

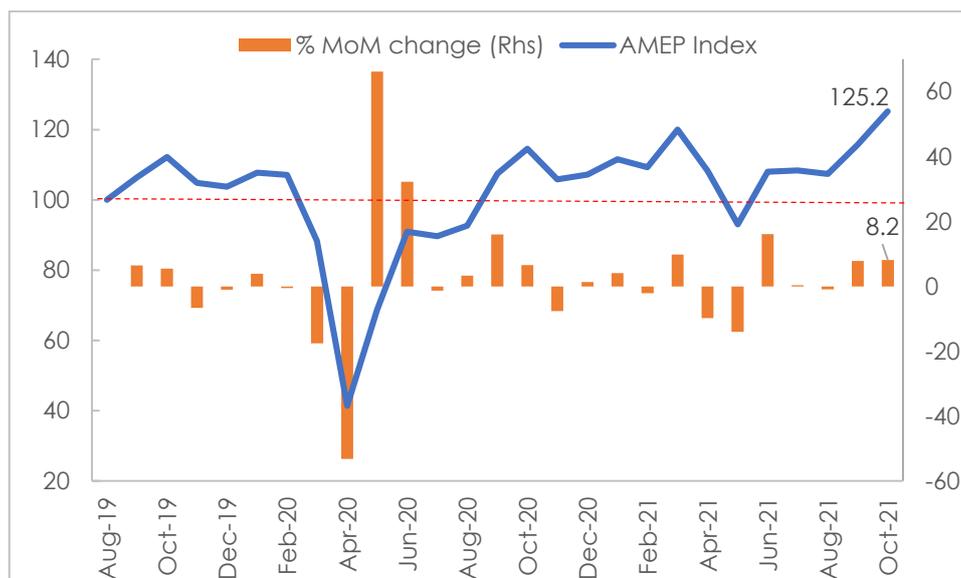
Press Release

**AMEP index at a post pandemic high amid festive tailwinds
Reinforces our FY22 GDP forecast of 10.0%**

22 November 2021

India has witnessed a healthy progress on its path to economic revival in Oct-21 led by significant tapering of Covid infections, near complete removal of lockdown restrictions, pick up in the pace of vaccination along with festive season augmenting pent-up demand. This steady revival track is in evidence in our **proprietary AMEP (Acuite Macroeconomic Performance) index** which has touched a new high of 125.2 in Oct-21 from a revised 115.7 in Sep-21 (due to upward revision in few data points) which is not only 9.3% YoY higher than Oct-20 but also 11.5% higher than the pre-pandemic period of Oct-19. To recall, AMEP index has been constructed deploying sixteen high frequency indicators across four major categories – consumption demand, industrial production, external sector, and employment.

Chart 1: Economic activity recoups amid festive cheer



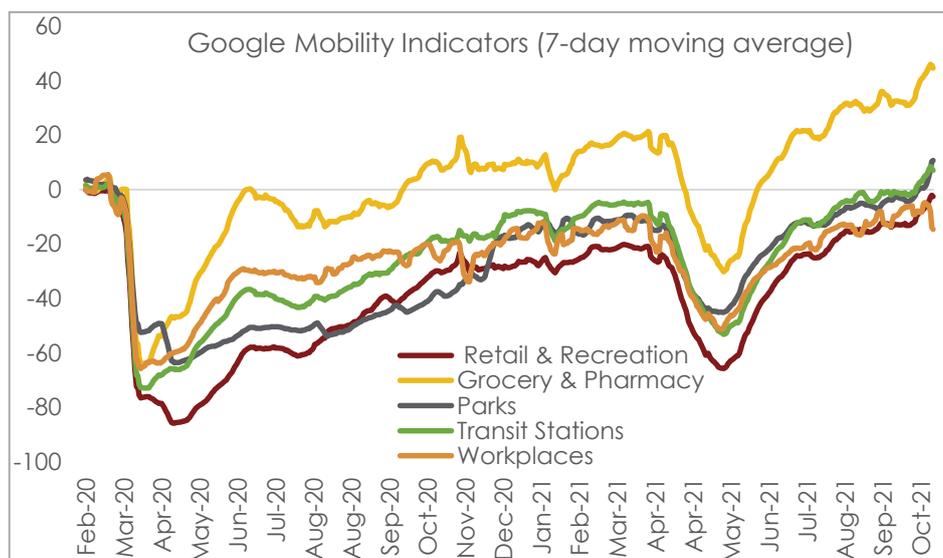
The sequential momentum in the AMEP index is led by improvement in 14 out of 16 high-frequency indicators as compared to 10 indicators in Sep-21. The uptick in the index is primarily driven by the positive traction in indicators such as tractor sales, diesel consumption, passenger freight, and GST collections which have recorded a robust double-digit sequential expansion. Clearly, festive and pent up demand have played a role in pushing up some of these indicators. On the other hand, employment and imports recorded a minor contraction.

In addition to the above, other indicators of retail sales trend also suggested a similar narrative. As per the Confederation of All India Traders (CAIT, an apex domestic traders' body), representing about 70 mn traders, offline retail sales surged to Rs. 1.25 trn during the current festive months from Rs 0.72 trn recorded in 2020. Additionally, media reports highlighted that e-commerce sales also rose by 23%YoY during Oct-

2021 particularly in the electronics segment with the continuing momentum in demand for digital gadgets such as laptops and smartphones adding to the buoyancy. The CMIE All India Consumer Sentiment Index rose to the post-pandemic peak of 59.4 in Oct-21 from 58.6 in Sep-21, revving up consumption demand in the backdrop of the ongoing festive and a stronger than normal wedding season due to the pent up factor caused by Covid.

In the context of the festive season and the receding case count, demand for contact intensive services sector is also witnessing a strong resurgence. Increase in PMI services to a decade high of 58.4 in Oct-21 from 55.2 in Sep-21 amidst reopening of retail, entertainment and the hospitality sector seems to be suggestive of such an outcome. While mobility around essentials (grocery and pharmacy) has continued to trend upwards, in the last two months 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. However, the sustainability of such demand for both manufactured goods as well as services post Q3 FY22 needs to be monitored to gauge the durability of consumption demand beyond the festive boost.

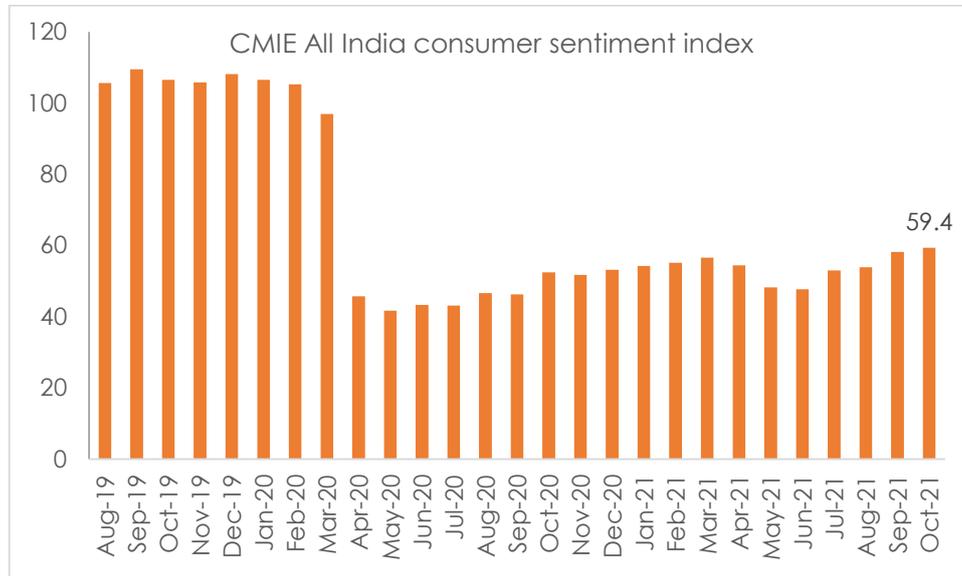
Chart 2: Discretionary mobility moved passed the baseline, for the first time since onset of the pandemic



Going forward, we expect the AMEP index to continue its upward trajectory in H2 FY22 amidst the steady nationwide drop in Covid infections as well as mortalities and importantly, the substantial progress achieved in the rate of vaccination of the adult population. Currently, India has inoculated around 55% of the total population with the first dose while 28% of the population are fully vaccinated. Given the healthy pace of vaccination, we expect India to inoculate around 70% of its population with at least one dose of vaccine before the end of calendar 2021. This is likely to further notch up consumer sentiments. Overall, we continue to forecast India's GDP at 10.0% for FY22 given the expectation of a further ramp up in private consumption demand, continuing export momentum and the continuing fiscal and monetary support. However, some near term downside risks could emanate from the global supply chain

disruptions, raw material shortages along with elevated commodity prices. The risk in rise of Covid infections still remains a possibility post the festive season, though the economic impact could be much lower on account of vaccine penetration and existing seroprevalence.

Chart 3: Consumer sentiment rose to a post pandemic peak of 59.4 in Oct-21



About Acuité Ratings & Research Limited:

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