Press Release

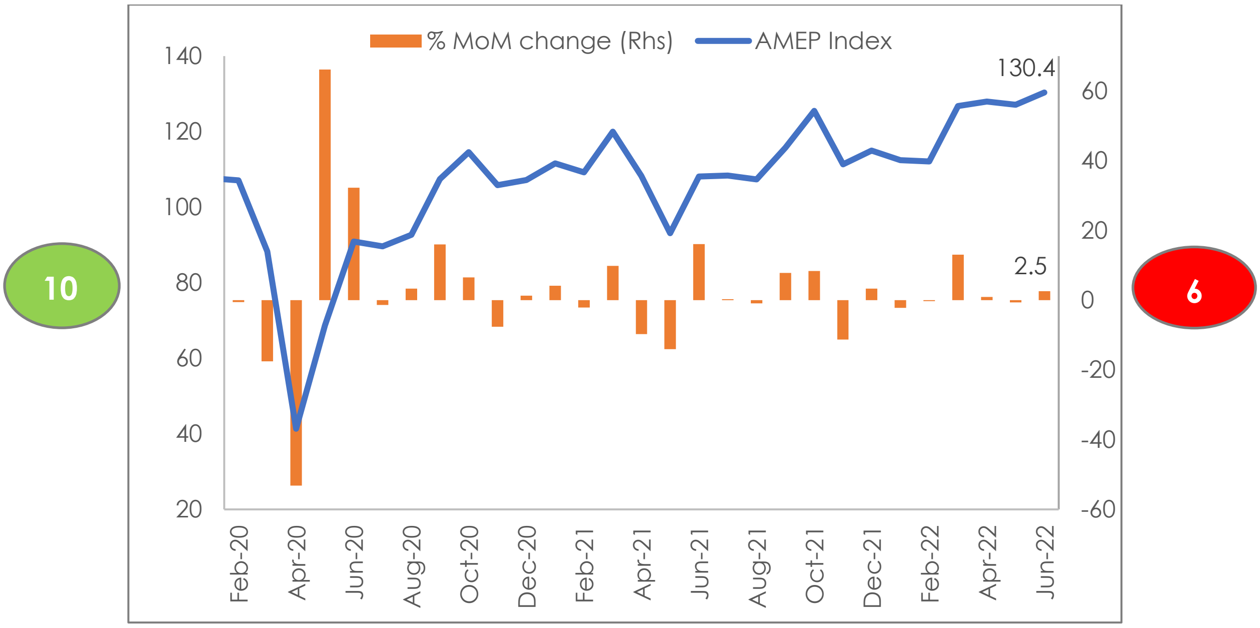
AMEP index: Keeping the growth optimism alive

Record high print of 130.4 in Jun-22 translates to 2.5% MoM and 20.6% YoY growth

19 July 2022

Despite persistent global headwinds slackening the external demand and leading to an elevated inflationary environment, India's economy has shown resilience by charting a course of modest recovery during Q1 FY23. This is clearly manifested in our proprietary **Acuité Macroeconomic Performance index (AMEP index)** which has averaged at a post pandemic high of 128.5 in Q1 FY23 from 117.1 in Q4 FY22. The index posted a record high print of 130.4 in Jun-22 vs. 127.1 in May-22. From a growth perspective, the index registered a sequential expansion of 2.5% MoM from a dip of -0.6% in May-22. While comparison on an annualized basis may not be appropriate as Jun-21 still had the impact of the second Covid wave, the index grew 20.6% on a YoY basis.

Chart 1: AMEP index treads a path of modest recovery

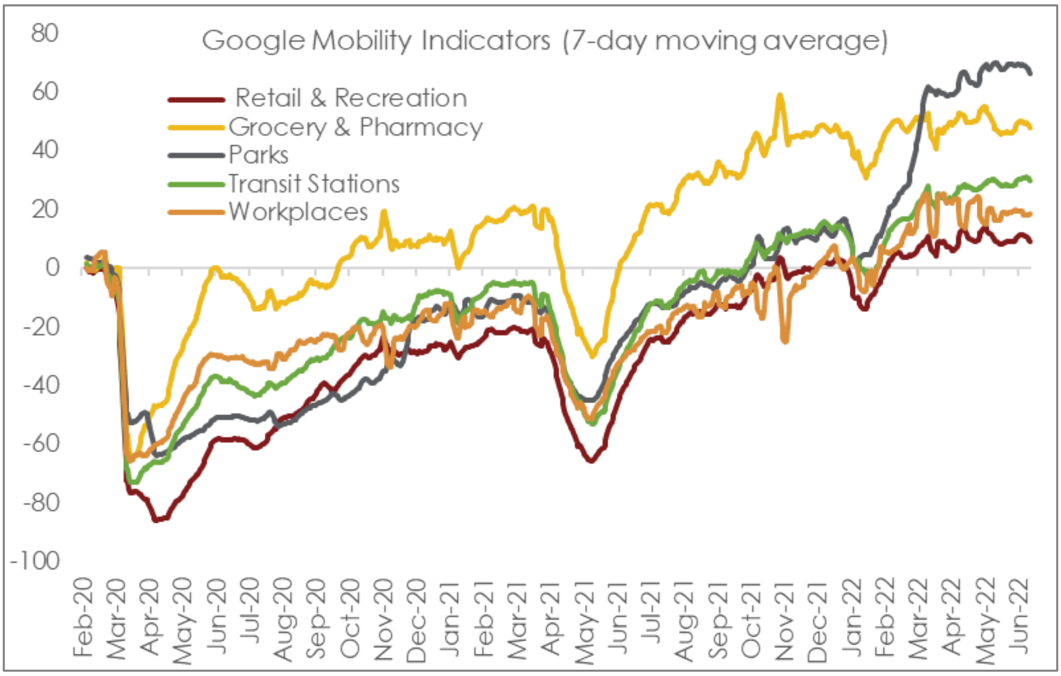


Source: CMIE, Acuité Ratings and Research

Note: AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment. The figure on the left highlights the number of indicators that were sequentially positive during the month and on the right, those that were negative.

From the spectrum of sixteen monthly indicators that we track, the number of indicators recording a sequential improvement remained unchanged from the previous month at ten but the extent of the increase in the sequentially positive indicators led the overall index to expand sequentially. The sequential momentum has been strong in auto and tractor sales as well as diesel consumption. It has been fairly healthy for GST collections, bank credit growth and trade figures including both export and imports although a part of it can be attributed to an increase in realizations. The improvement in manufacturing capacity utilization to 74.5% in Q4 FY22 from 72.4% in Q3 FY22 corroborates the gradual easing of domestic supply side constraints and bodes well for future economic activity. Further, services sector seems to be recuperating somewhat at a faster clip than the manufacturing segment with complete opening of the economy and high vaccination coverage. The key services indicators such as PMI services, rail & air passenger freight continue to witness a pickup on a MoM basis. Additionally, google mobility also consolidated near peak levels in Jun-22 for sub-categories of Retail &recreation, Parks and Transit stations.

Chart 2: Google mobility consolidates near peak levels in Jun-22



A rebound in contact-intensive services is likely to bolster urban consumption, going forward. On the other hand, the expectation of a normal monsoon along with improvement in agriculture terms of trade and hike in MSPs, augur well for supporting agricultural incomes and rural demand in H2 FY23.

Notwithstanding the support from factors outlined above, the global spill over from higher commodity prices, slowing world growth and a swift monetary policy normalisation (both global and domestic) are downside risks that are likely to manifest on incremental growth momentum.

- Though crude oil prices have corrected from the average USD 115 pb levels in Jun-22, they continue to average close to USD 105 pb for the month so far.
- World Bank became the latest global agency to pare 2022 global growth forecast to 2.9% from 4.1% earlier, highlighting the possibility of wider stagflation in several economies later this year. In its worst-case scenario (of prolonged supply chain disruptions, more aggressive Fed, and Ukraine-Russia geopolitics continuing) it estimates global growth to slip to as low as 2.1% in 2022.

- True to market expectations, US Fed increased its policy rate by 75 bps in Jun-22 – to mark the biggest incremental uptick in nearly 28 years. RBI too followed up its intermeeting rate hike of 40 bps in May-22 with an incremental 50 bps hike in the repo rate in Jun-22.
- The rise in borrowing costs, elevated inflation, and some taper of pent-up demand (for goods) could possibly weigh on overall consumption demand.

Keeping in mind the support factors and downside risks, we retain our FY23 GDP growth at 7.5% with moderate downside risk.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "Our monthly economy index AMEP has hit a record high in Jun-22 and has seen largely consistent sequential growth since the disruption from Omicron. This not only demonstrates a resilience from the strong global headwinds that have continued unabated since Q4FY22 but also keeps us optimistic about the moderately healthy recovery trajectory in FY23."

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 9,000 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.

Media Contact:

Sahban Kohari Ph: + 91-9890318722 sahban@eminenceonline.in

Analytical Contacts:

Suman Chowdhury Chief Analytical Officer Ph: + 91-9930831560 suman.chowdhury@acuite.in	Prosenjit Ghosh Chief Operating Officer – Subsidiaries Ph: +91-9920656299 prosenjit.ghosh@acuite.in