

D&B ECONOMY OBSERVE

Issue 148
August 2020

View from
the top

Contents

View from the top

Page 1

Macro Scan

Real Sector
Price Scenario
Money & Finance
External Sector
Page 2

Economy Outlook

Page 4

Special Article

Page 5

Research Team

Dr. Arun Singh
Dipshikha Biswas
Raj Kiran
Purvi Mundhra

The extent of COVID-19 led disruption has been much worse than earlier anticipated. Business optimism remains subdued. Dun & Bradstreet's Composite Business Optimism Index (BOI) which had registered a record low in Apr-June 2020 fell further for the period Jul-Sept 2020. Consumer optimism remains muted and spending intent remains low. Consumer confidence on the current situation (CSI) recorded its all-time low in July 2020. Further, India is yet to witness the peak level of COVID-19 infection rate. According to RBI's survey on consumer confidence, people believe that the economic situation was much worse in July than in May. While consumer's perception on income, employment and spending has fallen considerably in July from May, most respondents do not expect their overall spending, including non-essential spending, to increase next year even as they expect income and employment to improve. The expected contraction in growth during FY21 will also create fewer employment and earnings opportunities. Even in the formal employment segment, about 70% of the workers in the non-agriculture sector do not have written job-contracts and around 52% are not eligible for any form of social security benefits. These workers are also at risk of loss of wages or employment opportunities. The efforts taken by the government to generate employment through emphasis on 'localisation of products' and infrastructure building besides other initiatives will yield results only over the next year. However, the greater concern is about the erosion in gains in reducing poverty that India has achieved over the years. A telephonic survey conducted by World Bank across ten states in India corroborates the fact. The survey revealed that during the first month of lockdown in April, poor households expected to lose around 60% of their average monthly income. Withdrawal from the long-term savings fund or retirement fund known as the Employee Provident Fund (EPF) in India is also a cause of concern as it takes years to build up any long-term saving savings corpus. Out of the total withdrawals from the fund as of 26th May, more than 50% have been due to COVID-19.

Demand is expected to materialise once the economic activity gathers momentum. The government has tried to restart economic activity in three major phases with the last phase i.e. 'Unlock 3' starting from 1st August. To gauge the extent of revival in economic activity there are at least three data points which can indicate the level of economic activity even for the informal sector and at a granular district level. One is the electricity required by the states. Data shows electricity requirement at an all India level was nearly 20% below the average levels for the past 3 years during April during nationwide lockdown and has improved slightly to over only 2% above normal in July when 'Unlock 2' was in progress. Although this data varied considerably across states. The World Bank has reported an interesting data point in their study i.e. night-time light intensity which highly correlates with informal and district level economic activity. As per their observation, in April, night-time light intensity had declined in more than two thirds of the districts across India and the average decline was around 12%. It also stated that local infection rate largely determined the degree of night-time light intensity. Compared to districts with no known COVID-19 cases, the decline was 3.7 percentage points larger in districts with 1 to 10 cases per million, 7.3 percentage points larger for districts with 11 to 50 cases and 12.6 percentage points larger for districts with more than 50 cases. This indicates that fear of infection and the absence of vaccines might continue to dissuade mobility, either voluntarily or through locally imposed restrictions. Thirdly, the google mobility data suggests around 70% of the people have started going back to their workplaces (during Aug 1-21). Thus, the pace of economic revival will depend on how quickly the health concerns abate, economic activity restarts and importantly the psychological impact of the COVID-19 ebbs away.

Want to conduct
supplier benchmarking across
different markets?

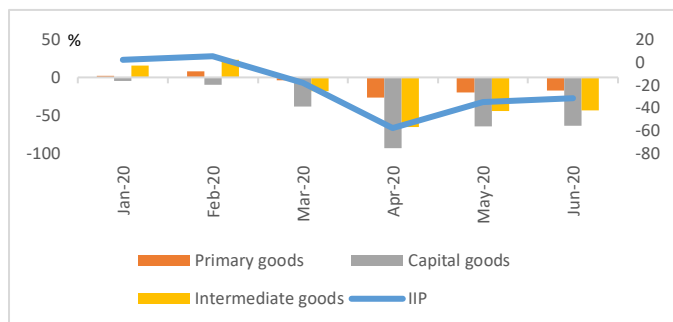


Global Financials

standardises the base reporting data
and helps conduct true
and fair comparisons across
international datasets.

[Click here to know more](#)

The pace of contraction in IIP is moderating

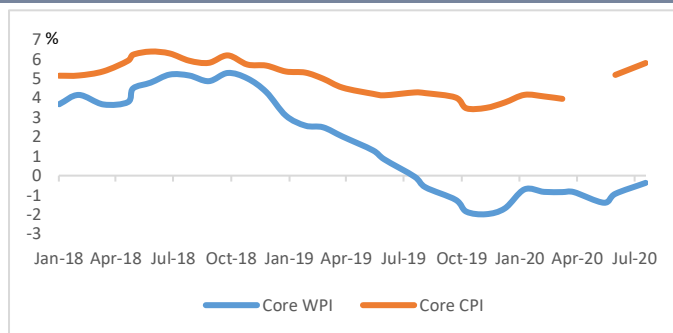


Source: MOSPI

Real Sector

- The pace of contraction in Index of Industrial Production (IIP) moderated to 16.6% (y-o-y) in Jun 20 after falling to the lowest levels of 57.6% (y-o-y) in May 20 led by the manufacturing sector which stood at (-)17.1% (y-o-y) in Jun 20 compared to (-)38.4% (y-o-y) in May 20.
- 21 out of 23 industry groups in the manufacturing sector contracted during Jun 20. Pharmaceuticals industry grew by 34.6% (y-o-y) in Jun 20 compared to 6% (y-o-y) in Jun 19 and Tobacco manufacturing grew by 4.5% (y-o-y) in Jun 20 compared to a contraction of 99.6% (y-o-y) in Apr 20.
- Output of the Eight Core industries contracted by 15% (y-o-y) in Jun 20 compared to a contraction of 37% (y-o-y) during Apr 20. Output declined across all the industries except Fertilizers industry which grew by 4.2% (y-o-y) in Jun 20 compared to a contraction of 4.5% (y-o-y) during Apr 20.
- GST Revenue Collection during the month of July 20 stood at Rs 874 bn after falling to Rs 323 bn in Apr 20.

Rise in core inflation indicating a pause in the rate cut cycle



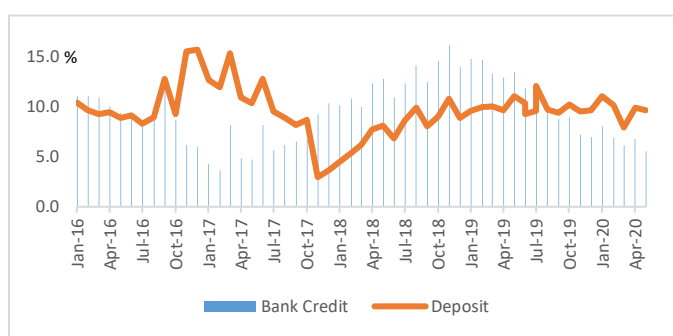
Source: MOSPI

Note: Blank in Core CPI is due to non-availability of data

Price Scenario

- The pace of contraction of WPI inflation slowed to 0.6% (y-o-y) in Jul 20 compared to 3.4% (y-o-y) in May 20. Wholesale food index increased to 4.3% (y-o-y) in Jul 20 after moderating to 2.3% (y-o-y) during May 20.
- Wholesale Food Articles inflation increased by 4.1% (y-o-y) in Jul 20 compared to 1.7% (y-o-y) in May 20 with inflation in fruits and vegetables increased to 3.6% (y-o-y) in Jul 20 compared to a contraction of 6.7% (y-o-y) in May 20.
- Wholesale price inflation of minerals contracted by 7.7% (y-o-y) in Jul compared to a growth of 21% (y-o-y) in Jul 19.
- Retail inflation increased to 6.9% (y-o-y) in Jul 20 compared to 3.2% (y-o-y) in Jun 19. Core CPI increased to 5.8% (y-o-y) in Jul 20, highest since Dec 19.
- Inflation in food and beverages eased to 2.3% (y-o-y), lowest since Sep 19. Vegetable inflation contracted by 5.9% (y-o-y) in Jul 20 after rising by 23.6% (y-o-y) in Apr 20.
- Inflation in fuel and light increased by 2.8% (y-o-y) in Jul 20 compared to a contraction of 0.3% (y-o-y) in Jul 19.

Bank Credit to Deposit Ratio is falling since September 2019

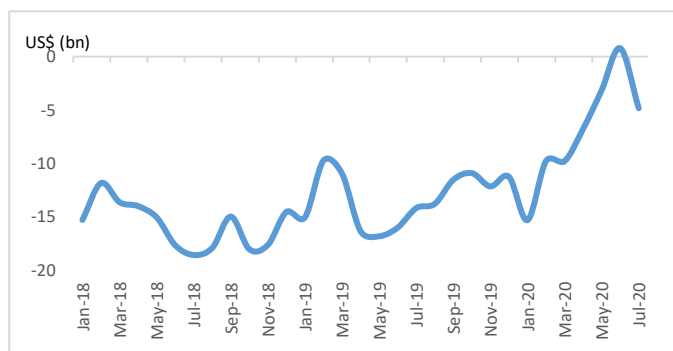


Source: RBI

Money & Finance

- Bank credit to industries grew by 2.3% (y-o-y) in Jun 20 compared to a growth of 1.7% (y-o-y) during Apr 20. Growth in bank credit to micro, small and medium enterprises contracted further by 4.8% (y-o-y) in Jun 20 compared to a contraction of 3.2% (y-o-y) in Apr 20. Bank credit to large industries grew by 3.7% (y-o-y) in Jun 20 compared to 2.7% (y-o-y) in Apr 20.
- Personal loans grew by 10.5% (y-o-y) in Jun 20 compared to 16.6% (y-o-y) in Jun 19. Loans for consumer durables grew by 53.3% (y-o-y) in Jun 20 compared to a contraction of 71.5% (y-o-y) in Jun 19.
- Net inflow in FII stood at Rs 22 bn in Jul 20 compared to an outflow of 30 bn during the same month last year.
- Growth in broad money during Jul 20 was 13.2% (y-o-y), highest since Oct 16.
- Weighted average call money rate (WALR) of scheduled commercial banks stood at 9.74% during Jun 20 compared to 9.88% in May 20, showing a reduction of 14 bps on outstanding loans.

Reversal in trade balance trajectory to negative territory



Source: CMIE

External Sector

- Merchandise trade deficit stood at US\$ 4.83 bn in Jul 20, after recording a surplus in Jun 20. Merchandise exports declined by 9.9% (y-o-y) to US\$ 23.6 bn in Jul 20 and imports contracted by 29.6% (y-o-y) to US\$ 28.5 bn.
- Oil imports contracted by 33% (y-o-y) to US\$ 6.5 bn in Jul 20 from US\$ 9.7 bn in Jul 19.
- Foreign Exchange Reserves continued to increase and stood at US\$ 538.2 bn as on Aug 7, 20, highest ever.
- External Commercial Borrowings (ECB) declined by 81.1% (y-o-y) in Jun 20 and stood at US\$ 1.02 bn.
- Average global Brent crude oil prices US\$ 44.5 per barrel in Aug 20 from the lowest two decadal levels of US\$ 18.4 per barrel in Apr 20.
- Exports of agricultural commodities increased to Rs 255.5 bn during Mar-Jun 20 from Rs 207.3 bn during the corresponding period last year indicating an increase of 23.2% (y-o-y).

D&B Hoovers



D&B Hoovers leverages the best company intelligence and innovative analytical features to help you identify the most relevant sales opportunities and get you in through the door faster.



Target
Strategically



Enable
Informed Conversations



Enhance
Sales Productivity

Let us help you focus on the information that is important to you so that you can identify the best opportunities, engage more effectively, and close business faster.

Get a free trial today

Contact us here for further information : 022 4941 6666 | India@DNB.com

Dun & Bradstreet's Macro Economic Forecasts

Variables	Forecast	Latest Period	D&B's Comments
I.I.P Growth	(-) 10.5% - (-) 11.5% Jul-20	(-) 16.6% Jun-20	The pace of contraction in the Index of Industrial Production (IIP) is expected to have further reduced in the month of July as more activities were being allowed under 'Unlock 2'. Pick-up in the e-commerce activity indicates that manufacturers have increased their production activity, although the manufacturing index under IIP is expected to post a negative growth over the next two months at least i.e. till September. The festival related demand might pose some buoyancy to the industrial activity from Oct 2020, although, the magnitude will remain lower compared to last year
Inflation W.P.I	(-) 0.45% - (-) 0.5% Aug-20	(-) 0.58% Jul-20	Inflationary pressures are likely to prevail in the economy. Even as retail food price pressures have abated, supply side food inflation indicated by WPI have inched up. The increase in the fuel and services inflation is likely to keep inflation elevated. With CPI inflation inching close to 7.0%, the RBI is not likely to cut the policy rate in the October monetary policy meet
Inflation C.P.I (Combined)	6.9% - 7.1% Aug-20	6.93% Jul-20	
15-91 days T-Bills	3.2% - 3.4% Aug-20	3.33% Jul-20	High inflation and expectation of postponement of any rate cut and FII redemption pressures in the debt market are expected to keep yields elevated in the bond market
10-year G-Sec Yield	5.8% - 5.85% Aug-20	5.81% Jul-20	
Bank Credit	6.4% - 6.6% Aug-20	6.3% Jul-20	
Exchange Rate INR v/s US\$	75.0 - 75.1 Aug-20	74.99 Jul-20	Concerns over rising COVID-19 cases and rise in trade deficit will continue to place downward pressure on rupee. Higher government borrowings and high inflation are expected to keep investors wary of investing in the debt market causing rupee to depreciate in Aug, although slightly compared to Jul

All figures are monthly average

Want to reduce friction in your quote to cash process?

D&B Direct for Finance

lets you automate decisions to manage risk, receivables, and collection priorities

[Click here for more details](#)

Economic activity under localized lockdown

Almost all economic activities have been allowed under 'Unlock 3' which began since 1st August. This would mean economic activities should have resumed at pre-pandemic levels. However, this is not the case primarily owing to three major reasons 1) The numerous containment zones which are decided by local bodies based on COVID-19 cases and these zones keep on varying depending on recovery rates. 2) The conditional relaxations in restrictions and localized lockdowns adopted by states for example West Bengal and Uttar Pradesh have decided to impose 2 days a week strict lockdown measures at least till September. 3) Thirdly, the fear of the pandemic and the absence of vaccines continue to play a major role in deciding the extent of movement by people to different places for different purposes such as workplace, retail, recreation activities or visit to the grocery stores etc. The inability to gauge the level of economic activities pose a constraint to growth estimates which are largely based on anecdotal evidences, proxy variables and varied assumptions. It is also understood that the national level data for various indicators of production and price would be revised given abridged data reporting and suspension of personal visits for data collection which fails to meet the adequacy criteria for generating robust estimates.

Out of various high frequency datasets which can be used as proxy or leading indicators of economic activity, there are two real time high frequency variables which highly correlate with the overall economic activity which are google mobility data and energy requirement. The availability of the data state-wise makes it highly relevant to gauge

the state-level activity as it is known how the pandemic has disproportionately affected the output even across districts in India. The map below shows the uneven spread of the COVID-19 cases across districts. More than 50% of the districts have reported total number of confirmed COVID-19 cases in the range of 1,000 to 15,000 which indicates that these areas are being subject to various levels of restrictions. The google mobility data corroborates the fact that the areas/states which have the highest number of confirmed cases have less mobility i.e. people moving to workplaces and retail and recreation centers. While this data cannot be compared across states as this would depend upon the population in a state or the level of development, this data combined with the electricity usage can be a useful reference. Considering the deviation in electricity required by the states from their average level of requirement for past 3 years shows that there has been a considerable fall in energy demand during the month of April when there was a complete nation-wide lockdown, and has only slightly improved during July when 'Unlock 2' was in progress. At an all India level the deviation in energy requirement has been a deficit of 20% in April which has improved to a positive territory of 2% in July. However, the energy requirement for the top 7 states, which has reported the highest number of confirmed cases, remain far below their 3-year average level. Since electricity consumption has a very high correlation with the level of economic activity, this shows the extent of resumption in economic activity or level of inactivity across the states which have high caseloads.

Energy requirement and mobility data across top states with highest COVID-19 count

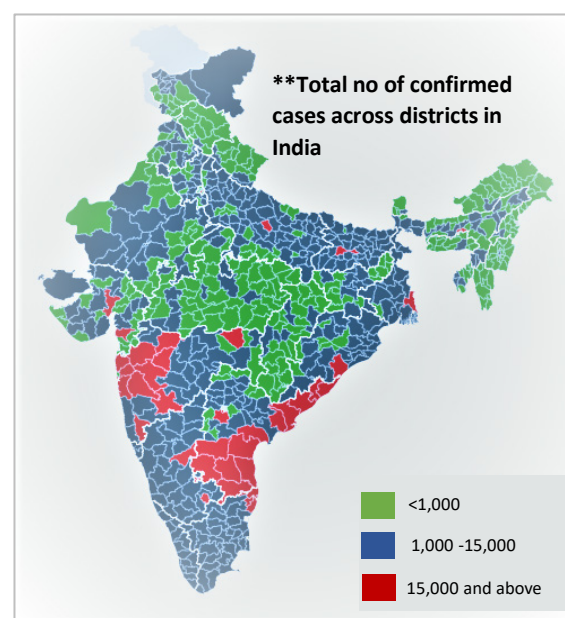
State	Confirmed cases as of 26th Aug in '000'	State-wise population in millions (projected 2020)	% of people movement to places (Avg of 1 st to 21 st Aug)		Deviation in energy requirement from the last 3 yrs	
			Retail & Recreation	Workplace	Apr-20	Jul-20
India	3311	1371	48	70	-20%	2%
Mah	719	123	39	57	-20%	-3%
TN	397	78	47	68	-26%	-15%
AP	382	54	45	74	-12%	-6%
Kar	300	68	50	64	-5%	-11%
UP	203	238	55	74	-16%	12%
Delhi	166	19	52	58	-37%	-9%
WB	148	100	43	71	-21%	-6%
Bihar	127	125	61	89	-2%	23%
Tel	114	39	53	81	-9%	10%
Assam	97	36	43	78	-11%	3%
Guj	90	64	48	71	-26%	5%
Odisha	88	46	42	77	-17%	-1%
Raj	75	81	58	79	-15%	25%
Ker	64	36	42	77	-12%	-3%
Har	58	28	59	70	-33%	-2%

Note: * Goggle mobility data ** As on 26th August 2020

We have excluded some districts in our representation of COVID-19 confirmed cases in the map. This map is for illustrative purposes and does not imply the expression of any opinion on the part of D&B, concerning the legal status of any country or territory or concerning the delimitation of frontiers or boundaries

Source: Covid-19india.org, CEA, Google Mobility and D&B analysis

Confirmed cases of COVID-19 across districts in India



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

Dun & Bradstreet Information Services India Pvt. Ltd., ICC Chambers, Saki Vihar Road, Powai, Mumbai 400 072. CIN - U74140MH1997PTC107813

Tel: 91-22-4941 6666 | Email: SinghArun@DNB.com | www.dnb.co.in