Press Release

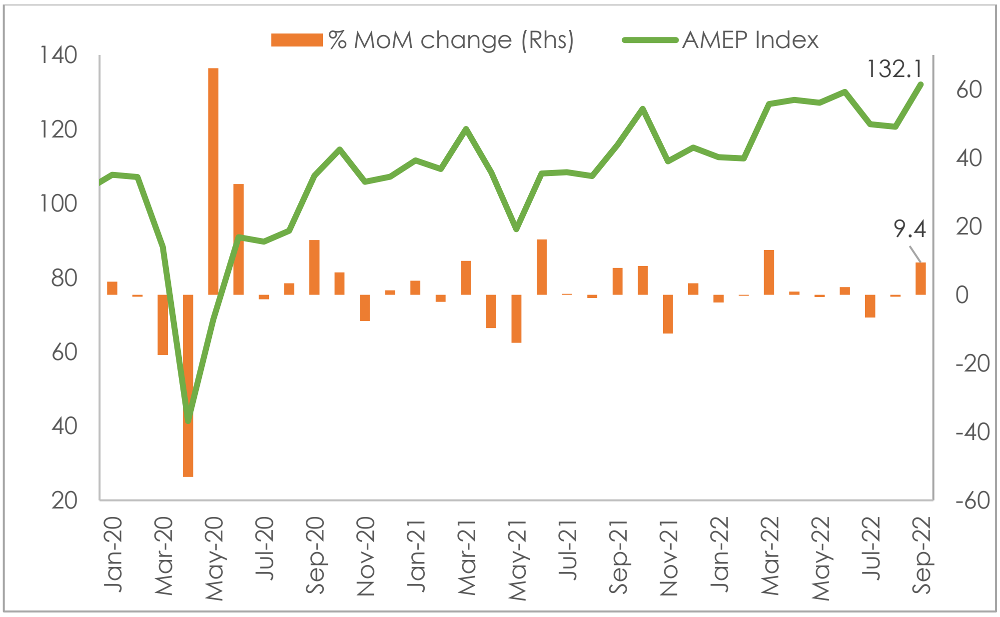
Festive cheer lifts AMEP index to a record high level

Steady revival in consumer demand key to domestic resilience amid global headwinds

27 Oct 2022

India's economy has stepped into the second half of FY23 on a positive note, with **Acuité Macroeconomic Performance index (AMEP index)** registering a record high level of 132.1 in Sep-22 as against 120.7 in Aug-22. Despite the unfavourable global backdrop marred by geopolitical uncertainty and an increasingly tight financial environment, India's high frequency indicators witnessed a buoyancy primarily supported by the ongoing festivities. From growth perspective, the index continued to record double-digit expansion of 14.1% YoY in Sep-22 vs. 12.4% in Aug-22. Sequentially, the index expanded by 9.4% MoM from two consecutive negative prints in Jul-Aug'22.

Chart 1: AMEP index touches another record high level in Sep-22

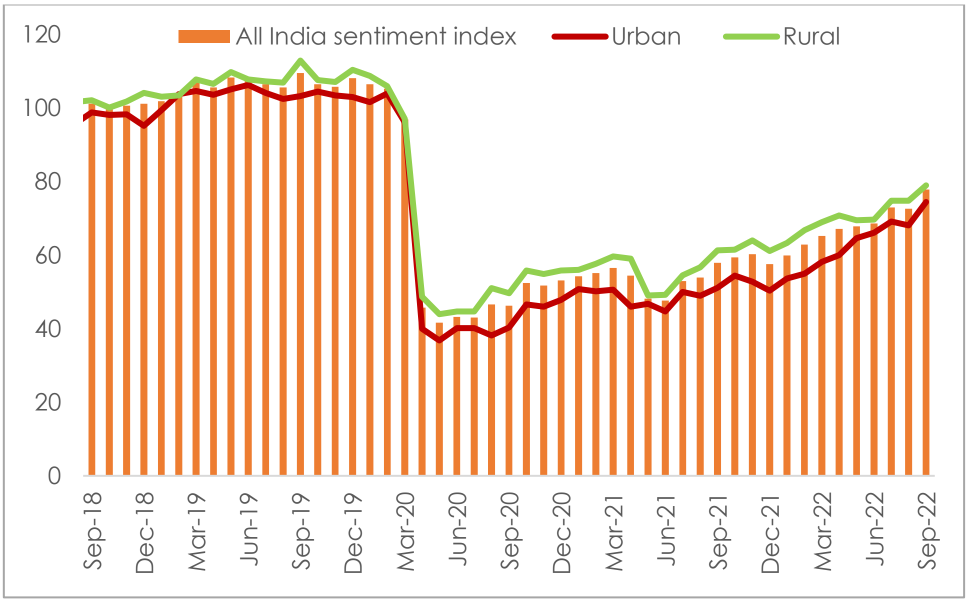


Source: CMIE, Acuité Ratings and Research

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

From the gamut of sixteen high-frequency indicators, the domestic demand indicators namely auto and tractor sales, E-way bills, power generation, diesel consumption, and GST collections held up well amidst pent-up demand given two consecutive years of a bleak festive mood led by multiple onslaughts of pandemic waves. The festive cheer brought about by the complete normalization on the mobility front was also seen in the consumer sentiment indices for both urban and rural regions, which rose to their respective 30 months high in Sep-22 (Chart 2).

Chart 2: Consumer sentiments soar to a 30-month high in Sep-22



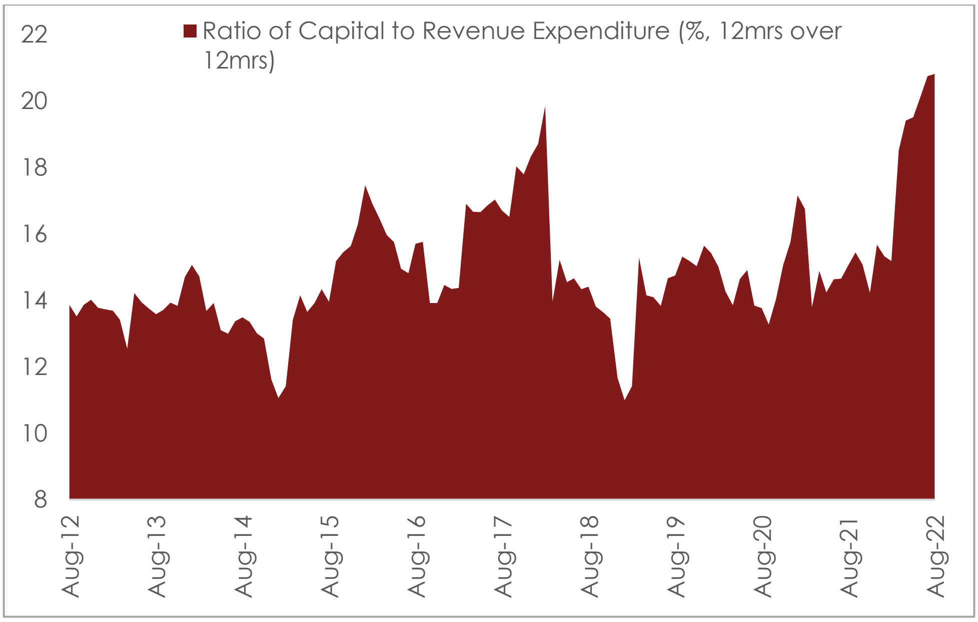
Source: CMIE, Acuité Ratings and Research

The recovery in services sector also remains somewhat strong, though there are early signs of a saturation in pent-up demand. The withdrawal of the southwest monsoon has aided travel, hospitality and construction sectors. The festive induced spurt has pushed domestic mobility to a yet another post pandemic high, continuing to support the recovery in contact intensive services.

On the expenditure side, the festive season has led the surge in urban demand as also seen in certain indicators such as air traffic, auto sales and consumer durables production.

On the other hand, rural average wage growth adjusted for inflation has remained broadly unchanged in FY23 so far, leading the rural demand to remain relatively weak at an overall level. Slower rise in wage growth, uneven rainfall distribution that impeded the crop sowing patterns, persistently high rural inflation and rising cost of living has led the work demanded under MGNREGA to increase in Sep-22. Nevertheless, the start of Kharif harvest, extension of free foodgrain under the PMGKY up to Dec-22 and some price reductions announced for FMCG products could likely help the rural demand to improve in H2 FY23. Separately, Government's capital expenditure, having risen by a strong 46.8%YoY during Apr-Aug FY23 also remains supportive of investment growth (Chart 3).

<u>Chart 2: Quality of central government spending continues to improve</u>



With early data for the month of Oct-22 throwing up mixed signals, we nevertheless, remain cautiously optimistic. While the spurt in consumer demand in the festive season may keep the growth print resilient in Q3 FY23, it may not necessarily sustain amidst the domino effect caused by the increasing weakness in global growth.

The external support from exports may deteriorate as global demand conditions wane. Domestic exports in Sep-22 slipped further to USD 35.5 bn i.e., 16% lower compared to the recent peak of USD 42.2 bn in Jun-22. In its latest update to the World Economic Outlook report, the IMF slashed its growth forecast for 2023 World GDP and World Trade by 20 bps and 70 bps to 2.7% and 2.5% - this marks a sharp loss of momentum vis-à-vis IMF's 2022 growth estimates of 3.2% and 4.3% earlier.

Looking ahead, on annualised basis, as the favorable statistical effect tapers, the GDP growth is expected decelerate over Q3 and Q4 of FY23. Factoring in external risks and their impact on domestic growth, with some support from factors outlined above (such as festive season demand, delayed catch-up in Kharif sowing, expectation of a late withdrawal of monsoon, capex-oriented government spending, recent softening in global commodity prices) we continue to peg our GDP growth forecast at 7.2% albeit with downside risks.

Concludes Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "Our AMEP index at a record high in Sep-22 primarily highlights the role that the festive season in India can play particularly after a pandemic induced gap of two years in boosting private consumption demand. While public capex is expected to strengthen investment demand, a structural revival in consumer demand will remain a key element for the continuing resilience in domestic economy amidst intense global headwinds. As we remain positive on the growth outlook for FY23, we will also continue to watch the upcoming data print closely to track the trajectory of rural demand and the impact of global uncertainty on the export sector as well as on the overall funding environment."

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 9,200 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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