Press Release

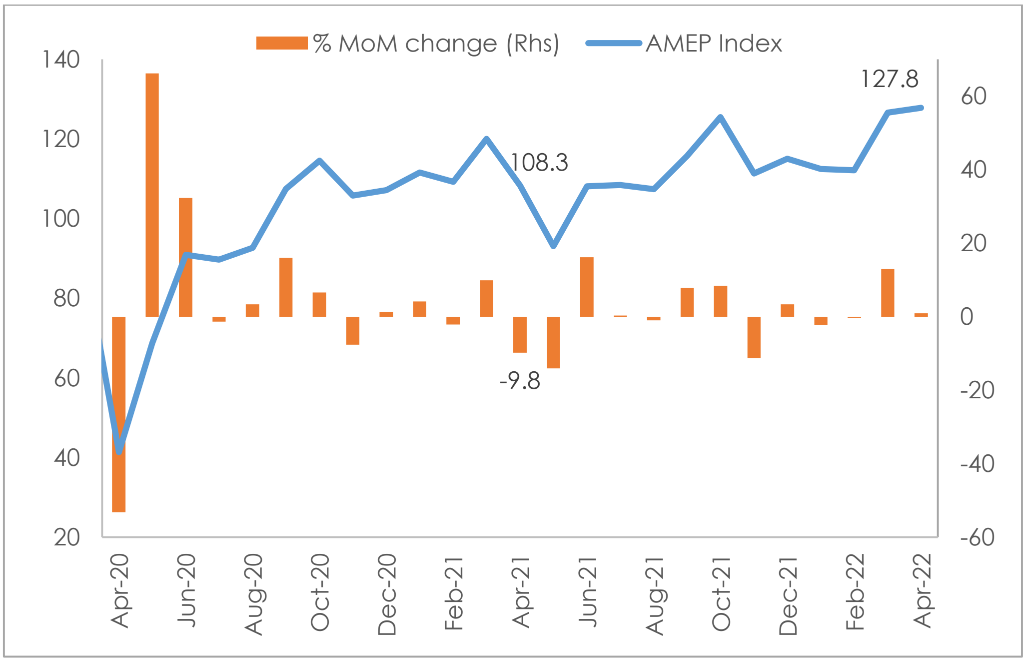
AMEP index signals steady but slower recovery

Inflationary concerns to weigh on the pace of economic revival in FY23

18 May 2022

After a short disruption in Jan-22 owing to the Omicron wave, most domestic high frequency indicators of economic activity have been in a steady recovery mode. Defying the seasonal trend of marginal easing of economic activities post the year-end run up, overall performance of certain high frequency indicators inched up in Apr-22, leading our **proprietary AMEP (Acuité Macroeconomic Performance) index to record a fresh post pandemic high of 127.8 from 126.6 in Mar-22.** From the growth perspective, the index rose marginally by 0.9% YoY in Apr-22 from 12.9% in the previous month.

Chart 1: AMEP index records a fresh post-pandemic high in Apr-22



Source: CMIE, Acuité Ratings and Research

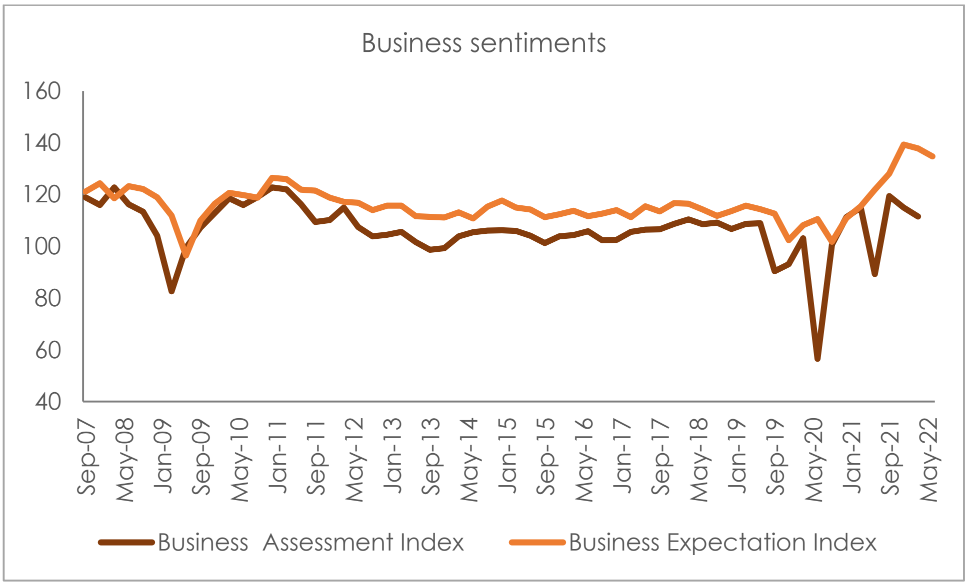
Note: AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment

Looking at the internals for Apr-22, significant improvement in the sequential momentum of two indicators namely tractor sales and GST collections led the AMEP index to pick up a notch. Improvement in rural incomes driven by healthy farm output and better crop prices along with prospects of normal monsoon has led demand for tractors to improve. On the other hand, GST collections in Apr-22 scaled to an all-time high of INR 1.68 trn on the back of increased compliance, better tax administration and improved economic activity. However, given the seasonality factor associated with April just after the fiscal year-end, only 7 out of 16 indicators recording a sequential expansion as compared to 14 in the previous month, with a MoM decline in rail freight, followed by steel production, petrol and diesel consumption and exports.

Even as drivers of domestic economic activity are stabilizing, headwinds from global spillovers are intensifying. For FY23, the ongoing geopolitical crisis between Russia and Ukraine could potentially act as a dampener for certain sectors, esp. on account of sharp acceleration in input prices, trade related supply disruptions, and a slowdown in the global growth momentum. IMF in its latest edition (Apr-22) of World Economic Outlook, downgraded its global growth forecast to 3.6% in 2022 from 4.4% earlier. In addition, resurgence of Covid led disruptions in certain countries, especially China, could further compound uncertainties on the demand as well as supply front.

Reflecting these uncertainties, optimism in the manufacturing sector for Q1 FY23 marginally moderated in RBI's latest round of industrial outlook survey "due to an ebb in sentiments on inventory of raw materials and finished goods". Recent surveys conducted by other agencies (NCAER, CII, and FICCI) also indicate a sequential moderation in business expectations.

Chart 2: RBI's Business Expectation Index for Q1 FY23 moderated from 137.8 to 134.7



On the consumption side, the rise in retail fuel (including administered petroleum products such as Kerosene and LPG) and food prices are likely to weigh on household disposable income. The upward revision to FY23 inflation expectations could have a greater bearing on consumption recovery in FY23 than anticipated earlier.

Meanwhile, support continues in the form of thrust on public capex (which is helping overall investment activity and exports to hold up despite headwinds), initiatives under the 'Atmanirbhar Bharat Abhiyan', and the expectations of a favourable monsoon for the third consecutive year. IMD has pegged rainfall for the country as a whole at 99% of LPA with a margin error of +/-5% in 2022. In addition, improvement in manufacturing capacity utilization to 72.4% in Q3 FY22 (higher than its pre pandemic level of 68.6% in Q3 FY20) corroborates the gradual easing of domestic supply side constraints and bodes well for future activity. High vaccination coverage is proving to be supportive for a broader pick-up in contact intensive services.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "Our **AMEP Index** continues to climb up steadily if not rapidly, reflecting the gains from the complete unlocking of the economy. Given the favourable base factor in the first quarter which was disrupted last year by the second wave induced lockdowns, we expect a double digit GDP growth in Q1FY23. However, the growth will moderate in the subsequent quarters. We retain our FY23 GDP growth forecast at 7.5% with moderate downside risk given the prolonged nature of the ongoing war in Ukraine and its adverse impact on commodity prices."

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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