dun & bradstreet
GROWING RELATIONSHIPS THROUGH DATA

D&B ECONOMY OBSERVER

Issue 144
May 2020

Contents

Research Team
Dr. Arun Singh
Dipshikha Biswas
Raj Kiran
Purvi Mundra

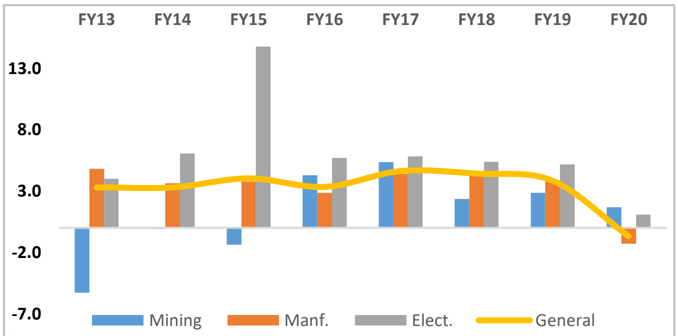
View from the top

Global Pandemic has infected more than 5 million, killed around 0.3 million globally and pushed back millions into poverty. As the IMF predicts the worst economic fallout since the Great Depression, governments worldwide have provided fiscal stimulus to the tune of more than US$ 8 trillion so far as businesses have come to a standstill, consumption is faltering, savings are being depleted, financial markets are in turmoil and most importantly human lives are impacted. It remains to be seen how much the loss in the economic activity gets recovered, the degree to which the productivity levels are restored and to what extent the income inequality is being narrowed. This will determine which economies emerge out to be stronger post this crisis.

The Indian government's larger than expected stimulus package of 10% of GDP is expected to re-start the economic activity. The latest initiative of the Reserve Bank of India in reducing the repo rate by a further 40 basis points to 4.0%, extending the moratorium period by three months and facilitating working capital financing will also help stimulate the momentum. However, the multiplier effect of the stimulus measures on the economy will depend on three key aspects i.e. the time taken for effecting the withdrawal of the lockdown, the efficacy of implementation and duration of execution of the measures announced. It is to be noted that supply needs to be matched with demand. The greater the focus on short term and demand oriented initiatives, the faster would be the recovery given the fact that around 57% of the Indian economy is driven by consumption.

While the measures are positive, majority of them have been directed towards strengthening the supply side of the economy. They are thus likely to yield the intended impact over the medium to long term. The structural growth-oriented reforms and the thrust on infrastructure will materialise given certain favourable conditions are met. Privatization of Public Sector Enterprise (PSEs) will be fruitful if the private sector has adequate funds and is willing to invest and private sector investment and the infrastructure execution will be subjected to structural issues such as land acquisition and forest clearance. The fiscal cost of the stimulus measures for the current year has been estimated to be at around 1-1.5% of GDP. Such an amount cannot be considered sufficient enough to revive the steep slump in demand. The short-term demand side fiscal measures that the government has taken have largely focused on the rural sector, the migrants and the poor section of the population which has been the worst affected given the extended lockdown. It has largely excluded the other section including corporates and the urban population. While the monetary stimulus is expected to inject liquidity and stimulate demand for the wider section of the economy, the channelization of funds from the financial institutions will be subjected to several constraints, the foremost being a) increase in risk averseness, as the balance sheets of firms, households, and banks/NBFCs have weakened considerably and b) low demand for funds by firms as production activities have been on a standstill during the lockdown period. In the absence of cash-in-hand benefits under the government's stimulus package, demand for goods and services is expected to remain depressed. The fact remains that the loss in income and employment opportunities, and cautiousness amongst consumers, will lead to a delayed recovery in consumer demand, even after the pandemic subsides. It is to be noted that they had been weakening even before the pandemic struck. The data available shows that during March 2020 when all parts of the nation had not completely gone under lockdown, industrial activity had slumped to -16.7%, bank credit to industries had decelerated to 0.7% in Mar 20 and exports declined by 60%. Data reported for the subsequent months are expected to be far worse. Nonetheless, even as authorities across the country announced several relaxations in the Lockdown Phase 4.0, barring in containment zones, it is highly likely that India might be close to registering a recession in the third quarter of the financial year.

IIP contracted by 0.7% in FY20

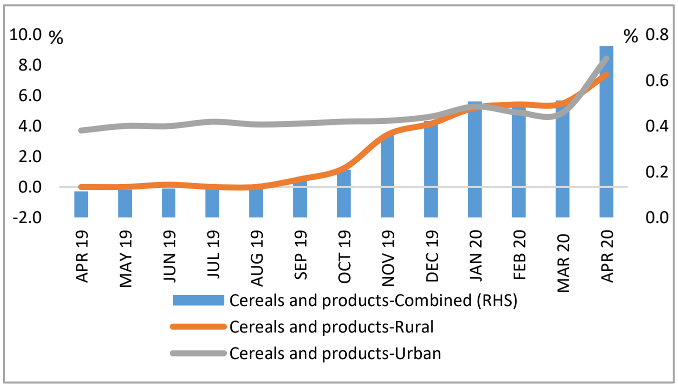


Source: CMIE

Real Sector

- The Index of Industrial Production (IIP) contracted by 16.7% (y-o-y) in Mar 20, lowest since the new series was constructed in 2011-12.
- Manufacturing sector contracted by 20.6% (y-o-y) in Mar 20, lowest since the data is available. Electricity sector output also contracted by 6.8% (y-o-y) in Mar 20, lowest in 5 months.
- Capital goods sector contracted, for the 15th consecutive month, by 35.6% (y-o-y) in Mar 20. Primary goods sector after expanding for 4 consecutive months, contracted by 3.1% in Mar 20.
- Output of the Eight core industries contracted by 6.5% (y-o-y) in Mar 20, lowest since the data is available. Output declined across all industries excluding coal which expanded by 4% in Mar 20. Cement industry experienced the steepest decline of -24.7% in Mar 20 amongst all industries.
- Total domestic sales of automobiles contracted by 45.1% (y-o-y) in Mar 20 compared to a decline of 14.2% in the same period last year.

Gap between urban and rural cereal inflation shrinks

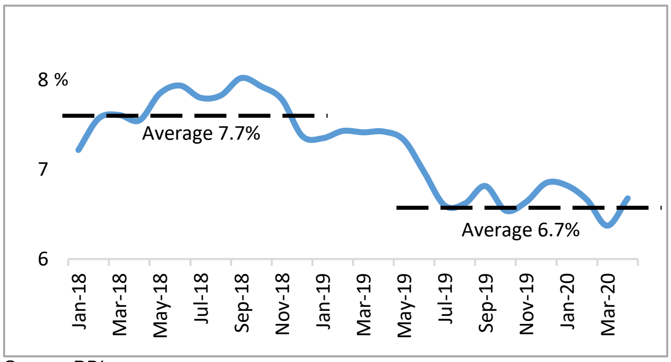


Source: MOSPI

Price Scenario

- Wholesale food articles inflation dipped to 2.6% (y-o-y) in Apr 20, 15-month low, mainly led by moderation in fruits and vegetables inflation from 10.9% (y-o-y) in Apr 19 to 0.5% (y-o-y) in Apr 20.
- Inflation in minerals contracted by 0.38% (y-o-y) in Apr 20 compared to 12.7% (y-o-y) rise in Apr 19. Inflation in the crude petroleum & Natural Gas segment contracted by 33.9% (y-o-y) in Apr 20, lowest since Feb 15.
- Wholesale Food Index moderated to 3.6% (y-o-y) in Apr 20, lowest since Apr 19.
- CPI inflation for Mar 20 has been revised downward from 5.91% (prov) to 5.84% (final).
- CPI food price inflation increased by 10.5% (y-o-y) in Apr 20 compared to 1.1% (y-o-y) in the same period last year. Core CPI index excluding food group and fuel & light group increased by 6.6% (y-o-y) in Apr 20 compared to 4.3% (y-o-y) in Apr 19.
- Inflation in health dipped to 2.8% (y-o-y) in Apr 20, a record low (in the series 2011-12).
- Due to paucity of data, only the major indices have been released by the government.

10-yr G Sec yield shifts downward

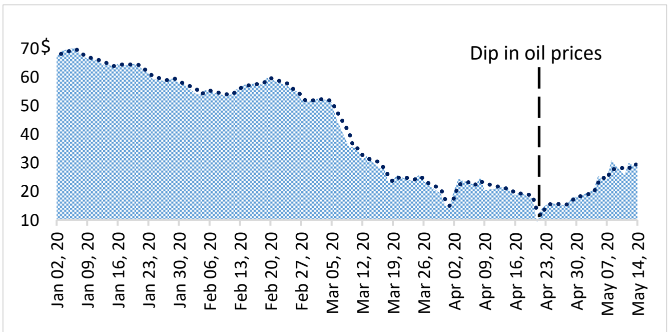


Source: RBI

Money & Finance

- Bank credit to industries decelerated to 0.7% in Mar 20 from 6.9% in Mar 19. Bank credit to infrastructure industries contracted by 0.2% in Mar 20, lowest since Jun 18. Bank credit to Gems and Jewellery industry contracted 17.4% in Mar 20- 13th month in a row.
- Growth in Bank credit to Micro and Small Industry grew by 1.7% in Mar 20, highest since Sep 18. Personal loans grew by 14.9% in Mar 20 compared to 16.4% during Mar 19. Credit to the priority sector grew at 5.8% in Mar 20 after slumping to 0.3% during Feb 19.
- Yield of 15-91 days T-Bills stood at 3.64% in Apr 20, lowest since Feb 11.
- Credit to Deposit Ratio stood at a 2-year high at 74.9% in Apr 20.
- Weighted average call money rate stood at 3.9% as on 8th May 20, lowest since Apr 11.
- The total amount of outstanding commercial paper as on 30th Apr 20 stood at Rs 4.17 tn compared to Rs 5.42 tn in Apr 19.

Brent crude oil prices appreciate after falling to an all-time low



Source: EIA

External Sector

- Merchandise exports declined by 60.3% (y-o-y) to US$ 10.4 bn in Apr 20 and imports declined by 58.7% (y-o-y) to US$ 17.1 bn. The pace of decline in exports is highest ever recorded. Merchandise trade deficit declined to US$ 6.8 bn.
- Oil imports declined by around 59% (y-o-y) to US$ 4.7 bn in Apr 20.
- Average global Brent crude oil price decreased to US$ 25.76 per barrel in May 20 from an average of US$ 71.3 per barrel in the consecutive month last year.
- The average exchange rate of the rupee stood at 75.62 per US$ as on May 20, compared to an average of 69.77 per US$ in the comparable period last year.
- Foreign Exchange Reserves continued to increase and stood at US$ 481.1 bn as on May 14, 2020, a 2-month high.
- FII outflows stood at US$ 1.9 bn in Apr 20, compared to an inflow of US$ 2.4 bn in Apr 19.

Dun & Bradstreet's Macro Economic Forecasts			
Variables	Forecast	Latest Period	D&B's Comments
15-91 days T-Bills	3.4% - 3.6% May-20	3.73% Apr-20	The RBI's infusion of liquidity in the market and measures taken to lower the interest rates have led to downward movement of yields in the bond market. Nonetheless the increase in government's borrowing and the FII outflows in the debt market will also exert upward pressures on yields.
10-year G-Sec Yield	6.5% - 6.6% May-20	6.68% Apr-20	
Bank Credit*	5.8% - 6.0% May-20	6.74% Apr-20	Bank credit is expected to further moderate in the month of May 2020 as economic activities remain disrupted owing to confinement measures and increase in positive cases. The slowdown in demand for retail loans owing to slump in consumption demand is expected to continue during the month of May 2020.
Exchange Rate INR v/s US$	75.6- 75.8 May-20	76.24 Apr-20	The rupee is expected to witness depreciation pressures due to increase in FII outflows, weak sentiments surrounding the COVID-19 pandemic as number of confirmed cases continue to witness a spike and weak domestic and global growth outlook.
All figures are monthly average			
* Refers to End Period; Dec *data: Week ended Apr 24,2020*			

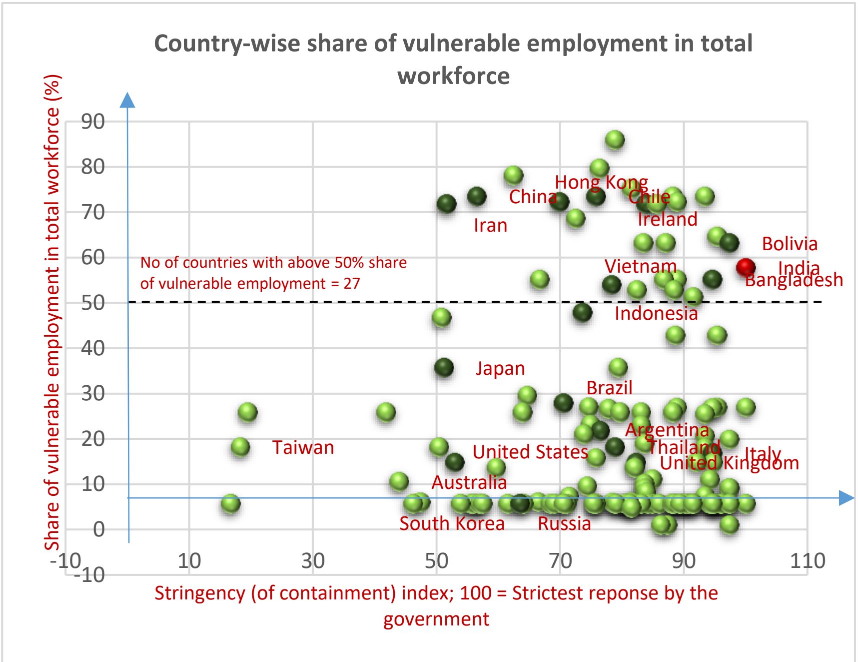
Disclaimer: We are not issuing a forecast for index of Industrial Production (IIP), Consumer Price Inflation (CPI) and Wholesale Price Inflation (WPI) in the current issue

India's Vulnerable employment

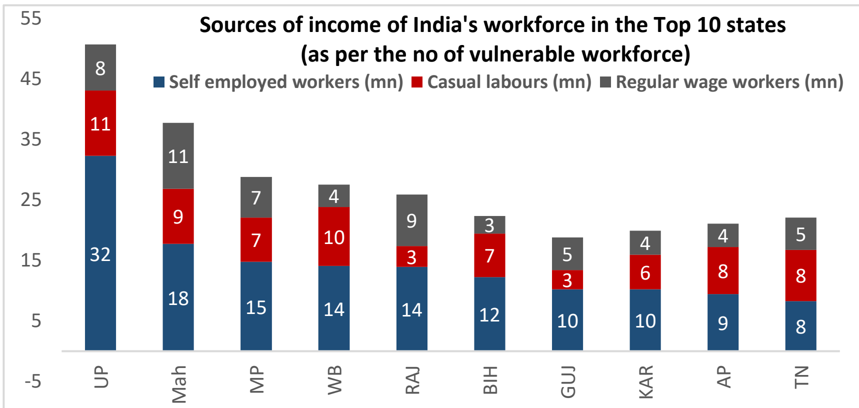
The COVID-19 pandemic has severely disrupted economic activity, halting production and trade and curbing services as countries impose various forms of containment measures including workplace closure and social distancing to control and prevent the spread of the deadly virus. This has significantly impacted the global workforce who are either employed in secured full-time jobs or engaged in vulnerable jobs. As of April 29, 2020, International labour organization (ILO) estimates that around 68% of the global workforce are employed in countries with recommended or required workplace closures. ILO also estimates that there will be more than 10% decline in global working hours in Q2 2020, equivalent to 305 million full-time jobs.

The other section of workers who are worst affected are the workers in vulnerable employment. Workers in vulnerable employment comprise of own-account workers and contributing family workers which include local shopkeepers, street vendors and household help amongst others. They are vulnerable as they are less likely to have formal work arrangements and therefore more likely to lack decent working conditions and adequate social security workers. Vulnerable employment is also often characterized by inadequate earnings and low productivity. Workplace closures and restrictions on public movement have severely constrained the means of livelihood of these sections of workers. Countries with higher level of containment stringency measures will have a greater impact on the workforce, especially the vulnerable workforce.

To measure and compare the various levels of containment or stringency measures adopted by countries globally, the Oxford University has created an index called Government Response Stringency Index. The index is a composite measure based on nine response indicators including school, workplace, public event and gatherings closures, travel bans, stay at home rescaled to a value from 0 to 100 (100 = strictest response). Comparing the stringency index with the share of vulnerable workers across countries gives a broad estimate of the impact of the pandemic on the workforce across countries. Taking data for 135 countries for which comparable data is available on the stringency measures taken and vulnerable workforce, we have found 27 countries whose share of vulnerable workers in total employment is above 50% and their stringency index is greater than 50. For India, the value of the Stringency Index stands at 100 and share of vulnerable employment is 58%. The other countries being China, Ireland, Bolivia, Iran, Bangladesh, Vietnam.



Observing the vulnerable workforce data across the states in India, it has been found that UP has the highest number of workers in vulnerable employment followed by Maharashtra, Madhya Pradesh, West Bengal and Rajasthan. The government in its stimulus package measure announced relief measures for street venders and migrant labourers who form a considerable share of the vulnerable workforce.



Source of graphs: World Bank, Oxford University, PLFS survey