Acuite RATINGS & RESEARCH

Press Release

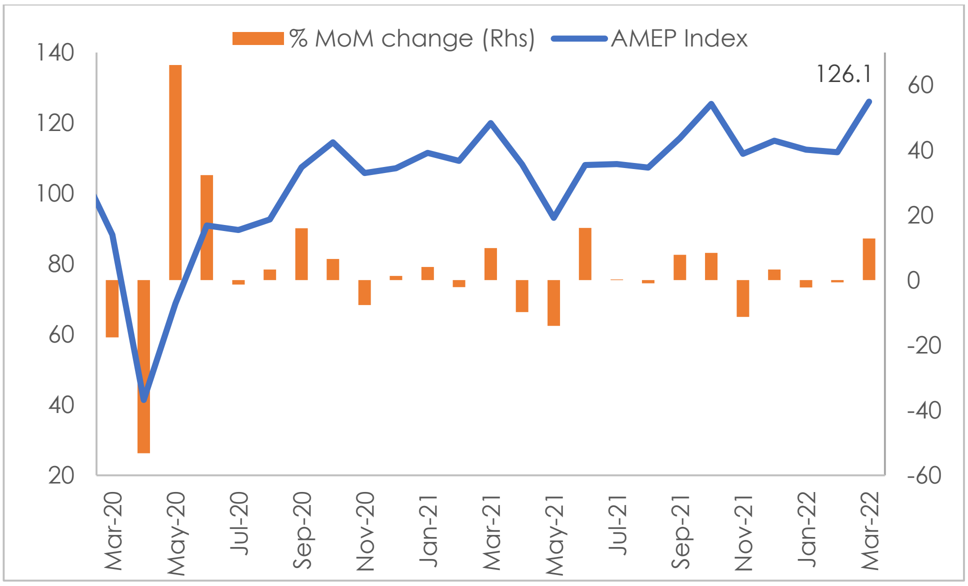
Year-end economic activity fires up the AMEP index

Inflationary concerns driven by geopolitical risks weigh on economic revival in FY23

15 April 2022

Economic activities in Mar-22 gained traction with the near complete ebbing of the third Covid wave along with support from the year-end seasonality. **This has been reflected in our proprietary AMEP (Acuité Macroeconomic Performance) index which registered a post pandemic high of 126.1 in Mar-22 from 120.0 in Mar-21 (Chart 1).** From the growth perspective, the index grew by 5.0% YoY in Mar-22 from 2.3% in the previous month. While there is no visible and direct impact of the geo-political crisis in Ukraine as of now, a moderate impact due to spurt in some commodity prices and higher supply side bottlenecks can be expected from Apr-22.

Chart 1: Year-end seasonality nudges AMEP index to a post-pandemic high



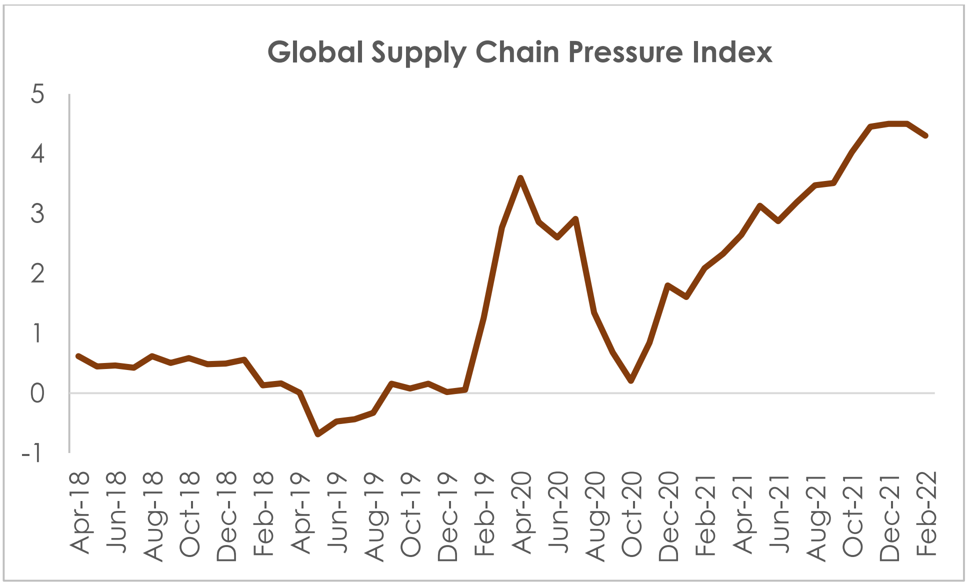
Source: CMIE, Acuité Ratings and Research

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

Looking at the internals for Mar-22, the breadth of recovery has improved with 14 out of 16 indicators covered by the AMEP index recording a sequential improvement compared to 9 in the previous month. To recall, exports in the month of Mar-22 rose to a record high level of USD 40.4 bn leading overall merchandise exports for FY22 to increase to USD 418 bn exceeding the government's target of USD 400 bn. Apart from buoyant exports, the improvement is also led by robust tractor sales and rail freight. However, PMI manufacturing followed by employment recorded a marginal sequential decline.

Looking at the year gone by, FY22 has been through a tumultuous ride with India facing a deleterious impact of the second Covid wave at the start of the year which particularly impacted the informal sector of the economy and the private consumption levels. Subsequently, while the economy was still recouping from the scars of the pandemic amidst a mix of pent-up, festive and some organic demand, the onslaught of Omicron wave marginally dented the pace of growth recovery. While there had been some quick turnaround in economic activities facilitated by abating risks on the Covid front and robust vaccination coverage, it is once again confronted with fresh headwinds emanating from intensifying geopolitical tensions, hardening commodity prices, persistent supply chain bottlenecks (Chart 2), and financial market volatility. The ongoing conflict between Russia and Ukraine is a potential dampener for global growth prospects given the aggravating inflationary pressures particularly spiralling energy costs and trade related supply disruptions (esp. in the context of Europe, which has extensive economic linkages with Russia and Ukraine). In addition, resurgence of Covid led disruptions in certain countries, esp. in China, could further compound uncertainties on the demand as well as supply front.

Chart 2: Geo-political concerns to further increase supply chain bottlnecks



Source: New York Fed, Acuité Ratings and Research

Meanwhile, support continues in the form of thrust on public capex, reforms under the "Atmanirbhar Bharat Abhiyan", and an accommodative monetary policy backdrop. Improvement in manufacturing capacity utilization to 72.4% in Q3 FY22 (higher than its pre pandemic level of 68.6% in Q3 FY20) has set a favourable backdrop for the resumption of private sector capex. In addition, anticipation of a normal monsoon outturn (as per IMD forecast, India could receive 99% rainfall compared to its long period average in the upcoming monsoon season) could provide a healthy impetus to rural demand and consumption in H2 FY23.

Our base case growth forecast for FY23 at 7.5%, rests on public infrastructure spending highlighted in the Union Budget FY23, healthy progress on vaccination along with broadly accommodative monetary and fiscal policies. However, geopolitics and its inflationary impact remain on close watch.

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.

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