dun & bradstreet
GROWING RELATIONSHIPS THROUGH DATA

D&B ECONOMY OBSERVER

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Contents

Research Team
Dr. Arun Singh
Dipshikha Biswas
Raj Kiran
Sharika Dhar

View from the top

The weakening growth momentum globally as well as in India has been witnessed since last year, however, the optimism levels now are at a multi-year low. Given the prevailing issues, the impetus to growth needs to be strong enough to pull up the optimism level of businesses to kick-start the growth momentum. Global business outlook survey for June 2019 conducted by a private organization showed that worldwide business optimism relating to future output and profits dropped to its lowest since 2009. For India, the Dun & Bradstreet Business Optimism Index fell to a 2 and a half year low in June 2019. Out of the six indices, optimism over new orders fell to a 10-year low while optimism for selling price and net sales dropped to a 17-year low and at a 2-year low, respectively, over weak underlying consumption demand. Going ahead, recovery in corporate earnings is also likely to remain constrained during the year adding to the concerns of a further slowdown in investment and overall growth.

However, the newly elected government aims to make India a US$ 5 trillion economy i.e. the third largest economy by 2025 and has outlaid a blueprint for the growth process. India is expected to grow by 7% in FY20 and by 8% in the consecutive years till FY25. This would entail battling the current domestic consumption slowdown and bracing the impact from weak global growth. The need now is to ensure a revival in domestic demand and the investment will follow. While the monetary stimulus in terms of 75-basis point policy rate cut and liquidity infusion has already been taken much depends on what the government does. The government's finances are constrained. However, it's initiative to borrow externally and easing rules for FDI should help in mobilization of capital needed to fund its spending for infrastructure which will be approximately US$ 290 billion per year for the next five years. India recorded highest FDI inflows of US$ 64.8 billion in FY19. Clearly, more is needed. The focus should also be on increasing efficiency of capital utilization and market-oriented reforms. Thrust in infrastructure and employment generating sectors and following through the measures outlined to increase farmer's income and agriculture exports will be a priority for the government to revive the economy.

Next, India's banking and non-banking sector needs to be strengthened. The ongoing NPA resolution, addressing frauds in the banking sector and adjustment in the non-banking financial sector as the monitoring and regulation is being tightened over them will continue to cause some disruption in the near term. In its latest Financial Stability Report, the RBI has stated that any failure among the largest of the NBFC or Housing Finance Companies could cause losses comparable to that of a major bank collapse. Moreover, in the 11 years to FY19, Scheduled Commercial Banks have reported frauds amounting to Rs 1.86 trillion, which is more than 49% of the credit given to micro and small industries and 6% of overall credit to the industry during FY19. Although bank credit growth is picking up growth, it is not broad based. Micro and small segment remains at a disadvantage while bank credit growth to industries such as basic metal and metal products, textiles, leather, beverage & tobacco, paper & paper products, petroleum, coal products & nuclear fuels and gems & jewellery remained negative in March 2019. The RBI's push to the SCBs for transmission of its policy rate cut is expected to further facilitate flow of funds.

D&B ECONOMY OBSERVER Macro Scan

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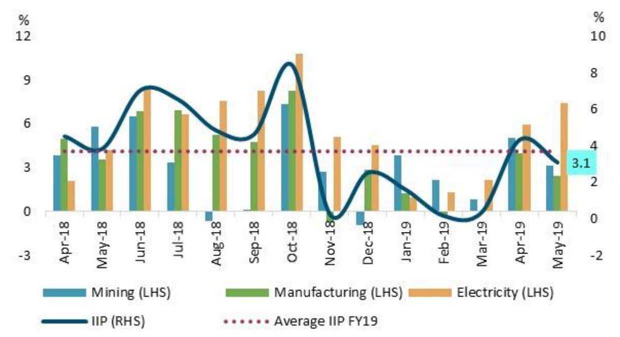
Manf & Mining sectors pull down IIP growth rate below avg of FY19

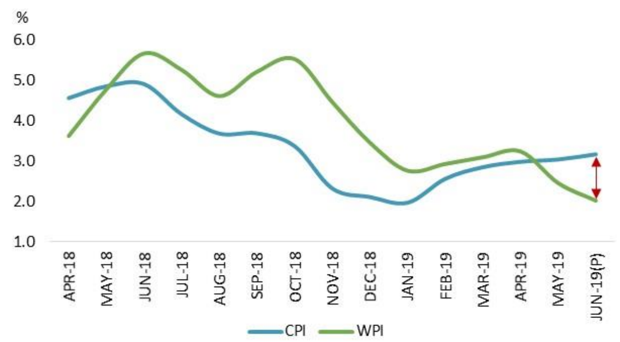


Source: MOSPI

Real Sector

- Growth in IIP moderated to 3.1% (y-o-y) in May 19 owing to slowdown in mining and manufacturing.
- Manufacturing output rose by 2.5% in May 19 against 3.6% in May 18 while mining rose by 3.2% against 5.8% during the same period. Electricity generation rose by 7.4%, highest in 7 months.
- Output of capital goods (0.8%), intermediate goods (0.6%) rose at a meagre pace & consumer durables contracted by 0.1%. Consumer non-durables grew by 7.7%, highest in 7 months.
- 11 of 23 industry subgroups grew over last year. 'Wood and products of wood and cork, except furniture; articles of straw & plaiting materials' (24.8%) recorded the highest growth; 'Paper and paper products' recorded the highest contraction.
- Core sector output rose by 5.1% in May 19. Output of steel (19.9%), highest since Jun 12, electricity (7.2%), highest since Nov 18 & Petroleum Refinery Products fell by 1.5% after growing for 2 months.
- Automobile sales in all segments declined (y-o-y) in Q1 FY20; sales for passenger vehicles, commercial vehicles and two wheelers declined by 18.4 %, 9.5% and 11.7% respectively.

WPI inflation charting a different path from CPI

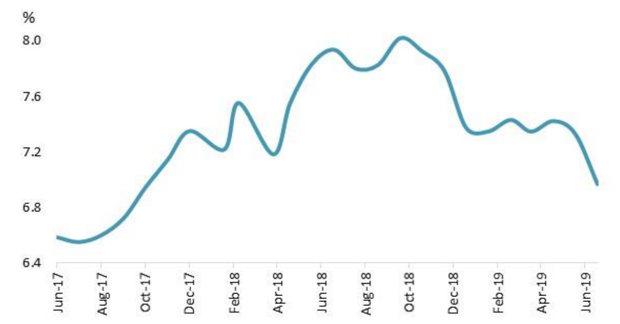


Source: MOSPI, Ministry of Commerce & Industry

Price Scenario

- CPI inflation in Jun 19 was 3.2%, highest in 8 months driven by higher inflation in food & beverages (2.4%), a 12-month high.
- Inflation in pulses surged to 5.7%, highest since Oct 16. Meat & fish inflation was highest since Jun 14 due to soaring rural component (10.4%) highest since Jan14.
- WPI inflation was 2.0%, lowest in 23 months on account of contraction in fuel inflation and slow pace of increase in vegetable & manufactured products inflation.
- Inflation in primary articles was 6.7%, a 59-month high, inflation in food articles was elevated led by surging inflation in pulses (23%), a 34-month high.
- Inflation in minerals rose to 28.3%, highest in the FY12 series. Prices in fuel & power group contracted by 2.2%, after 31 months, mirroring contraction in mineral oil prices (3.1%).
- Core WPI inflation at 0.8% was the lowest since Dec 16 while core CPI at 3.7% was lowest since Aug 17.

10-year G-sec yield is the lowest since Nov 17

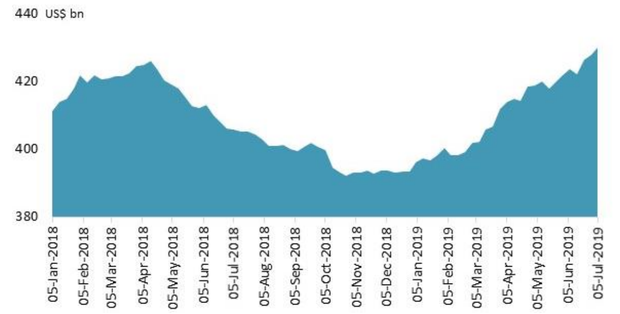


Source: RBI

Money & Finance

- Bank credit grew by 12.0%as on week ended June 21, 2019 compared to 12.8% in June 22, 2018. Aggregate deposits grew by 10.0% in May 19 compared to 7.6% in May 18.
- Bank credit to industries grew by 6.4% in May 19 compared to 1.4% in May 18. Bank credit to iron & steel industry continued to contract for the 13th consecutive month and stood at -13.9% in May 19.
- Bank credit to priority sector grew by 9.9% in May 19, highest since Oct 16.
- Yield of T-Bills of 15-91 days maturity stood at 5.96% in Jun 19, lowest since Apr 17.
- Net investments in mutual funds stood at Rs 498.0 bn in Jun 19. The equities segment witnessed net inflows of Rs 62.3 bn, highest in five months.
- The RBI in its liquidity operations absorbed Rs 12.3 tn in Jun 19, highest since May 17.

Steady accretion of Forex Reserves since Dec 2018



Source: RBI

External Sector

- Merchandise exports declined by 9.7% (y-o-y) to US$ 25.0 bn in Jun 19, lowest in 20 months in dollar terms. Merchandise imports declined by 9.1% (y-o-y) to US$ 40.3 bn in Jun 19. Merchandise trade deficit stood at US$ 15.3 bn.
- Oil imports declined by 13.3% to US$ 11.0 bn in Jun 19, compared to an average increase of 2.3% since Jan 19.
- Current Account Deficit increased to 2.1% of GDP in FY19 from 1.8% in FY18. Overall trade deficit increased to US$ 180.3 bn from US$ 160.0 bn during the same period.
- Global Brent price (US$/bbl) decreased to 59.76 in Jun 19, lowest in 5 months.
- Net FII inflows stood at US$ 5.9 bn in Q1 FY20, highest since Q2 FY18 (barring Q4 FY19).
- The average exchange rate of the rupee stood at 68.71 per US$ in Jul 19 (up to 16th Jul), highest since Aug 18.

Dun & Bradstreet's Macro Economic Forecasts			
Variables	Forecast	Latest Period	D&B's Comments
I.I.P Growth	3.0% - 3.5% Jun-19	3.09% May-19	As the slowdown in consumption demand is expected to prevail, the Index of Industrial Production (IIP) is likely to remain subdued. How the monsoon and the government initiatives will help in reviving the demand and the investment activity will determine the industrial activity in the near to medium term
Real GVA Growth	Q1 FY20(F) 6.7%	Q4 FY19(P) 5.7%	
Inflation W.P.I	1.8% - 2.0% Jul-19	2.02% Jun-19	Food prices have started to put an upward pressure on inflation, however, the impact of monsoon on food prices is yet to be realized and could be visible by the end of next month. Nonetheless, the moderation in demand is likely to keep the overall inflation subdued. Global crude oil prices are lower but can inch upwards given the geopolitical issues and flare inflationary pressures
Inflation C.P.I (Combined)	2.8% - 3.0% Jul-19	3.18% Jun-19	
15-91 days T-Bills	5.8% - 6.0% Jul-19	5.96% Jun-19	Lower crude oil prices, low yields of bonds globally, lesser supply of bonds as the government has decided to borrow overseas to fund its expenses and liquidity infusion by the RBI is expected to keep the yields across the curve lower than the previous month
10-year G-Sec Yield	6.7% - 6.9% Jul-19	6.97% Jun-19	
Bank Credit*	12.0% - 12.5% Jul-19	12.00% Jun-19	
Exchange Rate INR v/s US$	68.7 - 69.0 Jul-19	69.44 Jun-19	Increasing possibility of a rate cut by US Fed and weakening of dollar coupled with strong domestic equities market are likely to keep rupee strong even as it faces depreciation pressures from slowing growth and high trade deficit
All figures are monthly average			
* Refers to End Period; Bank credit data for June is as on June 21, 2019			

India's derailing consumption demand

Introduction

The World Economic Outlook projected a sluggish global growth for 2019 at 3.2% in its July 2019 report. This was against the backdrop of four major concerns: escalating trade tensions, decline in business confidence, disinflationary pressures and policy uncertainty. While India has low political uncertainty with Modi led NDA government being elected for the second term, there are other domestic issues impacting India's growth. The last quarter of FY19 showed clear signs of slowdown in Indian economy, with GDP touching a 20-quarter low (5.8%) during Q4 FY19, with both investment and private consumption showing a decelerating growth rate. As a result, India's GDP forecast for FY20 looks bleak, with IMF revising India's growth rate downward to 7.0% in Jul 2019 from 7.5% in Jan 2019. Low business optimism is also captured in Dun & Bradstreet's Business Optimism Index (BOI) which gives a forward-looking quarterly view of GDP growth; BOI declined for the third consecutive quarter for July to September 2019 on a y-o-y basis. Optimism over new orders fell to a 10-year low while optimism for net sales dropped to a 2-year low posing concerns over consumption demand.

Why is there a slowdown in consumption?

Economists consider that changes in expectation about future economic activity affect the current demand. Further, there is an established interdependence among income, consumption and investment. Higher income growth would lead to higher consumption expenditure leading to higher business confidence and investment further impacting the income.

The Indian economic slowdown established the role of income, consumption and investment in India's growth dynamics. As a predominantly rural economy, India gets 46% of its national income comes from rural areas. Moreover, 70% of the labour force resides in these areas. India's agriculture sector creates 44% of the total employment and accounts for around 15% of the country's US$ 2.7 trillion economy. Despite sub-par rainfall for last five consecutive years, India had a bumper crop production in FY17 and FY18, however, agricultural production moderately decreased in FY19 (as per 3rd adv est); food grain stock has been significantly higher than the minimum limit during 2018 and 2019. These factors had impacted rural wages. Rural wages have been low from double digit growth of 20.2% in FY15 to an average of around 5.0% between FY17-19. Low rural wages are a significant reason behind derailing of the consumption demand.

On the investment front, demonetization, GST and liquidity crisis of NBFC sector have impacted the MSMEs. Overall, new investments for Q1 FY20 were Rs 466.9 bn, a multi-quarter lower as per CMIE database. Indicators such as circulation of money in the economy signifying the level of consumption and investment expenditure saw a steep decline in growth to 13.7% in Q1 FY20 from 30% in Q1 FY19. High unemployment rate of 6.1% further suggests low consumption capacity.

Broad-based Impact

Various indicators capturing urban and rural markets are trending towards negative. A slowdown is observed in growth in transport services and transport vehicles sales, suggesting low level of economic activity in the country. India's aviation industry, which is one of the world's fastest growing aviation market lost growth steam as the market expanded at a slow pace in 2018, declining further by 32% in Jun 19.

Sales of passenger vehicles declined for the fourth consecutive quarter in Q1 FY20. A sub-par monsoon forecast along with low rural wage growth has also hit tractor sales. Tractor sales for Q4 FY19 were a 14-quarter low. Trend of this decline was carried forward in the month of April and May as well. In addition, two-wheeler sales which mainly indicate rural demand have been declining since two quarters. Demand for petroleum (in qty terms) has been falling since Feb 2019, showing subdued retail trade.

A slowdown is also observed in consumer durables industry. Net sales of cosmetics, toiletries, soaps and detergent industry registered growth of 7.8% in the last quarter of FY19 against the average growth of 11.4% in the previous three quarters of FY19. Sales of overall consumer goods industry show a decline in Q1 FY20. Fast-Moving Consumer Goods have a comparatively inelastic demand. While the total income of major FMCG companies (HUL, ITC, Dabur, Britannia) show above 10% growth, the companies have highlighted growing concerns of sales over the consumption slowdown in their annual report.

How can there be a recovery?

Weakening consumption demand along with subdued new investment growth has wielded pressure on the fiscal front. A recovery needs to be made on investment as well as consumption front. A slowdown assumes government and RBI's role of providing fiscal and monetary stimulus. Government's blueprint of US$5 tn economy in the next five years, subsequent thrust on infrastructural spending, a cumulative rate cut of 75 bps since Feb 2019 and liquidity infusion in the banking system is likely to provide impetus to the investment activity in the economy. However, there is a need to take steps to revive consumption demand. Empirical studies show that the world economy overall is in a wage-led demand regime and if all countries pursue pro-labour distributional policies simultaneously, they will experience increases in aggregate demand. Pro-labour distributional policies are policies that result in an increase in the wage share in national income. Considering low rural wages along with unemployment issues are major issues impacting consumption demand, there is a need to drive wage-led growth. At this juncture, introducing policy level measures to increase employment and accelerating the initiative of doubling farmer's income will help boost consumption demand.

Please send your feedback to Dr Arun Singh, 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