

Press Release

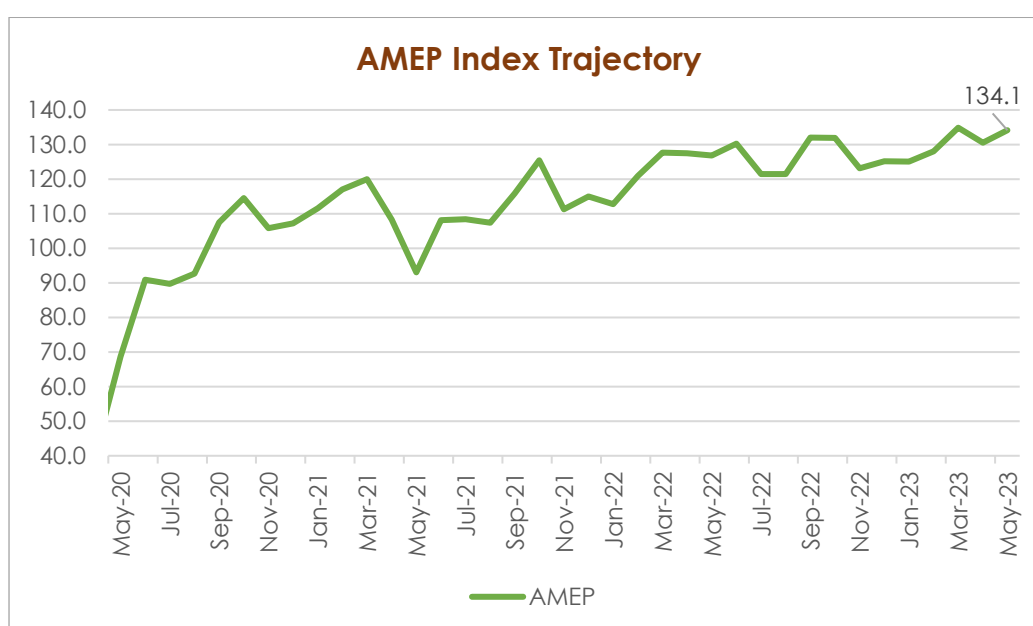
AMEP index springs a surprise in May

Upside to 6.0% GDP growth a possibility but monsoon a monitorable

21-Jun-2023

Acuite Macroeconomic Performance index (AMEP index) has sprung a pleasant surprise in the month of May'23 by almost reaching the levels seen in the year end peak of Mar'23. The index has risen by 2.8% sequentially as compared to a contraction of 0.5% MoM seen last year in May'22. On an annualized basis, the index has grown at a fairly healthy 5.8%. While global headwinds and higher interest rates continue to have an impact on economic activity, it is more than offset by the increased business optimism and expectation of steady domestic demand.

Chart 1: AMEP index moves to a lower gear in Apr-23



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.

From the range of sixteen high-frequency indicators, almost all indicators have witnessed an annualized rise in May-23 except three – (i) exports and (ii) imports that are linked to the global slowdown and the commodity prices respectively as well as (iii) employment rate which remains a chronic weakness in the Indian economy.

Importantly, six of these indicators have grown in double digits YoY – namely passenger freight, petrol and diesel consumption, credit growth, e-way bills and GST collections. This clearly reflects two things - one that the pent up demand for travel and transportation is still visible and second, domestic manufacturing activity has regained some strength. PMI Manufacturing hit a 31 month high in May-23, raising hopes of a better industrial growth in the current year. Steel output has grown by 9.5% YoY and 2.6% MoM in the previous month, reflecting higher intensity of activity in the infrastructure sector.

Lower power generation YoY is more a reflection of the warmer weather conditions last year in Apr/May'22 as compared to the current Apr/May'23 and therefore lower power consumption in the residential segment. Nevertheless, the power demand in India is showing 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.

Auto sales have been on an overdrive, recording a growth of 9.3% YoY and 8.0% MoM in May-23, reflecting a recovery in rural demand.

Says Suman Chowdhury, Chief Economist and Head-Research, Acuite Ratings & Research "The index has seen a better than expected uptick in May-23, raising hopes of a higher momentum in the economy in the current year despite the continuing global headwinds. The core sector's performance continues to be healthy along with strong demand for both domestic services as well as services exports. There are signs of an uptick in private sector capital expenditure which can push up GDP growth by an additional 50 bps beyond our base forecast of 6.0% in FY24. What is driving the business optimism at this point is the pause in interest rate hikes by RBI and the moderation in the headline inflation print. Nevertheless, we need to take cognizance of the risks in the horizon which at this point is the adequacy of monsoon rainfall in the current year."

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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