**Press Release**

# Omicron holds down the AMEP index

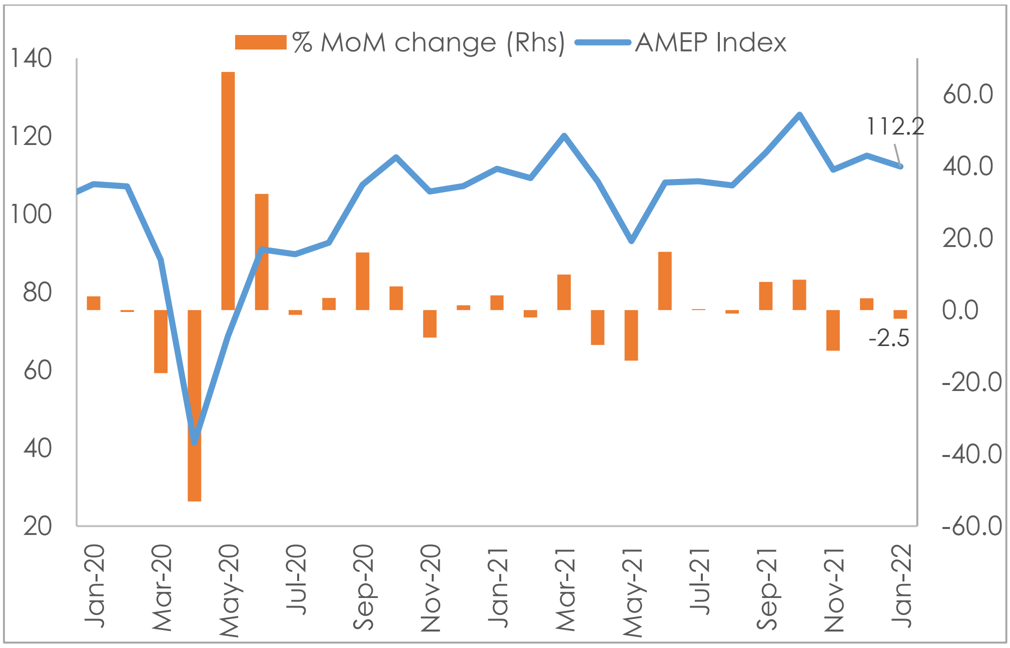
**But a rapid decline in infections will enable economy to recoup its lost momentum**

***17 February 2022***

The year 2022 commenced on a sombre note with India witnessing the emergence of third Covid wave amidst a rapid global proliferation of Omicron variant. The surge in infections prompted many nations to impose lockdown restrictions and subsequently, forced some of the states in India to reimpose mobility restrictions.

**Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research** "Expectedly, Omicron has led to a fresh dent in domestic economic activities which was also reflected in our **proprietary AMEP (Acuité Macroeconomic Performance) monthly index** which eased to 112.2 in Jan-22 from 115.0 in Dec-21. From growth perspective, the index contracted sequentially by 2.5% MoM in Jan-22 from an expansion of 3.3% in Dec-21. However, on an encouraging note, the magnitude of the adverse impact has been much lower as compared to the previous pandemic waves given less severity of infections amidst robust vaccination coverage, prevailing level of seroprevalence, improvement in medical and healthcare facilities and better management of supply chain logistics."

**Chart 1: Omicron leads to a transitory setback in AMEP index**

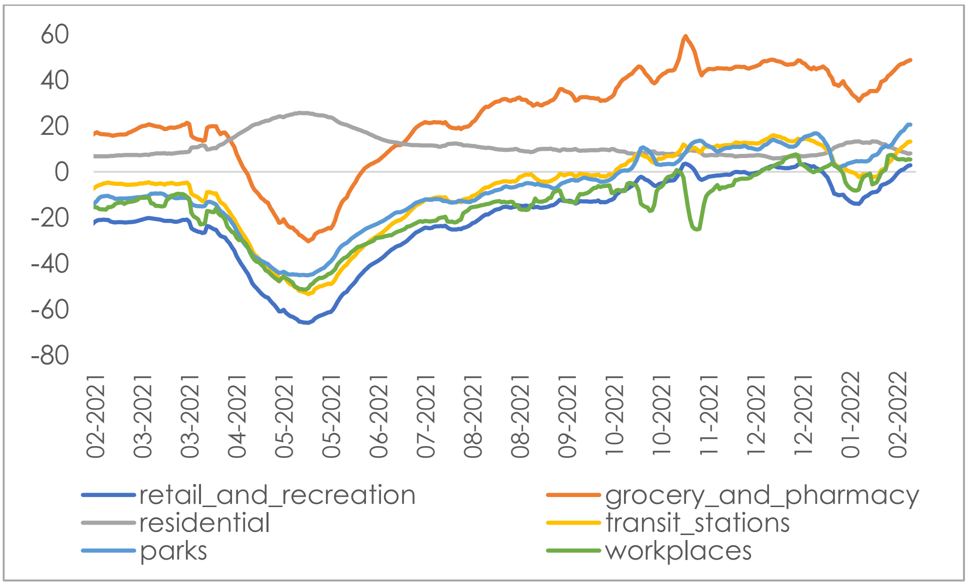



Note: AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment

Looking at the internals for Jan-22, the breadth of recovery moderated again with just 5 out of 16 indicators covered by the AMEP index recording a sequential improvement compared to 11 in the previous month. The moderation was primarily driven by significant decline in imports followed by petrol and diesel consumption, exports, rail passenger freight and PMI services. However, further downside was capped due to improvement in tractor sales, a reflection of healthy sowing in the rabi crop season followed by continued progress on GST collection.

However, with the Omicron wave now tapering at a rapid pace, states have begun to relax their lockdown restrictions. The test positivity ratio (on 7dma basis) has dipped from its peak of 17.6% on Jan 26, 2022, to 3.7% on Feb 16, 2022. This has led many high frequency weekly indicators such as google mobility, power consumption, e-way bills, rail passenger traffic and traffic congestion to gradually inch upwards. The reimposition of state level restrictions which had resulted in a visible pull back in google mobility index is now showing signs of improvement with movement across the board gathering significant momentum (Chart 2). If this declining trend in infection continues, then the likelihood of a complete phase out of mobility restrictions in the next couple of weeks is expected across India. The Centre has also asked the states to review, amend or eliminate the additional Covid related restrictions after considering the trend in new and active cases, and the positivity rate. This will once again stoke pent-up demand in the economy, which would also find support from year-end seasonality. That said, the significant rise in crude oil prices and elevated inflation levels could weigh on consumption recovery in coming months.

**Chart 2: Google mobility indicator trend above the baseline of '0'after a dip in Jan-22**




**Concludes Suman Chowdhury** "Given the limited impact of the third Covid wave, we continue to expect FY22 GDP growth at 9.5% albeit with some downside risks from adverse impact of elevated commodity prices and the potential financial market volatility on account of monetary policy normalization by key global central banks. For FY23, we expect GDP growth at 7.5% amidst government's strong thrust on infrastructure segment underscored in the Union Budget FY23, healthy progress on vaccination, moderate recovery in rural consumption and the full play out of pent-up demand."

**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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