Acuite RATINGS & RESEARCH

Press Release

AMEP index holds on despite headwinds

Broad based revival in domestic demand key to 6.0%+ GDP growth in FY24

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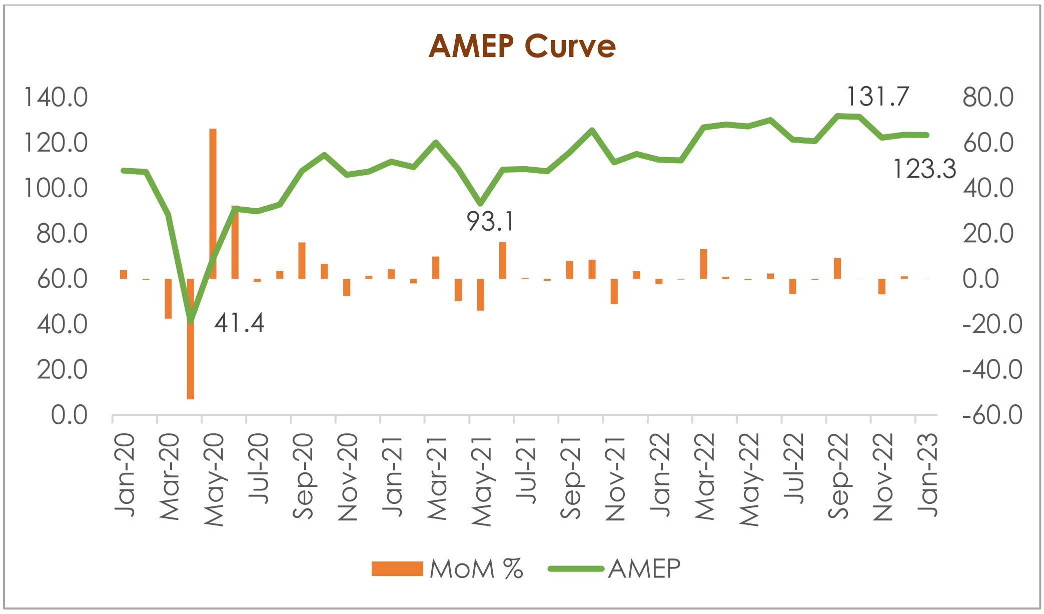
A healthy domestic demand despite the existing global headwinds and some fragility in the rural sector has enabled the **Acuité Macroeconomic Performance index (AMEP index)** to hold on to the existing levels in Jan-23. After the index reached a high of 131 near and during the festive months of Sep-Oct'22, it has settled down to a moderately lower level of 122-123 in the subsequent three months. In growth terms, it has recorded a print of 9.6%YoY and -0.1%MoM respectively.

On a cumulative basis for the first ten months of the fiscal (Apr-Jan'23), the average AMEP index has risen by 13.9% as compared to the corresponding period of the previous fiscal which was partly impacted due to the lockdown from the second Covid wave.

Chart 1: AMEP index continues to demonstrate resilience



Source: CMIE, Acuité Ratings and Research, Base Month: Aug-2019: 100

Note: AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment. Base

From the range of sixteen high-frequency indicators, only half of the domestic demand indicators held up sequentially in Jan-23; tractor sales saw a revival due to the seasonal factor during the rabi sowing season. Power generation continues to grow on a sequential basis after Nov-22 and reflects the higher power demand from the agricultural sector due to inadequate rainfall in certain parts during the winter months. Rail passenger traffic has been consistently on an upturn since the removal of the lockdowns and rail freight volumes have also shown a similar traction, reflecting a steady revival in industrial activity, the global scenario notwithstanding.

While overall auto sales have seen a sequential pickup in Jan-23, it continues to display a weakness on an annualized basis. Auto sales has one of the key reasons for the relatively weaker sequential trajectory of AMEP index; it reflects two aspects – one, the continuing fragility in rural demand and second, the sharp drop in exports particularly of two wheelers due to the global slowdown. While domestic steel demand has been healthy in the current year driven by higher public expenditure in infrastructure, steel exports have seen a significant dip due to the imposition of export duty in May-22 which is reflected in the 2.6% YoY contraction in Jan-23. The other indicators that continue to remain resilient through both sequential and annual growth include GST collections and credit growth.

A further analysis of the index components also reveal that the service oriented economic activities continue to perform well with the first ten months of the fiscal (Apr-Jan'23) showing that the services part of AMEP index has risen sharply by 18.5%YoY.

While there has been some visible green shoots in rural demand during the festive season, the strength of urban demand has been clearly higher in the current year as indicated by a few parameters like PV sales and air passenger traffic. Nevertheless, the outlook for rural demand in Q4FY23 is better on the back of a better than expected rabi crop and a moderate rise in procurement prices.

Amidst the persistent geo-political risks, aggressive and synchronized policy tightening have been constraining global growth. This is clearly reflected in a weak domestic export growth in the current fiscal.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "While we await the Q3 FY23 GDP figures, the index trajectory till Jan-23 indicates that the momentum in the domestic economy is adequate to notch a growth print close to 7.0% in FY23 with some base factor support. The global slowdown didn't make that significant a dent to the domestic consumption story in the current fiscal; the index has continued to grow with a 13.9% YoY increase in the Apr-Jan'23 period - the services sector has been clearly supportive with pent-up demand visible in the urban areas. However, private consumption demand needs to be far more broad based for GDP growth over 6.0% in FY24; a revival in rural demand and a moderation in the current inflation levels are important factors that will shape growth in the coming fiscal. Another key factor will be the trajectory of interest rates - any rise in the benchmark repo rate beyond 7.0% may act as a growth dampener."

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,500 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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