Press Release

AMEP displays steady growth with onset of festive season

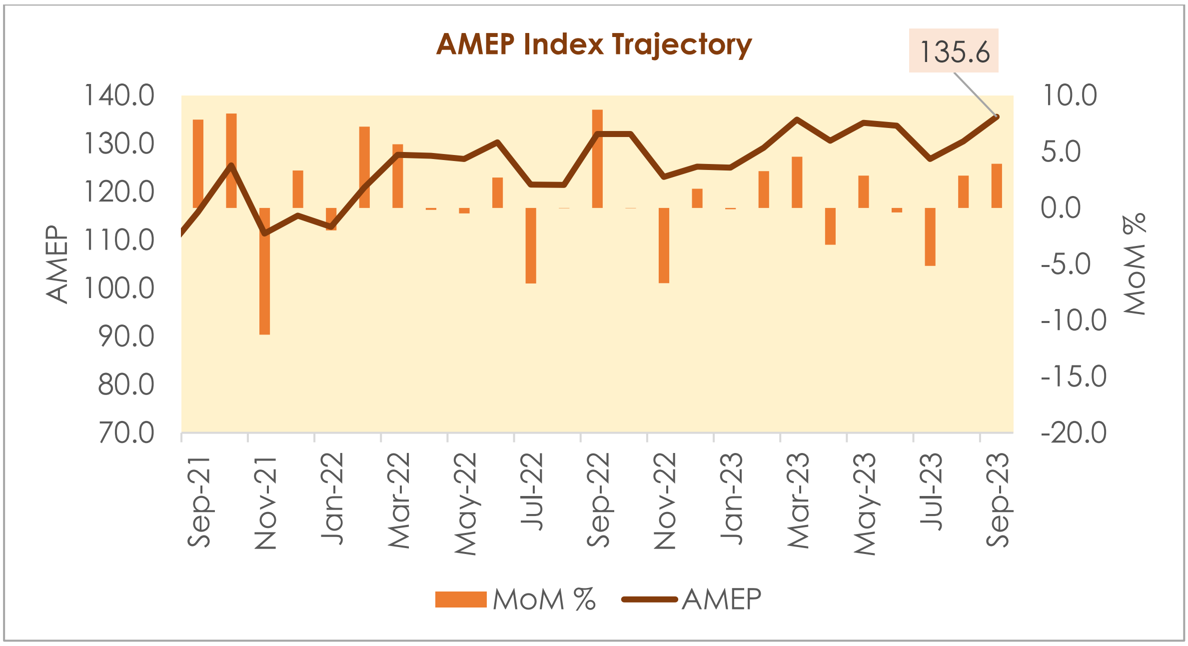
Rural demand indicators still continue to display weakness

18-October-2023

Following the ascending trail of the previous month, **Acuité Macroeconomic Performance index (AMEP index)** has shown further buoyancy in September as it increased by 2.7% and 3.9% on an annual and sequential basis respectively. The average index print in the second quarter of the fiscal is 2.36% higher than in the corresponding period of the previous year. The steady and consistent momentum in economic activities in the second quarter of the current fiscal was supported by steady urban demand, onset of festive season, increased public expenditure in infrastructure and higher power demand in periods of deficient monsoon rainfall.

Among the sixteen high frequency indicators, thirteen have been in the positive growth zone on a YoY basis except for the trade metrics – i.e. exports and imports along with tractor sales. While the global slowdown and the depreciation of the currencies in developing countries have impacted the export demand for manufactured products, imports have also been lower on an annualised basis due to lower commodity prices (except oil which has shown a rising trend in the last two months). Tractor sales have been witnessing a slowdown with domestic volumes declining by 14.7% in Sep-23 and 5.8% in Q2FY24 on a YoY basis; in our opinion, this is largely on account of an irregular monsoon in the current year and the concerns on a drop in the kharif output.

Chart 1: AMEP shows steady growth in Q2FY24



Source: CMIE, Acuité Ratings and Research, Base Month: Aug-2019: 100. AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment.

The seasonally adjusted India Manufacturing Purchasing Managers' Index (PMI) witnessed a decline to 57.5 in Sep-23 but remained significantly higher than that in Sep-22 (55.1). PMI Services stood relatively more buoyant and rose again from 60.1 in August to 61.0 in September, signalling a sharp upturn in output of services that was one of the strongest in over 13 years. Rise in new business and increase in employment characterized PMI indices in September 2023.

Steel output was virtually stagnant on a sequential basis but rose by 12.8% annually; . The yearly rise is attributed to higher demand along with increased investment by the government on infrastructure projects.

Rail freight and passenger freight saw a healthy annualised growth of 6.7% and 3.9% respectively although it dropped by 2.7% and 3.5% on a sequential basis. During the period from April to September 2023, Indian Railways accomplished a substantial freight loading of 758.20 million tonnes (MT). This represents a substantial increase of approximately 21.52 MT compared to the corresponding period last year. In the month of September 2023 alone, Indian Railways achieved a freight loading of 123.53 MT, marking a notable improvement of approximately 6.67% over the same month in the previous year. One of the key factors behind the higher freight volumes is the higher coal mining activity and its transportation in the second quarter.

The better performance in auto sales on YoY and MoM basis has been driven by strong urban demand, launch of new vehicle models and the upcoming elections in states and the central government. Sales of passenger vehicles in the wholesale market increased YoY by 5.1% to 3.77 lakh units in Sep-23 according to the data released by the Society of Indian Automobile Manufacturers (SIAM). Two-wheeler sales grew too, but by a meagre 1% to 2.04 million units. On the other hand, sales of three-wheelers increased by a strong 17.8% to 89,256 units in September 2023. While rural demand for PVs and 2Ws are expected to improve in second half of the year, there are downside risks due to the El Nino phenomenon and its potential impact on both the kharif and the rabi crop.

The trade metrics continue to constrain the AMEP index. Exports dropped by 2.6% YoY and imports dropped as well i.e. 15% YoY in Sep-23. POL exports fell by 10.6 per cent to USD 6.5 billion and non-POL exports fell by 0.6 per cent to USD 28 billion in September 2023. OL imports fell by 20.3 per cent to USD 14 billion and non-POL imports fell by 13 per cent to USD 39.8 billion, mostly on account of lower commodity prices vis-à-vis last year.

The level of power generation increased by 8.8% YoY but dropped by 5.2% MoM in September 2023 from a high base of Aug-23 arising from deficient rainfall and a peak in power demand during that month. Cumulatively, power generation grew by 4.8% in the first half of the fiscal which is a healthy sign for overall economic activity.

Retail fuel i.e., petrol and diesel consumption have been largely steady with 8.2% YoY and 3.8% YoY growth respectively. However, petrol consumption dropped sequentially by 1.1% and diesel consumption dropped by 2.7%.

Credit growth continues to stand at 20% YoY albeit inclusive of the merger of HDFC with HDFC Bank but adjusting for the impact of the merger, the credit growth still held strong at 15.3% as on end Sep-23. Mid and small sized banks are expecting a 30-35 per cent growth in their retail loan portfolios in the festive season while large banks are expecting a 20-25 per cent growth. As an indicator of overall economic health, growth in GST collections and E-way bills remain robust at 10.2% and 9.5% YoY respectively.

Employment rose by 3.2% annually and 0.4% monthly supported by higher output in both goods and services. However, the sustainability of such a growing trend needs to be seen; despite healthy economic growth, employment has continued to be a major socio-economic challenge for India.

Says Suman Chowdhury, Chief Economist & Head-Research "Expectedly, the AMEP index has risen further in the Q2 quarter end after the healthy uptick in August, reflecting the optimism on consumption demand during the festive season. Further, economic activity in the core sector has continued to be boosted by steady public investments in the infrastructure sector. With persistent challenges on the export front, higher interest rates and a tighter funding environment along with risk of weaker agricultural output due to El Nino, there is a likelihood of a moderate slowdown in growth in the second half of the year. Accordingly, we hold on to our base forecast of 6.0% GDP growth in FY24."

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 9,700 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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