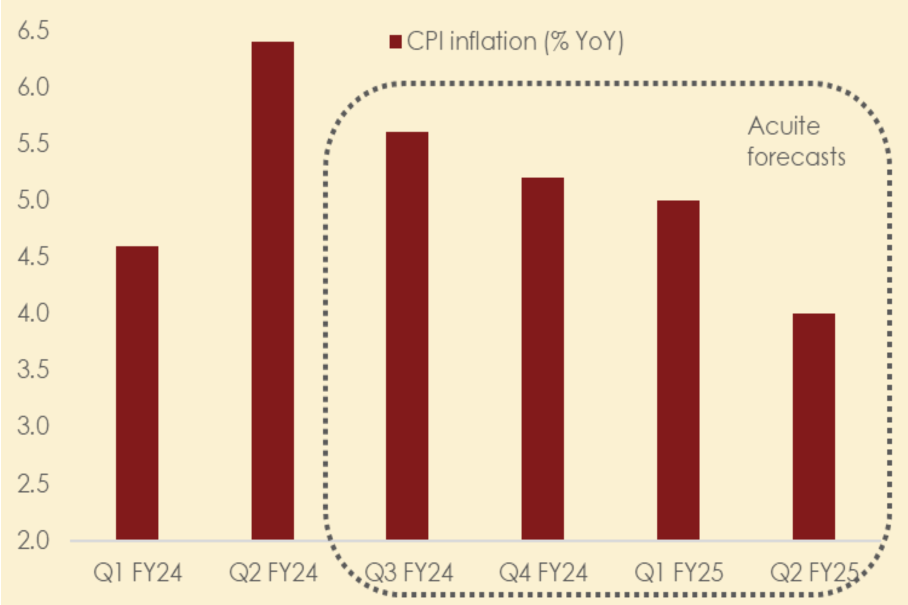
Post the Dec-23 FOMC policy review, market participants have upped their expectation with respect to the cumulative rate cut from the Fed in 2024 to 125 bps. This is greater than the 75 bps of rate cut telegraphed by the latest FOMC dot plot projection.



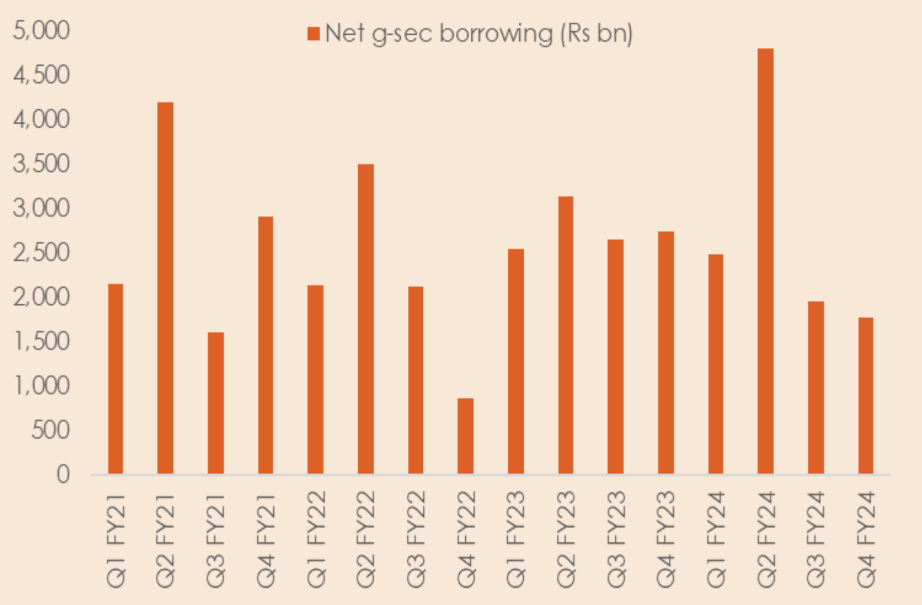


Domestic factors remains supportive in H2 FY24…

After peaking at 6.4% in Q2 FY24, CPI inflation is projected to moderate to 5.2% in Q4 FY24, and further towards ~4% in Q2 FY25 provided there are no fresh food price shocks.

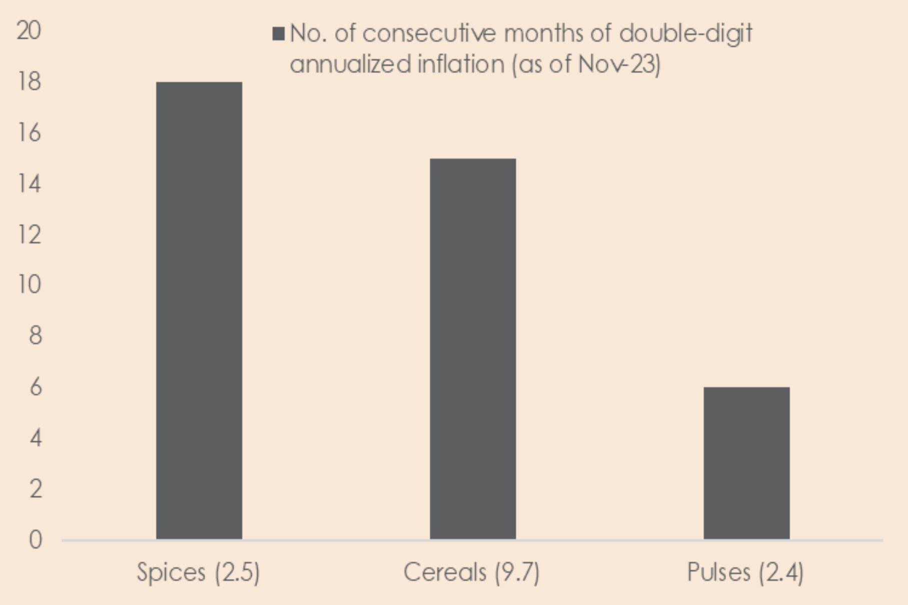


Although net g-sec borrowing is at its post Covid high in Q2 FY24, it is scheduled to decline considerably in H2 FY24.



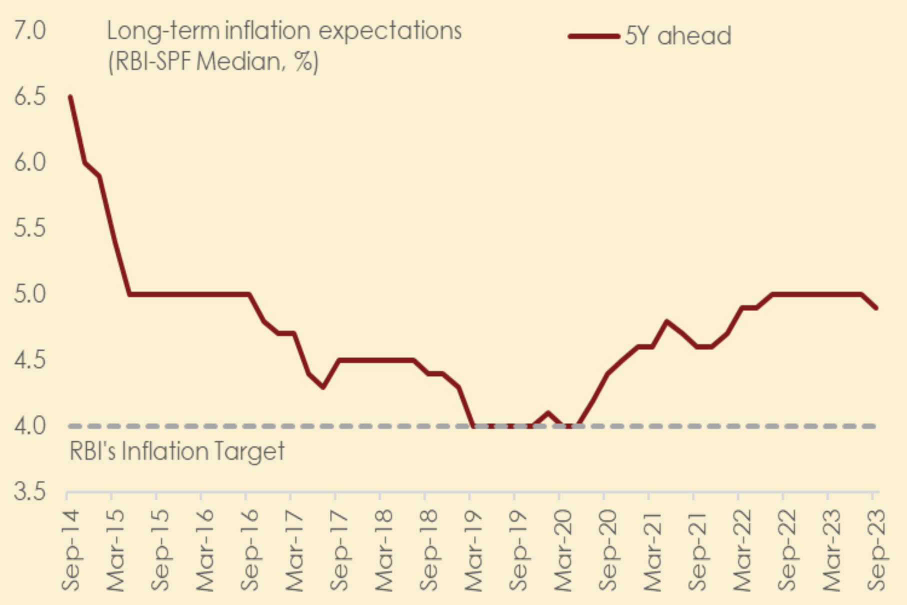
…however, MPC needs to maintain caution

Below normal and erratic monsoon has kept key food items (within staples) at elevated levels. This can provide downward rigidity to food inflation in coming months despite favorable seasonality.



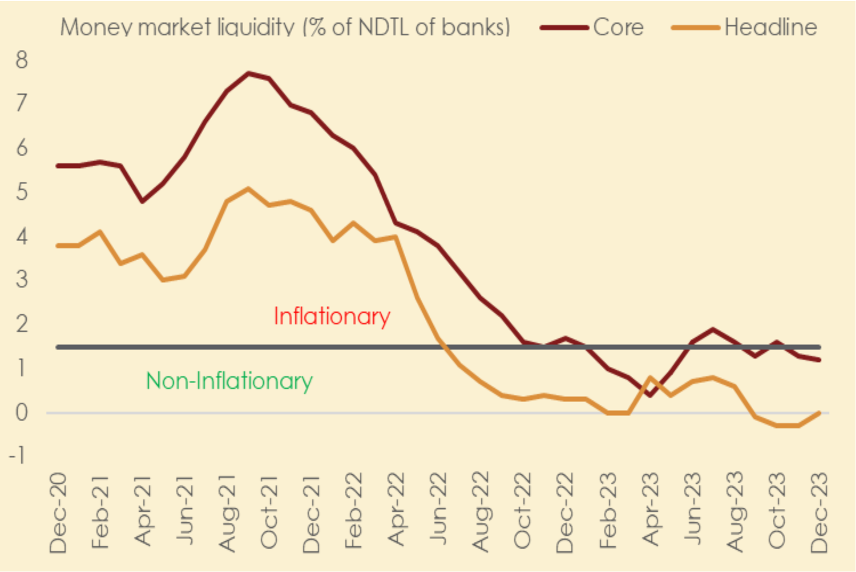
Note: Figures in parenthesis indicates the weight in CPI

Long term inflation expectation of professional forecasters is yet to find its anchor despite record pace of monetary tightening by the MPC.

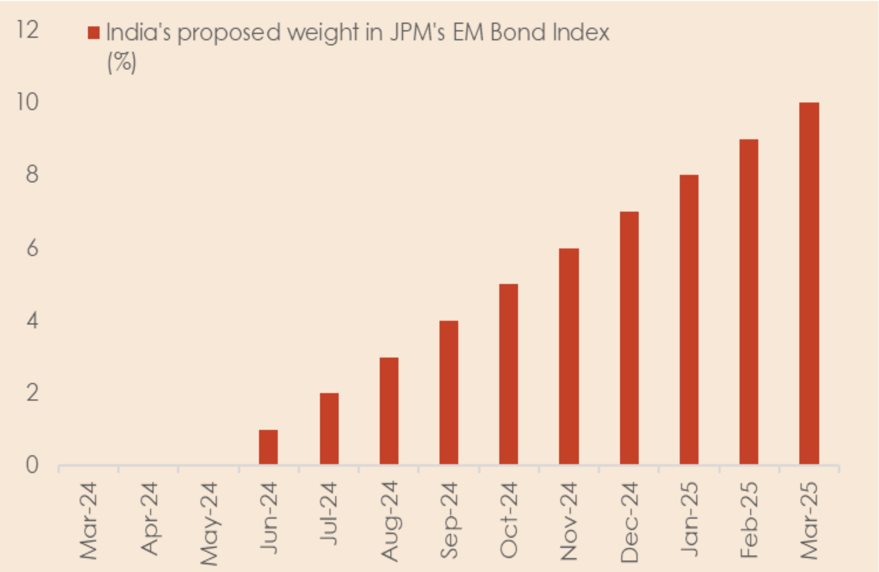


India Rate Outlook

We expect RBI to moderate core liquidity surplus from Rs 2.9 tn (1.5% of NDTL) in end Q2 FY24 significantly to Rs 1.7 tn (0.8% of NDTL) by end Q4 FY24 to boost monetary policy transmission.



With India's inclusion in JP Morgan's EM Bond Index, there is a possibility of USD 20-21 bn passive inflows by Mar-25.

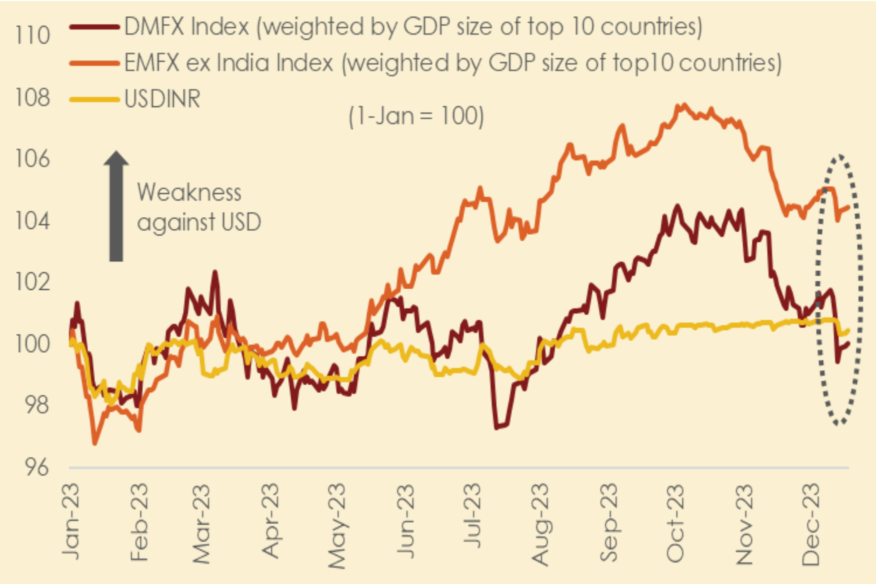


With domestic inflation projected to moderate and index inclusion becoming a reality we **expect 10Y g-sec yield to moderate towards 7.00% by Mar-24**. However, El Nino and geopolitical factors could potentially provide an upside risk.

Dollar weakness provides respite

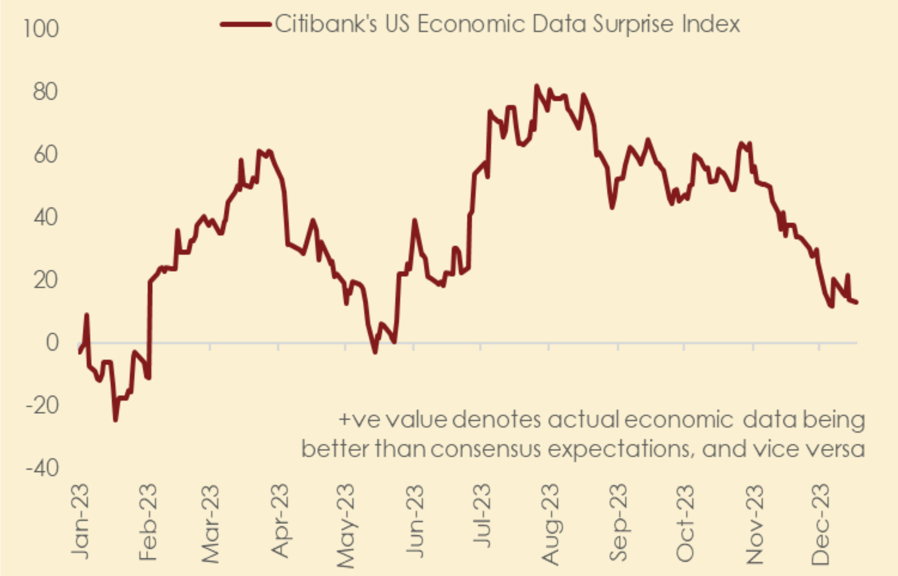
The dollar index, which has been gradually correcting from its recent high of 107 in early Oct-23, lost further ground in Dec-23 with FOMC policy outturn being perceived by market participants as dovish. The index is currently trading below 102 levels.

While recent dollar weakness has provided comfort to other currencies, the DM currencies have outperformed EM currencies in the recent relief rally. While INR had strengthened somewhat in Dec-23, it is yet to show a sustainable trend and has underperformed its peers.

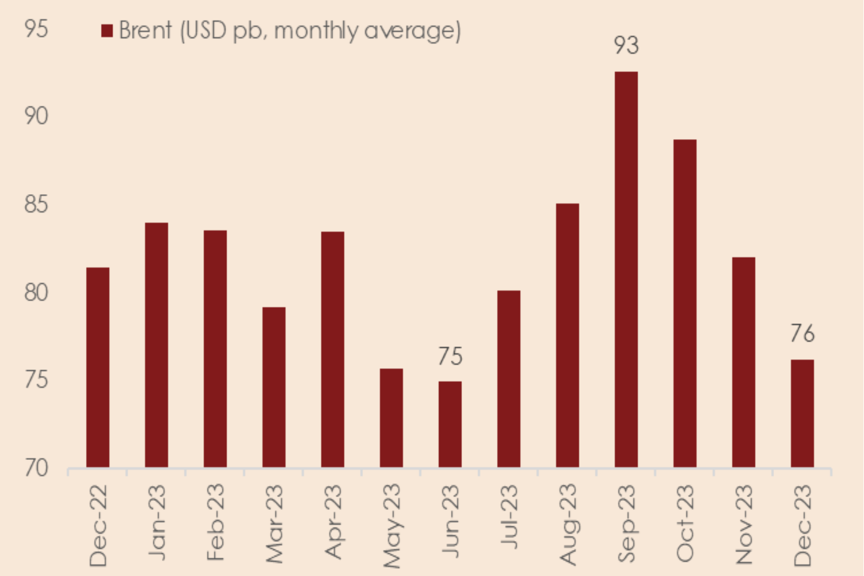


Adversity of global factors has waned

Over last 2-months, momentum of positive data surprises in US has been reducing (and expectation of slowdown in CY2024 is strengthening), thereby strengthening the case for an early 'Fed pivot' in CY2024.

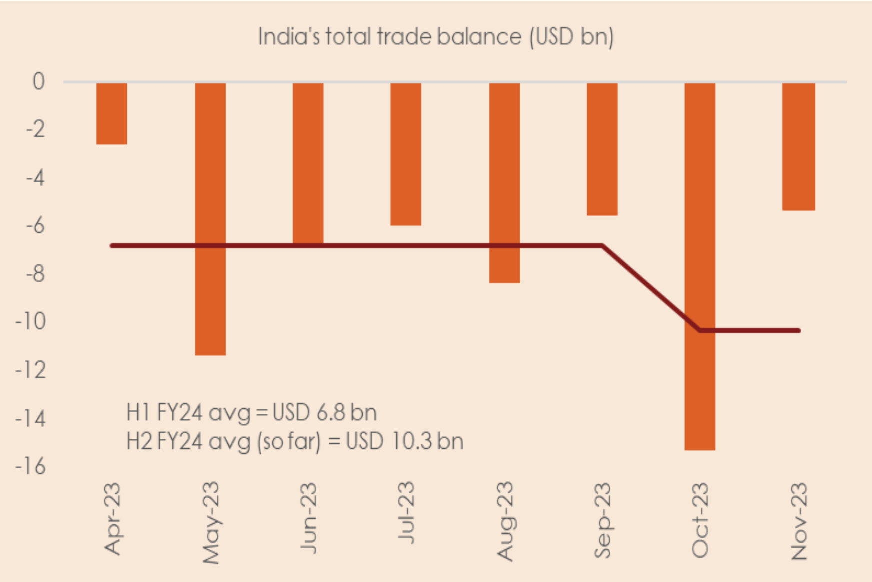


International commodity prices have softened in last 2-3-months. In particular, the price of Brent has fallen from its recent high of USD 93 pb levels in Sep-23 to USD 80 pb levels in Dec-23.

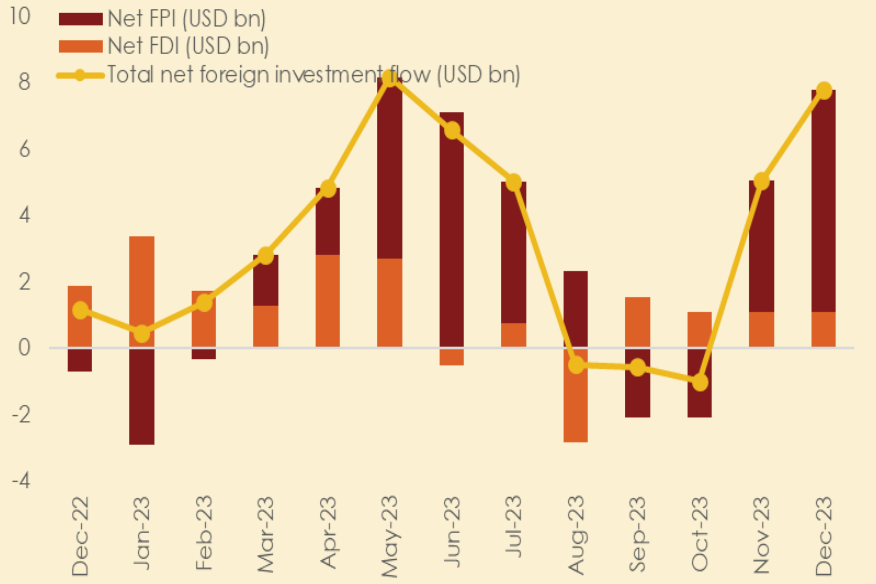


With BoP surplus getting front loaded, incremental support may be meagre

Although merchandise and services trade balance provided comfort in H1 FY24, we see some deterioration in H2 on account of global slowdown and spike in geopolitical risk.



Geopolitical risk and uncertainty ahead of national elections has kept FDI flows subdued. In contrast, FPI flows have recovered sharply since Nov-23 as (i) recent state elections have favoured the BJP govt at the centre, and (ii) markets have started pricing in an early 'Fed pivot'.

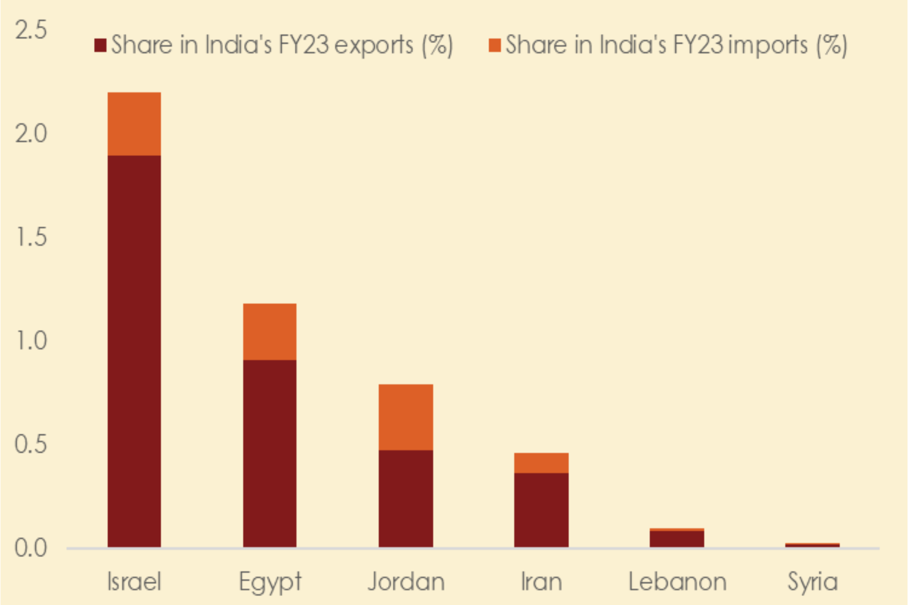


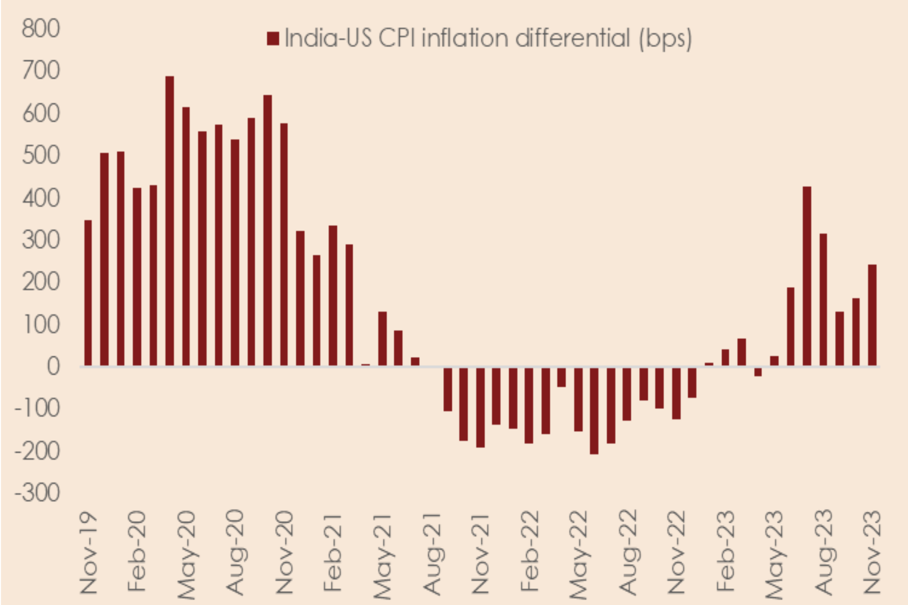
Note: FDI figures for Oct-Dec 2023 is an extrapolation basis last 1-year trend

Global risk factors impart a cautious undertone

Although the Israel-Hamas war has not escalated so far, the risk of involvement of neighbouring countries in the ongoing regional conflict would be detrimental for the world economy and India.

With inflation differential with the US remaining against India in recent months, INR may witness a pressure in the near-term despite the conducive global landscape.



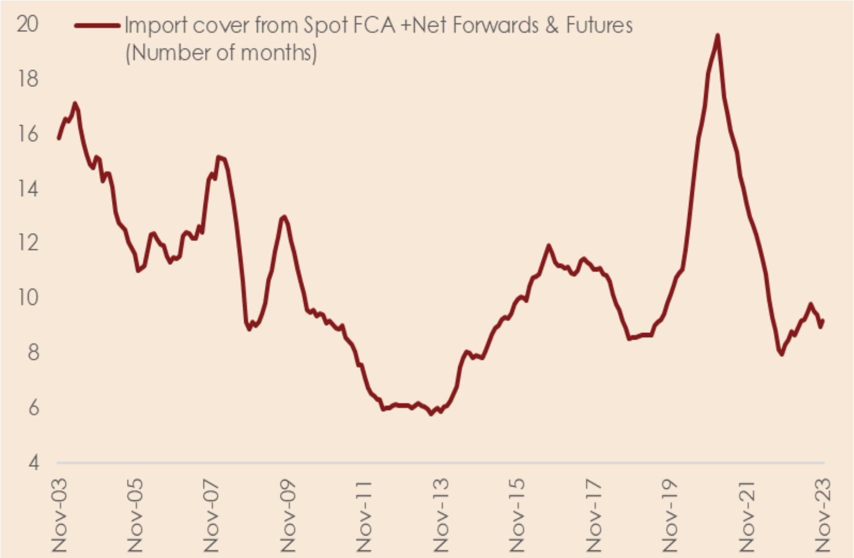


Rupee Outlook

Markets now expect the ECB to deliver the maximum rate hikes in 2024, followed by the Fed.

Central Bank	First rate cut	Cumulative rate cuts in CY24 (bps) (P)
Federal Reserve	Mar-24	-141
ECB	Apr-24	-150
BoE	May-24	-114
SNB	Mar-24	-76
BoC	Apr-24	-109
RBA	Jun-24	-43
RBNZ	May-24	-81

Merchandise import cover is estimated to have moderated to 9.2 months as of Nov-23, thereby prompting RBI to continue building reserves.



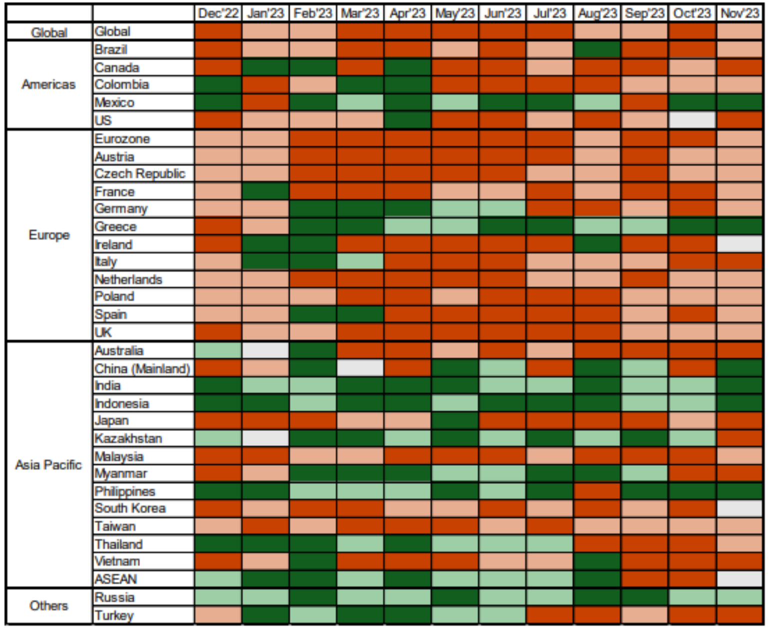
A constructive growth outlook vs. peers would support INR in the medium term. We maintain our mild constructive view on INR, with a move towards 82.5 by Mar-24. Uncertainty on fed pivot (few members have started giving a pushback to early rate cut expectations after the Dec-23 FOMC review) and worsening of geopolitical risks could put INR under pressure.

Services continue to drive global economic activity

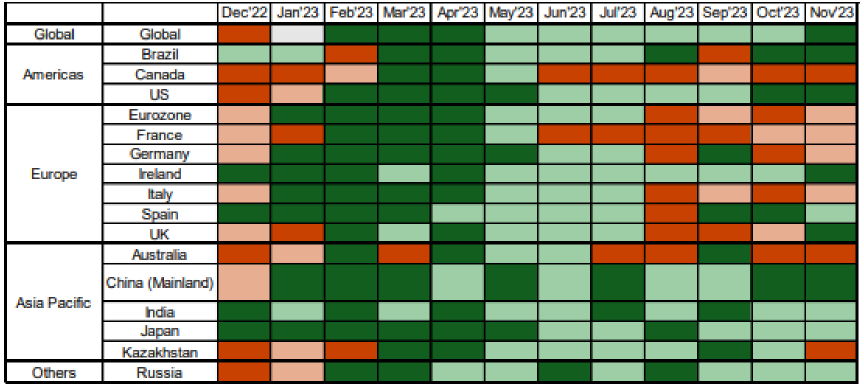
The JP Morgan Global PMI Composite Output Index rose to 50.4 in Nov-23, up from 50.0 in Oct-23 to signal a renewal of output growth, albeit only marginally.

Growth in activity remains exclusive to the service sector as manufacturing output remained in contraction territory for a sixth consecutive month in Nov-23

PMI Manufacturing

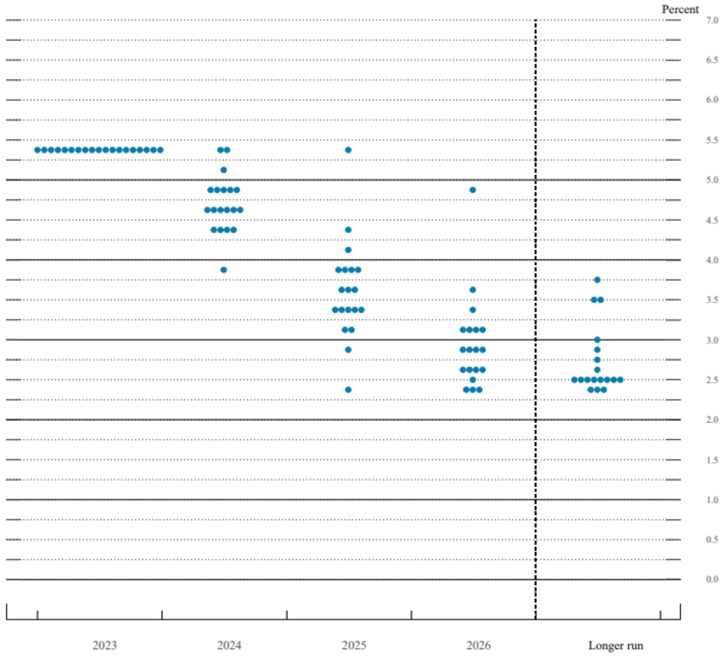


PMI Services



US Fed takes a dovish spin

Fed in its Dec-23 policy announced a dovish pause, as it pointed towards the possibility of interest rate having peaked and Fed dot plot signaling 75 bps of rate cuts in 2024



The Fed admitted that growth "has slowed from its strong pace in the third quarter" along with the recognition that "inflation has eased over the past year"

Median projections (%)	2023	2024	2025	2026
Change in real GDP	2.6	1.4	1.8	1.9
Sep-23 projection	2.1	1.5	1.8	1.8
Unemployment rate	3.8	4.1	4.1	4.1
Sep-23 projection	3.8	4.1	4.1	4.0
PCE inflation	2.8	2.4	2.1	2.0
Sep-23 projection	3.3	2.5	2.2	2.0
Core PCE inflation	3.2	2.4	2.2	2.0
Sep-23 projection	3.7	2.6	2.3	2.0

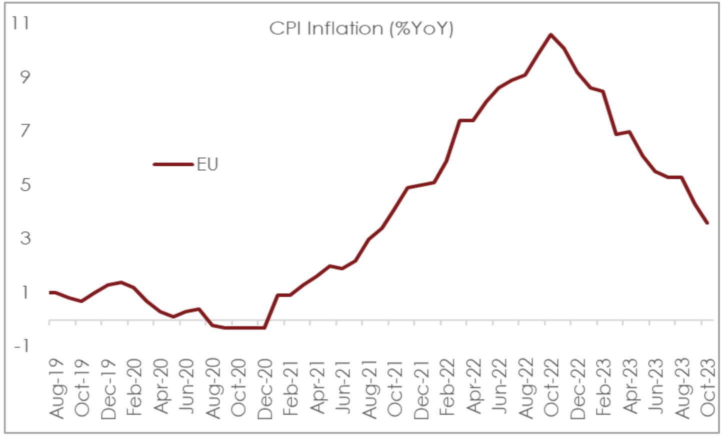
ECB and BOE: Dissuading rate cuts bets

Both BoE and ECB diverged from their US counterpart at the Dec-23 policy meeting, by avoiding discussion on rate cuts and reiterating the need to maintain higher rates for longer.

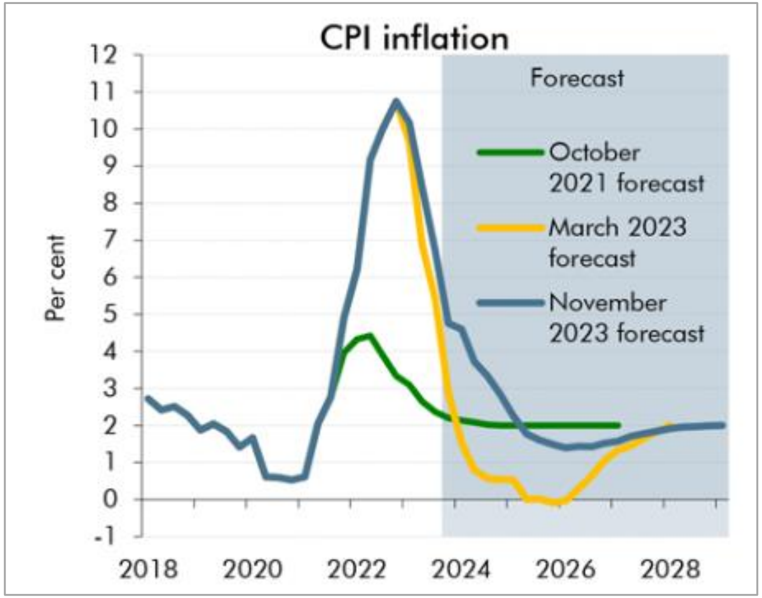
Growth and inflation projections for the euro area

(annual percentage changes)

	December 2023					September 2023			
	2022	2023	2024	2025	2026	2022	2023	2024	2025
Real GDP	3.4	0.6	0.8	1.5	1.5	3.4	0.7	1.0	1.5
HICP	8.4	5.4	2.7	2.1	1.9	8.4	5.6	3.2	2.1



Although ECB lowered its forecasts for inflation for 2023 and 2024, Chairperson Lagarde displayed heightened caution about elevated wage pressures. Almost in line, BoE pointed to several upside risks to inflation from higher services inflation and strong wage growth



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