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View from the top

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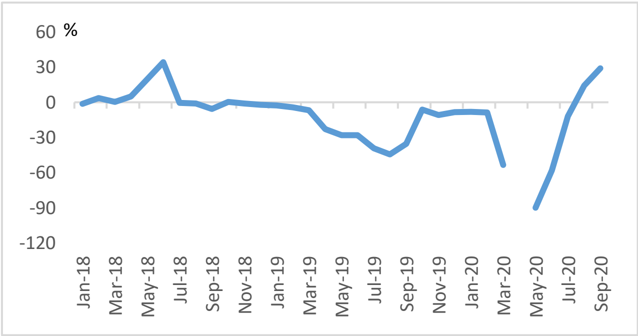
The resurgence of the virus in some parts of the world has made recovery in growth uncertain and uneven. The uncertain prospects and impeding slowdown in growth will reverse the gains achieved in reducing poverty and inequality over the years. According to IMF estimates, 90 million people globally would become extremely poor while according to World Bank the number could be much higher at 150 million by 2020 and 2021. Both the World Bank and the IMF defines "extreme poverty" as living on less than US$ 2 per person per day.

The worst is thus still not over. People are pessimistic over their growth prospects even as countries are trying to bring the pandemic under control. On average, 54% of employed adults from 27 countries surveyed during September 25 – October 9, 2020 mentioned that they are concerned about losing their job in the next 12 months, as published by World Economic Forum. For India, the corresponding survey data stands slightly above average at 57%. Clearly this indicates that recovery in demand is not likely to pick up any time soon. The tentative signs of demand evidenced across the various indicators largely reflects pent up demand which might weaken if the virus is not controlled soon. Even as the daily count of new infected cases reported in October have fallen from its high level in July that cannot give a reason to cheer as the ongoing festival season with social gatherings might reverse this current downward trend. Until recently, the risk of openness index compiled by the Oxford university had placed India under lower risk of further transmission if the country opens up.

We believe that the recovery is nonetheless fragile as capital expenditure remains low, growth in the core sector as well as Index of Industrial Production remains in the negative territory and bank credit continues to moderate. It is to be noted that while the manufacturing sector such as consumer durables will get some relief from the pent-up demand, most of the services sector does not benefit from pent-up demand and being contact-intensive are likely to be affected by social distancing norms. However, what is supportive for the economy is the fact that foreign investors have shown optimism in the growth prospects of India given the various policy initiatives taken by the government to facilitate doing business in India. Total FDI was the highest ever for the five-month period. India also managed to clock a positive and higher growth in exports at 5.3% in September 2020 after a gap of six months.

The stimulus measures announced by the government before the festive season thus pertinent. The Leave Travel Concession (LTC) cash voucher scheme, special festival advance scheme, interest waiver scheme for all types of loans up to Rs 20 million and allocation for additional capital expenditure would boost consumer and investment demand and most importantly provide traction to the unorganised sector who would engage in providing services or manufacture goods to cater to festive demand. The capital expenditure by the government during April to August has been only 32.6% of the budgeted estimates. The estimated Rs 250 bn of additional capital expenditure will be a boost to the investment activity to the extent this is spent during the next half of the fiscal year. The 50 year interest free loan to states for capital expenditure to the tune of Rs 120 bn comes in addition to the RBI's announcement in its recently concluded monetary policy to buy state development loans (SDLs) or bonds for the first time ever. This has been a major announcement for the states who have been reeling under the pressure of lower revenue collections. This is likely to boost the sentiment and the support the growth for the next half of the fiscal year.

Increase in demand for passenger vehicles leading to rise in domestic sales

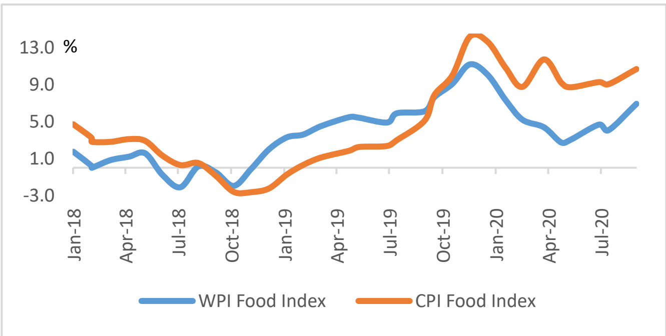


Source: CMIE, Gap due to unavailability of data

Real Sector

- The pace of contraction in Index of Industrial Production (IIP) fell to 8.4% (y-o-y) in Aug 20 compared to a contraction of 57.3% (y-o-y) in Apr 20. Pace of contraction in infrastructure and Construction goods reduced to 2.3% (y-o-y) in Aug 20 compared to a contraction of 40.7% (y-o-y) in May 20.
- 20 out of 23 industry groups in the manufacturing sector contracted during Aug 20. Basic metals production grew by 0.1% (y-o-y) compared to a contraction of 40.3% (y-o-y) in May 20.
- Output of the Eight Core industries contracted by 8.5% (y-o-y) in Aug 20 compared to a contraction of 21.4% (y-o-y) during May 20. Coal production grew by 3.6% (y-o-y) in Aug 20 compared to a contraction of 14% (y-o-y) in May 20.
- Fiscal Deficit in India increased to Rs 8.7 tn in Apr-Aug 2020 from Rs 5.5 tn during the same period a year ago, reaching 109% of the budgeted target.
- GST collection during Sep 20 was Rs 0.95 tn compared to a collection of Rs 0.86 tn in Aug 20 and Rs 0.92 tn in Sep 19.

Food inflation continues to inch upwards since June 2020

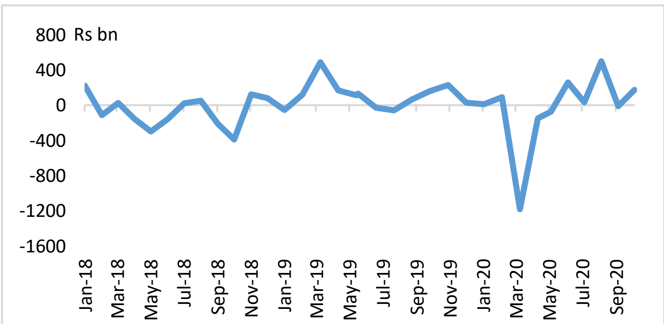


Source: MOSPI

Price Scenario

- Wholesale price inflation (WPI) rose to 6-months high, printing 1.3% (y-o-y) in Sep 20.
- Inflation in food articles increased to 8.2% (y-o-y) in Sep 20 compared to 1.7% (y-o-y) in May 20. Inflation in fruits & vegetables rose to 19.9% (y-o-y) in Sep 20 compared to a contraction of 6.7% (y-o-y) in May 20.
- Wholesale inflation in manufactured products rose to 1.6% (y-o-y) in Sep 20, highest since May 19. Core WPI inflation increased to 1% (y-o-y) in Sep 20, highest since Jun 19.
- Retail inflation increased by 7.3% (y-o-y) in Sep 20 compared to 5.8% (y-o-y) in Mar 20 and 6.7% (y-o-y) in Aug 20. Inflation Food and beverages increased to 9.7% (y-o-y) in Sep 20 compared to 4.7% (y-o-y) in Sep 19. Vegetable inflation increased to a 5-month high of 20.7% (y-o-y) in Sep 20.
- Inflation in clothes and footwear rose to 3.9% (y-o-y) in Sep 20 compared to 0.9% (y-o-y) in Sep 19. Housing inflation softened to 2.8% (y-o-y) in Sep 20, lowest in the new series of 2011-12.

Foreign investment inflows remain volatile

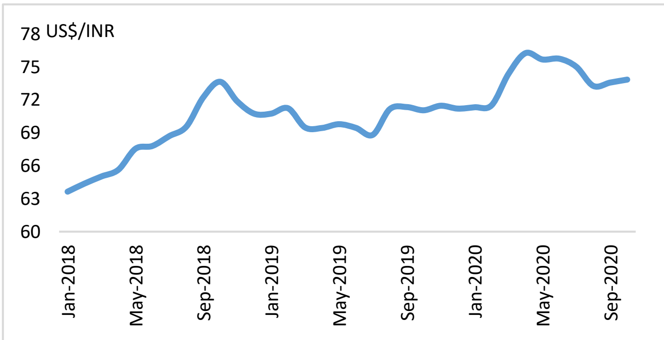


Source: RBI

Money & Finance

- Bank credit to industries grew by 0.5% (y-o-y) in Aug 20, lowest in 2 years. Bank credit to food processing industry increased by 6.9% (y-o-y) in Aug 20, highest since Feb 18.
- Growth in bank credit to medium enterprises grew by 2.8% (y-o-y) in Aug 20 after contracting for 5 straight months. Bank credit to priority sectors increased to 4.4% (y-o-y) in Aug 20 compared to 2.3% (y-o-y) in Jun 20.
- Average 10-yr G-Sec yield stood at 6.01% in Sep 20 compared to 6.7% in Apr 20. 15-91 days treasury yield stood at 3.3% in Sep 20 compared to 4.1% in Apr 20.
- The weighted average lending rate for fresh rupee loans eased to 8.4% in Aug 20 for scheduled commercial banks compared to a high of 9.7% during Aug 19.
- Cash to deposit ratio increased to 4 during Sep 20 compared to 3.71 during Aug 20.
- Net outflow of mutual funds in debt-oriented schemes during Sep 20 stood at Rs 519.6 bn compared to an inflow of Rs 434.5 bn in Apr 20.

By October rupee appreciated by 96 paise compared to April



Source: RBI

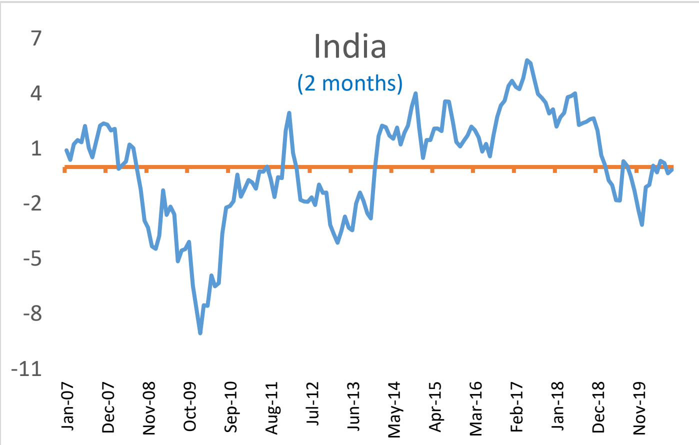
External Sector

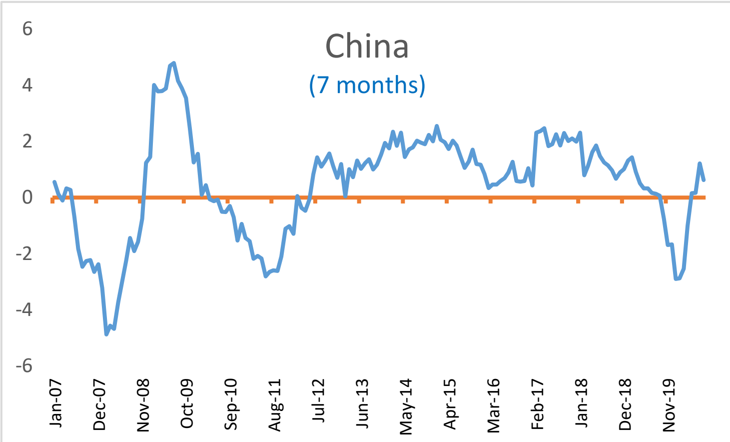
- Merchandise trade deficit stood at US$ 2.72 bn in Sep 20, compared to a deficit of US$ 11.54 bn in Sep 19. Merchandise exports increased by 5.7% (y-o-y) to US$ 27.6 bn in Sep 20 after contracting for five months and imports contracted by 19.5 % (y-o-y) to US$ 30.3 bn.
- Oil exports contracted by 35.4% (y-o-y) to US$ 5.8 bn in Sep 20 from US$ 9 bn in Sep 19.
- Foreign Exchange Reserves stood at US$ 551.5 bn on 9th Oct 20, highest ever.
- Net Foreign Direct Investment stood at US$ 3.16 bn in Jul 20, highest in five months, compared to an outflow of US$ 0.75 bn during Jun 20.
- External Commercial Borrowings (ECB) continued to decline for 6-straight months and stood at US$ 1.75 bn.
- Average global Brent crude oil prices decreased to US$ 40.9 per barrel in Sep 20 from US$ 44.7 per barrel in Aug 20.

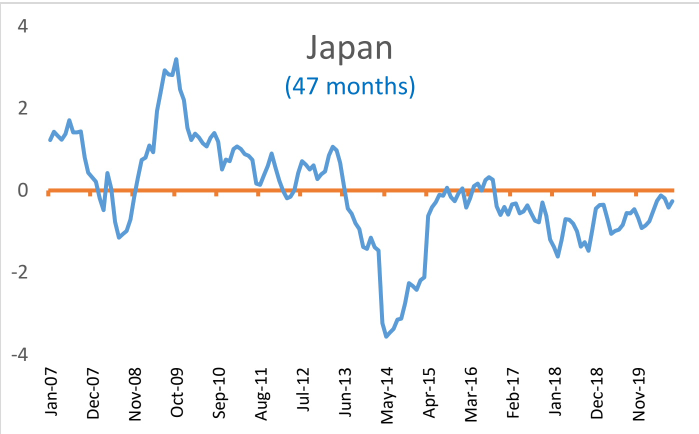
Dun & Bradstreet's Macro Economic Forecasts			
Variables	**Forecast**	**Latest Period**	**D&B's Comments**
I.I.P Growth	(-) 5% - (-) 4% Sep-20	(-) 8% Aug-20	With 'Unlock 4.0' from September and Unlock 5.0 from October, the pace of contraction in the Index of Industrial Production (IIP) is expected to reduce further. The index is expected to post negative growth during September and rebound to the positive territory from the month of October. The pent-up and festival related demand would provide a traction to the industrial activity.
Inflation W.P. I **Inflation C.P.I (Combined)**	1.8% - 2% Oct-20 6.8% - 7.0% Oct-20	1.32% Sep-20 7.34% Sep-20	Inflationary pressures would continue as supply disruption prevails. The uptick in inflation of food in the month of September would continue to prevail in the month of October as well led by festival related demand and disruption caused by heavy rains in some parts of India. Inflation for the services sector such as transport & communication, household goods & services and personal care and effects continues to remain high and are a cause of concern.
15-91 days T-Bills **10-year G-Sec Yield** **Bank Credit**	3.3% - 3.4% Oct-20 6.04% - 6.08% Oct-20 4.8% - 5.0% Oct-20	3.28% Sep-20 6.03% Sep-20 5.1% Sep-20	The Reserve Bank of India's (RBI) liquidity measures to keep orderly market conditions and low yields which will support the financial markets that rely on the G-Sec yield curve as a benchmark for pricing financial instruments have eased the concerns of the bond market. The RBI has also addressed the wider concern regarding the high government borrowing which will put at bay the apprehensions amongst the international rating agencies in their evaluation of India's growth prospects.
Exchange Rate INR v/s US$	73.6 Oct-20	73.51 Sep-20	The rupee is expected to hold its position and remain strong backed by persistent dollar inflows, both FII and FDI, weak dollar, better than expected macroeconomic data and a healthy current account surplus.
All figures are monthly average			

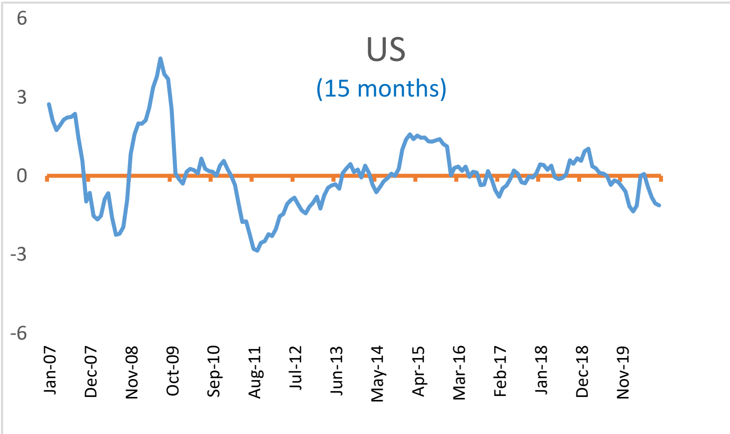
Global Real Interest Rate Scenario

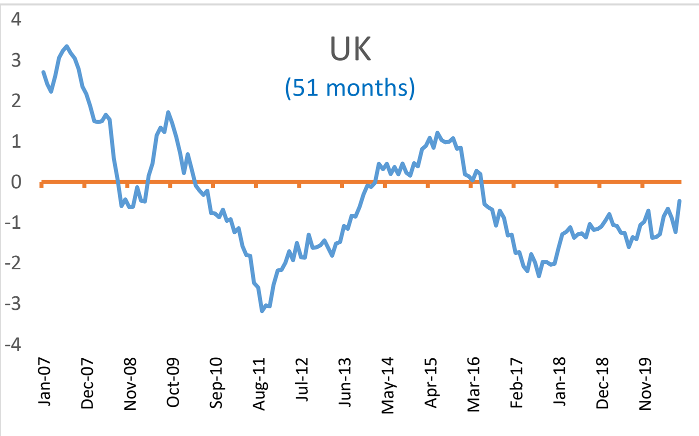
Globally, several countries are witnessing a negative real interest rate scenario with Central Banks bringing down interest rates and implementing a regime of negative nominal interest rates to support demand, especially after the outbreak of the pandemic. Countries like Japan (2016), Germany (2015), UK (May 2020), France (2016) have kept nominal interest rates negative. With some countries such as US, Italy, Brazil and India witnessing moderate to high inflationary pressures, real interest rates have further declined. India in particular, needs mention as the country is witnessing increase in inflationary pressures largely owing to supply side constraints. However, inflationary pressures have been benign in some countries owing to the severe economic downturn

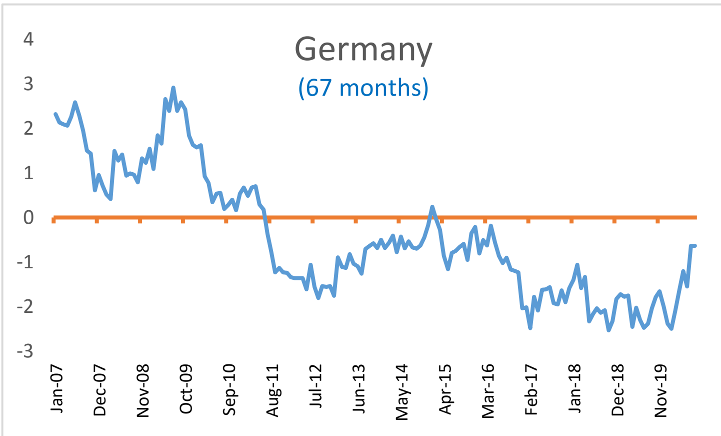












Source: FRED, D&B Analysis, Inflation data is Indexed at 2015=100.

The figure in brackets in the graphs denotes the latest consecutive months of negative interest rate

Please send your feedback to Dr Arun Singh, Global Chief Economist.
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