Press Release

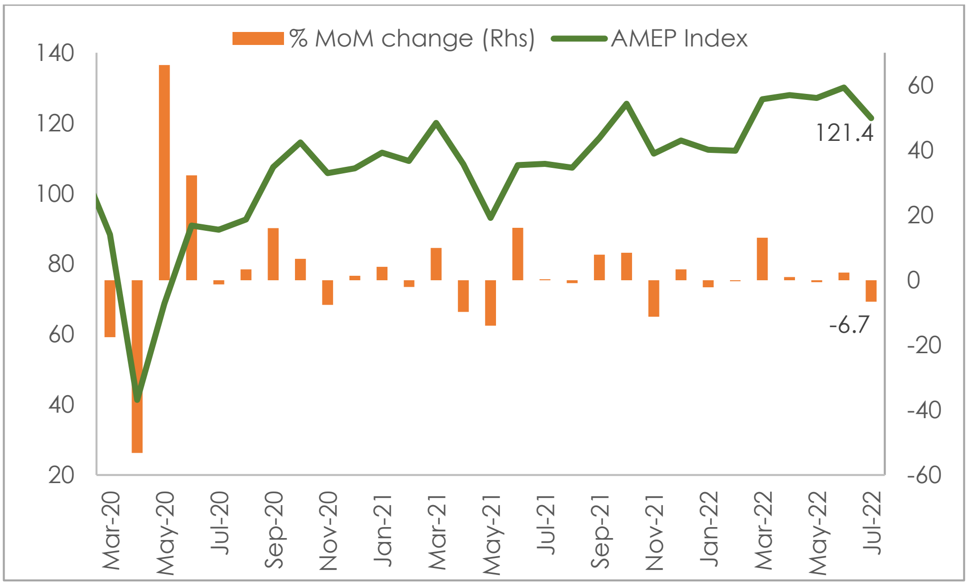
Mixed signals on economy emerge from AMEP index

Healthy 12.0% YoY growth in Jul-22 but with a 6.7% sequential decline

23 Aug 2022

Acuité Macroeconomic Performance index (AMEP index) has recorded a double digit albeit slower growth rate of 12.0% YoY in Jul-22 vs 20.4% in Jun-22 which reflects a healthy momentum and resilience in the domestic economy despite the continuing strong global headwinds. The moderation in the annualised growth needs to be seen in the context of a taper in the favourable base factor in Q1FY22 due to the second Covid wave. However, the index also eased to a 5-month low of 121.4 in Jul-22 from 130.1 in Jun-22 leading to a contraction of 6.7% on a sequential basis which partly arises from the seasonality associated with the monsoon months.

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 figure on the left highlights the number of indicators that were sequentially positive during the month and on the right, those that were negative.

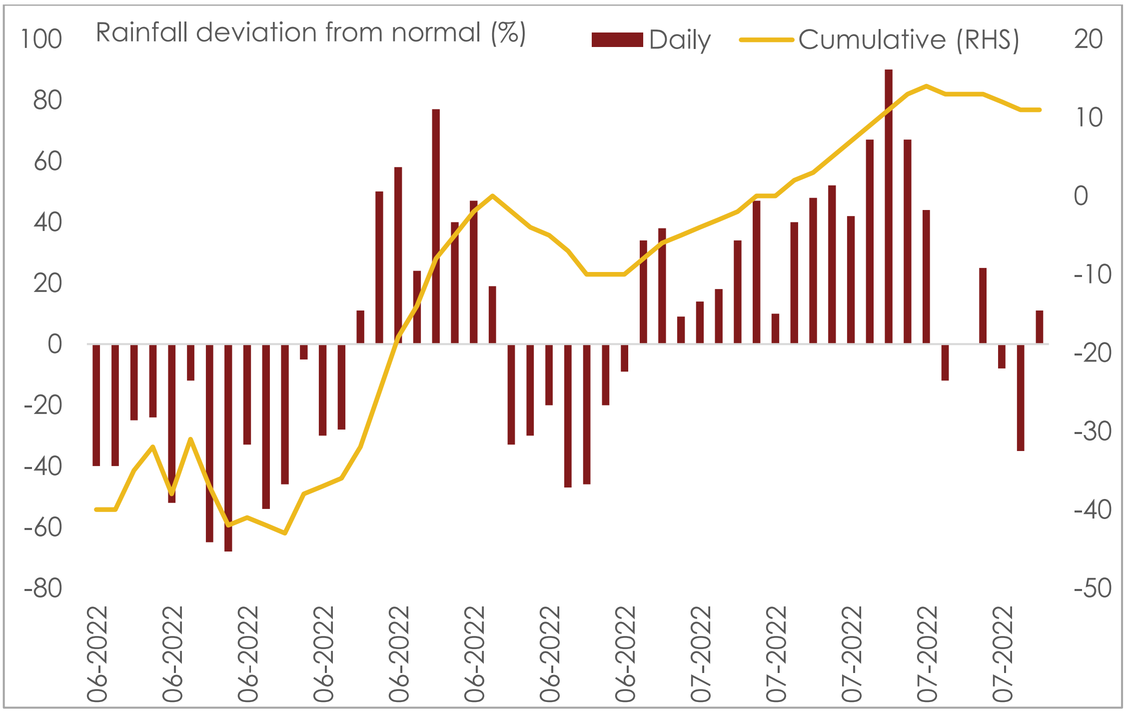
From the spectrum of sixteen- indicators that we track, seven indicators have grown on a sequential basis which includes key economic indicators such as PMI manufacturing, auto sales volumes, non-food credit growth, E-way bills and GST collections. There was a broad based recovery in automobile sector in Jul-22 with both passenger vehicle and two-wheeler despatches ticking up month-on-month. GST collections for Jul-22 remained above Rs 1.4 Lakh Cr for the fifth consecutive month coming in at 1.49 Lakh Cr, clocking an annualised growth of 35%. The print marked the second highest level of collection since the Jul-17 rollout of the new tax regime. High inflation rate, buoyancy in consumption and services sector after the complete removal of Covid driven mobility restrictions alongside greater enforcement actions against anti-evasion activities have contributed to a consistent rise in GST collections. However, there has been a significant sequential decline seen in tractor sales and fuel consumption in Jul-22. While seasonal factor has played a role in the sequential trend, uneven spatial distribution of rainfall and a drop in the kharif sowing area have also impacted tractor sales moderately.

Notwithstanding the sequential decline in the AMEP index, the overall trend in FY23 so far appears to be broadly resilient holding its pace in the face of global geopolitics, elevated inflation, faster and synchronised monetary tightening and slackening global demand. Most of the lead indicators have been able to better their performance (partly also due to a favorable base at play due to last year's Delta wave), despite elevated domestic inflation and some slowdown in external demand coming to the fore. Having said that, the moderation in global commodity prices definitely comes as support for growth outlook. The softness is likely to provide producers some respite in the face of a sharp rise in input costs experienced in the last one year. In addition, the economic recovery fortunately has received support in the form of a pick-up in monsoon after a sluggish overture, robust government capital outlay and a high vaccination coverage which facilitates normalization in contact intensive services. The upcoming festive season along with the rebound in in contact-intensive services sector is likely to bolster urban consumption. On the other hand, the expectation of a normal monsoon along with improvement in agriculture terms of trade and hike in MSPs, augur well for supporting agricultural incomes and rural demand in H2 FY23. However, the sowing activities needs to be carefully monitored as inter-state rainfall variations has dented the paddy sowing especially that of rice. According to the latest data, overall paddy sowing area across the country was reported to be 12.4% less than year ago in the current kharif season. The decline in crop production could also have ramifications for food inflation, which has shown some signs of moderation due to decline in prices of edible oil and cereals.

Notwithstanding the support from factors outlined above, the global spill over from higher commodity prices, slowing world growth and the rapidity of monetary policy normalization in developed economies are downside risks that are likely to manifest on incremental growth momentum. Keeping in mind the support factors and downside risks, we retain our FY23 GDP growth at 7.5%.

Says **Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research Ltd** "AMEP index has provided mixed signals on economic growth in the current fiscal; the healthy annualized growth reflects resilience and a gradual pickup in domestic private consumption despite inflationary headwinds. This makes up optimistic about a GDP growth print of over 7.0% in FY23. On the other hand, some high frequency indicators such as rail freight, exports and diesel consumption have shown a lack a steady and sustainable momentum, leading to moderate downside risks to that forecast."

Chart 2: Southwest monsoon has seen a strong recovery in Jul-22



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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