Press Release

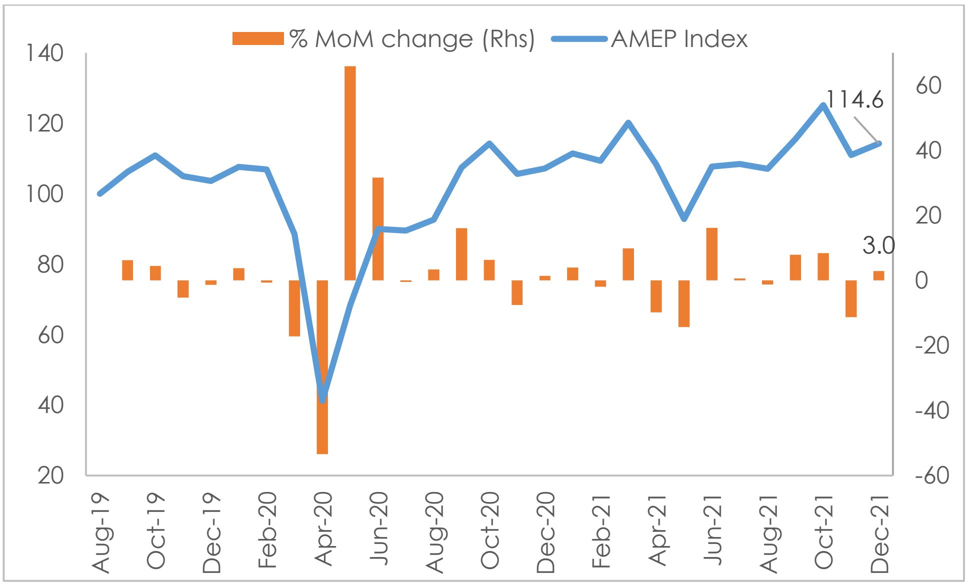
AMEP index regains some strength post the seasonal dip

But surge in infections set to dampen activity levels partly in Q4 FY22

18 January 2022

After the seasonal dip in Nov-21 led by the post festive season, the economic activities partially recouped their lost momentum in Dec-21. As such, our proprietary **AMEP (Acuité Macroeconomic Performance) index** rose marginally to 114.6 in Dec-21 from a three-month low of 111.2 in Nov-21. From growth perspective, the index after contracting sequentially by 11.3% MoM in Nov-21, expanded at a moderate pace of +3.0% in Dec-21. Taking the Dec-21 print into consideration, average index for Q3 FY22 stands at 117.1- a quarterly high in the post-pandemic period supported by a confluence of several factors such as unwinding of lockdown restrictions supporting services sector, advancement in vaccinations along with festive season augmenting pent-up demand.

Chart 1: Economic activities in Dec-21 recoup their lost momentum

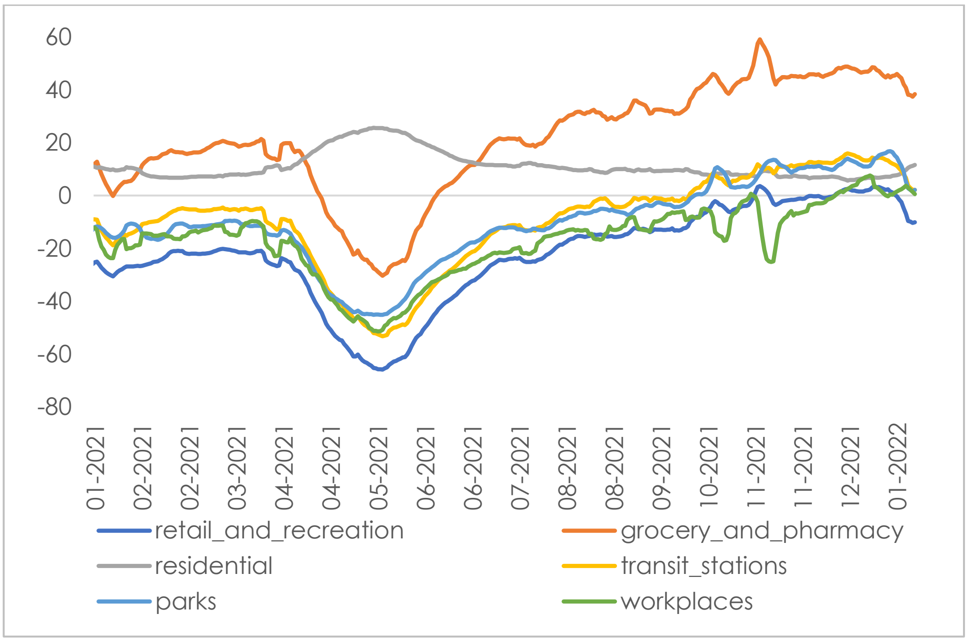


Note: AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment

Looking at the internals for Dec-21, out of 16 indicators covered by the AMEP index 11 indicators have recorded sequential improvement compared to just 5 in the previous month. The improvement was primarily driven by exports and imports both of which hit their respective record high levels in Dec-21. This was followed by improvement in E-way bill generation, diesel consumption and rail freight. On the other hand, continued moderation in tractor and auto sales particularly two-wheeler sales capped the overall gain. This reinforces the continuing slowdown being witnessed in rural demand amidst delayed Kharif harvesting and unseasonal showers.

Looking beyond Q3 FY22, the headwinds to growth outlook for the last quarter of FY22 have risen amidst reimposition of state level lockdown restrictions to mitigate the rapid spread of Covid infections. This has resulted in a strong pull back in google mobility index which after having stayed comfortably above the baseline of '0' for five consecutive months has again started descending particularly in discretionary movements i.e., retail and recreation as well as parks. While so far, the bulk of impact has been on consumer mobility and contact service sectors, the weekly momentum of other high frequency indicators such as e-way bills, railway freight and electricity generation have held up well.

Chart 2: Google mobility indicators take a hit in Jan-22



The international evidence which points to Omicron variant being less virulent and resulting in lower hospitalization rate (as seen in South Africa), offers hope. Further, India has made reasonable progress on vaccination with around 70% of the adult population being fully vaccinated, which has now been opened up for the younger population as well. In addition, monetary and fiscal policies are set to remain broadly supportive.

As such, we continue to retain India's growth print forecast in FY22 at 10.0%. However, downside risks to our growth forecast could emanate from adverse spillover from domestic and global lockdowns prolonging supply side disruptions, elevated commodity prices and potential financial market volatility on account of monetary policy normalization by key global central banks.

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 8,900 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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