Press Release

Index signals a moderate slowdown in growth momentum

Private sector investments key to a stronger growth boost in H2FY24

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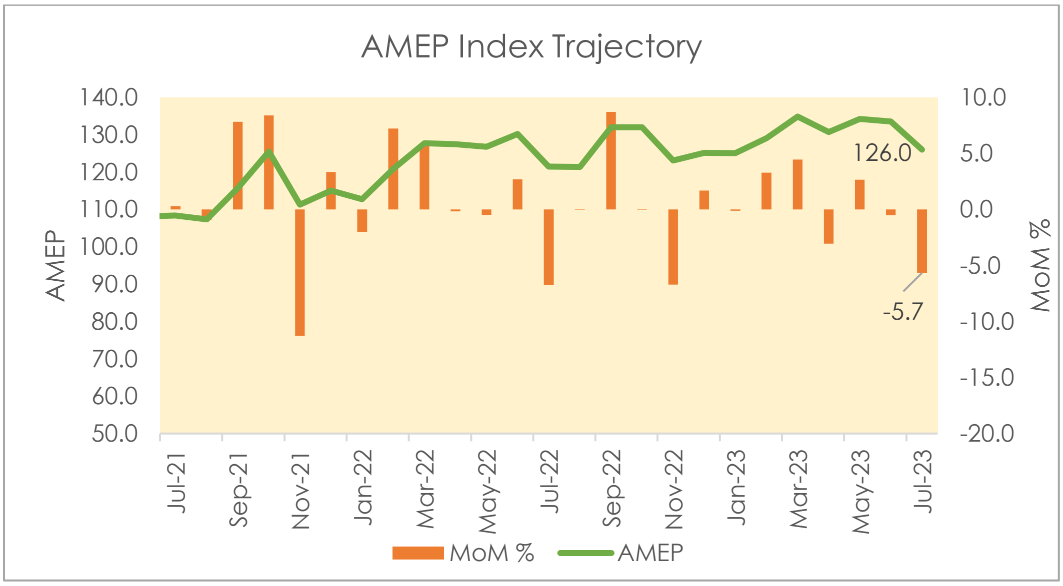
The clouds of global uncertainty and turmoil have started to have an impact on the domestic economic momentum despite the overall demand resilience. While **Acuité Macroeconomic Performance index (AMEP index),** our proprietary economic index, has seen a moderate growth of 3.7% YoY in July-23, it has dropped sequentially by 5.7%, albeit partly on account of the monsoon season. On a cumulative basis, the average index in the first four months of the current fiscal has also grown moderately by 3.7% as compared to the corresponding growth in the previous year.

Among the sixteen high frequency indicators, only seven have recorded a sequential increase and nine of them have shown an annualized growth, indicating a potential slowdown in the growth momentum in the second quarter of the current fiscal. Expectedly, the trade elements – exports and imports have faced the maximum impact of the global slowdown with a contraction of 15.9% and 17.0% YoY respectively in the month of July. Auto sales have been inconsistent so far in the current year with the annualized growth in car sales more than offset by the volume contraction in two and three wheelers.

Chart 1: Relatively tepid performance of AMEP Index in July 2023



Source: CMIE, Acuité Ratings and Research, Base Month: Aug-2019: 100. AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment.

While the PMI Manufacturing slipped marginally, it continued to be in the higher quartile and PMI Services reached an all-time high. The PMI indices reflect continued business optimism in both the manufacturing and the services sectors with lower commodity prices as compared to the previous year and expectation of improved domestic demand.

Steel output has continued to be robust in the current fiscal, driven by the large infrastructure investments. Overall steel production has grown by 10.0% in July-23 and by 11.9% YoY in the first four months of the current year.

Employment remains a chronic challenge for the Indian economy and the overall employment rate has stagnated at the level of 36% over the last few months. With higher private sector investments in the manufacturing sector and the steady growth in the services sector, the employment rate should see a gradual improvement over the medium term. However, rapid changes in technology will continue to be an offsetting factor for any sustainable growth of employment.

Comparatively, Rail freight and passenger freight have performed better in July-23. However, the growth in rail freight has been modest at 1.5% YoY and 0.7% MoM, reflecting the slowdown in industrial activity. In the first four months of the current year, freight volume has increased by only 1.2% YoY. On the other hand, passenger rail traffic has risen by 15.0% in the corresponding period.

The auto sales volume (comprising two, three wheelers and passenger vehicles) have clearly been disappointing; although it rose slightly by 0.4%MOM, it continues to report a contraction of 5.9% on a YoY basis. This has been largely driven by the weakness in the 2/3W market where the cumulative sales growth in Apr-Jul'23 continues to be in the negative zone. The latter is not only a consequence of inconsistent demand from the rural markets but also significantly lower export volumes. On the other hand, a total of 1.5 million units of passenger vehicles were sold in the previous 4 month period, 6.5% higher compared to the sales of April-July 2022.

Expectedly, tractor sales have shown a seasonal behavior. During April-July 2023, the domestic volumes have been largely stagnant with a 0.5% contraction YoY, partly reflecting the delay in the onset of monsoon and forecast of a "below normal" performance owing to the El Nino phenomenon.

The trade data had the most significant impact on AMEP index. Exports dropped by 15.9% YoY and 6.0% MoM, highlighting the intensity of the global slowdown. Import dropped as well i.e. 17%YoY and 0.4%MoM respectively.

The level of power generation dropped by 1.2% MoM in July 2023. Power generation from thermal sources recorded a 9.3% YoY increase in July 2023 but hydel sources generated 9.2 per cent lesser electricity than last year. In the four month YTD, power generation has risen by only 1.6% which is partly due to the lesser intensity of summer in the current year vs last year and which led to lower residential power consumption.

Retail fuel i.e., petrol and diesel consumption have been largely steady with 6.3% and 3.8% YoY growth respectively but the seasonality factor has led to a sequential drop in July'23. On a cumulative basis, the consumption growth trend has been healthy at 6.7% and 7.1% YoY respectively.

Credit growth has increased further on July end with a print of 19.7% YoY, reflecting the buildup of manufacturing inventory before the festive season. It is important to note that the demand for bank credit is not yet deterred by the increase in lending rates of a cumulative 250 bps since last year by RBI MPC. As an indicator of overall economic health, growth in GST collections and E-way bills remain robust at 10.8% and 16.4% YoY respectively.

Says Suman Chowdhury, Chief Economist and Head – Research, Acuité Ratings & Research "Our AMEP index provides some signals of a slowdown in the Indian economy from the month of July. While a sequential drop in the index can be largely attributed to the seasonality factor in Q2 of the fiscal, the uptick YoY has turned moderate. The slowdown in China and the overall global uncertainty have started to impact the growth momentum despite the overall domestic demand resilience. GDP growth in the first quarter (Q1FY24) is set to be strong at around 7.5% YoY, partly driven by the favourable base but the growth print is likely to be 150-200 bps lower in the subsequent quarters. We hold to our forecast of 6.0% for FY24 for now."

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 9,600 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.

Media Contact:

Sahban Kohari Ph: + 91-9890318722 sahban@eminenceonline.in

Analytical Contacts:

Suman Chowdhury Chief Economist & Head of Research Ph: + 91-9930831560 suman.chowdhury@acuite.in	Prosenjit Ghosh Group Chief Business Officer Ph: +91-9920656299 prosenjit.ghosh@acuite.in