

Press Release

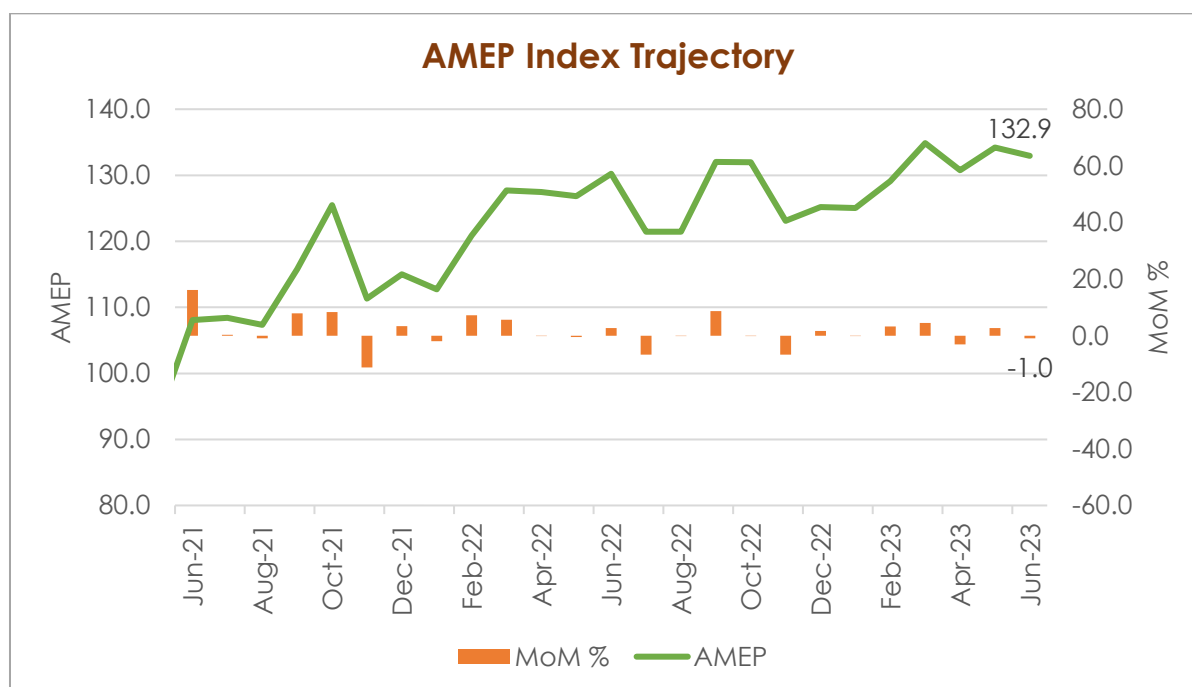
AMEP index slightly disappoints in Jun-23

Upside to 6.0% GDP growth a possibility if monsoon progress continues to be steady

22-July-2023

Acuite Macroeconomic Performance index (AMEP index) witnessed a moderation of 1.0% MoM and a modest 2.1% YoY growth in Jun-23. Among the sixteen high frequency indicators, only four have recorded a sequential increase, indicating a slowdown in the growth momentum during the previous month. Nevertheless, the performance on a quarterly basis has been slightly better with the average quarterly index print in Q1FY24 rising by 3.5% YoY and 2.3% QoQ respectively. The key indicators that have acted as a constraint to the index trajectory are the strong contraction in exports and imports as well as the overall weak performance in the automotive sector.

Chart 1: Weaker Jun-23 but AMEP index ascent largely steady in Q1FY24



Source: CMIE, Acuite 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. The data for Feb has been adjusted for the lesser number of days in the month.

While the PMI Manufacturing and PMI Services have dropped by 1.5% and 4.4% MoM in June-23, the business optimism in both the sectors remains strong. On a quarterly basis, the indices have shown a healthy annualized and sequential growth and stand at the highest levels so far in Q1FY24.

Steel production grew by a strong 11.9% YoY during the previous month and although it moderated to some extent from the high levels of May-23, the total finished steel production in the quarter i.e. Q1FY24 was the highest in the last five years. This reflects the strong demand from the domestic infrastructure sector.

The overall employment rate has continued to be a significant concern for the economy and has remained largely stagnant over the last twelve months despite the strong GDP growth. As compared to the average employment rate of 39.5% in Q1FY20, the pre-pandemic scenario, it stands at 36.8% in Q1FY24.

One of the key concerns in the June-23 dataset is the rail freight traffic which has declined by 1.9% on a YoY basis which is surprising given the healthy pickup in industrial activity. On the other hand, rail passenger traffic has shown a healthy trend and has grown by 12.5% YoY as compared to Jun-22, reflecting the pent up demand in the travel and tourism sector. The sequential decline of 4.4% is more an effect of seasonality with the onset of monsoon.

The auto sales volumes (comprising two, three wheelers and passenger vehicles) have also been a drag in the month of Jun-23. Although PV volumes grew by 1.6% YoY, the volumes of 2/3 wheelers have contracted by 4.7% YoY in Jun-23. The weakness in 2 wheeler sales is also a reflection of the large decline in exports. On a quarterly basis, however, the volumes have grown by 4.1% YoY. Further, tractor sales have remained healthy with 4.2% YoY and 18.7% MoM growth in Jun-23.

The trade data has had the largest impact on the AMEP index in the previous quarter. Exports dropped by 22.0% YoY and imports by 17.5% in the previous month, highlighting the intensity of the global slowdown apart from the impact of the softness in commodity prices.

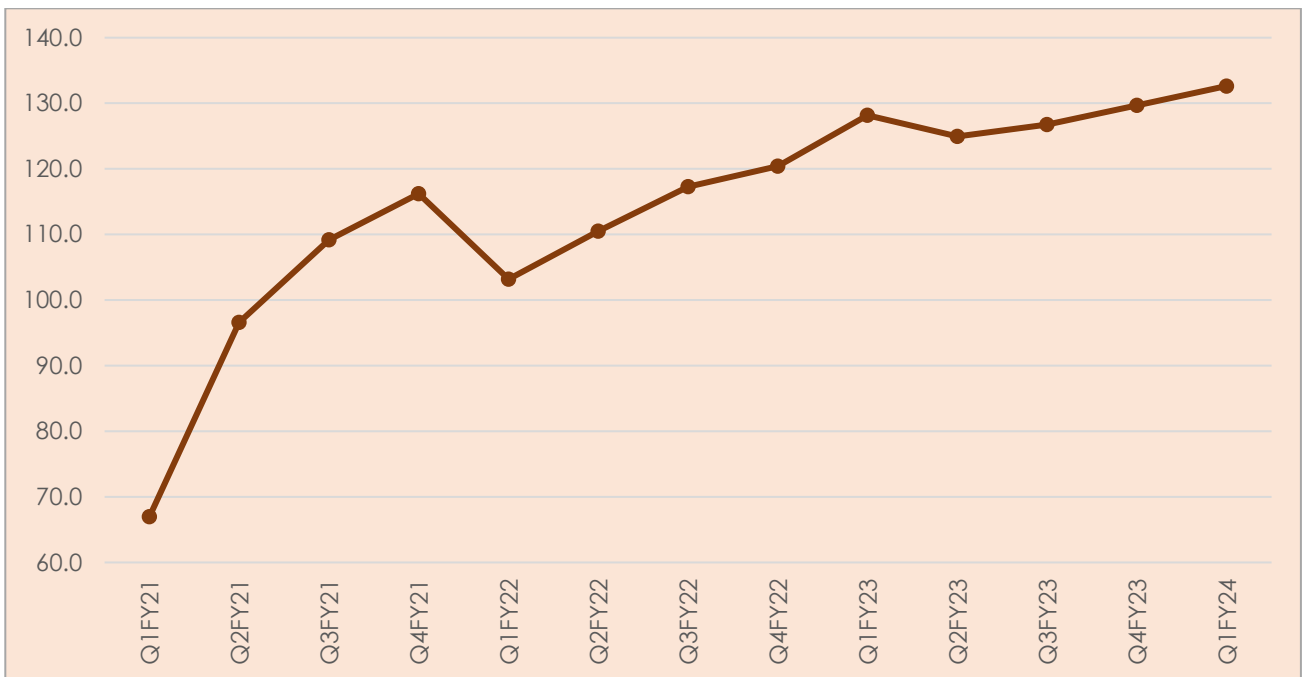
The level of power generation has been muted as compared to the previous year. In Q1FY24, the total output has risen only modestly by 0.2%. While the magnitude of industrial activity has been higher, the consumption of power by the residential segment has been lower in the quarter due to a relatively less intense summer vis-à-vis Apr-Jun'22. Nevertheless, the power demand in India has seen a structural uptrend over the last few years, driven by wider electricity distribution network and increased usage of electrical gadgets such as air conditioners by residential users.

Retail fuel i.e. petrol and diesel consumption has seen a sequential decline in Jun-23 by 5.9% and 3.7% respectively which can be partly attributed to the seasonality aspect arising from the onset of monsoon and the impact on mobility. However, the annualized growth in Q1FY24 has been fairly healthy at 6.8% and 8.0% respectively.

Credit growth continues to display a healthy trend with an absolute increase of Rs 1.29 tn in Jun-23. As an indicator of overall economic activity, the annualized growth in GST collections and E-way bills remain robust at 11.7% and 15.5% respectively. There has been a sequential slowdown though in these indicators in Jun-23.

Says Suman Chowdhury, Chief Economist and Head-Research, Acuite Ratings & Research " Our AMEP index has disappointed a bit in June'23 with a sequential 1.0% contraction. Most of the high frequency indicators have seen a moderate decline vs May'23, reflecting the impact of the significant global slowdown and also the start of the rainy season to an extent. Nevertheless, at a quarterly level, almost all indicators showed a healthy growth, highlighting the likelihood of a 7%+ GDP growth in Q1FY24. With good progress in the monsoon rains so far and signs of an uptick in private sector capital expenditure, GDP growth can move up by an additional 30-40 bps beyond our base forecast of 6.0% in FY24."

Chart 2: Gradual uptick in the Quarterly AMEP Index Trajectory



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 9,600 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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