Press Release

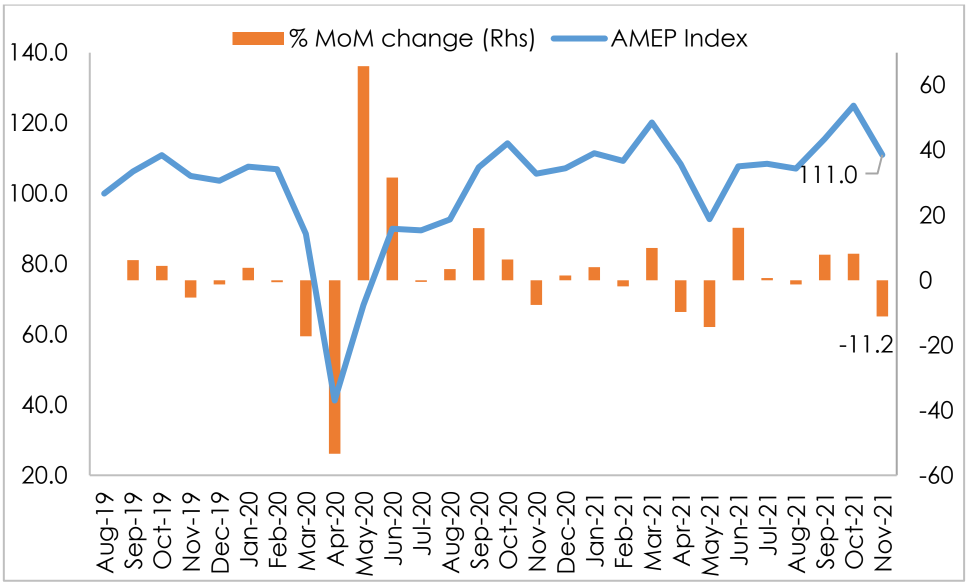
AMEP index shows a loss in recovery momentum

Low case counts and higher vaccinations however, strengthen services sector

22 December 2021

As the pent up and the festive consumption demand dropped in intensity, there has been a loss in the momentum of economic recovery in Nov-21. We observe that after the expansion in two consecutive months our **proprietary AMEP (Acuité Macroeconomic Performance) index** fell to 111.0 in Nov-21 from a post-Covid peak of 124.9 (revised lower from 125.2). The contraction of the index sequentially by 11.2% MoM in Nov-21 is partly driven by seasonality. However, the magnitude of deceleration is higher than the average of around 6.5% recorded in the last two years in the month of November.

Chart 1: Momentum in economic activity eases post festive boost

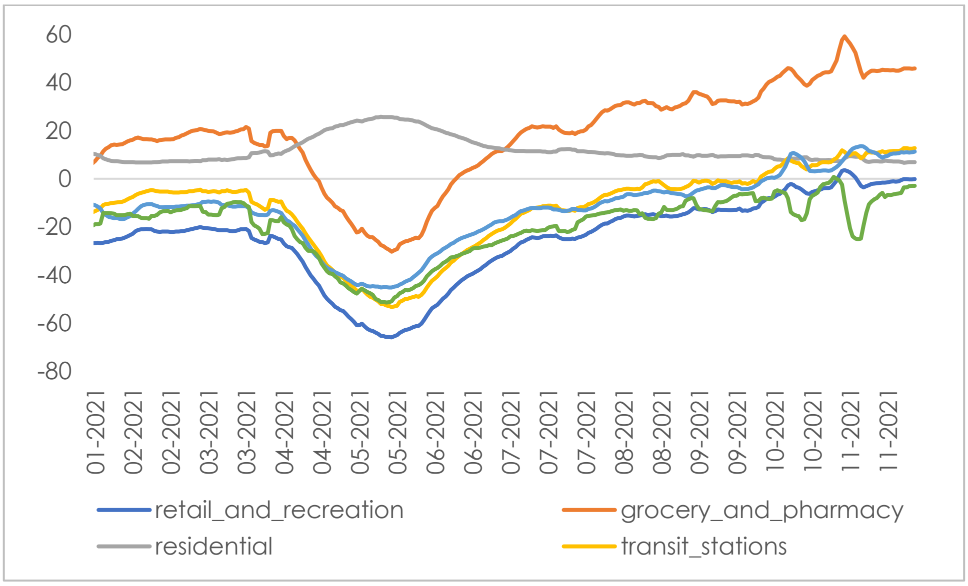


Note: AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment

Out of 16 indicators covered by AMEP index, only 5 posted a sequential expansion in Nov-21 (vs. 14 in Oct-21), while 11 saw a contraction, highlighting a slowdown in the breadth of economic recovery. The decline in the index was primarily driven by a weak trend in tractor sales, e-way bills, auto sales, exports, and power generation. Whie inadequate in terms of offsetting the latter weakness, a healthy traction is visible in indicators such as passenger freight, PMI manufacturing, GST collections, employment, and credit growth. The tractor as well as well as two-wheeler sales, a key harbinger for a recovery in rural demand recorded a significant contraction amidst excess and unseasonal rains in some pockets of the country along with delayed harvest in kharif crops which impeded cash accruals and thereby fresh purchases. On the other hand, the shortage of semiconductors has crippled the entire supply chain weighing on auto sector which thwarted festive season sale.

Nevertheless, demand for high contact services sector has been witnessing a strong resurgence of late. Continued improvement in passenger freight and increase in PMI services to a near decade high of 58.4 and 58.1 in Oct-21 and Nov-21 respectively due to gradual normalization in retail, hospitality, entertainment, and tourism sector seems to be suggestive of such an outcome. While mobility around essentials (grocery and pharmacy) has continued to trend upwards, discretionary movements i.e., retail and recreation as well as parks (as per Google mobility index) has also improved significantly. Mobility to 'workplaces' is also inching towards the baseline, indicating another significant step towards normalization. The data for Dec-21 released so far has further improved with the average index tracking at around 12.8 from 11.1 in Nov-21. However, going forward, we remain watchful of the risks emerging out of the new Covid variant Omicron as it could possibly lead to renewed restrictions on mobility and impede the nascent improvement in services sector.

<u>**Chart 2: Discretionary mobility has improved with declining case loads**</u>



From growth perspective, the recently released Q2 FY22 GDP and GVA print was broadly in line with our forecast clocking a growth of 8.4% and 8.5% respectively. On sequential basis, post the second wave driven contraction in Q1 FY22, the GDP and GVA print recorded an expansion of 10.4% and 7.9% respectively. The sequential revival in economic activity was clearly reflected in our AMEP index expanding by 7.2% QoQ in Q2 FY22 from a contraction of 9.3% in Q1 FY22. Looking beyond Q2 FY22, despite the sequential dip in Nov-21 led by post festive season anomaly, the average index for the months of Oct-21 and Nov-21 currently stands at 118.0 from an average of 110.3 recorded in Q2 FY22. Continued drop in Covid cases, advancement in vaccinations coupled with festive boost and vengeance demand has remained growth supportive in Q3 FY22 so far. For FY22, we continue to retain our GDP growth forecast at 10.0% albeit with some downside risks from new virus mutations, supply chain disruptions and the risk of volatile capital flows arising from faster policy normalization in some of the major economies.

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