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GROWING RELATIONSHIPS THROUGH DATA

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View from the top

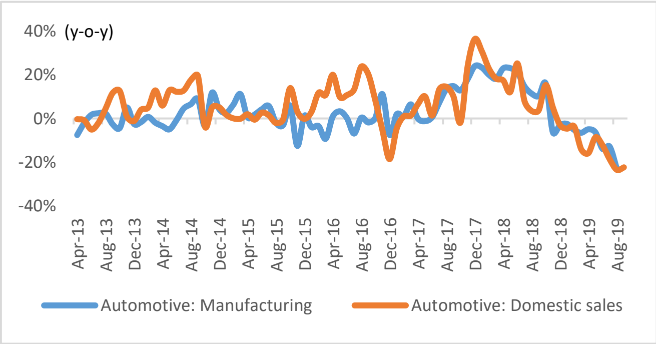
The clouds over Indian economy seem to be getting darker as the RBI also joined a bandwagon of international agencies by slashing India's growth forecasts for FY20. The RBI which had projected India's GDP growth at 6.9% for FY20 in its Aug-19 policy, revised it downwards to 6.1% in Oct-19. The sharp cut in growth projections was owing to continued weak domestic demand and loss of momentum by the global economy amidst geo-political & trade tensions. The apprehensions have further been magnified by the dip in industrial production as represented by Index of Industrial Production (IIP) by 1.1% y-o-y for Aug-19. The recent contraction in IIP is the first one after Jun-17. The fears of weak demand conditions were further reinforced by sharp contraction in capital goods (-21% y-o-y in Aug-19) and consumer durables (-9.1% y-o-y in Aug-19) segments under IIP. These are leading indicators for investment and consumption activity respectively and a contraction in them clearly signal that both the levers of the economy are battling a slowdown.

In order to provide a major push to the investment activity, the government reduced corporate tax rates last month to bring them on par with other Asian emerging market economies. However, this is more of a structural reform and would take time for the impact to percolate through the real economy. Nonetheless, this measure is expected to provide impetus to companies to revive their capex plans in the medium term. In the short-term corporates are likely to wait for the clear signs of a pick-up in demand and use tax savings to improve their balance sheets. Besides, lower level of capacity utilisation at 73.6% in Q1 FY20 as against 76.1% in Q4 FY19 will delay the fresh capex plans.

The government measures have been supplemented by the 25 basis points cut in repo rate to 5.15% in Oct-19 for the fourth time in this financial year. The RBI's efforts to strengthen the transmission channels coupled with measures like increasing the household income limit for borrowers of NBFC-MFIs and raising the lending limits for eligible borrowers will help in reviving credit flow to retail sector in the on-going festive season. However, a sustained pick-up in overall credit growth will depend on revival in credit growth to industry which has moderated to 3.9% in Aug-19. With funding constraints easing further and the recent government measures creating conducive environment for investment activity, we expect a further delay in recovery. Besides, the proposed measures like annual revision in MGNREGA wages by linking them to CPI if implemented will provide further fillip to the rural economy.

The government has already taken a series of measures to revive the economy. More is needed till tangible signs of revival are visible. To set the ball rolling, both the Centre and the state governments should gear up to execute the infrastructure projects in pipeline and the ones promised by the governments. This would provide employment opportunities for the rural and urban poor. Secondly, the government should make sure that all the farmers are able to avail the Minimum Support Price for the crops. Thirdly, it should work towards ensuring that auditing norms become more stringent and stricter laws become a deterrent for people involved in siphoning off public funds.

Steep decline in Automotive manufacturing and sales

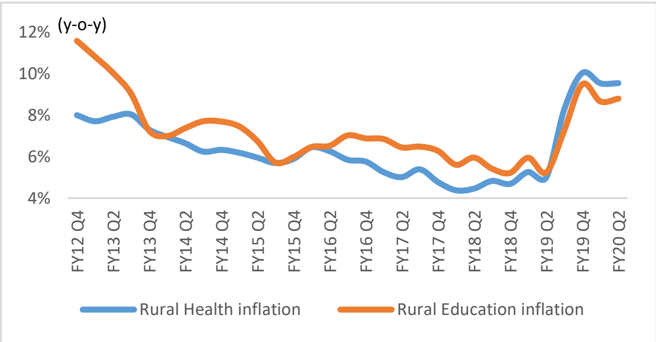


Source: MOSPI, CMIE

Real Sector

- The Index of Industrial Production (IIP) contracted by 1.1% in Aug 19, lowest since Dec 12.
- Manufacturing sector output contracted by 1.2% in Aug 19, lowest since Nov 14. Electricity generation contracted, for the 1st time since Mar 13, by 0.9% in Aug 19.
- 15 out of 23 industry groups in the manufacturing sector contracted during Aug 19. Among all the industry groups, manufacturing of motor vehicles, trailers and semi-trailers showed the steepest contraction of 23.1% in Aug 19.
- Capital goods sector contracted, for the 8th consecutive month, by 21.0% in Aug 19. Infrastructure/ construction goods sector contracted by 4.5% in Aug 19, lowest since Dec 15.
- Output of the Eight core industries contracted, for the 1st time since May 15, by 0.5% in Aug 19. Production of coal contracted by 8.6% in Aug 19, lowest since Sep 16.

Rural health and education inflation remain elevated

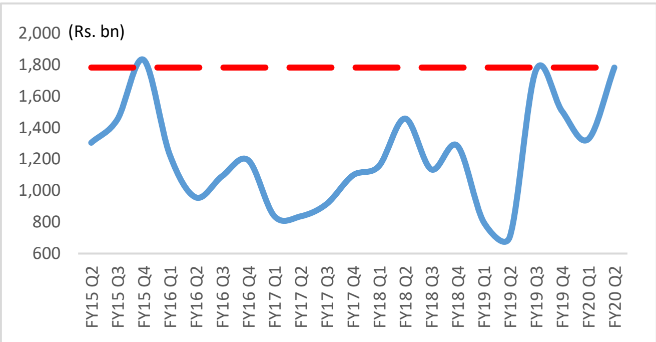


Source: MOSPI

Price Scenario

- WPI inflation moderated to 0.3% in Sep 19, lowest since Jul 16. Food inflation moderated marginally to 7.5% in Sep 19 from 7.7% in Aug 19.
- Vegetable inflation increased to 19.4% in Sep 19 from 13.1% in Aug 19 due to a spike in onion prices.
- Inflation in the fuel & power segment contracted by 7.1% in Sep 19, lowest since Sep 16. Crude petroleum inflation contracted by 21.4% in Sep 19, lowest since Dec 15.
- Manufacturing inflation contracted by 0.3% in Sep 19, lowest since Jun 16. Core WPI inflation contracted for the third consecutive month and stood at -1.2% in Sep 19, lowest since Aug 16.
- Retail inflation increased to around 4.0% in Sep 19, highest since Aug 18. Inflation in vegetables increased sharply to 15.4% from 6.9% during the same period.
- Housing inflation moderated to 4.7% in Sep 19, lowest since Jul 17. Clothing inflation moderated to 1.0% in Sep 19, lowest since Jan 12 (since data is available).

Net Investments in mutual funds highest in four-and-half years

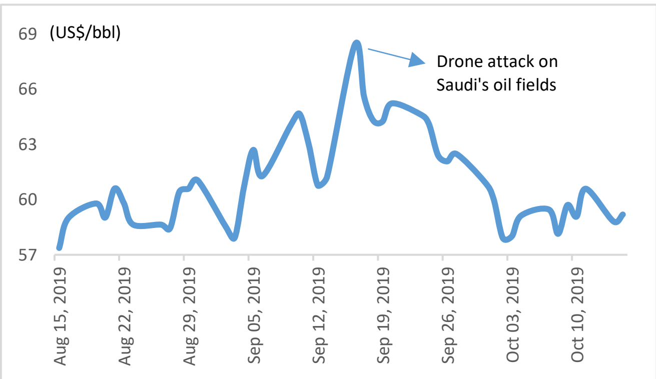


Source: CMIE

Money & Finance

- The RBI in its 4th Bi-monthly Monetary Policy Statement for FY20 decided to reduce the policy repo rate by 25 basis points to 5.15% from 5.40%, marking the 5th consecutive repo cut since Feb 19. Consequently, the reverse repo rate under the Liquidity Adjustment Facility (LAF) stands adjusted at 4.90%.
- Bank credit grew by 8.8% during Sep 19, lowest since Nov 17. Aggregate deposits grew by 9.4% in Sep 19, lowest since Jan 19.
- Bank credit to industry grew by 3.9% in Aug 19, lowest since Nov 18. Bank credit to Micro & Small companies contracted by 2.1%, lowest since Mar 17. Bank credit to Medium companies contracted for the first time since Apr 17.
- Vehicle loans grew by 3.7% in Aug 19, lowest since Jan 15. Bank credit to textile sector contracted by 5.9% in Aug 19, lowest since Feb 17.
- Weighted average call money rate moderated for the 9th consecutive month and stood at 5.34% in Sep 19, lowest since Sep 10.

Brent crude oil prices have eased



Source: EIA

External Sector

- Merchandise exports declined by 6.6% to US$ 26.0 bn in Sep 19, while imports declined by 13.8% to US$ 36.9 bn. The pace of decline in imports is the highest in over 3 years. Merchandise trade deficit declined to US$ 10.9 bn in Sep 19, a 7-month low.
- Oil imports declined by 18.3% to around US$ 9.0 bn in Sep 19 from around US$ 11.0 bn in Sep 18.
- The average exchange rate of the rupee stood at 71.33 per US$ in Sep 19, highest since Dec 18.
- The 6-month London Interbank Offered Rate (LIBOR) stood at 2.05% in Sep 19, lowest since Feb 18 while the 3-month LIBOR stood at 2.13% in Sep 19, lowest since Mar 18.
- After 2 months of net outflows, there was a net inflow of around US$ 0.9 bn in Foreign Institutional Investments during Sep 19. Equities segment witnessed a net inflow of around US$ 1.1 bn while the debt segment witnessed a net outflow of around US$ 0.1 bn.

Dun & Bradstreet's Macro Economic Forecasts			
Variables	Forecast	Latest Period	D&B's Comments
I.I.P Growth	0.5% - 1.0% Sep-19	-1.09% Aug-19	A pick-up in the industrial production will only be gradual as investment remains subdued. Rural sector demand will remains affected by the floods occurring in between July–October 2019 and lower agricultural output. However, the initiatives by the RBI for policy rate transmission, the various measures announced by the government and the festive months is expected to uplift the urban demand
Real GVA Growth	Q2 FY20 (F) 5.9%	Q1 FY20 (P) 4.9%	
Inflation W.P.I	(-) 0.1% - 0.2% Oct-19	0.33% Sep-19	Inflation in food prices as the rural sector faces floods and lower agriculture output is expected to keep CPI inflation elevated. While negative inflation in the fuel group and subdued demand impacting the ability of the firms to pass on the price hike to consumers is expected to keep the WPI inflation lower, increasing the divergence between the two indices of inflation
Inflation C.P.I (Combined)	4.0% - 4.2% Oct-19	3.99% Sep-19	
15-91 days T-Bills	5.1% 5.3% Oct-19	5.32% Sep-19	Rate cuts by the RBI and the monetary easing taking place globally is likely to exert downward pressure on yields, while expectation of high fiscal deficit will keep bond yields elevated
10-year G-Sec Yield	6.7% - 6.8% Oct-19	6.82% Sep-19	
Bank Credit*	8.5% - 8.7% Oct-19	8.79% Sep-19	
Exchange Rate INR v/s US$	71.0 - 71.1 Oct-19	71.33 Sep-19	Strength in the dollar index, foreign fund outflows and the uncertain outcome of the ongoing trade war is expected to keep rupee under pressure. Domestically, dismal corporate earnings and weak domestic growth would also weigh upon rupee
All figures are monthly average			
* Refers to End Period			

Indian Economy at a Glance

Note: Band indicates upper and lower range of the 5 year avg. For Inflation, we have considered <2 and >6 as worse, 2 to 4 as better, 4 to 6 within target

Sources: MOSPI, RBI, CMIE, Department of Commerce & Industry

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