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Press Release

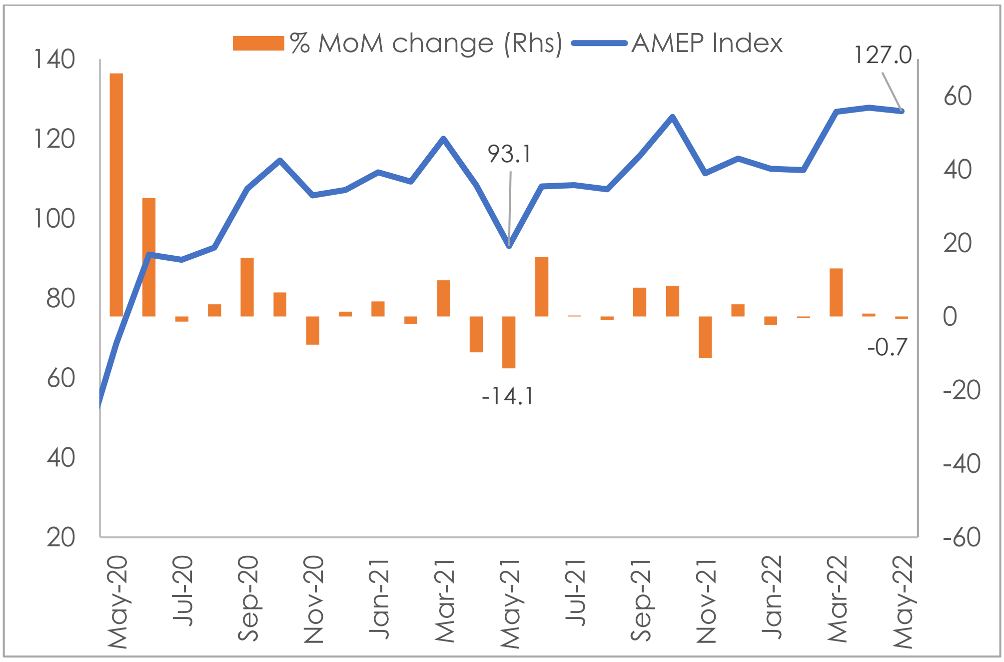
Slower but steady recovery, indicates AMEP index

Inflationary concerns will continue to weigh on the pace of economic revival in FY23

17 June 2022

After gaining some incremental strength in the months of Mar-Apr'22, India's economic recovery appears to have lost some ground led by the deterioration of the geopolitical environment and increased inflationary pressures. While our proprietary **Acuité Macroeconomic Performance index (AMEP index)** stood at 127.0 in May-22- well above the pre-pandemic level, it has eased a tad from the Apr-22 print of 127.8. From growth perspective, the index has registered a marginal dip of -0.7% MoM from an increase of +0.8% in Apr-22, underscoring some weakness in private consumption on the back of higher inflationary concerns as well as in industrial output due to supply chain bottlenecks.

Chart 1: AMEP index slightly eases from the post-pandemic high

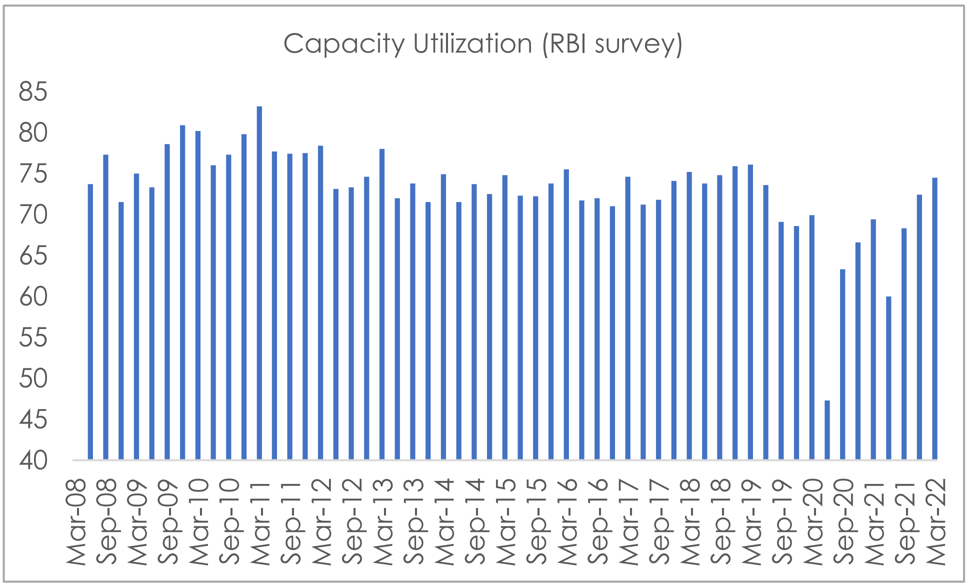


Source: CMIE, Acuité Ratings and Research

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

From the spectrum of sixteen monthly indicators that we track, the sequential dip in May-22 has been led by six indicators with major lag stemming from GST collections and tractor sales. The GST collections during the month of May (which pertain to April) typically record a seasonal moderation as companies push their sales in the month of March (leading the April GST collections to report a strong number) with an aim to meet their targets before the year-end. Notwithstanding the seasonal dip in May-22, we expect the GST inflows in FY23 to remain strong, likely exceeding the monthly budgeted estimate of Rs. 1.15 trn on the anticipation of sustained revival in economic activities and absence of another Covid wave causing any major disruption. On the other hand, tractor sales are also likely to be healthy, aided by favourable cash flows from prospects of healthy food grain production and procurement, hike in MSP for kharif crops, enhanced outlay for schemes such as MGNREGS, PM Kisan etc., and prediction of normal monsoon in FY23. Additionally, the improvement in manufacturing capacity utilization to 74.5% in Q4 FY22 in Q3 FY22 from 72.4% in Q3 FY22 corroborates the gradual easing of domestic supply side constraints and bodes well for future economic activity. Amidst these evolving dynamics and as the economy emerges out of the pandemic, services sector is also likely to play a dominant role in FY23 GDP growth vis-à-vis manufacturing sector provided there is not another wave of the pandemic.

Chart 2: The capacity utilization as per RBI's survey is gradually inching up



Even as drivers of domestic economic activity are stabilizing, headwinds from global spillovers have not only continued but also intensified. Global crude oil prices have been elevated at around USD 120 pb in Jun-22. For FY23, the ongoing geopolitical crisis between Russia and Ukraine could potentially act as a dampener for certain sectors, esp. on account of sharp acceleration in input prices, trade related supply disruptions, and a slowdown in the global growth momentum. The run-up in global commodity prices, along with Covid related uncertainties particularly in China, is likely to further weigh on global economic activity.

The elevated and rising inflation has hastened the pace of monetary policy normalisation in major advanced economies, thereby inducing significant financial market volatility with spill overs on emerging markets including India. IMF expects global GDP growth to slow down by 80 bps to 3.6% in 2022 vs. its Jan-22 estimate, with a sharper deceleration of 100 bps on world trade volumes to 5.0%. This may weigh on the export sector though the exports data of Apr-May'22 have shown significant resilience so far. The commodity led rise in domestic inflation will likely continue to weigh on the household spending thereby denting the domestic demand and compress discretionary consumption particularly for consumers at the bottom of the pyramid. Nevertheless, we continue to peg GDP growth at 7.5% for FY23 given the support from government's thrust on infrastructure segment along with prospects of normal monsoon and robust vaccination coverage that will facilitate the play out of pent-up demand in the contact intensive services sectors.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research " Our **AMEP index** throws some interesting insights on economic activities during Apr-May'22 which leads us to conclude that while the global adverse factors and the inflation threat have slowed down the momentum of economic recovery in India, the impact is still not that significant. The index print in both April and May'22 have been higher than that of Mar'22 when there is a typical peak in year-end economic activities. 10 out of the 16 monthly indicators have shown a positive growth MoM with both rail passenger and rail freight traffic along with petrol consumption recording growth in high single digits. If crude oil prices moderate during the course of the current fiscal and there is no further surprise from Covid, we believe that growth over 7.0% will be fairly achievable given the recovery potential in the services sector."

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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