Macro Pulse

Report

OCTOBER 2024

From the desk of the Chief Economist

Dear Reader,

Festival greetings to you and your families!

Our latest Macro Heat Map indicates that the likelihood of a moderation in GDP growth has increased in FY25. The high-frequency indicators signal a slowdown in the second quarter (Q2FY25) particularly in terms of industrial output and a decline in credit growth in the banking system. This can be partly attributed to higher disruption in economic activity from a stronger and extended monsoon as also the slower pace of pickup in government capital expenditure. Rural demand seems to be on an upswing backed by a favourable monsoon, but urban demand appears to be slowing down. RBIs regulatory actions against some NBFCs and MFIs may slow down disbursements in retail loans. Corporate results for Q2 indicate slower revenue growth and a pressure on margins. While we continue to retain our GDP forecast for FY25 at 7.0%, the heat map indicators will need to be closely tracked over the next few months. Nevertheless, we expect consumer demand to recover strongly through the festive season in the third quarter, supported by a benign inflationary environment. The ongoing revival of the rural economy is expected to be stronger as plentiful showers in the past months contributed to the marked increase in reservoir levels, overall robust kharif season, and the upcoming rabi sowing season.

Globally, the uncertainty around the trajectory of monetary policy in the developed economies remains amidst the intensified conflicts in the Middle East; with volatile oil prices, aggressive rate cuts may not be on the table for central banks that have already begun cutting rates despite weak global growth. RBI MPC doesn't sound confident yet on the timing of rate cuts. FPI outflows in equities have seen a record outflow of around USD 10 bn so far in Oct-24 but given the ample backup of forex reserves with RBI, the INR is likely to remain relatively stable.

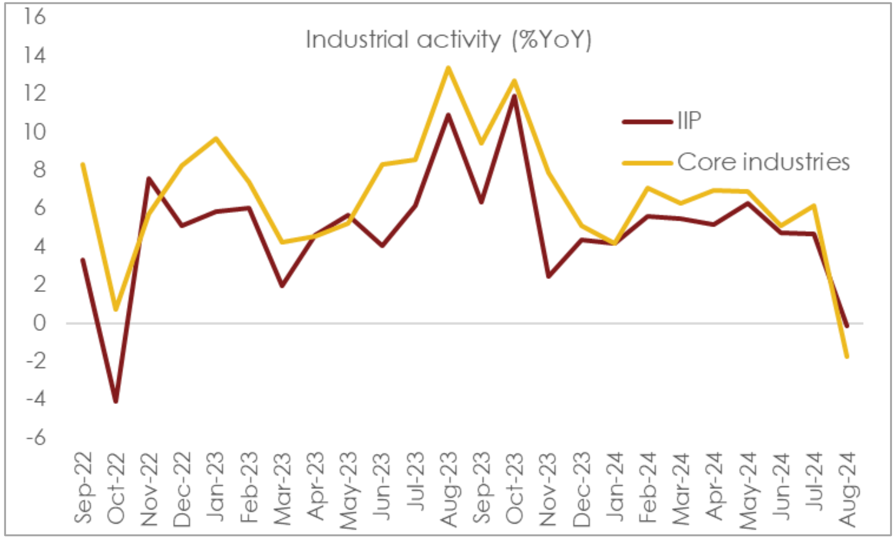
Let's wish that the bright lights of Deepavali will help to drive away some of these anxieties that seem to have gripped the Indian economy.

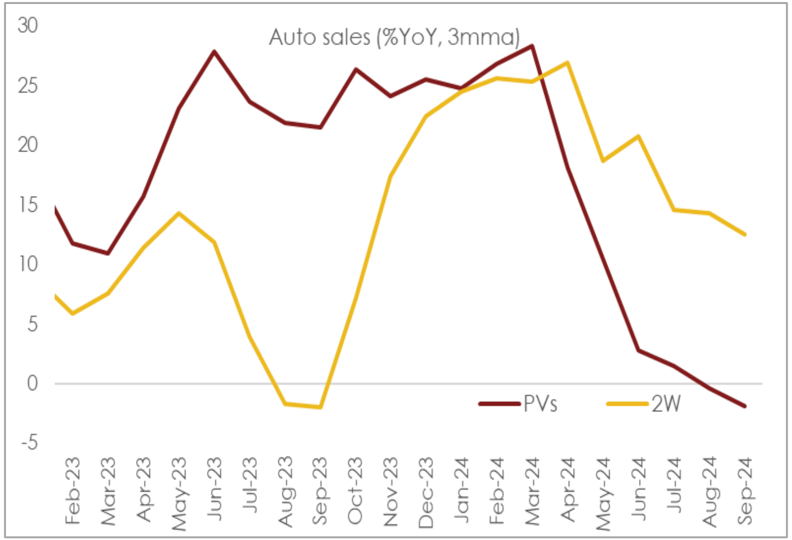
-Suman Chowdhury, Chief Economist and Executive Director

Economic activity displays nascent signs of slowing

Industrial activity slipped into contraction in Aug-24, as validated by both core industries as well as IIP growth. The latter contracted by 0.1% YoY in Aug-24, compared to an increase of 4.7% in the previous month to mark the first negative print in 22 months.

Growth in passenger vehicle sales has been in contraction for the last three consecutive months, i.e., over Q2 FY25 – a clear trend of waning urban demand.

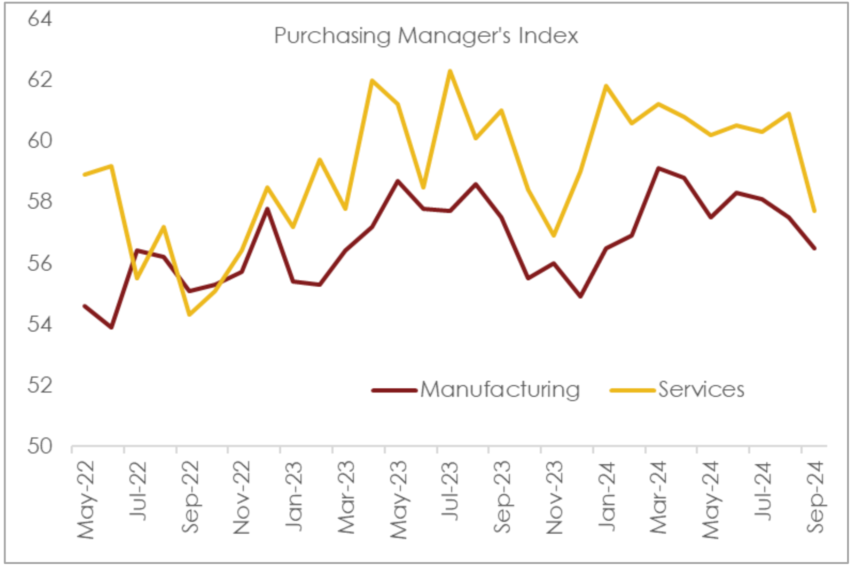


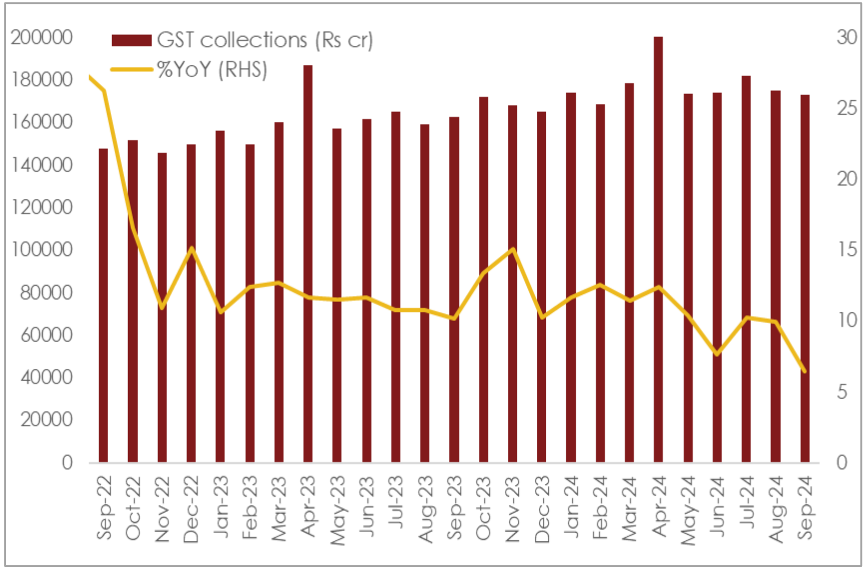


Economic activity displays nascent signs of slowing

PMI indicators moderated further in Sep-24, with services registering a steeper decline. At 57.7, Sep-24 services sector PMI marked the lowest level in 10 months amidst higher cost pressures and a decline in overseas orders.

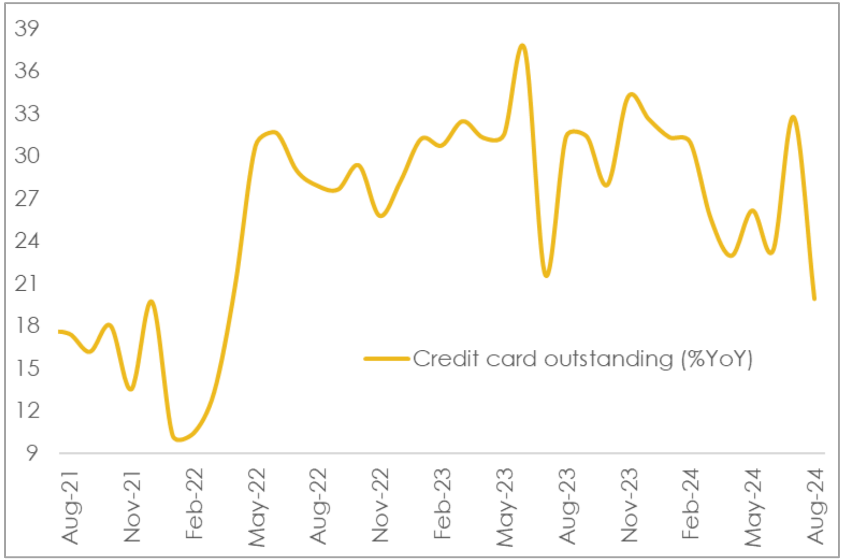
GST collections at Rs 1.73 lakh cr in Sep-24 slipped 1% on a MoM and 6.5% on an annualized basis – to mark the slowest pace of annualized growth in 40 months.



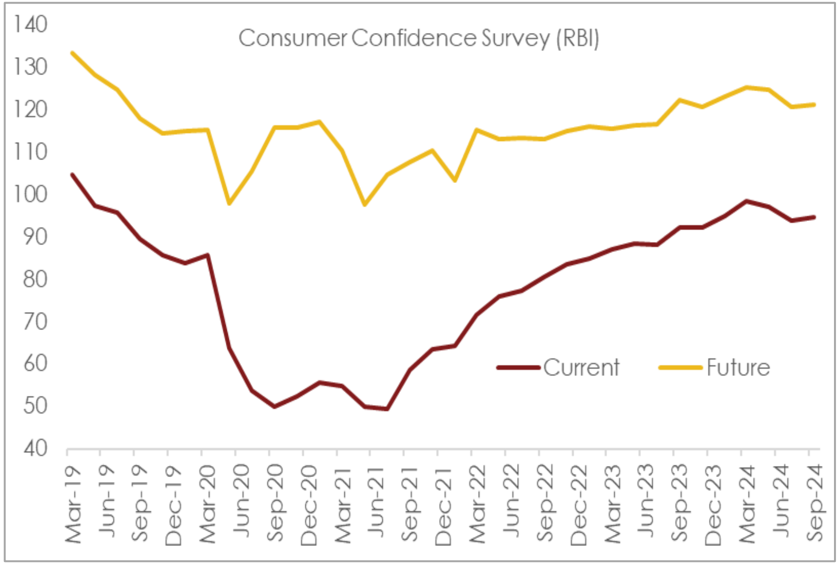


Urban consumption facing headwinds

Growth in credit card outstanding eased to a near 2-1/2 year low in Sep-24, likely to weigh on leveraged urban demand further. This correction needs to be seen against RBI's regulatory measures on unsecured lending announced last year and recent warnings by the RBI Governor to NBFCs to curb aggressive growth practices – which could lead to further downsides.



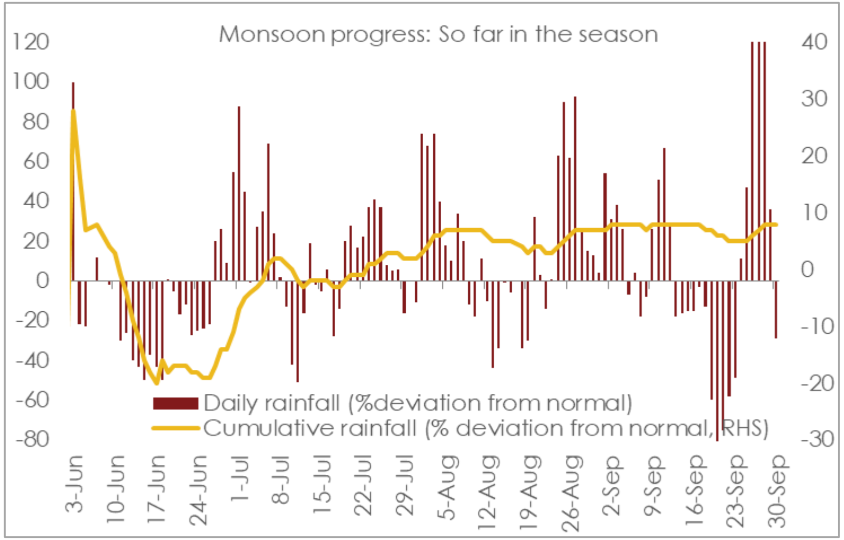
In addition, RBI's latest consumer confidence for the month of Sep-24 continues to remain subdued compared to the trend seen in H1 of CY24.

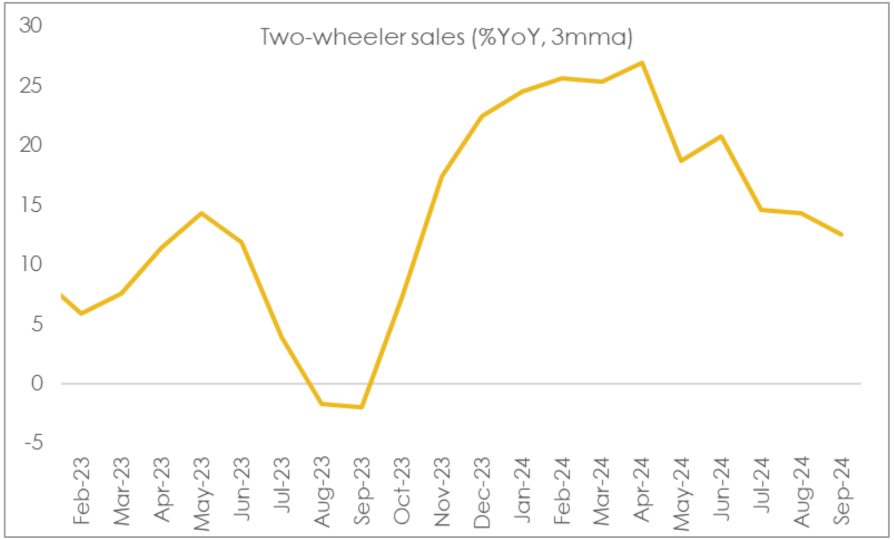


Prospects for rural economy, however, remain bright

The southwest monsoon, which ended the season with an 8% surplus, augurs well for 2024 Kharif prospects, a harvest for which is now underway. Pulses, Rice and Coarse cereals will likely see higher output vis-à-vis last year.

Reflecting the improving rural sentiment, two-wheeler sales growth has been holding up well, as opposed to passenger vehicles, which have slipped into contraction for three consecutive months now. The onset of the festive season should support rural demand in addition to the government's fiscal support.

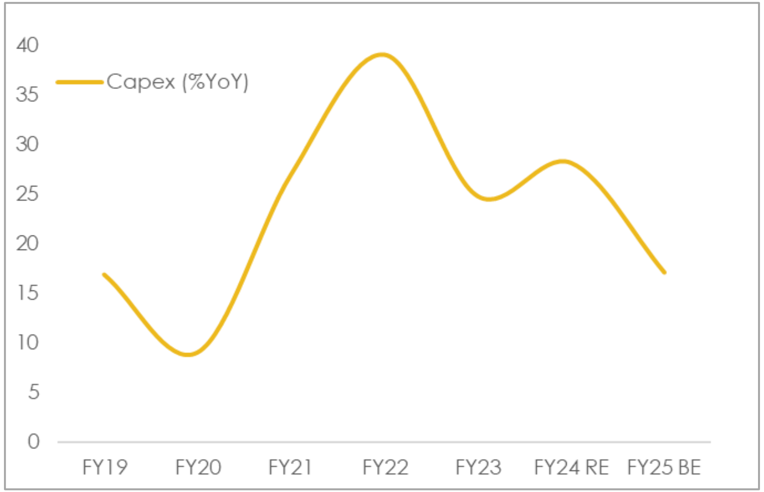


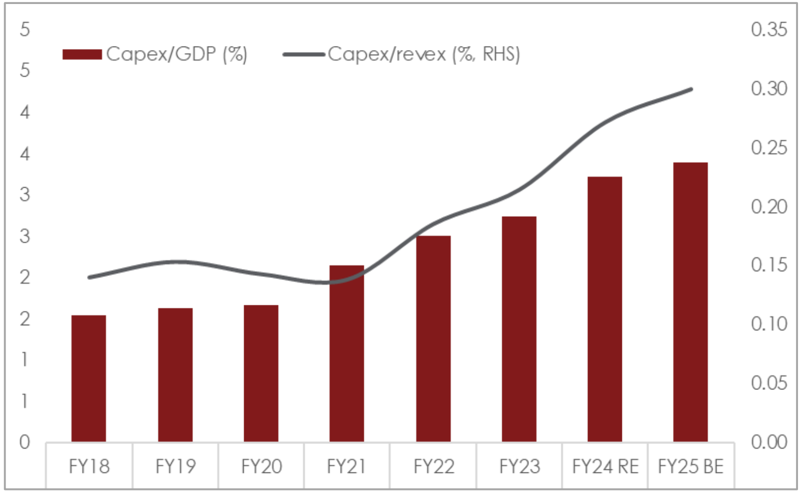


Capex support to growth intact

The Union budget maintained the level of capex at Rs 11.1 tn. 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 government's thrust on capex to support growth. While on an FYTD basis, government capex spending continues to lag vis-à-vis last year, back-loaded recovery can be expected in a bid to meet BE.

The recent temporary 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).

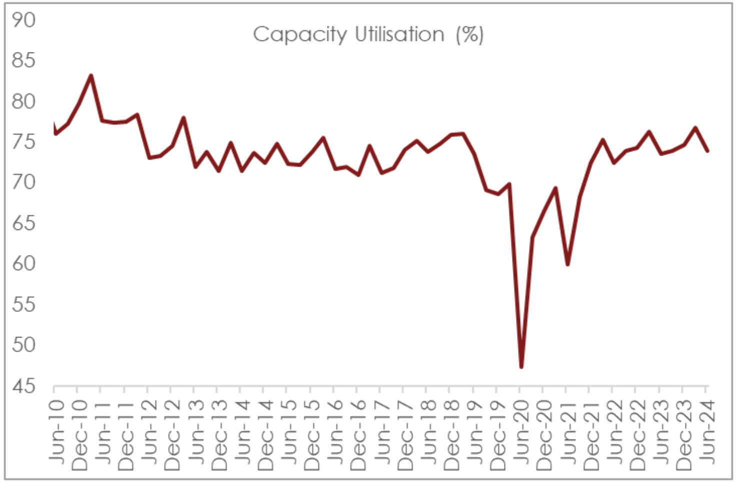


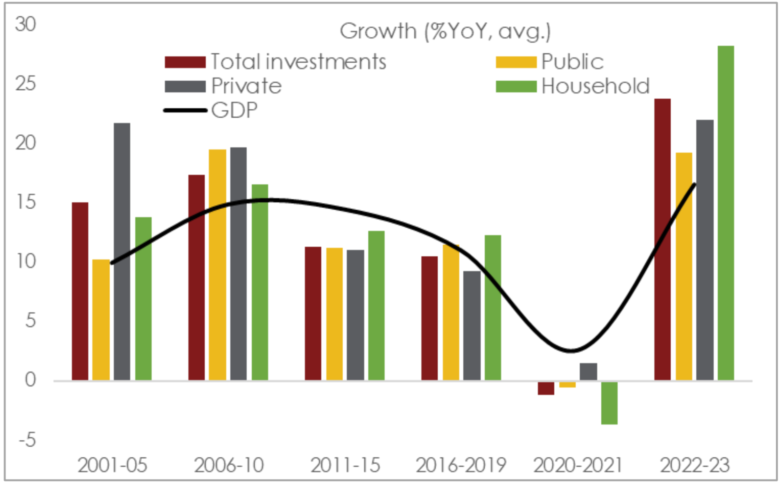


Private capex recovery underway

Capacity utilisation levels have improved to ~75% on a trend basis over the last 6 quarters as per RBI's OBICUS survey. With healthier corporate balance sheets and broad comfort from the global commodity cycle, a gradual private capex recovery appears underway.

Private capex in nominal terms has grown faster than GDP growth in the post-pandemic phase. The recovery in private investment to GDP ratio to 10.8% in 2023 still stands significantly below its previous peak of 18.3% in 2008. As per RBI's assessment, the investment cycle could remain upbeat in FY25, based on the projects sanctioned by banks/FIs during FY24 that could manifest in a significant rise in capital investment of private corporates.





Outlook: FY25 GDP growth pegged at 7.0%

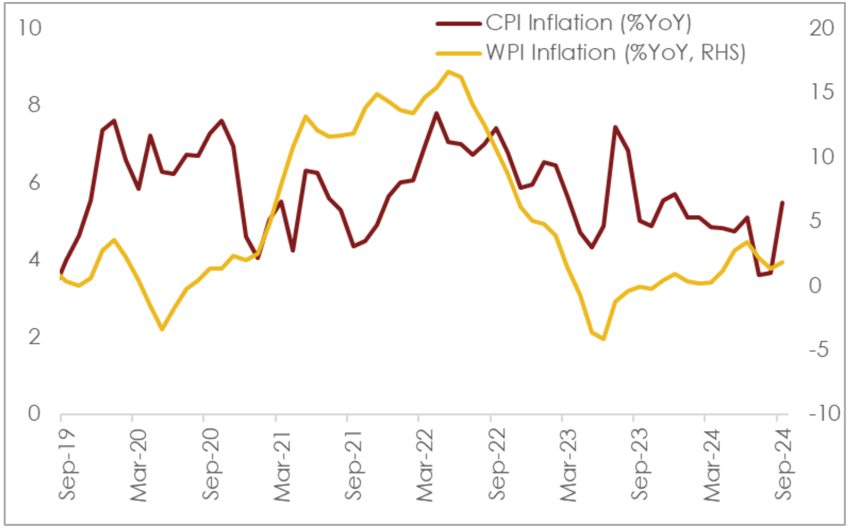
1) An adverse base
2) Moderation in urban leveraged consumption to continue
3) The government's fiscal impulse remains lower
4) The global economic environment remains vulnerable and fraught with geopolitical tensions
5) Swing in input price inflation from negative to positive to weigh on manufacturing value-added

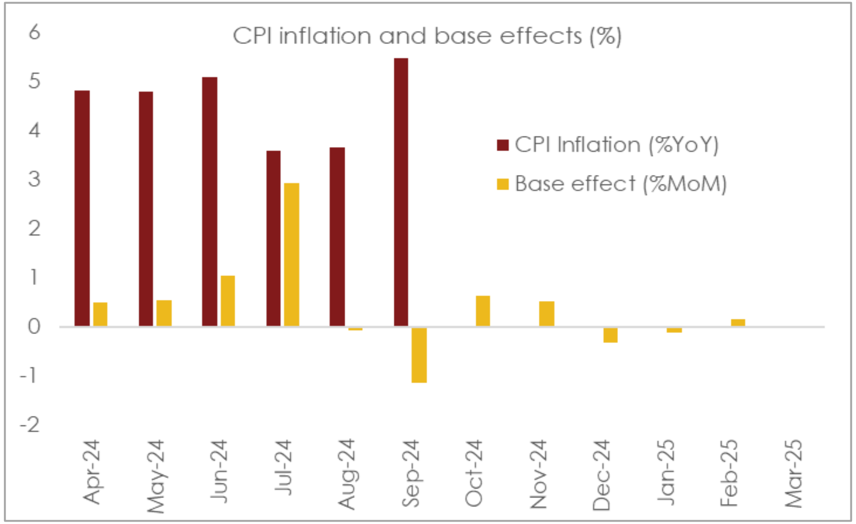
1) Above-normal monsoon brightens Kharif prospects
2) Outlook for Rabi is also positive
3) Rural demand witnessing a gradual recovery
4) Capex cycle to turn more broad-based

CPI inflation surges in Sep-24

India's CPI inflation jumped sharply in Sep-24 to the highest level seen in 2024 so far. At 5.49%YoY compared to 3.65% in Aug-24. The inflation upside was, however, well anticipated, though it beat market expectations by 40 bps.

An unfavourable statistical base and strong sequential momentum in food prices in the month led to the surge.





The base effect is the %MoM of the previous year; a negative value indicates an unfavourable base.

Price pressures could linger through Oct-24, MSP hikes to be inflation neutral

The food price momentum could spill over into Oct-24, as we continue to see elevated prices of select vegetables especially Tomatoes, that have recorded a sequential jump of nearly 45% so far in the month (data available till 17th Oct-24).

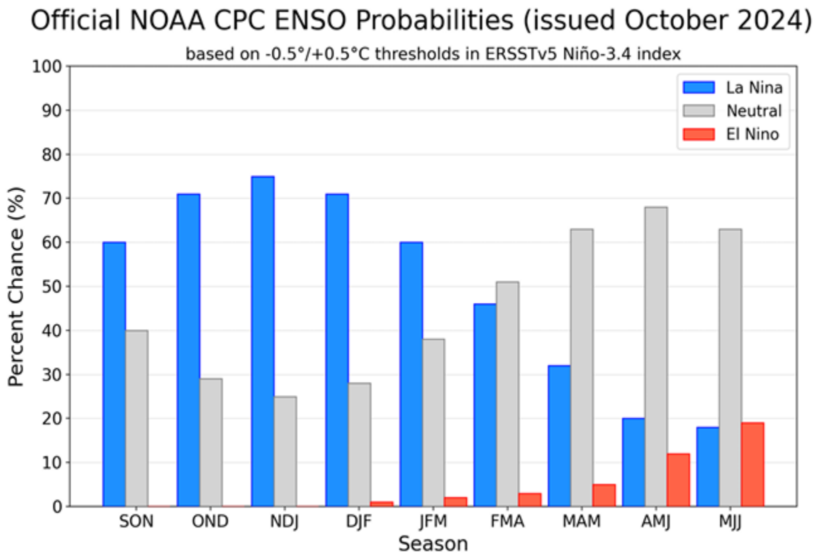
Vegetables (%MoM)	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
Bitter Gourd	12.5	1.2	-12.6	0.7	-4.5
Brinjal	28.6	15.3	-3.5	-9.6	33.1
Cabbage	18.3	28.0	-12.3	-3.9	3.0
Cauliflower	22.3	9.3	-12.9	16.3	2.7
Chilly	10.3	22.8	-15.8	0.2	19.1
Garlic	13.4	1.2	4.8	11.1	7.6
Ginger	10.2	-3.8	-10.0	-3.6	5.0
Okra	20.9	10.2	-12.1	-8.6	-5.5
Onion	33.0	7.6	11.7	19.0	8.6
Peas	36.6	25.6	-39.6	89.9	14.4
Potato	8.8	7.6	1.4	1.5	6.8
Tomato	66.0	61.8	-30.6	1.6	46.7
All Vegetables	**21.3**	**13.8**	**-8.3**	**6.2**	**12.4**

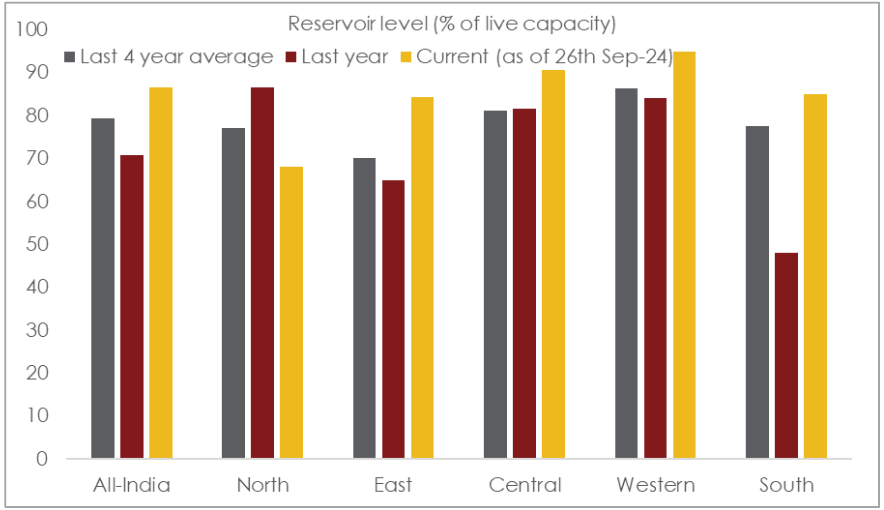
Having said that, the recently announced hike in MSP for Rabi crops are likely to be inflation-neutral.

	MSP Announced (in Rs)			%YoY	
Rabi crop	FY23	FY24	FY25	FY24	FY25
Wheat	2125	2275	2425	7.1	6.6
Barley	1735	1850	1980	6.6	7.0
Gram	5335	5440	5650	2.0	3.9
Lentil (Masur)	6000	6425	6700	7.1	4.3
Rapeseed/mustard	5450	5650	5950	3.7	5.3
Safflower	5650	5800	5940	2.7	2.4
Average % increase				**4.8**	**4.9**

Prospects for Rabi season remain strong

While food inflation could remain elevated in Oct-24, the supportive winter seasonality should start curbing price pressures thereafter amidst healthy reservoir levels and expectation of a favourable Rabi output later on in the year. The delayed onset of La Nina (70% chance in Oct-Nov-Dec-24) also augurs well for Rabi prospects.

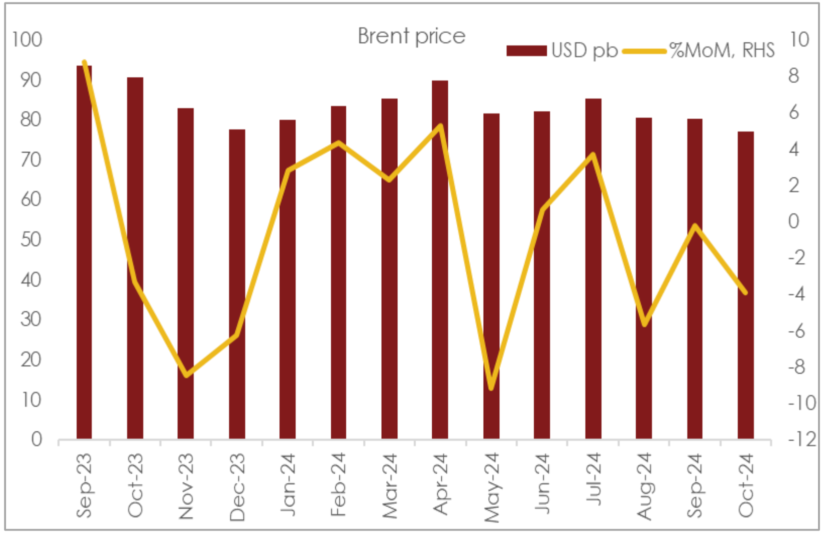


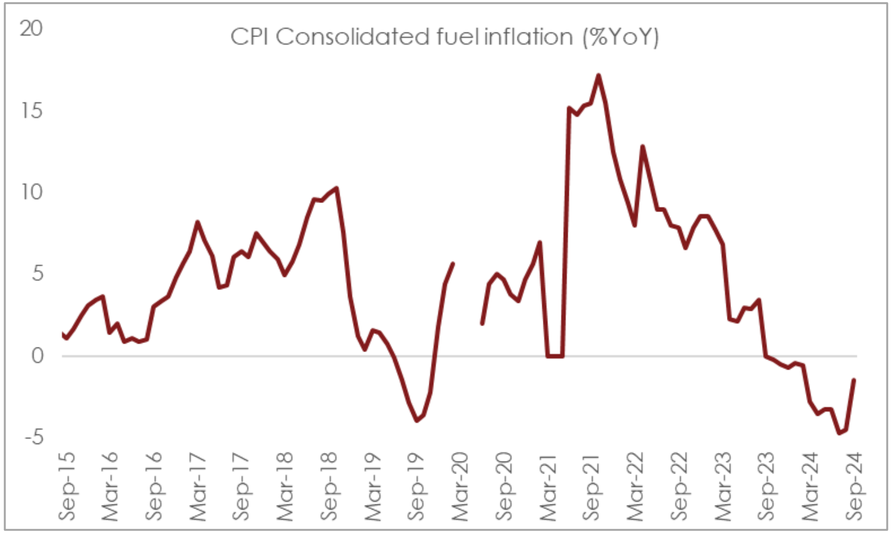


Global crude prices turn volatile, all eyes on evolving geopolitics

Global crude prices in recent weeks have displayed volatility amidst continuing tensions in the Middle East juxtaposed against global growth slowdown concerns.

Consolidated fuel inflation remained in negative territory for the thirteenth consecutive month in Sep-24, albeit rising materially to -1.4%YoY from -5.3% in the previous month amidst the speedy waning of the favourable base.



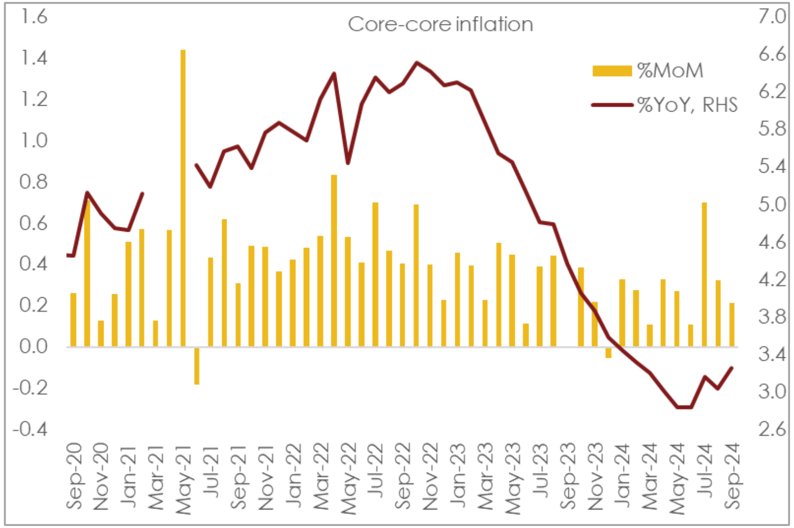


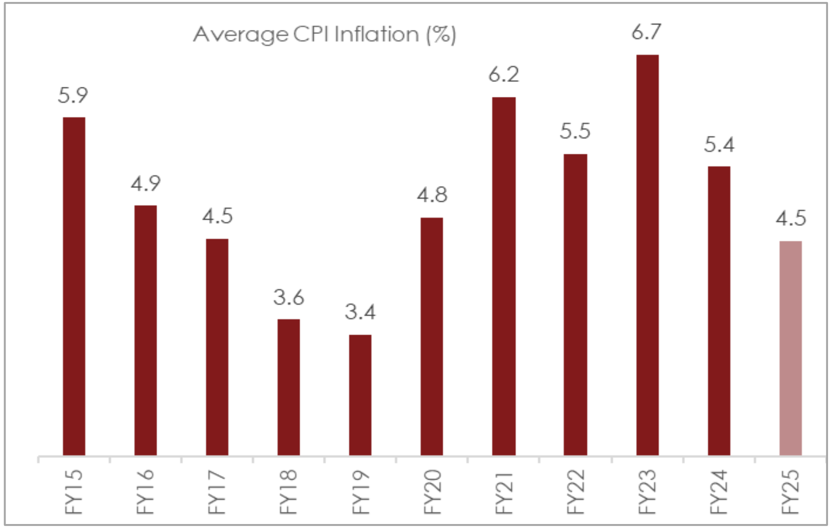
CPI inflation to align closer to target in FY25

Core-core CPI inflation rose in Sep-24 to 3.3% from 3.1% in Aug-24 – continuing its gradual ascent beyond the trough recorded in Jun-24. The upside was led by Household goods & services, Transport & communication, and most importantly, Personal care & effects (which captured the impact of higher international prices of gold and silver items).

We continue to hold our average CPI inflation at 4.5% in FY25 vs. 5.4% in FY24.

RBI expects CPI inflation to align with the target in FY26, as it pegs next fiscal year's inflation estimate at 4.1% (model-based)





Snapshot of Apr-Aug FY25 fiscal performance

The cumulative fiscal deficit for the period Apr-Aug FY25 stood at 27.0% of the budget estimate, significantly lower than 38.9% of actuals in the corresponding period in FY24. Higher momentum in revenue receipts along with moderation in expenditure momentum (attributed to the election season) resulted in lower accretion to fiscal deficit on an FYTD basis.

Key Fiscal Variables (Cumulative position, as of August)				
	% of FY Actual/Target		%YoY	
	FY24	FY25	FY24	FY25
Revenue Receipts	37.1	38.6	24.1	19.2
Net Tax	34.6	33.8	14.8	8.7
Non-Tax	52.1	61.3	79.4	59.6
Non-Debt Capital Receipts	25.5	11.4	-51.1	-42.4
Total Receipts	**36.9**	**38.0**	**21.3**	**18.3**
Revenue Expenditure	37.1	36.4	14.1	4.1
of which, Interest Payments	*34.5*	*34.4*	*8.5*	*8.9*
of which, Major Subsidies	*43.7*	*46.9*	*32.5*	*-1.2*
Capital Expenditure	39.4	27.1	48.1	-19.5
Total Expenditure	**37.6**	**34.3**	**20.3**	**-1.2**
Fiscal Deficit	**38.9**	**27.0**	**-**	**-**

Despite some moderation, overall revenue collection remains strong

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On an aggregate basis, tax collection depicts a moderately strong FYTD momentum. However, there are internal variations. While the upside (vis-a-vis the budgeted growth) is being led by income tax and customs, corporate tax, excise, and GST collections are trailing their respective budget estimates.

Growth in key tax categories	Apr-Aug FY24 (% YoY)	Apr-Aug FY25 (% YoY)	FY25 BE (% change)
Gross Tax	**16.5**	**12.1**	**10.8**
Corporate Tax	15.1	-6.0	12.0
Income Tax	35.7	25.5	13.6
Customs	27.8	12.9	2.0
Excise	-12.4	4.2	4.5
GST	10.6	10.2	11.0
Net Tax	**14.8**	**8.7**	**11.0**

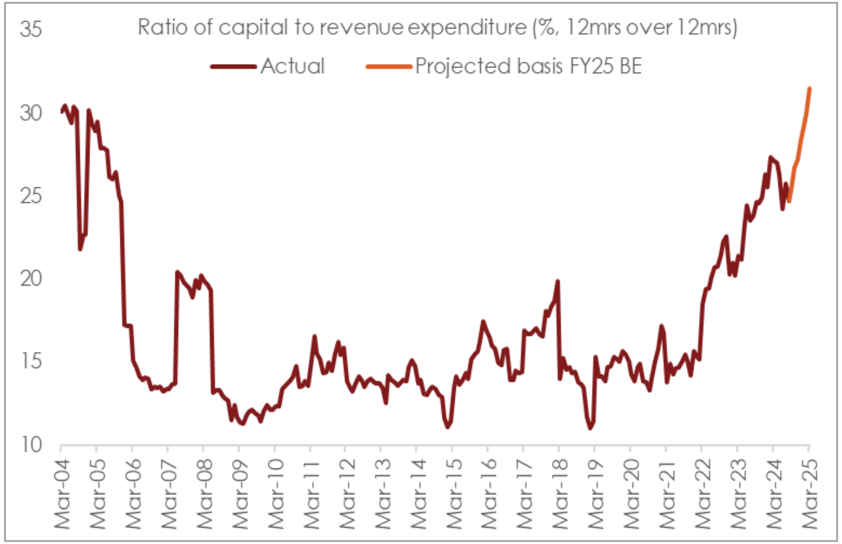
Divestments made a beginning with a modest collection of Rs 8 bn from SUUTI remittances in Aug-24. Further, the government collected Rs 23 bn in Sep-24 via GIC divestment, offloading 3.4% of its ownership. The likelihood of disinvestment undershooting the budgeted target remains.

In contrast, the strong momentum in non-tax revenue is running beyond the outsized support from the record-high RBI dividend. The collection of dividends and profits from PSEs has grown the fastest in the post-COVID phase so far.

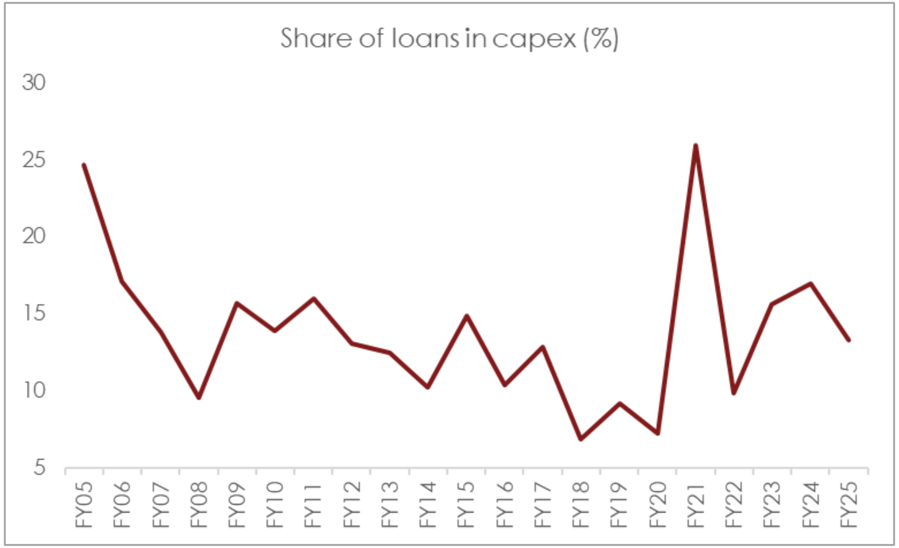
Dividends and Profits excluding RBI	Amount (Rs bn)
Apr-Aug FY21	25
Apr-Aug FY22	28
Apr-Aug FY23	124
Apr-Aug FY24	192
Apr-Aug FY25	288

Notwithstanding some initial dip, quality of spending to improve in FY25

Election-related freeze on spending resulted in some dip in the quality of spending (decline in capex/regex ratio) over Apr-Aug FY25. Assuming that budgeted targets are met, the capex/revex ratio should improve in the remaining 7 months.



The composition of capex has tilted modestly towards incrementally higher long-term loans to states (tied to specific policy objectives).



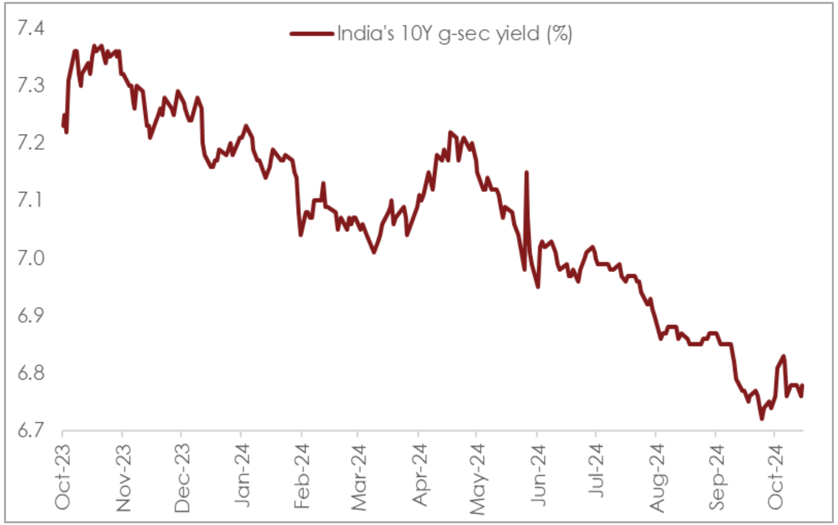
Note: FY25 depicts the cumulative trend for Apr-Aug period

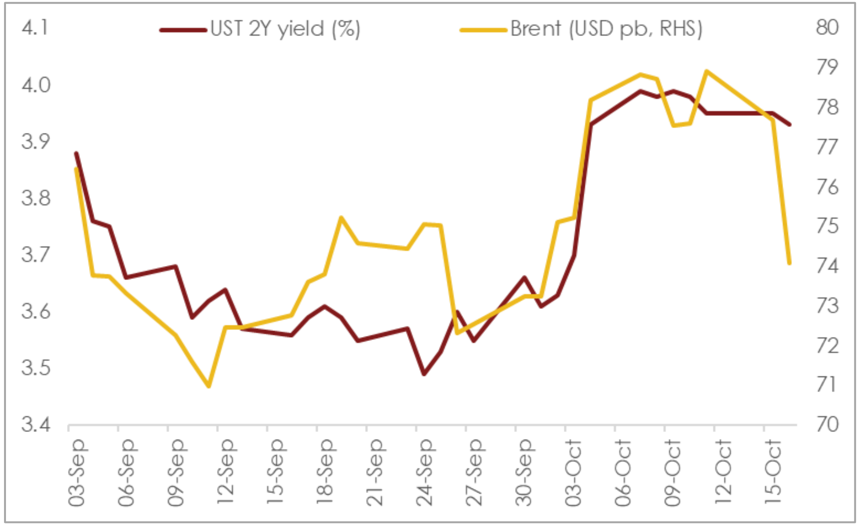
We expect FY25 fiscal deficit target of 4.9% of GDP to be met.

G-sec yield consolidates

India's 10Y g-sec yield is consolidating around 6.75% levels after its recent gains. This is not just the lowest level since the RBI started normalizing monetary policy in Apr-22, but it also stands lower than the level of 6.76%, which prevailed in Feb-22, just before the start of the Russia-Ukraine war.

UST yields have hardened in the last 4 weeks as market participants have curbed their expectations concerning the magnitude of rate cuts, with futures market pricing now in sync with the Sep-24 dot plot. Meanwhile, after seeing a spike in the first fortnight of Oct-24, crude oil prices have now moderated as supplies remain strong vis-à-vis the anticipated softness in demand.

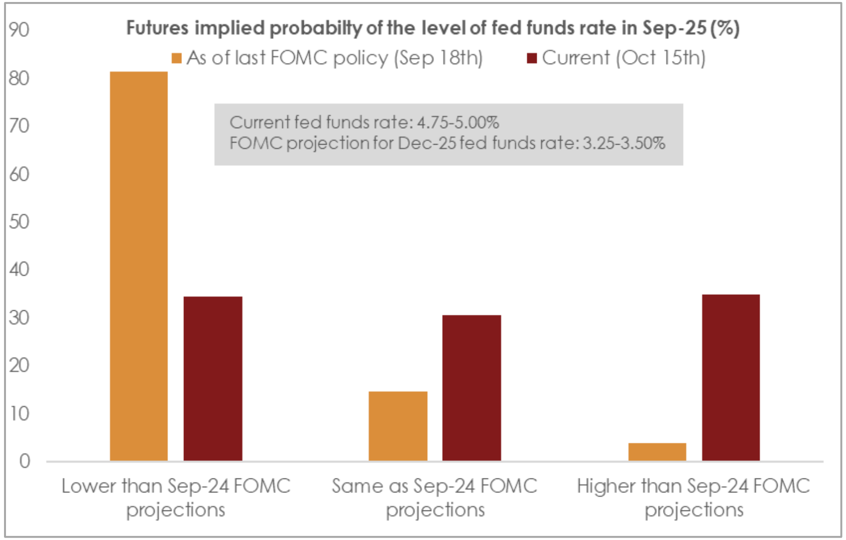


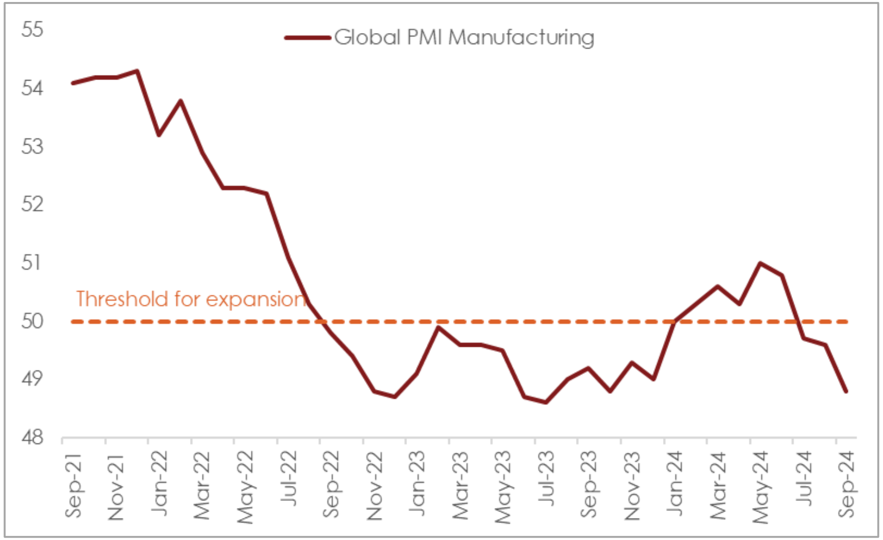


While remaining in favour, global factors witness some rationalization

The futures market is currently attaching a probability of 31% to the fed funds rate, being at 3.25-3.50% (same as per the Fed dot plot) by Dec-25 vs a probability of 15% a month ago. Notably, the probability of the fed funds rate undershooting the dot plot has dropped drastically to 35% currently from 81% a month ago.

Global manufacturing sentiment continues to remain subdued with the Global PMI remaining in contraction territory for the third consecutive month. The Sep-24 print of 48.8 is the lowest in last 11-months.

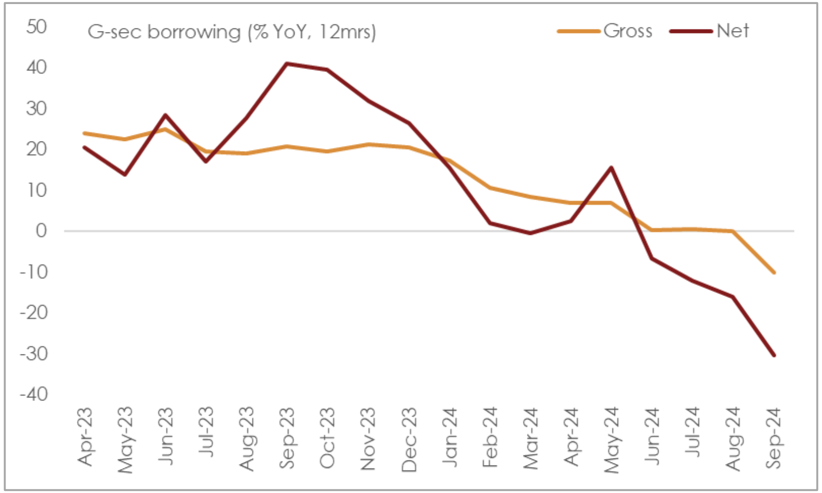


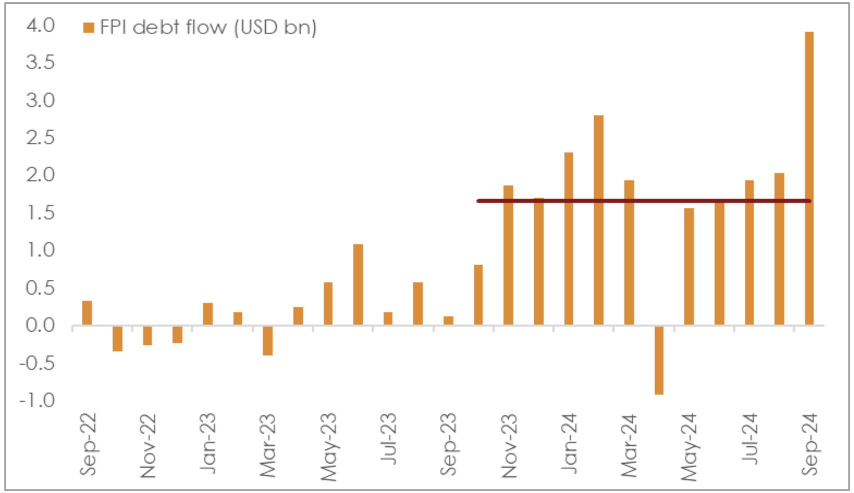


Supply-demand situation supporting sentiment

Benefit of fiscal consolidation is manifesting via annualized contraction in g-sec supply.

Post the announcement of India's inclusion in the JPM EMBI in Sep-23, FPI debt flow has averaged at USD 1.7 bn on a monthly basis. While Sep-24 recorded the highest inflow of USD 3.9 bn, Oct-24 has been tepid so far with an outflow of USD 0.1 bn. India's inclusion in the EMGBI by FTSE Russell from Sep-25 will likely attract USD 4.5 bn additional inflow.

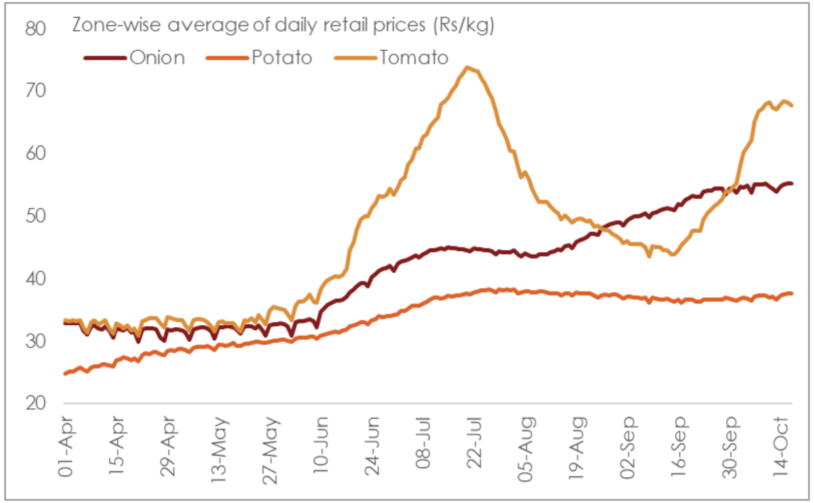


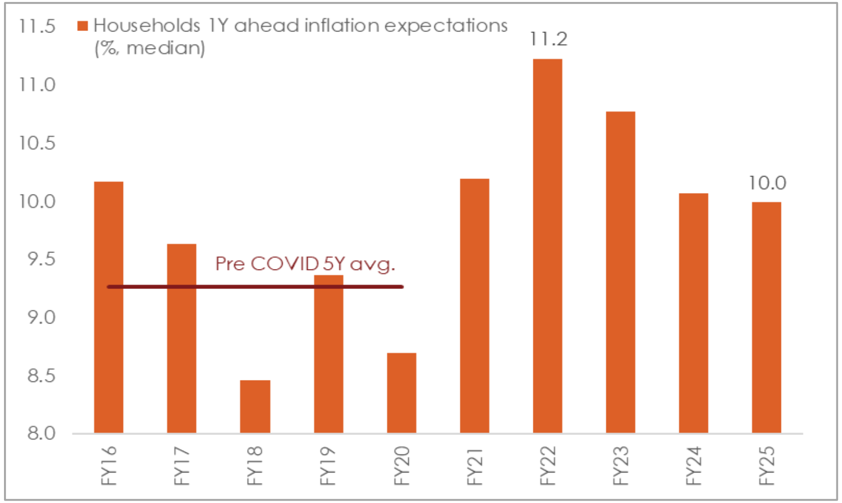


However, there is still some caution on the inflation front

Food inflation continues to pose concerns. Key vegetable prices (Tomato, Onion, and Potato) have continued to harden after a respite in Aug-24. Heavy backloaded rains is likely to have impacted the produce. Perhaps, the price correction would manifest from Nov-24 with the arrival of kharif and seasonal produce.

Lagged impact of past increases in input prices along with price pass-through in certain sectors (like telecom) has reversed the declining trend in Core CPI inflation. In addition, notwithstanding the moderation in last 2-3 years, household inflation expectations continue to remain elevated and above the pre-COVID levels.

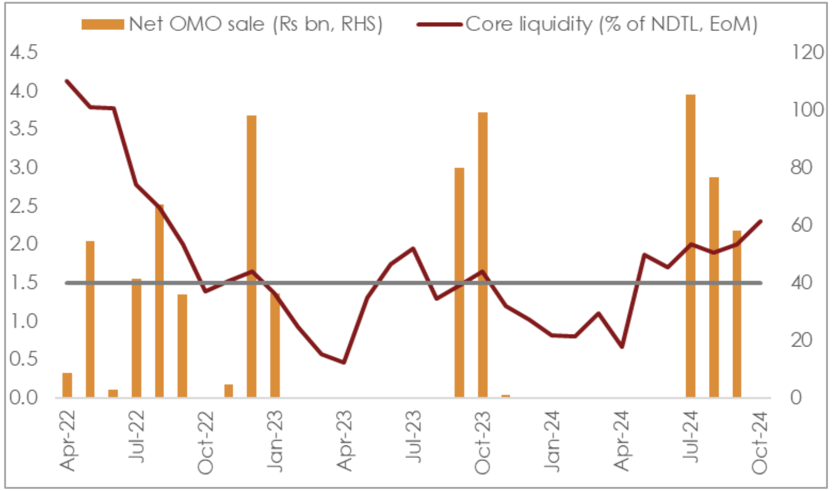


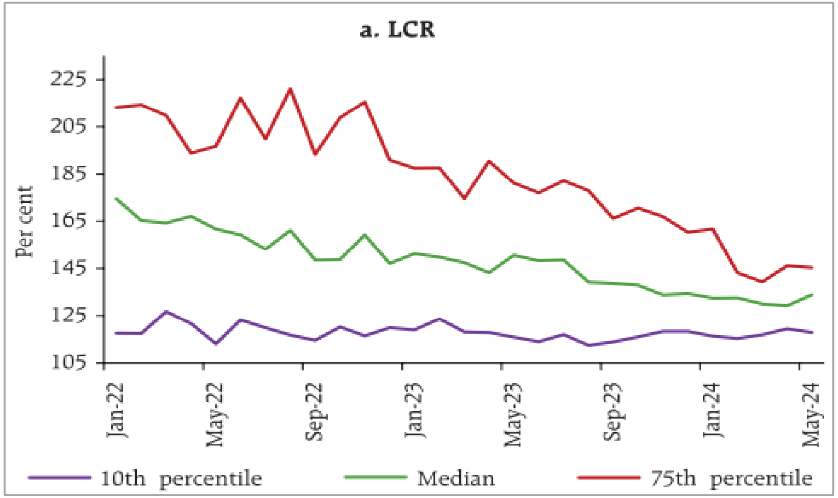


Rates outlook

The MPC shifted its monetary policy stance to 'neutral' from 'withdrawal of accommodation' at its Oct-24 policy review. From an immediate perspective, this implies the persistence of surplus liquidity conditions. It also opens the door for an actual rate pivot in Dec-24 (assuming food price correction follows through from Nov-24 onwards).

RBI's draft circular on the proposed changes in the Basel III framework on banks' liquidity standards (effective Apr-25) could result in a ~10% decline in the LCR, thereby potentially spurring g-sec demand worth Rs 3-4 trillion.

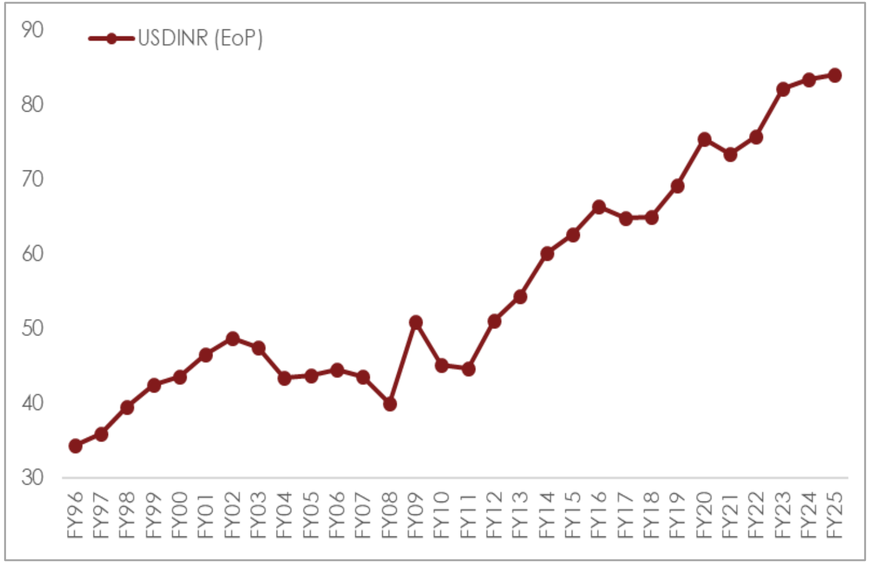




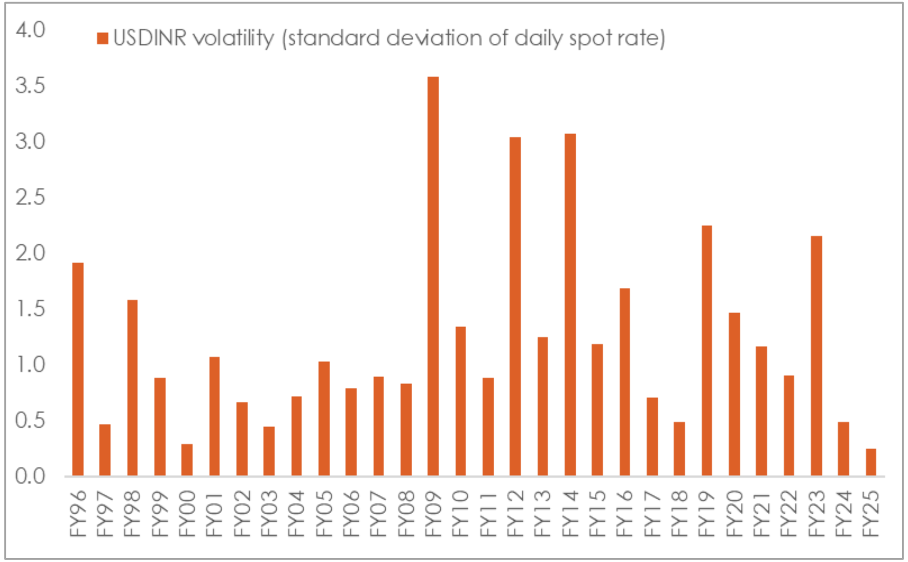
With our target of 6.75% on the 10Y g-sec being met earlier than envisaged, we now revise it lower to 6.50% on visibility of RBI's rate pivot, further index inclusion, and scope for regulatory demand for g-secs in FY25.

INR touches a new low, but so does volatility

Rupee created a fresh all-time low in Oct-24, breaching the 84 level for the first time against the US dollar.



However, realized volatility in USD/INR has been the lowest on record, thereby signifying the strength of underlying macros and RBI's ability to stabilize the currency.

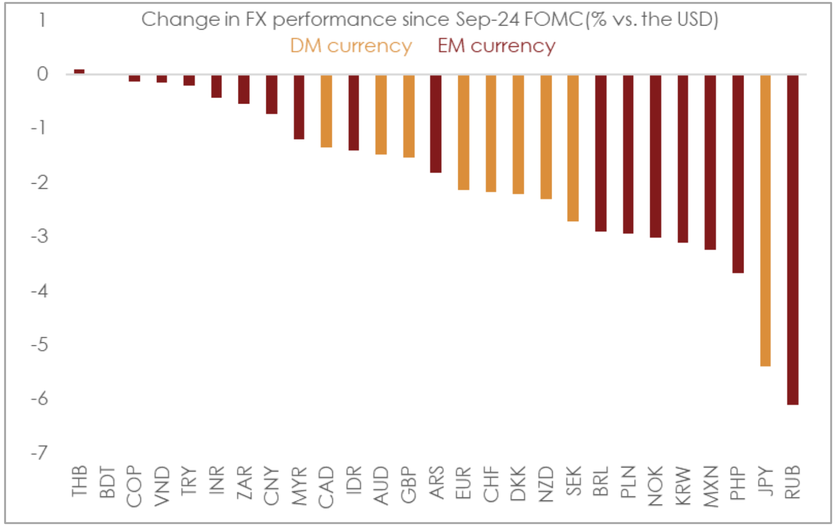


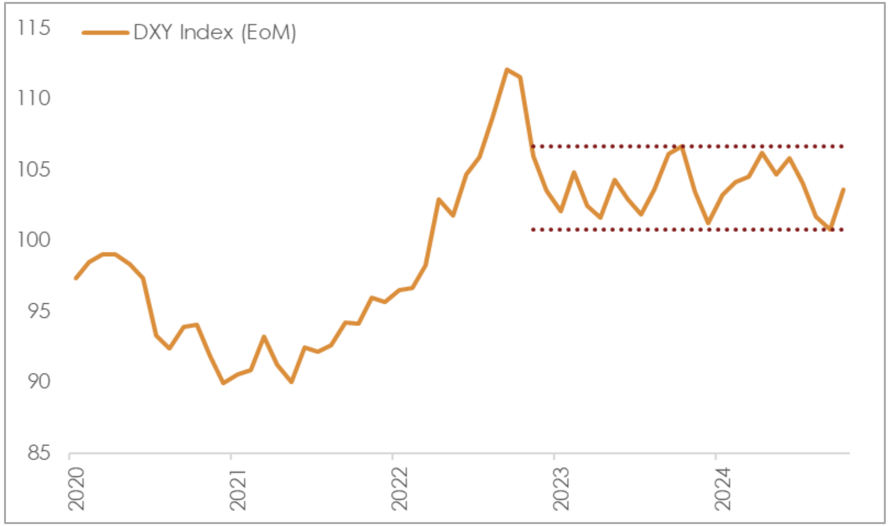
Note: For FY25, daily spot rate until Oct 17th has been considered.

USD has seen a broad-based strength since the Sep-24 FOMC despite the Fed pivot

Weakness in INR in last 4-weeks is in line with the broader trend seen across DM and EM currencies. However, INR appears to have outperformed most of its peers.

Notwithstanding the beginning of the U.S. Fed's monetary easing cycle with a hefty dose of 50 bps cut in Sep-24, the broad range of 101-107 (in place for the last 24 months) continues to hold for the DXY Index. The recent bounce back stems from the pricing of less aggressive rate cuts from the Fed and a surge in geopolitical uncertainty.

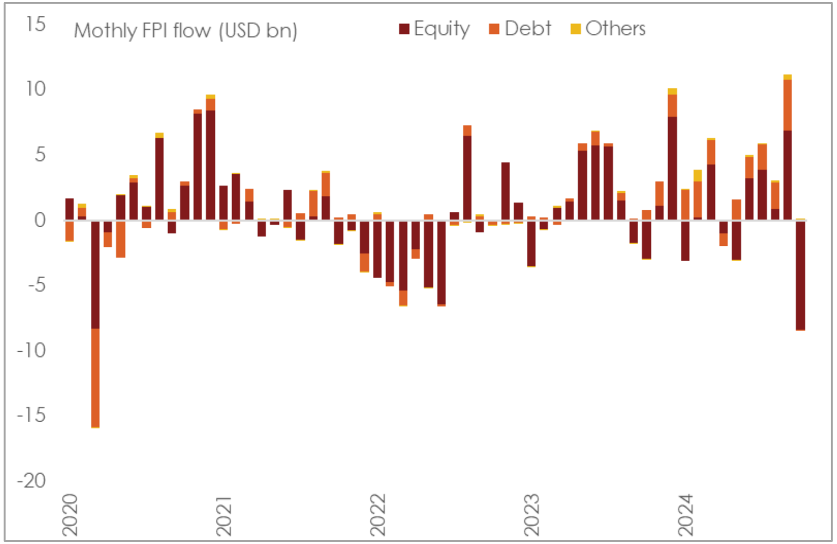


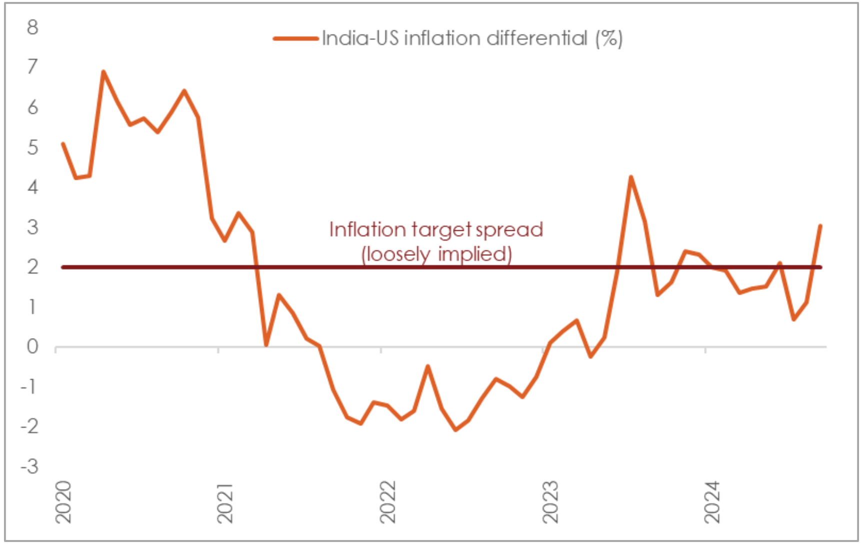


Uncertain global environment and surge in inflationary pressures weighing upon INR

Heightened geopolitical uncertainty and announcement of policy stimulus in China (both monetary and fiscal) is resulting in a churn in global portfolio flows. Indian equity markets have so far seen record outflow of USD 8.4 bn in Oct-24 (so far).

A spike in domestic food price pressures has again moved the relative inflation differential against India.

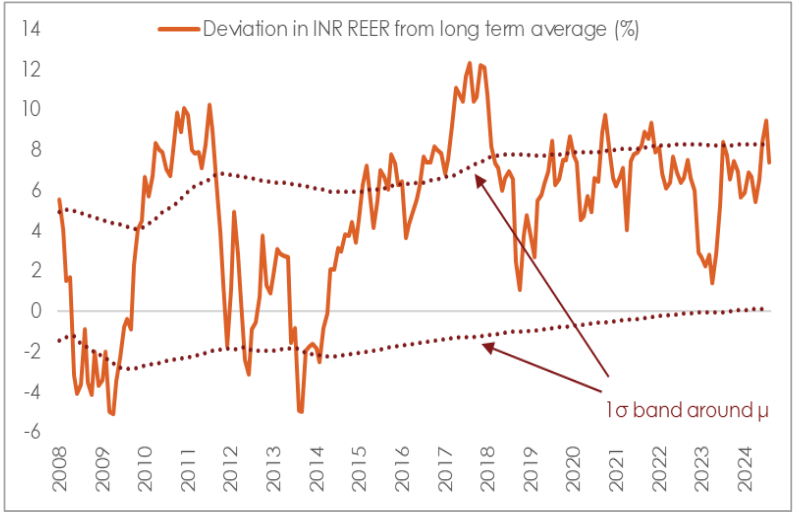


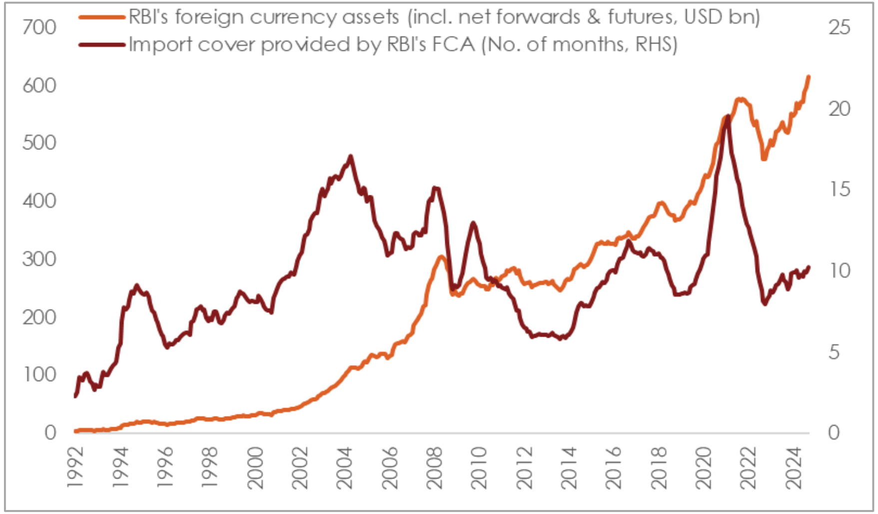


While overvaluation persists; reserve build up continues

INR is currently ~7% overvalued based on the REER's long-period average. This points towards space for some adjustment.

The RBI has been building its FX firepower to bolster the country's import cover. We expect the same to continue in FY25 amidst stretched INR overvaluation levels. There can be some intermittent drawdown to reduce INR volatility.



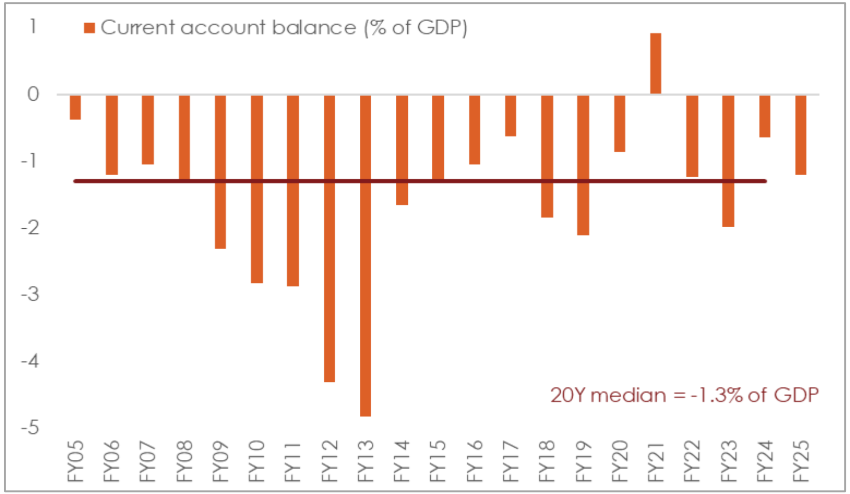


Key domestic macro parameters remain in support

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 CAD is projected to remain below its long-term trend in FY25, at 1.2% of GDP, accompanied by a BoP surplus of USD 50 bn.

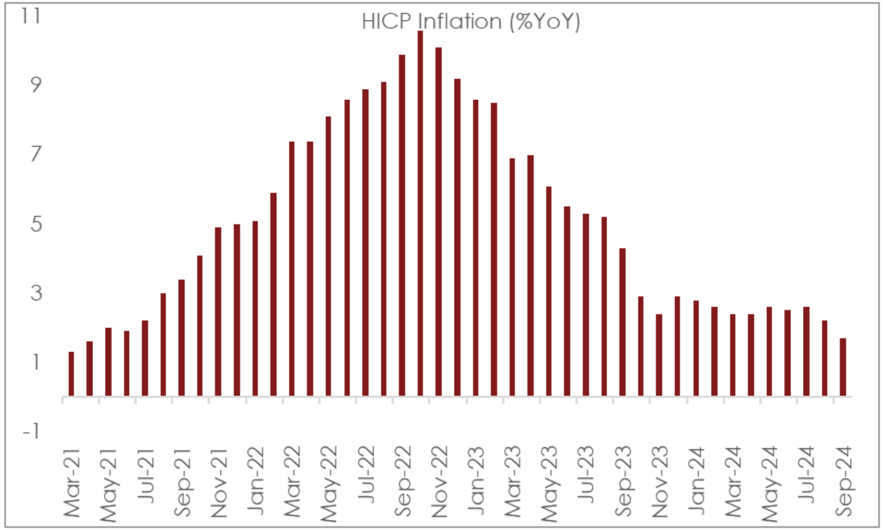
Year	Fastest Growing G20 Country	GDP growth of fastest growing country	Average G20 GDP growth excl. fastest growing country
2024	India	7.0%	2.0%
2025	India	6.5%	2.5%
2026	India	6.5%	2.3%
2027	India	6.5%	2.2%
2028	India	6.5%	2.1%
2029	India	6.5%	2.1%

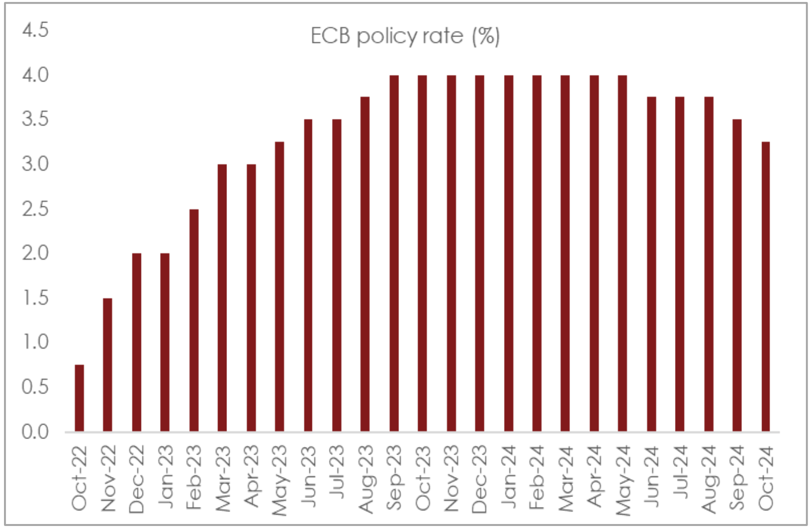


Although domestic macros remain in INR's support, we continue to expect a mild depreciation in FY25, with a move towards 84.5 by Mar-25. Worsening of geopolitical risks, further unwinding of JPY carry trade, and Fed rate trajectory are key sources of risk to the view.

ECB delivers another 25-bps cut

In a widely expected decision, the European Central Bank (ECB) cut its policy rate by 25 bps to 3.25% in Oct-24. The accompanying statement was balanced in tone, as the central bank reiterated concerns of domestic inflation being high, wage growth remaining elevated and that it will "*keep policy rates sufficiently restrictive for as long as necessary*." On the more dovish side, the ECB acknowledged that the disinflationary process was well on track and that recent downside surprises in economic activity do impact the inflation outlook.





China economic activity chugs along

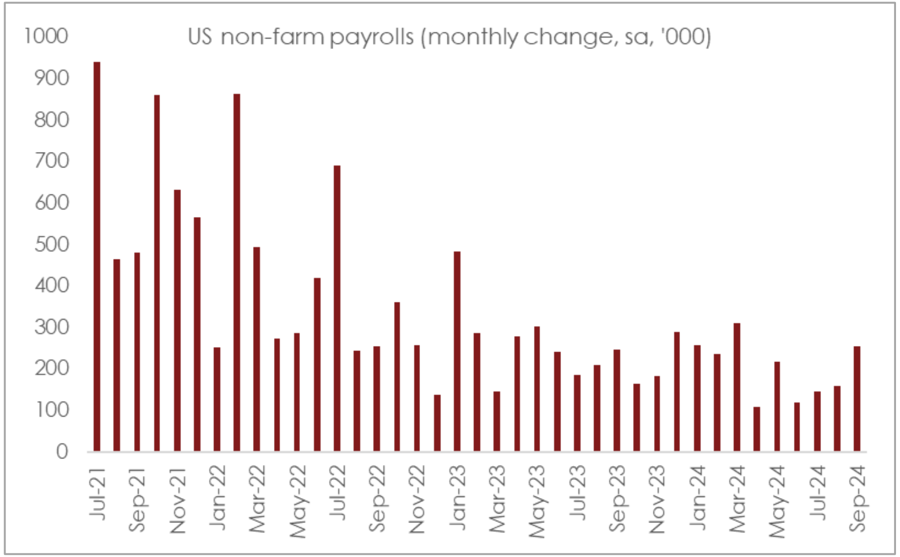
In China, economic growth moderated through Q3-24 as GDP rose lower than expected by 0.9%QoQ, with annualized growth easing marginally to 4.6% from 4.7% in the previous quarter.

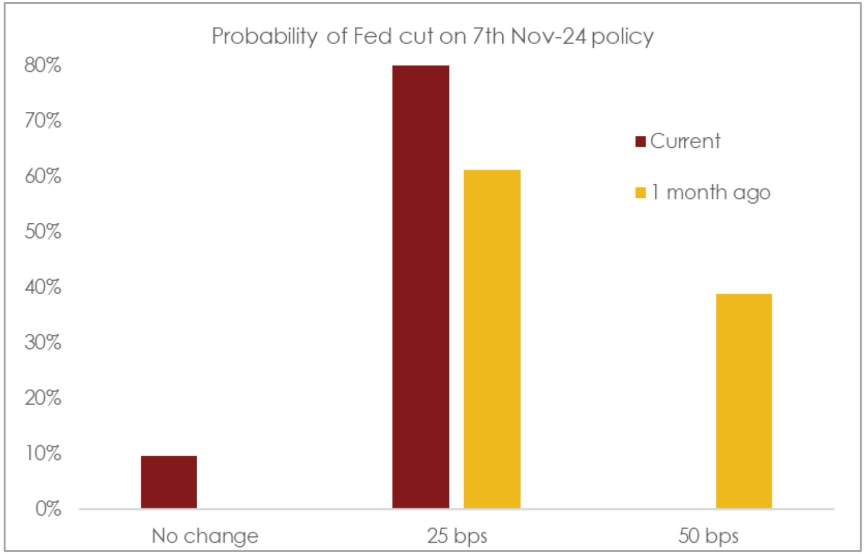
September activity data has been marginally encouraging, with retail sales rising more than forecast to 3.2%YoY and industrial output growth by 5.4%YoY. Recently announced stimulus measures are providing some boost to economic activity.

U.S. Fed: Strength in incoming data dials down rate cut quantum

Recent U.S. economic data once again has shown signs of strength. Payroll data for Sep-24 (254k jobs added vs. 159k in Aug-24) surprised on the upside. In addition, "Core" consumer prices have seen a higher-than-expected increase, as has retail spending in Sep-24.

Consequently, market participants have dialed back the amount of policy easing they expect from the Federal Reserve in the next policy review on 7th Nov-24.





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