

Press Release

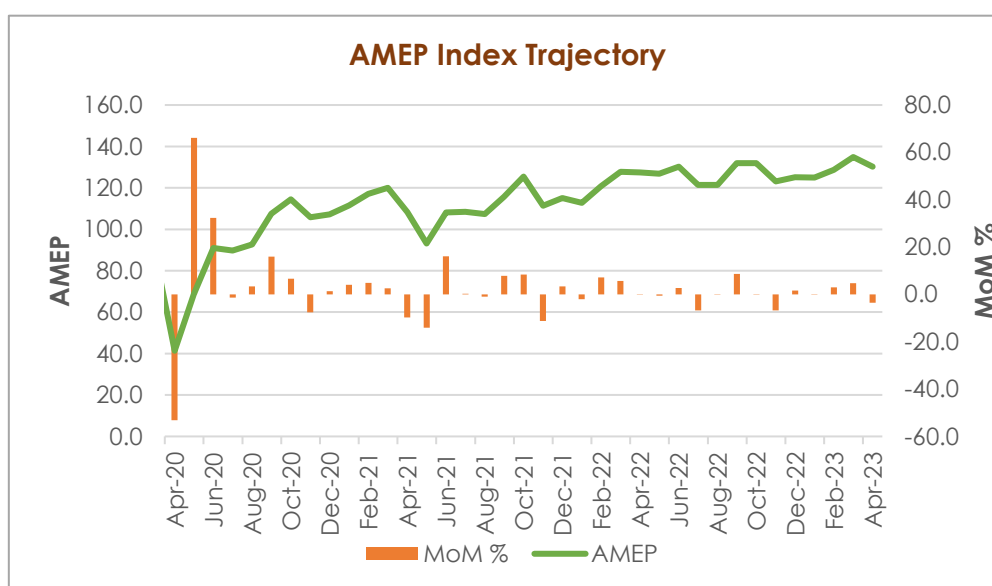
AMEP shifts to a slower lane in Apr-23

Services sector remains buoyant, holds hopes of a 6% GDP growth in FY24

26-May-2023

Acuite Macroeconomic Performance index (AMEP index) has witnessed an expected moderation in Apr-23 from the year-end high of March-23 with the annualized growth in the index print at a low of 2.2%. Higher global headwinds and the increased interest rates have started to make an impact on domestic demand notwithstanding the resilience in overall economic activity. The index print has dropped by 3.5% MoM over the peak seen in Mar-23.

Chart 1: AMEP index moves to a lower gear in Apr-23



Source: CMIE, Acuite Ratings and Research, Base Month: Aug-2019: 100

Note: AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment. The data for Feb has been adjusted for the lesser number of days in the month.

From the range of sixteen high-frequency indicators, twelve domestic demand indicators have witnessed an annualized rise in Apr-23 with only four reflecting a contraction YoY – tractor sales, exports, imports and power generation. While the global slowdown is a key factor behind the drop in merchandise exports, lower tractor sales and imports highlight that the momentum in domestic demand has been weaker. Lower power generation YoY is more a reflection of the warmer weather conditions last year in Apr-22 vs Apr-23 and therefore lower power consumption in the residential segment. Nevertheless, the power demand in India is showing a structural uptrend over the last few years, driven by wider electricity distribution network and increased usage of electrical gadgets such as air conditioners by residential users. On the other hand, passenger traffic (railway) has notched up a growth of 20.2% YoY, reinforcing the pent up demand in the travel, tourism and the transportation sectors. E-way bill generation and GST collections continue to reveal a healthy growth since last fiscal, confirming the underlying resilience in economic

activity. Credit growth continues to be in mid teens despite the step up in interest rates, indicating that a part of the incremental advances is getting channeled into new public and to an extent, private capital expenditure projects. Auto sales have been in positive territory, recording a growth of 4.1% YoY and 0.9% MoM in Apr-23, although the magnitude of growth doesn't reflect strong demand conditions yet particularly in rural areas. With both the PMI indices- Manufacturing and Services clocking a higher figure in both Manufacturing and Services, a healthy optimism continues in the business environment.

Says Suman Chowdhury, Chief Economist and Head-Research, Acuite Ratings & Research "Indian economy is changing gears to move to a slower growth track in FY24 after notching up a multi year high GDP growth closer to 7.0% in FY23 driven by normalization of economic activities post Covid and the impact of pent up demand. This is borne out by the trajectory of our proprietary AMEP index that rose only 2.2% on a YoY basis in Apr-23. While the economic activity in the first month of the fiscal may not be a proper indicator of the growth trends in the current fiscal, it is clear that global uncertainty will have an adverse impact on merchandise exports in particular and funding of new investments in the manufacturing sector. Nevertheless, domestic consumption demand is expected to display resilience with continuing indication of pent up demand in the travel and tourism sectors. What is also holding the business optimism at this point is the pause in interest rate hikes by RBI and the moderation in the headline inflation print. Notwithstanding the heightened global risks and the impact of increased interest rates, we continue with a 6.0% growth forecast in FY24 on the back of a buoyancy in the services sector, moderation in inflation and the consistency in public sector capital expenditure."

About Acuite Ratings & Research Limited:

Acuite 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

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