Press Release

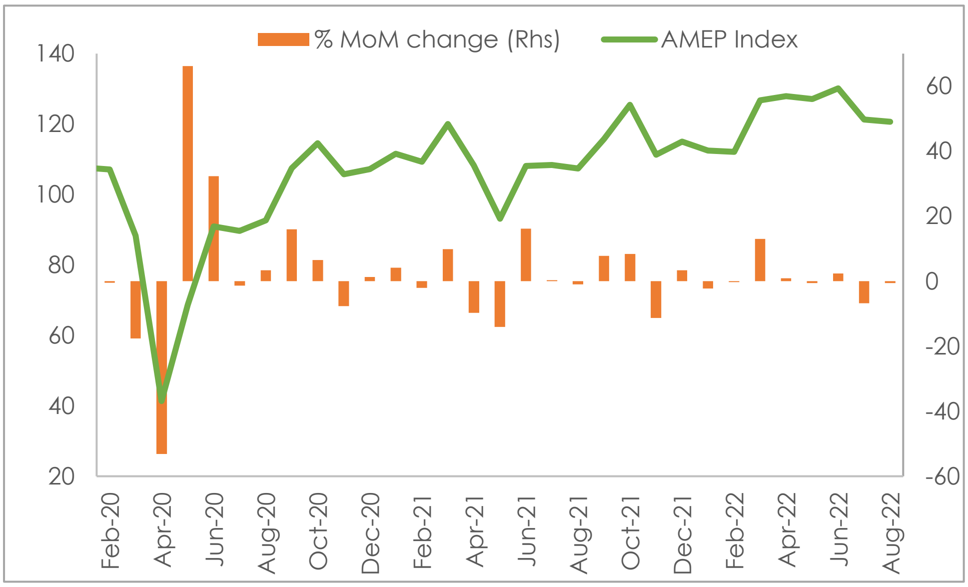
AMEP index: Charting the course of a moderate recovery

Healthy 12.4% YoY growth in Aug-22 but with a modest 0.5% sequential decline

19 Sep 2022

India's economy continues to remain resilient with high frequency macro indicators displaying incremental strength, well into Q2 FY23. **Acuité Macroeconomic Performance index (AMEP index)** has continued to record a double-digit YoY growth rate for the fifth consecutive month of 12.4% in Aug-22 vs 20.0% in Jul-22 with the services sector leading recovery aided by non-dissipating pent-up demand (especially in sectors such as tourism, hospitality), almost normalized personal mobility and an expansive vaccination coverage. This is notwithstanding the marginal sequential contraction of 0.5% in Aug-22 which can also be partly attributed to seasonality.

Chart 1: AMEP index eases from a record high level in Jul-22

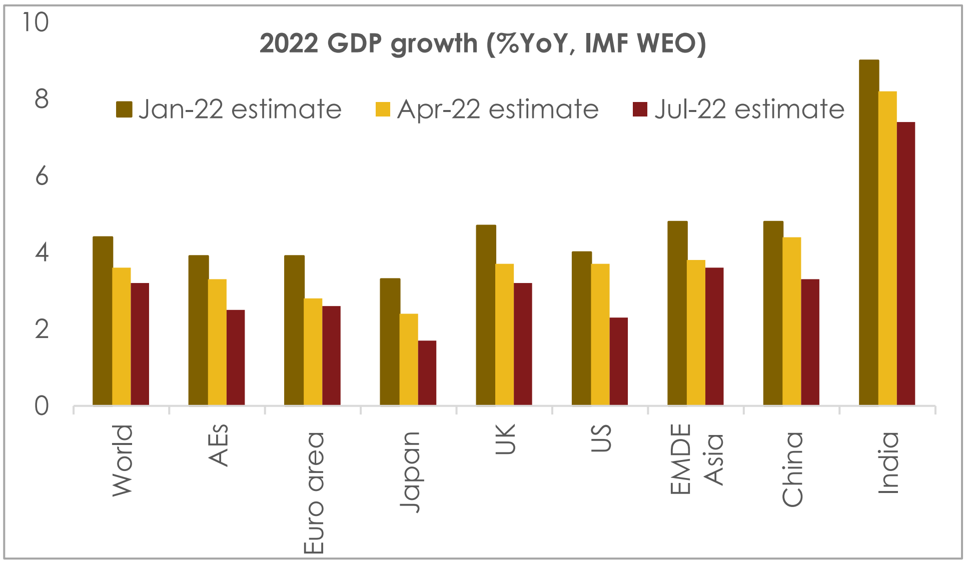


Source: CMIE, Acuité Ratings and Research

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

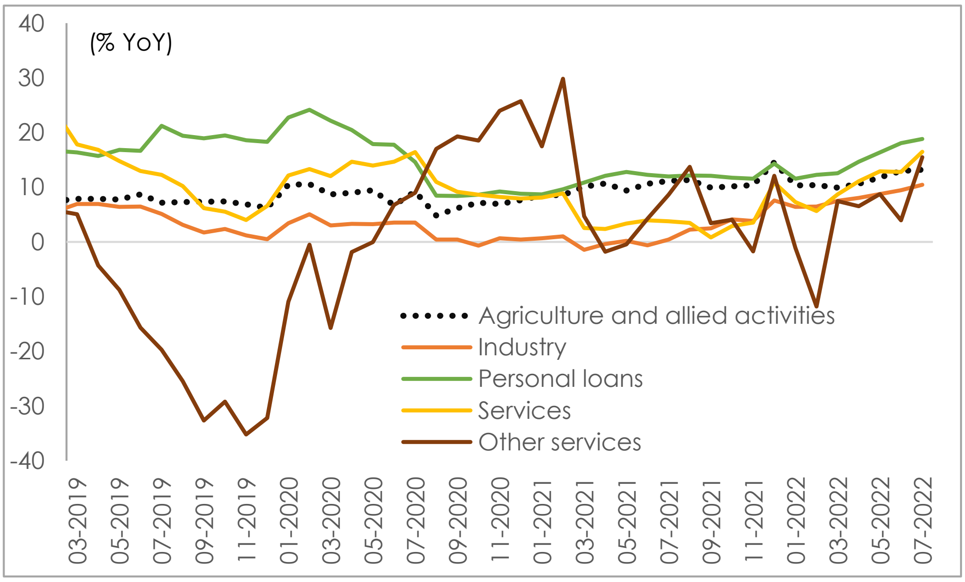
The improvement is despite the global headwinds emanating from a synchronised monetary tightening across the globe, lingering uncertainty from geopolitical tensions, and multi-decadal high inflation. The IMF, in its Jul-22 World Economic Outlook update, had assessed the global growth outlook as having turned more 'gloomy and uncertain'. As such, it reduced its 2022 global growth forecast down by 40 bps from 3.6% to 3.2% and that for 2023 by 70 bps from 3.6% to 2.9%. Among the high frequency global indicators, the global manufacturing PMI fell to a 26-month low of 50.3 in August from 51.1 in July as new orders and global manufacturing production contracted. Global PMI subindices indicate a fall in the volume of new export business for the sixth consecutive month and receding international trade flows with only India and Australia recording an improvement in foreign demand in Aug-22.

Chart 2: IMF downgraded its 2022 global growth estimate further by 40 bps to 3.2%



On a granular basis, from the sixteen high-frequency indicators that we track on a monthly basis, passenger freight, total imports, GST collections, E-way bills, fuel consumption, auto sales and credit growth have recorded a robust annualized double-digit growth. For the second consecutive fortnight, the non-food credit growth remained above 14% coming in at 14.8% YoY as of 26 Aug-22 (the level that was last recorded in Dec-18) led by a gradual demand pick-up, support from favourable base, higher commodity prices and increased working capital requirements and small ticket-size loans.

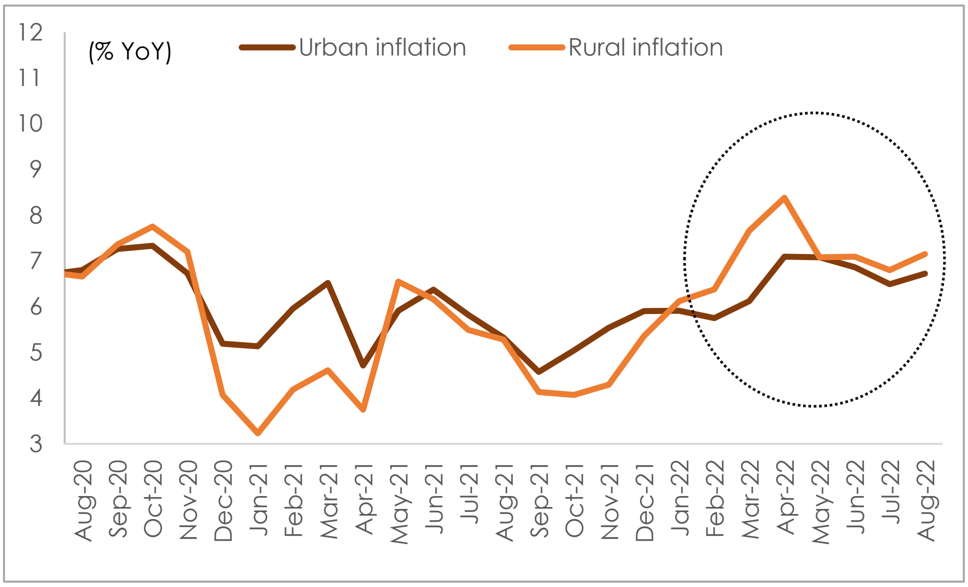
Chart 3: Credit growth driven by personal loan segment while services sector catch-up



As per the monthly granular data released by the RBI, retail loan segment (comprising of ~30% of total non-food credit) continued to remain the bright spot with credit growth accelerating to 18.8% YoY in Jul-22. Notably, while the retail loan segment had seen some slowdown during Covid amid lacklustre consumption demand, it was relatively better placed than the other categories such as services, agriculture and industry segment. On the other hand, overall employment and tractor sales have recorded a contraction. While seasonal factor has played a role in the sequential trend, uneven spatial distribution of rainfall has impacted tractor sales moderately.

The rural segment exhibited some improvement in demand with two wheelers and three wheelers' sales picking up sequentially, however, uneven spatial distribution of rainfall and a drop in the kharif sowing have impacted tractor sales moderately. Going forward, while delayed monsoon withdrawal, kharif sowing gradually catching up and improvement in reservoir levels will help support the rural consumption, persistently high rural inflation could act as a dampener (rural inflation has remained higher than urban inflation since the start of 2022). On the other hand, the onset of festive season along with the rebound in in contact-intensive services sector is likely to bolster urban consumption.

Chart 4: Rural inflation has persistently remained higher than urban inflation in 2022



Going forward, as the favourable statistical effect tapers, headline AMEP index growth may decelerate or stagnate in the coming months. However, incremental support would nevertheless come from the festive heavy H2 FY23 in combination with pent-up demand (esp. for services) and further traction in vaccination coverage that would drive domestic demand recovery. Meanwhile, the recent moderation in global commodity prices, with the CRB index nearly 11% lower vis-à-vis Jun-22 peak will offer reprieve to producers, and the likely pass-through to consumers (with a lag) would support consumer sentiment. Additionally, capex oriented public expenditure continues to offer the much-needed fiscal impulse, and would hopefully benefit manufacturing capacity utilisation further, which has recovered to above pre-pandemic levels, at 74.5% as of Mar-22.

That said, we do acknowledge some downside risks on account of uneven rainfall distribution especially in key paddy growing states such as Uttar Pradesh, Bihar, Jharkhand, and West Bengal which could adversely impact agriculture output and farm incomes. Moreover, the build-up of adverse global factors (like tightening of global financial conditions, elevated geopolitical uncertainty, etc.) would constrain India's external demand i.e. exports significantly in H2 FY23. Keeping in mind the support factors and downside risks, we have revised our FY23 GDP growth forecast to 7.2% from 7.5%.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "Our AMEP index for Aug-22 is 12.4% higher than that in Aug-21 when the disruption in the domestic economy had already started to dissipate after the severe second Covid wave. This clearly reflects that the domestic economic recovery has made meaningful progress in the last 12 months despite higher inflation and increased global headwinds that affected exports. While the sequential trajectory of the index appears to indicate a slowdown of the economic momentum, the seasonal factor can't be ignored and the data points for the upcoming festive months will be crucial to understand the broader trendline for the fiscal. With steady pickup in credit growth to mid double digits in H1FY23, we believe that the economy still has the capability to deliver a GDP growth of over 7.0% in FY23."

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 9,200 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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