Press Release

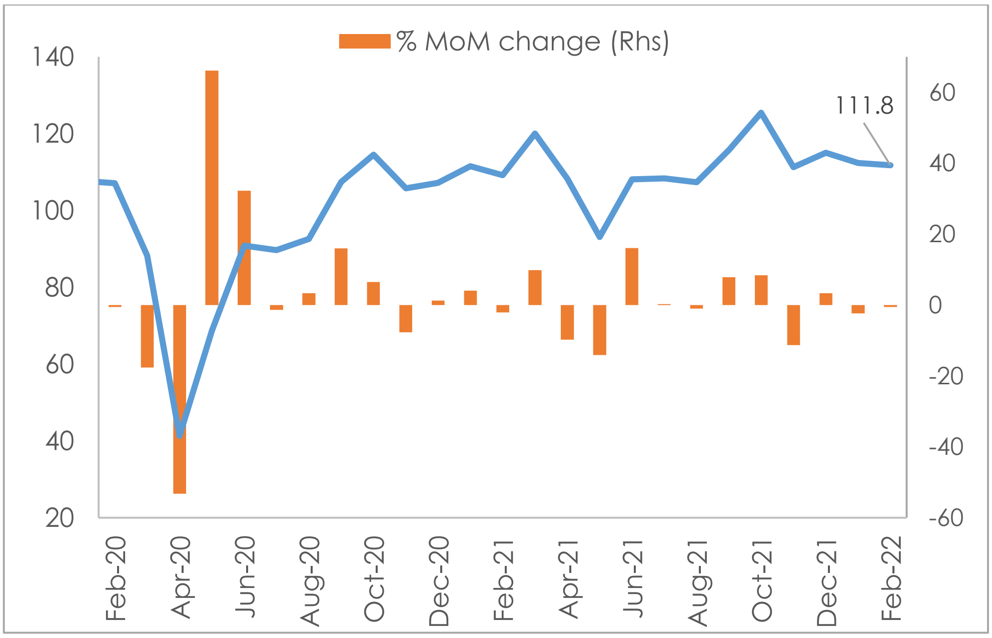
AMEP index yet to reflect a post Omicron recovery

Year-end seasonality may push the AMEP index higher in Mar-22

21 March 2022

While the third Covid wave was short lived in India and was followed by a rapid removal of mobility restrictions in most parts of the country, the performance of certain economic indicators didn't witness a commensurate pickup Feb-22 as compared to Jan-22. This led to our proprietary **AMEP (Acuité Macroeconomic Performance) index** declining marginally by 0.5% MoM to 111.8 in Feb-22 from 112.4 in Jan-22. The sequential moderation needs to be seen, however also in the context of a lower number of working days in the month of February. Notably, with relatively lower severity of Omicron wave backed by the healthy vaccination coverage, the index on annualized basis expanded by 2.3% YoY in Feb-22 from 0.7% in Jan-22.

Chart 1: AMEP index weighed down by lower number of working days in Feb-22

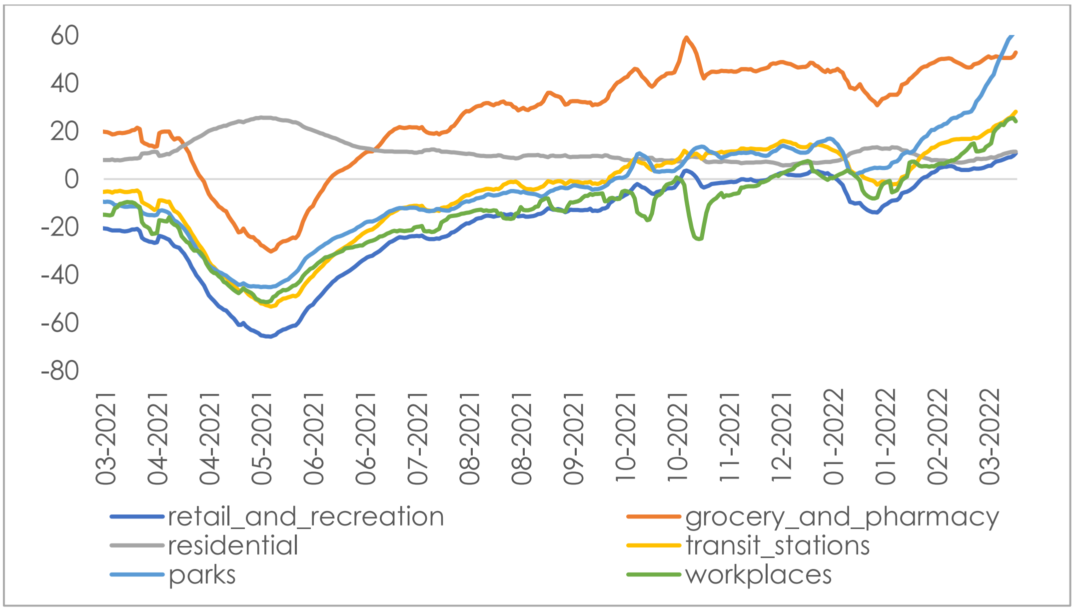


Note: AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment

Looking at the internals for Feb-22, the breadth of recovery slightly improved with 8 out of 16 indicators covered by the AMEP index recording a sequential improvement compared to 6 in the previous month. However, a moderation in rail freight, auto sales, e-way bills, GST collections and power generation more than offset gains recorded in the other indicators such as passenger traffic, import demand, petrol and diesel consumption.

We expect the index to improve in Mar-22, given the ramp-up in economic activities particularly in contact intensive services and government spending due to year-end seasonality. This has started to partially reflect in certain high-frequency weekly indicators such as power consumption, e-way bills, and google mobility index which have shown signs of improvement in the first two weeks of Mar-22. Mobility around retail and recreation activity, grocery and pharmacies, parks, workplaces, and transit stations have been currently trailing above their respective pre-pandemic levels.

Chart 2: Google mobility indicator surpasses pre-pandemic levels



That said, the raging conflicts between Russia and Ukraine along with imposition of an unprecedented level of sanctions on Russia may dent the pace of economic revival. The geopolitical strife between the two nations has created an additional stress on an already elevated commodity price particularly crude oil price (currently hovering above USD 100+ pb) and existing supply chain bottlenecks. Amidst such turbulence, the global growth outlook has once again deteriorated with increased inflationary pressures.

Additionally, the scale back of fiscal and monetary policy support in most developed economies and the financial market volatility (amidst rising interest rates and prospects of quantitative tightening) could continue to impact capital flows and weigh on overall growth momentum in the next couple of months.

For FY23, we expect GDP growth at 7.5% amidst government's strong thrust on infrastructure segment as highlighted in the Union Budget FY23, high penetration of vaccination, moderate recovery in rural consumption and the full play out of pent-up demand although it is likely to be partly offset by high crude oil prices and higher than expected inflationary pressures.

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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