



dun & bradstreet

ECONOMY OBSERVER



NOVEMBER 2024

INFLATION, ALONG WITH EXTERNAL HEADWINDS, POSES CHALLENGES TO INDIA'S GROWTH PROSPECTS – DUN & BRADSTREET



“India’s economic outlook for November 2024 shows resilience amid challenges. While industrial production is indicating signs of recovery, growth will likely slow down due to seasonal factors and struggles in the mining and electricity sector. Inflation, driven by rising food and energy costs, remains a concern, which is likely to prompt the RBI to assume a cautious stance. A weaker rupee and falling foreign inflows add pressure on inflation, though strong forex reserves provide some buffer. The economy remains vulnerable to external shocks and rising import demand. Effective policy management is key to balancing inflation, external risks, and growth.”

Dr. Arun Singh
Global Chief Economist



POSITIVES

- Mining activity improved significantly from (-)4.3% in Aug-24 to 0.2% in Sep-24, reflecting a rebound in the sector.
- Manufacturing growth rose sharply from 1.0% in Aug-24 to 3.9% in Sep-24, indicating strong industrial recovery.
- Goods and Services Tax (GST) revenue grew from 6.5% year-over-year in Sep-24 to 8.9% in Oct-24. This surge is likely driven by increased consumption during the festive season boosting indirect tax collections..
- Capital goods output increased from 0.7% in Aug-24 to 2.8% in Sep-24, reflecting growing investment demand.
- Infrastructure and construction goods output strengthened from 1.9% in Aug-24 to 3.3% in Sep-24, driven by infrastructure development.
- Consumer non-durables showed robust growth, increasing from -4.5% in Aug-24 to 2.0% in Sep-24, signaling improved demand.
- Aggregate deposits grew from 11.6% in Sep-24 to 13.0% in Oct-24, reflecting a healthier financial system.



NEGATIVES

- Headline inflation rose to 6.2% in Oct-24, driven by an increase in non-core CPI from 7.2% in Sep-24 to 8.4% in Oct-24 .
- The credit-to-deposit ratio declined slightly from 79.6% in Sep-24 to 79.1% in Oct-24, indicating a marginal slowdown in credit growth relative to deposits, likely due to heightened caution among lenders amid uncertain economic conditions and rising interest rates.
- Food credit growth remained flat at 5.6% in Oct-24, indicating a lack of substantial progress in lending to the agriculture sector.
- FDI, FII inflows, and private investment weakened further amid global uncertainties.
- The industry growth continues to decline, with July at 10.2%, August at 9.7%, and September at 8.9%. primarily due to economic challenges such as rising inflation, supply chain disruptions, and increased operational costs.

D&B's Economy Observer Forecast

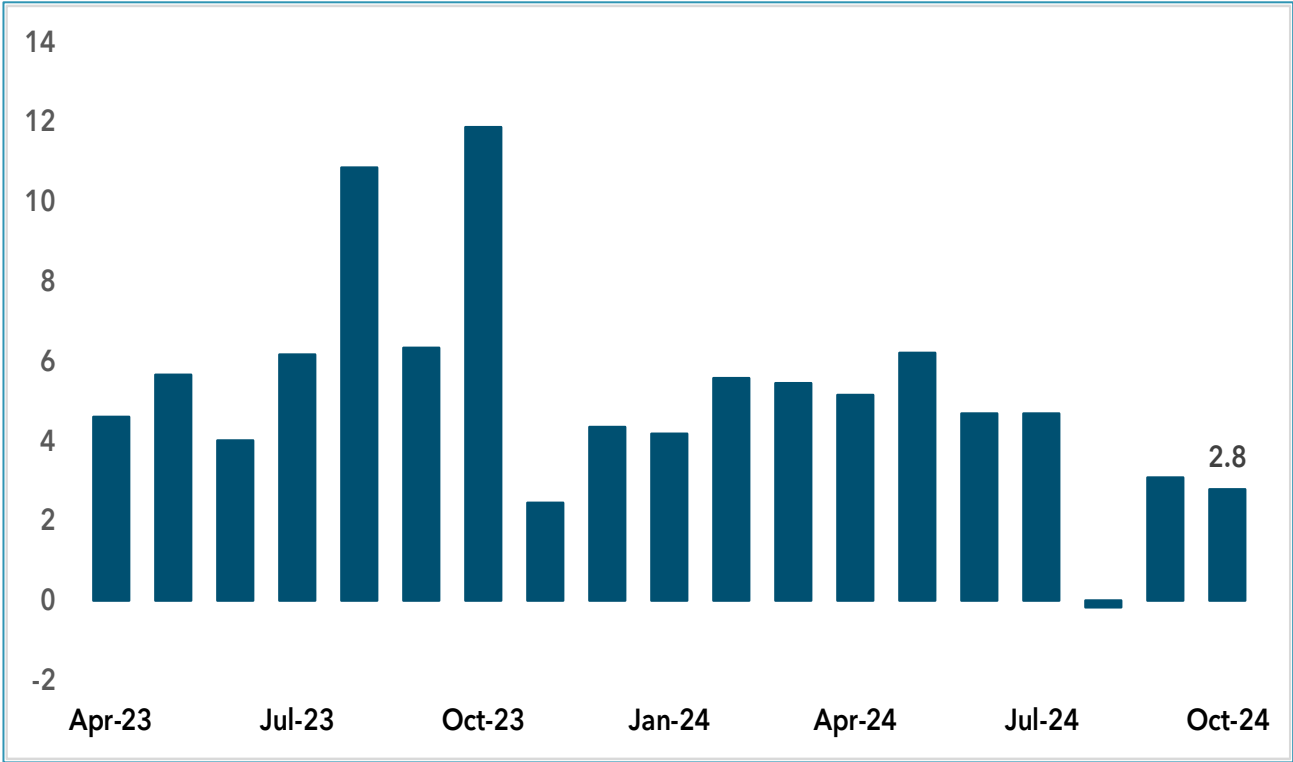
Variables	Forecast	Latest Period	Previous period
IIP Growth	2.8% Oct-24	3.1% Sep-24	-0.1% Aug-24
Inflation WPI	2.5% Nov-24	2.4% Oct-24	1.8% Sep-24
CPI (Combined)	6.5% Nov-24	6.2% Oct-24	5.5% Sep-24
Exchange Rate (INR/USD)	84.5 Dec-24**	84.4 Nov-24**	84.0 Oct-24
91-day T-Bills*	6.5% Nov-24	6.4% Oct-24	6.6% Sep-24
10-year G-Sec Yield*	6.8% Nov-24	6.8% Oct-24	6.8% Sep-24
Bank Credit	12.7% Nov-24	13.1% Oct-24	13.0% Sep-24

*Weekly Average ** Dun and Bradstreet Forecasts

Real Economy



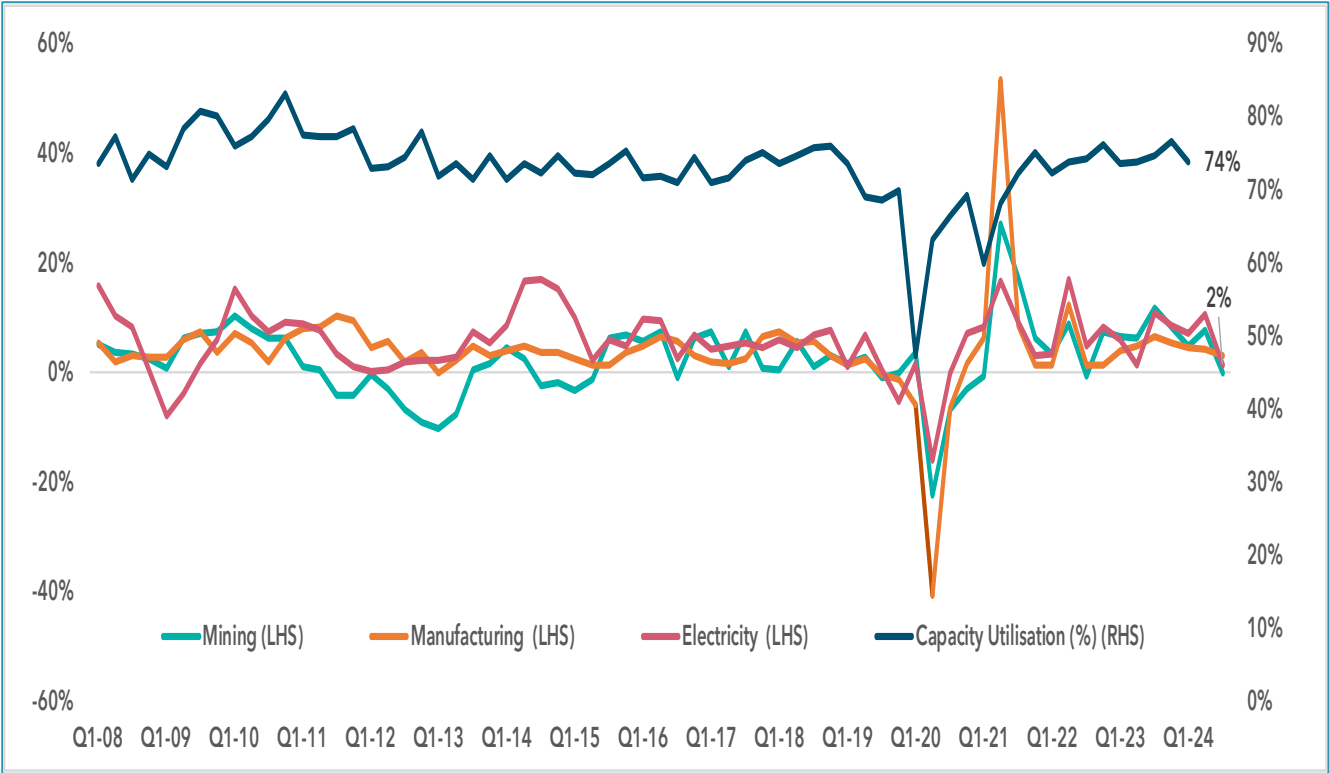
Industrial Production (IIP)



India's Index of Industrial Production (IIP) grew by 3.1% year-over-year in September 2024, recovering from a 0.1% contraction in August, driven primarily by a 3.9% expansion in the manufacturing sector due to rising demand and economic recovery. However, the outlook remains fragile as mining and electricity registered sluggish growth of just 0.2% and 0.5%, hampered by aging infrastructure, volatile commodity prices, rising fuel costs, and ongoing supply chain disruptions. Intermediate goods grew by 4.2%, indicating strong demand for manufacturing inputs, while consumer durables rose by 6.5%, reflecting robust demand in urban and rural markets. Despite these gains, **Dun & Bradstreet expects the IIP to slow down to 2.8% in October**, citing weakened output in key sectors, persistent supply chain issues, and rising input costs, suggesting the recent growth may be short-lived.

Source: RBI, Dun & Bradstreet

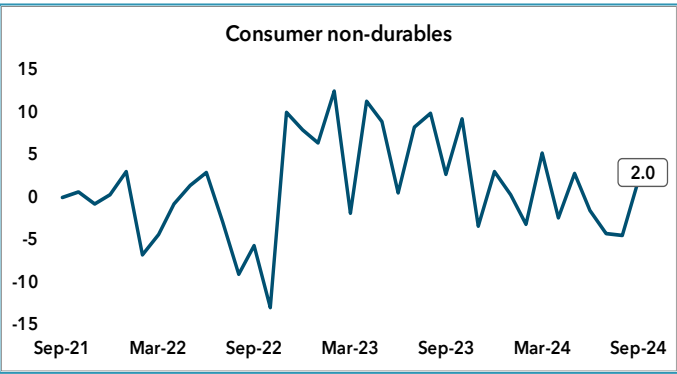
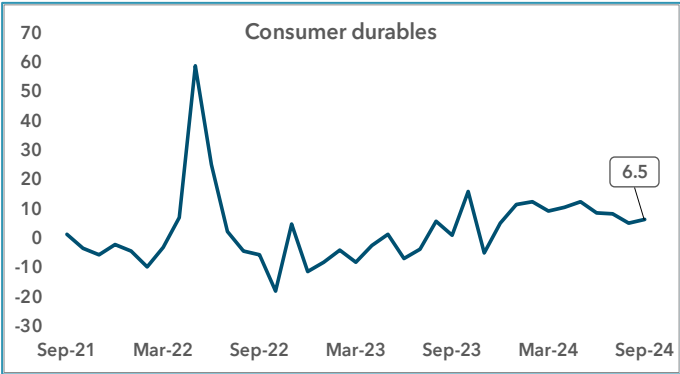
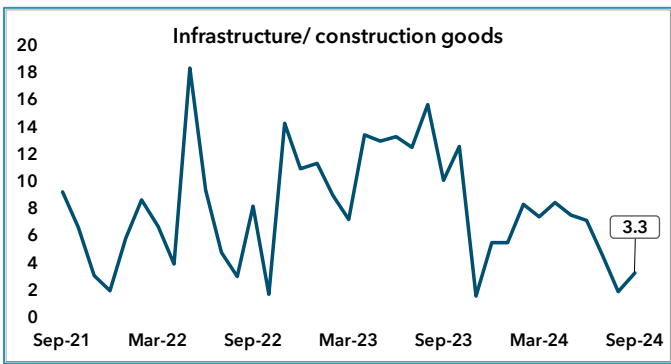
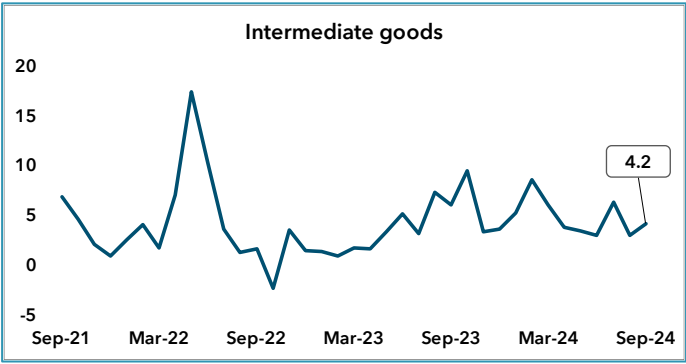
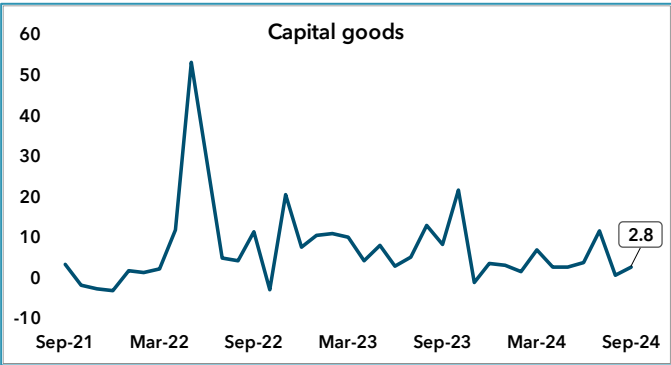
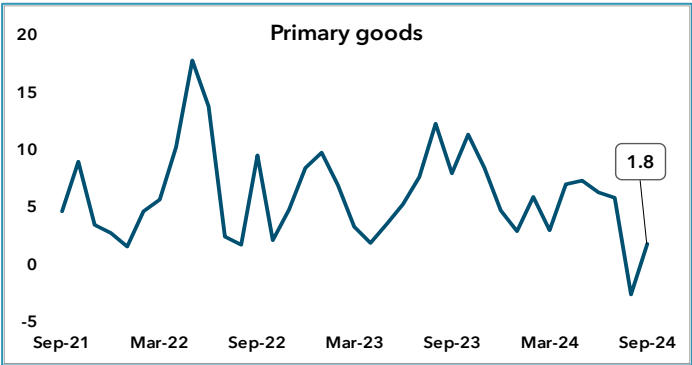
Manufacturing Capacity Utilization



India's Index of Industrial Production (IIP) grew by 3.1% year-over-year in September 2024, recovering from a 0.1% contraction in August, driven primarily by a 3.9% expansion in the manufacturing sector due to rising demand and economic recovery. However, the outlook remains fragile as mining and electricity registered sluggish growth of just 0.2% and 0.5%, hampered by aging infrastructure, volatile commodity prices, rising fuel costs, and ongoing supply chain disruptions. Intermediate goods grew by 4.2%, indicating strong demand for manufacturing inputs, while consumer durables rose by 6.5%, reflecting robust demand in urban and rural markets. Despite these gains, **Dun & Bradstreet projects IIP to slow to 2.8% in October**, citing weakened output in key sectors, persistent supply chain issues, and rising input costs, suggesting the recent growth may be short-lived..

Source: RBI, MOSPI

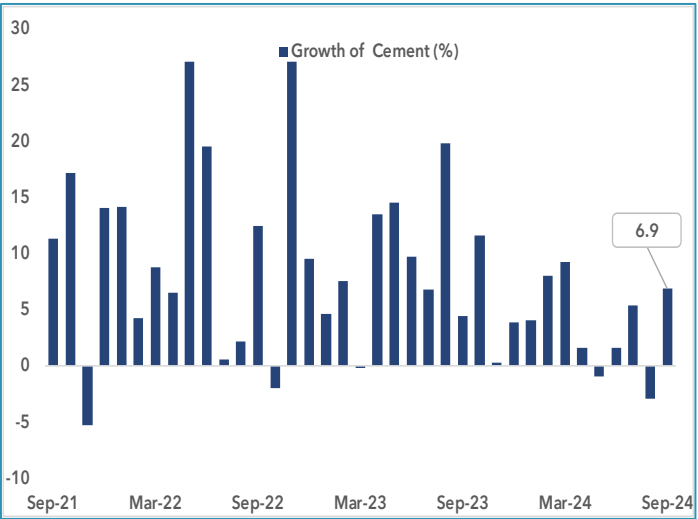
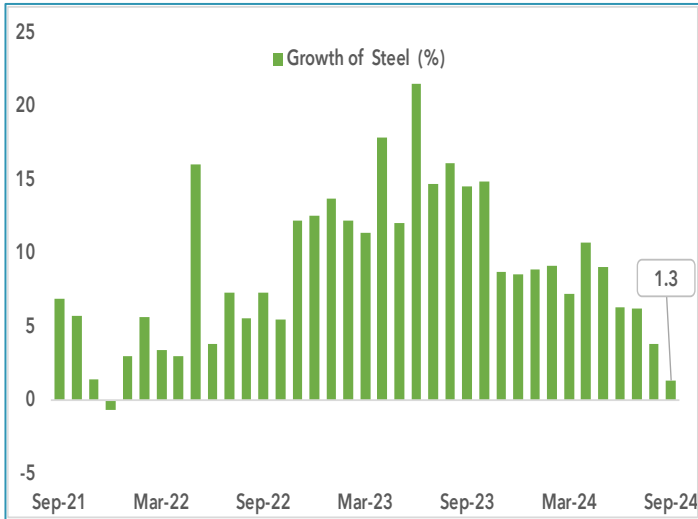
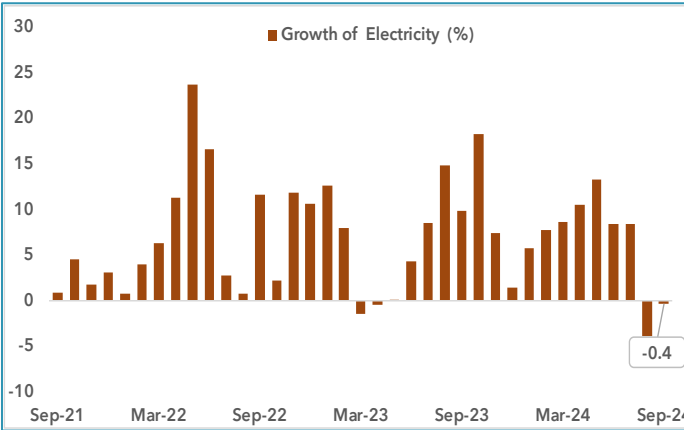
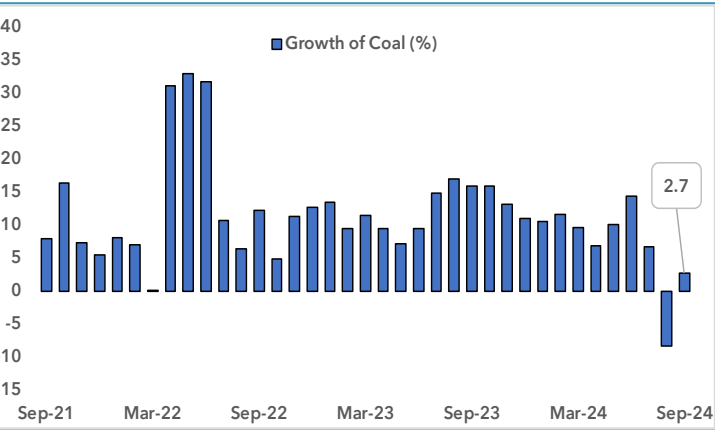
Use-based classification of IIP



A slight increase is seen in industrial output, driven by stronger consumer demand. However, underlying vulnerabilities continue to persist, including ongoing inflationary pressures and uncertainties in global markets.

Source: MOSPI

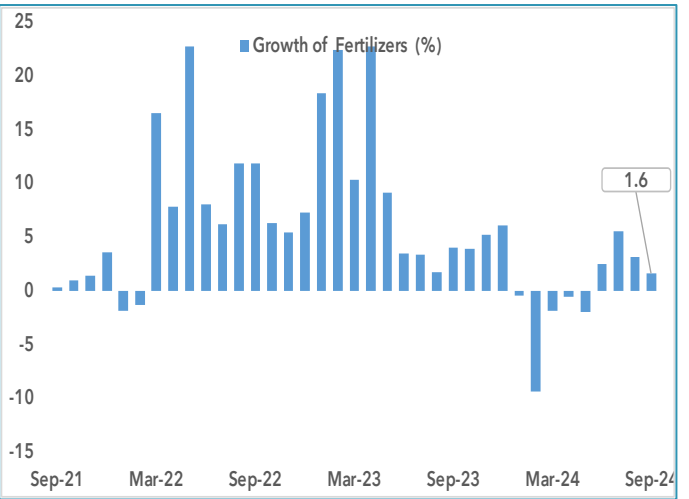
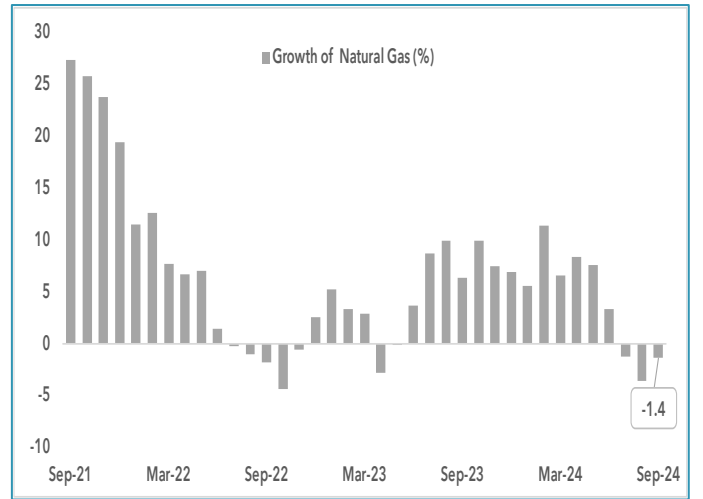
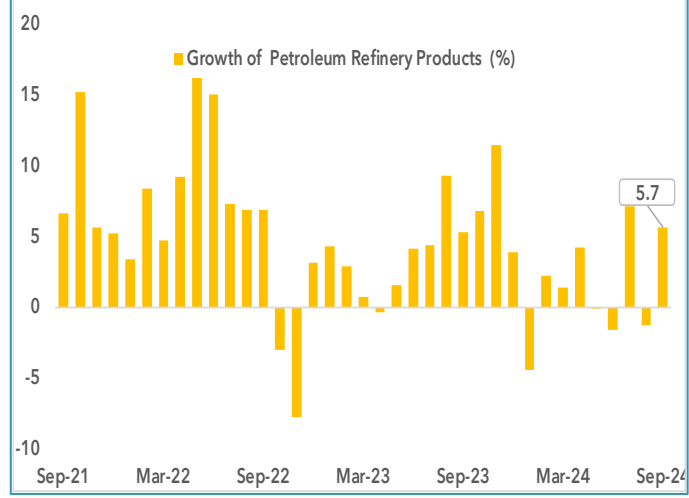
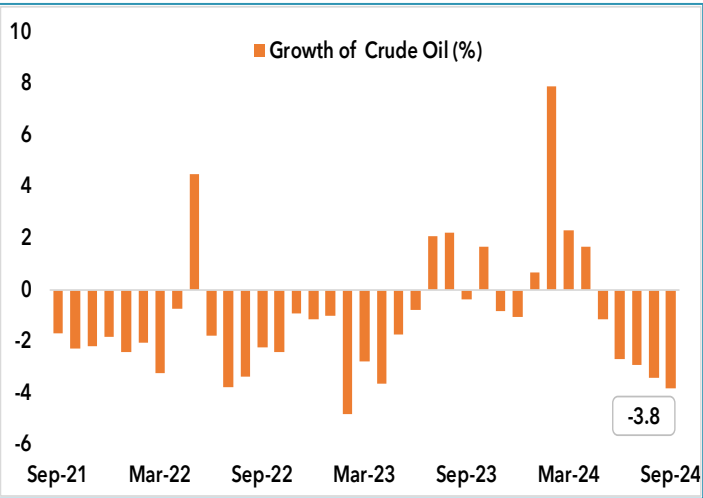
Core Industries



The industrial sector exhibited uneven performance, with growth largely confined to cement production, which rebounded sharply from a -3.0% contraction in August to 6.9% growth in September, driven by a revival in construction and infrastructure projects. In contrast, other key sectors struggled to gain momentum. Coal production managed only a modest recovery, rising from a steep -8.3% decline to a subdued 2.7% growth, reflecting ongoing operational challenges and lukewarm demand. Steel output slowed markedly, from 3.8% in August to just 1.3% in September, likely due to weaker export orders and inventory adjustments. Electricity generation remained in negative territory despite improving from -3.9% in August to -0.4% in September, indicating sluggish demand amid seasonal fluctuations. This mixed performance underscores persistent vulnerabilities in the industrial landscape, suggesting that the recovery remains fragile and uneven.

Source: EIA

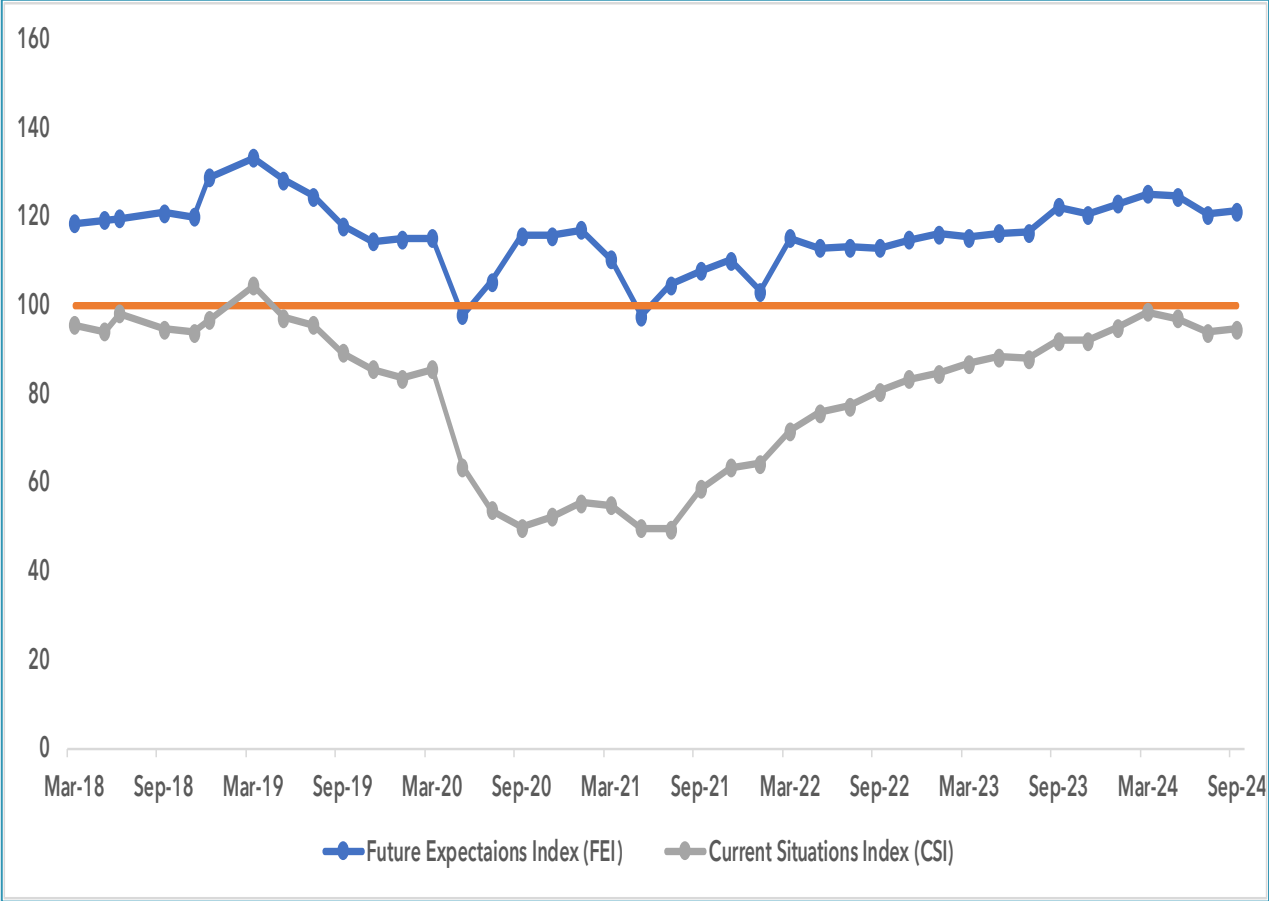
Core Industries



The energy sector faced broad declines, with crude oil production continuing its downward trajectory, reflecting weakening output amid operational constraints. Natural gas production also contracted, weighed down by reduced extraction activity and softer industrial demand. The fertilizer industry experienced a decline as well, likely driven by lower agricultural demand and rising input costs. In contrast, petroleum refinery products emerged as the sole bright spot, recording a modest increase due to stronger domestic demand and improved refining capacity utilization. This uneven performance highlights persistent challenges in the broader energy sector, despite isolated gains in refining output.

Source: EIA

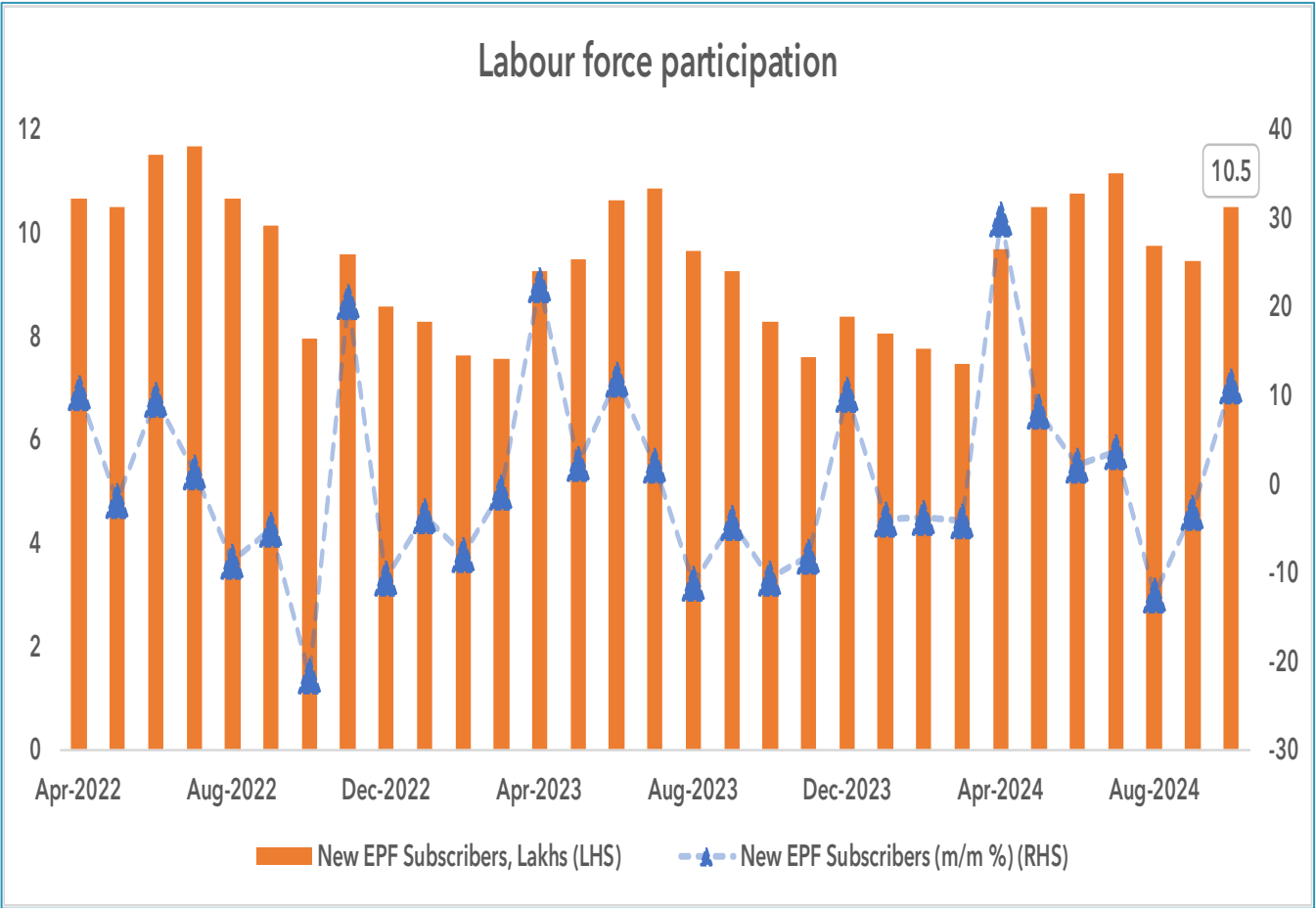
Consumer confidence



Consumer sentiment in India is projected to see a moderate improvement, with an increase of 0.7 percentage points over the coming year. While modest, this uptick is primarily attributed to the positive effects of the festive season, which traditionally stimulates consumer demand. During this period, heightened spending is observed across key sectors such as retail, automobiles, and real estate, driven by cultural practices and seasonal promotions. The festive season's influence on sentiment typically fosters greater consumer confidence, with expectations of economic stability and enhanced purchasing power. This temporary surge in optimism reflects both a seasonal boost in consumption and a broader positive outlook. However, maintaining this sentiment throughout the year will be contingent on sustained economic growth, employment levels, and the broader macroeconomic environment.

Source: RBI, MOSPI

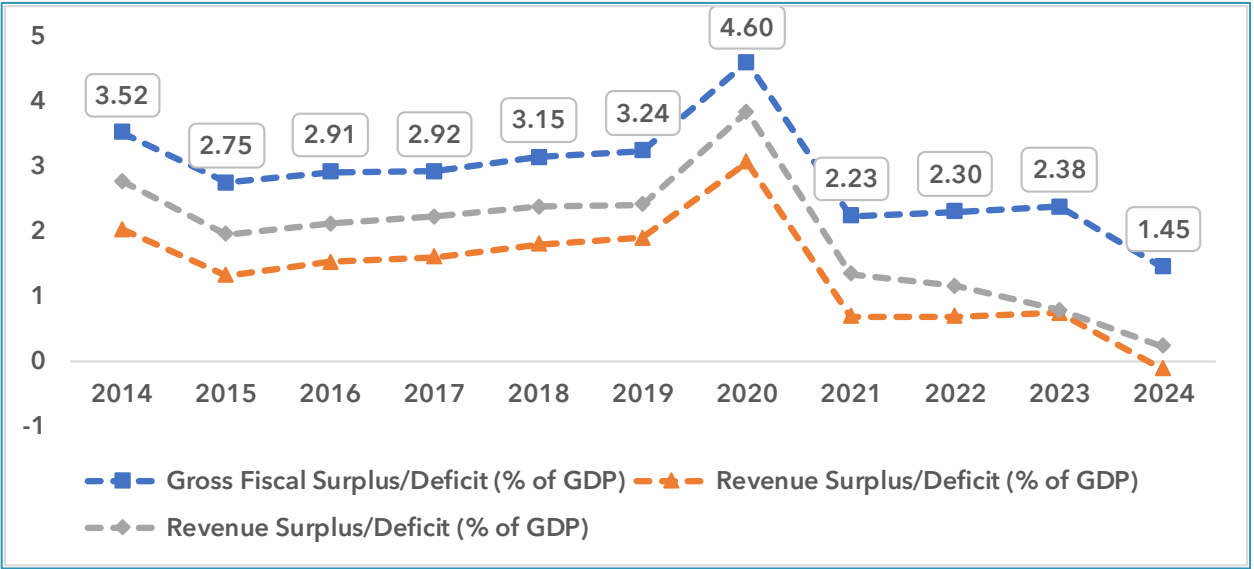
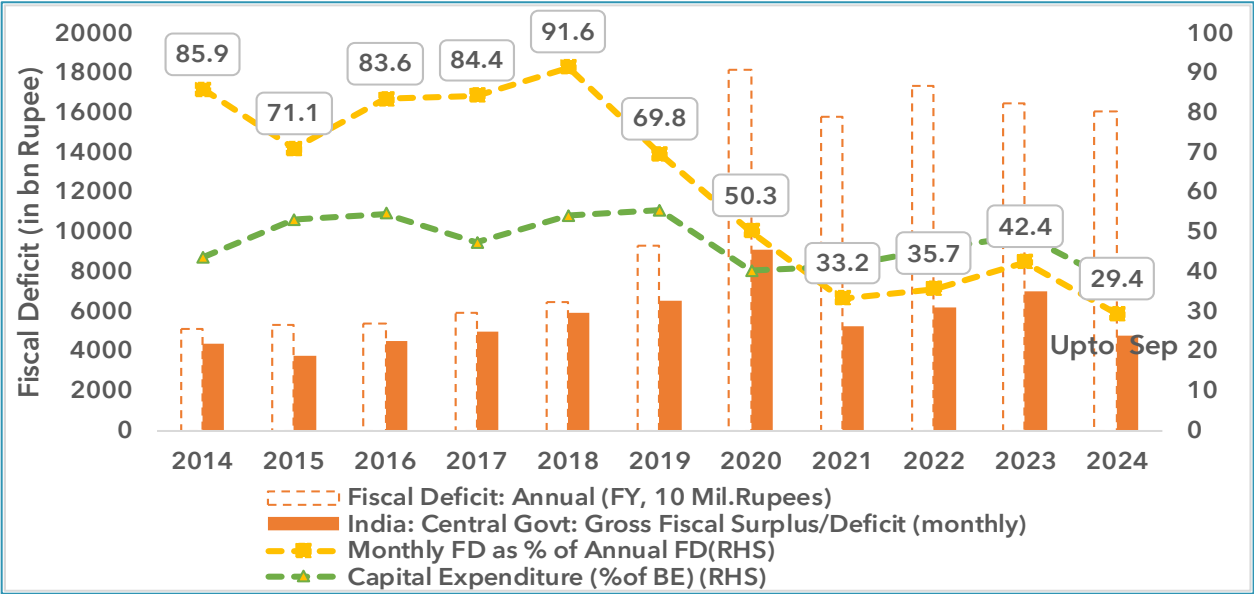
Labor force participation



India's labor force participation has seen a noticeable increase, reflecting greater engagement in the workforce. This rise can be attributed to both new entrants, including younger individuals entering the job market, and a growing awareness of employment opportunities. Simultaneously, the number of Employees' Provident Scheme (EPS) subscribers has also seen growth, indicating improved formal sector employment and increased participation in social security schemes. This trend suggests a positive shift towards more organized and stable employment, with individuals seeking long-term financial security. The growth in both labor force participation and EPS subscriptions signals a strengthening of the formal labor market, contributing to the broader goal of inclusive economic development. However, sustaining this momentum will depend on continued job creation and access to skill development opportunities to match the evolving labor market demands.

Source: RBI, MOSPI

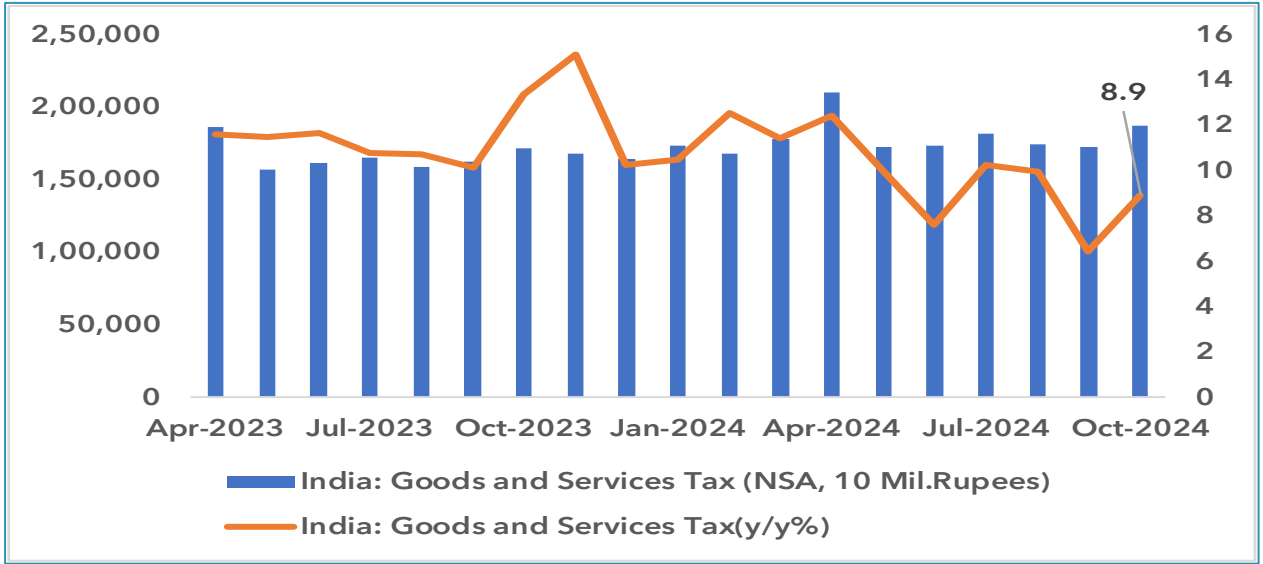
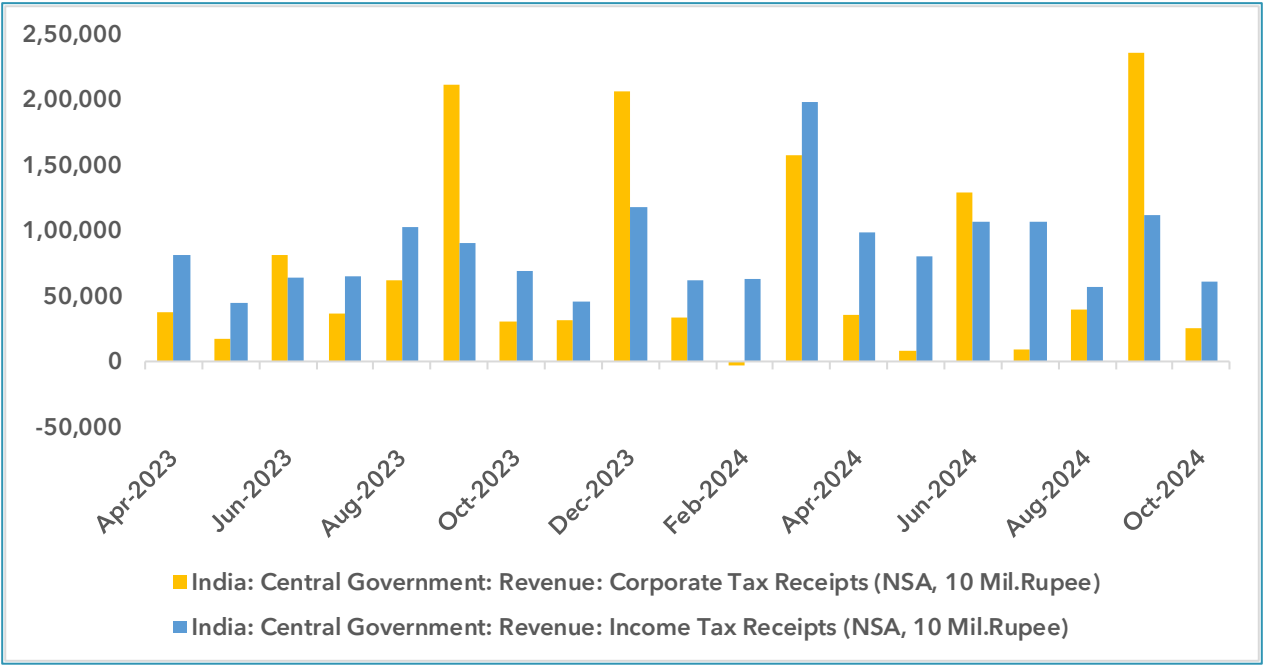
Economy remains on the path of fiscal consolidation



Fiscal consolidation has led to a 15.4% decline in public capital expenditure (capex), signaling reduced government investment in infrastructure and development. At the same time, private capex remains stagnant, compounding concerns about future economic growth. Public investment typically drives private sector confidence, but the current scenario risks slower growth, weaker job creation, and reduced productivity. Without robust public spending, private investment may falter further, undermining recovery prospects. To address this, policymakers must balance fiscal discipline with targeted public investment and reforms that encourage private sector participation, ensuring sustainable growth and avoiding a prolonged economic slowdown.

Source: CGA, Havers

Direct & Indirect Tax Collections



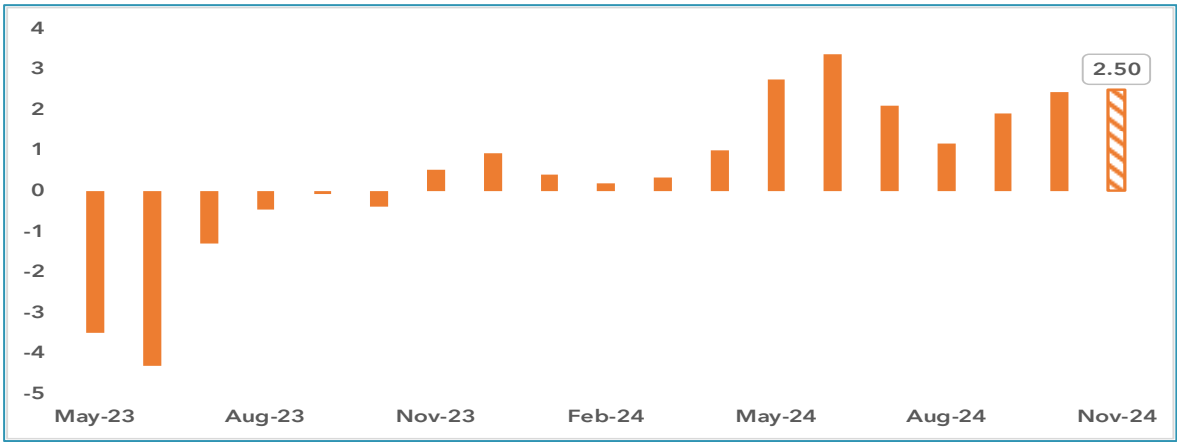
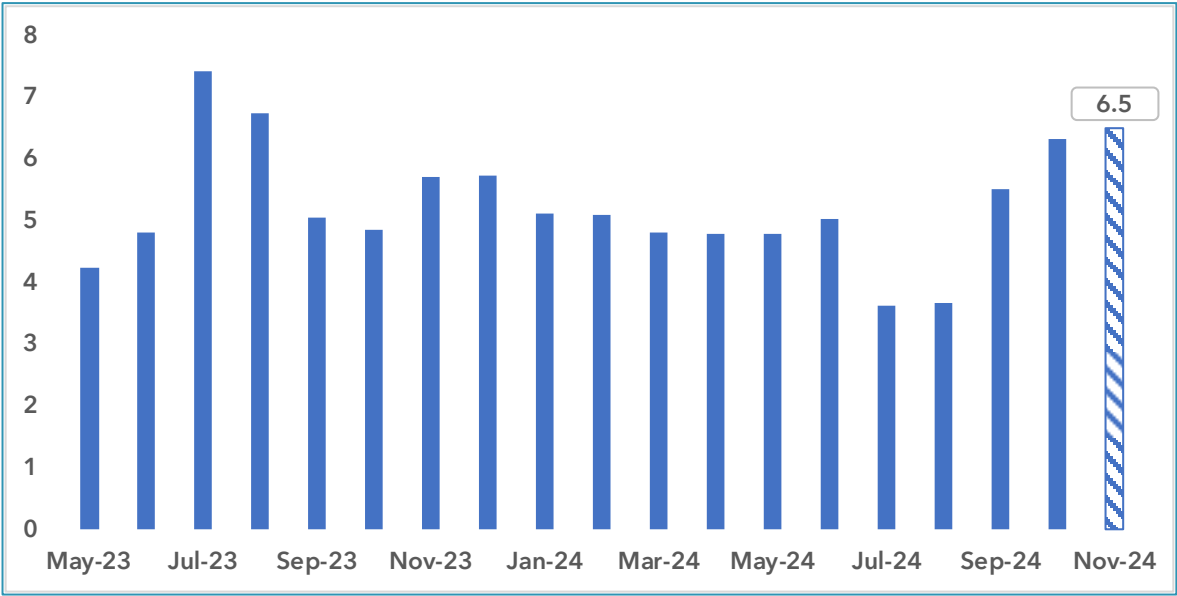
India’s fiscal revenue indicators show a mixed performance in recent months. Income Tax Receipts and Corporate Tax Receipts have taken a hit, reflecting challenges in both the corporate sector and individual incomes. Corporate tax receipts have been subdued, likely due to weaker corporate earnings, impacted by rising input costs and slowing growth in key sectors. Similarly, income tax receipts have not seen significant growth, reflecting subdued wage growth and inflationary pressures. However, Goods and Services Tax (GST) revenue grew from 6.5% year-over-year in September 2024 to 8.9% in October 2024. This surge is likely driven by increased consumption during the festive season and improved enforcement measures, boosting indirect tax collections. Despite challenges in direct tax collections, the growth in GST revenue highlights a positive trend in economic activity and consumption.

Source: CGA, Havers

Price Scenario



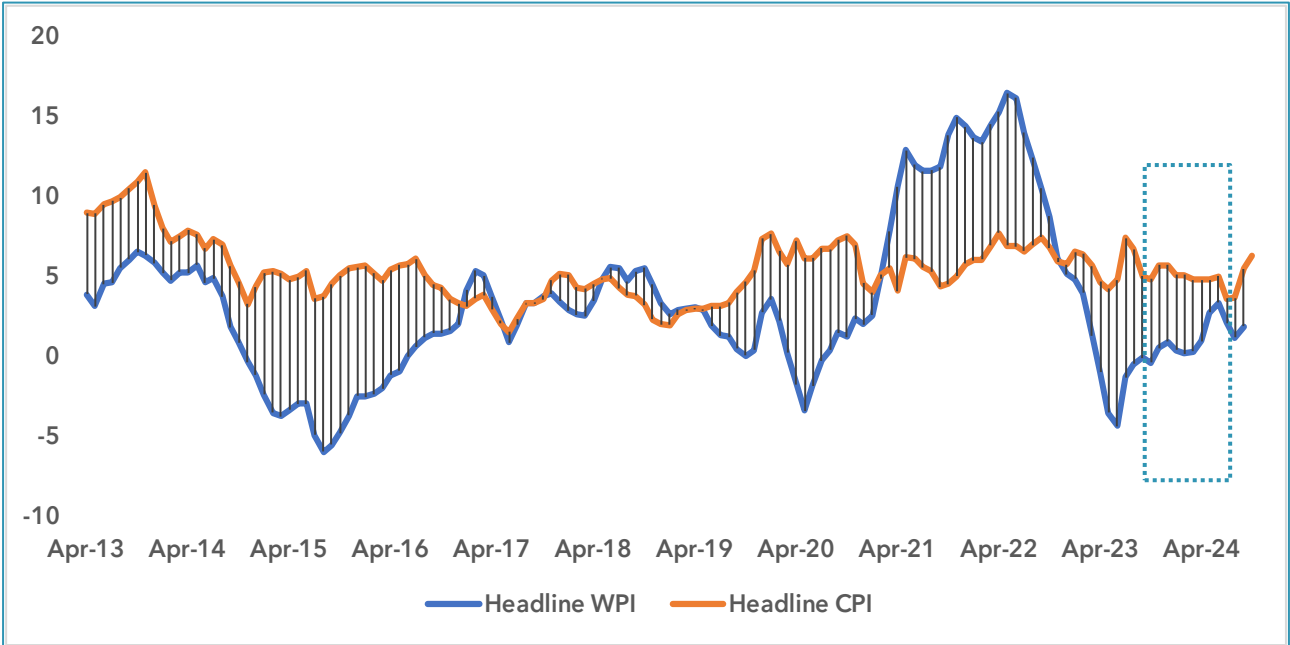
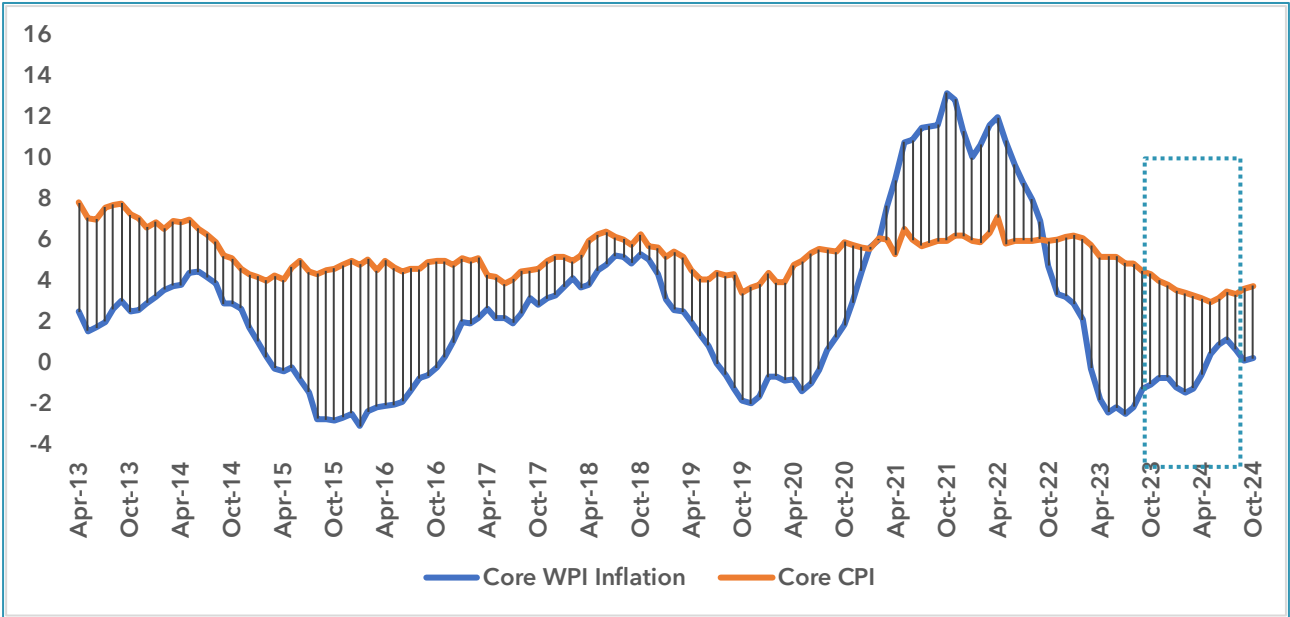
As Industrial production moderates, there is pressure on capacity utilization



Consumer price inflation (CPI) rose to 6.2% in Oct-24, up from 5.5% in September, while wholesale price inflation (WPI) increased to 2.3% from 1.8%. The main driver was a 13.5% rise in food prices, continuing the trend from September. The primary articles index, including food and essentials, grew 8.1%. Food and beverages, which account for 45.9% of CPI, remains a key inflation driver due to supply-side issues and high demand for cereals, oils, and vegetables. Global energy price hikes, especially of crude oil, have further contributed to inflation. **Dun & Bradstreet forecasts WPI inflation to moderate to 2.5% in Nov-24, but CPI is expected to remain high at 6.5%, well above RBI's target.** Uncertainty around energy costs persists, though falling oil and gas prices amid geopolitical tensions could help ease some inflationary pressures.

Source: MOSPI, Dun & Bradstreet

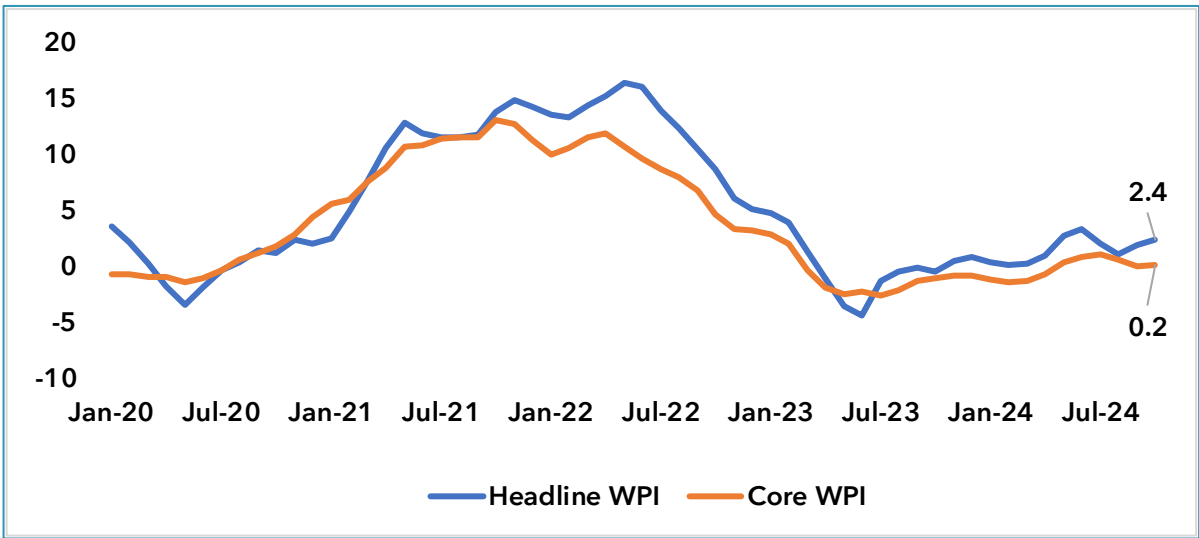
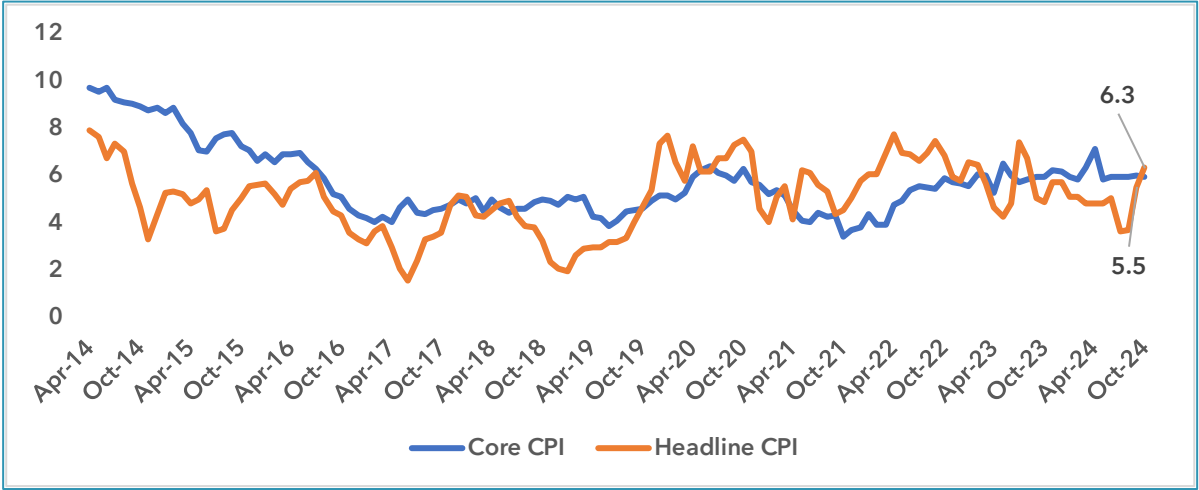
Core Consumer Price Inflation & Wholesale Price Inflation



Upward convergence of headline inflation in both wholesale and retail indices, driven by rising food prices as a common factor. Meanwhile, core inflation has shifted from convergence to divergence, with recent data showing widening gaps between CPI and WPI, highlighting the need for caution. This divergence of core components, coupled with the sequential rise in food prices, suggests that the RBI will likely maintain a vigilant stance on monetary policy.

Source: MOSPI, EIA

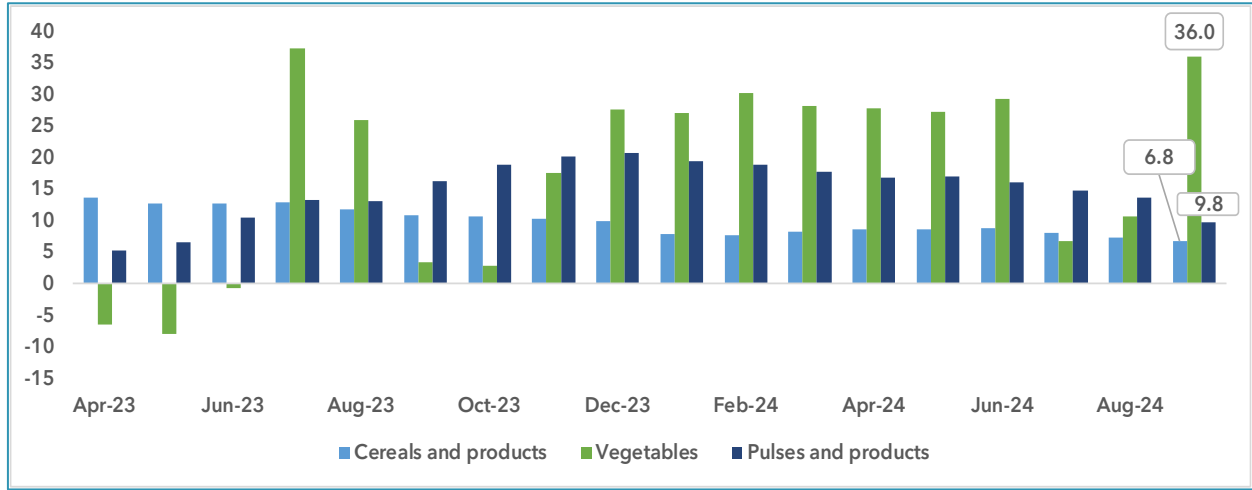
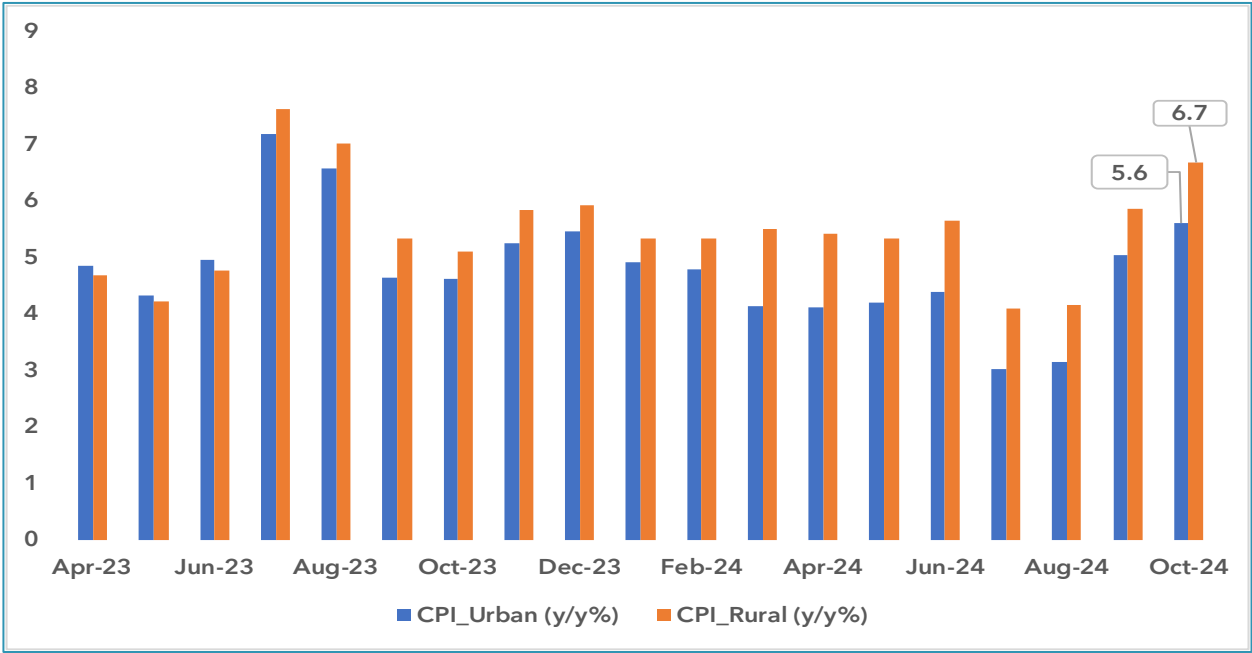
Dissecting Inflation among constituents: Movement of Core & Headline CPI & WPI



Wholesale and retail inflation were influenced by fluctuations in non-core components, particularly food and energy prices. The Headline WPI showed a modest upward trend, indicating rising wholesale prices driven by volatile sectors, while the Core WPI remained relatively stable, reflecting steadier prices in non-volatile goods. Headline CPI experienced noticeable volatility due to external pressures on essential goods, while Core CPI maintained stability, highlighting resilience in the prices of non-volatile consumer goods. This pattern underscores the continued influence of supply-side factors on headline inflation, while core inflation remained anchored, signaling controlled underlying inflationary pressures.

Source: MOSPI, EIA

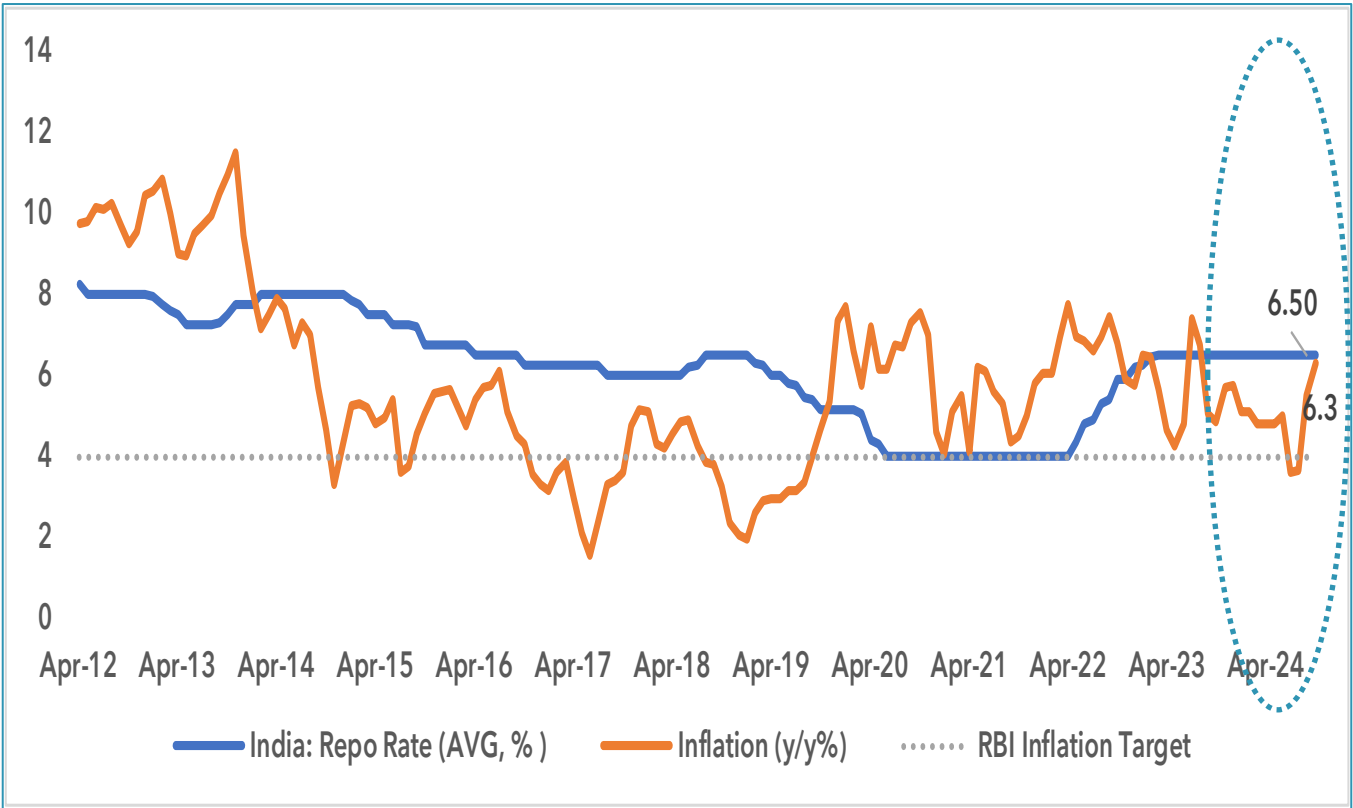
Making sense of Rural & Urban Inflation



The food and beverages segment, which comprises 45.9% of the CPI, and India's crude oil dependence amid geopolitical tensions underscore inflation risks, as rising vegetable prices and erratic monsoons drive food inflation back up after a brief decline.

Source: MOSPI

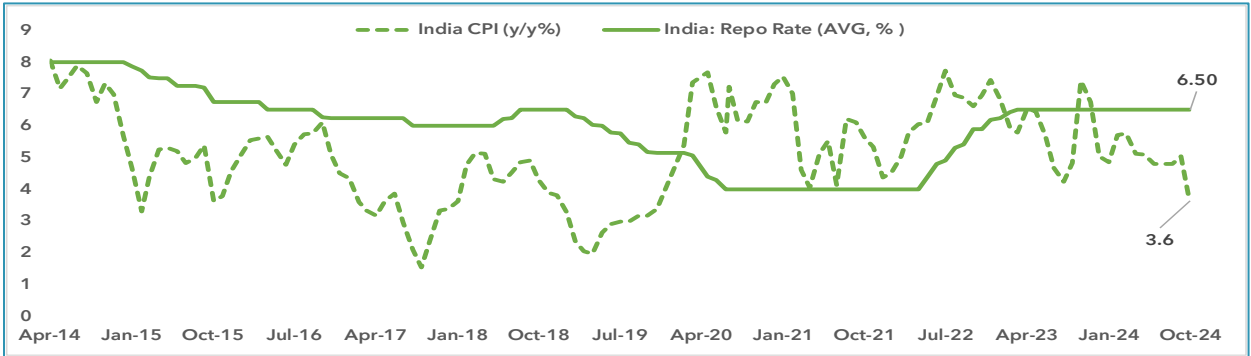
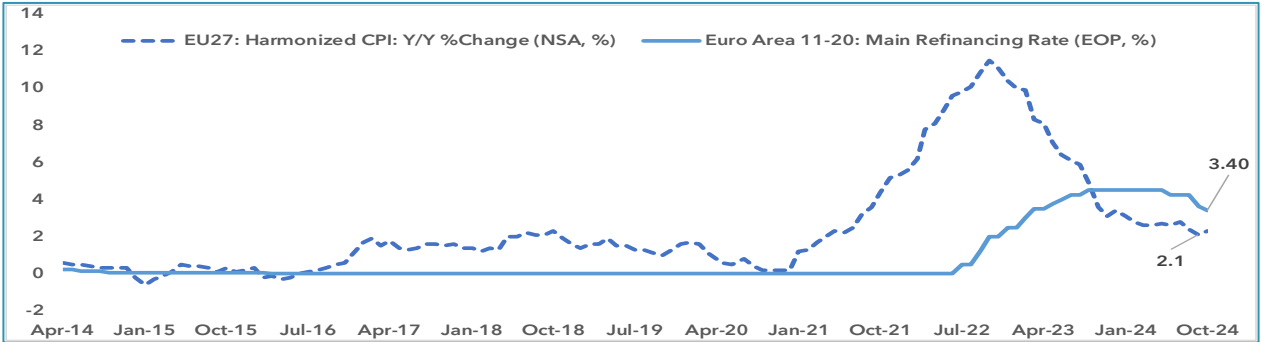
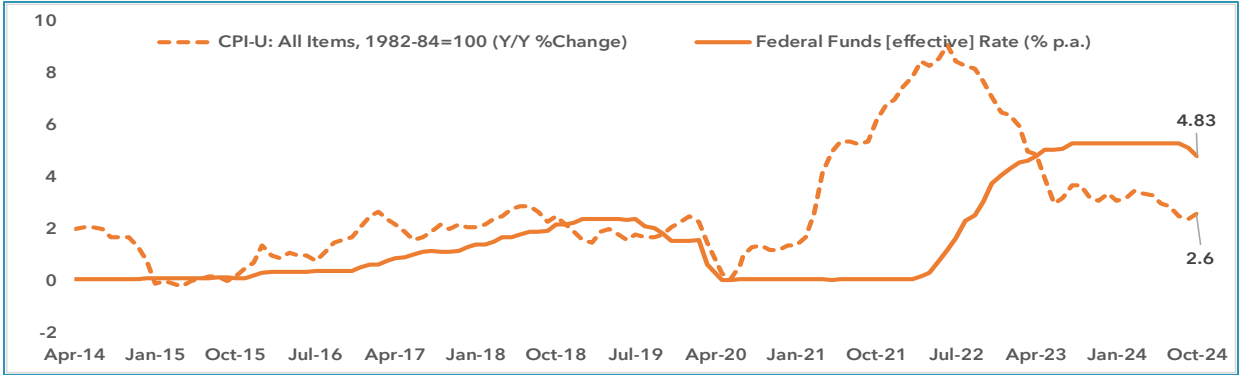
Fine balancing of price control and growth optimization remains cornerstone of monetary policy



Consumer Price Inflation (CPI) remained at the upper end of the Reserve Bank of India's (RBI) target, consistently exceeding the comfort range of 2% - 4% for the second consecutive month. This persistent inflationary pressure has compelled the RBI to maintain a cautious monetary policy stance. A key driver has been the sharp rise in vegetable prices, which contributed significantly to headline inflation. Additionally, the high base effect continues to play a crucial role, further complicating the inflation outlook. With limited policy options, the RBI is left with little choice but to regulate demand through elevated policy rates, prioritizing price stability over growth to contain inflationary risks.

Source: MOSPI, RBI

Despite challenges, India remains on strong growth path, ahead of global advanced economies- offering attractive business proposition



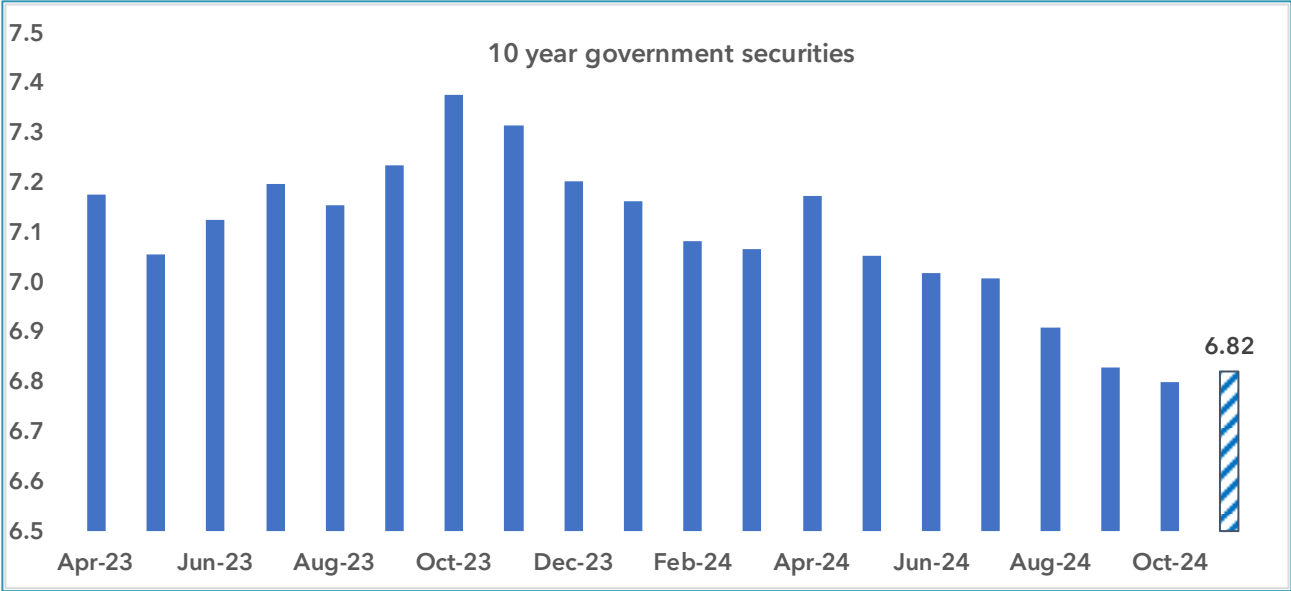
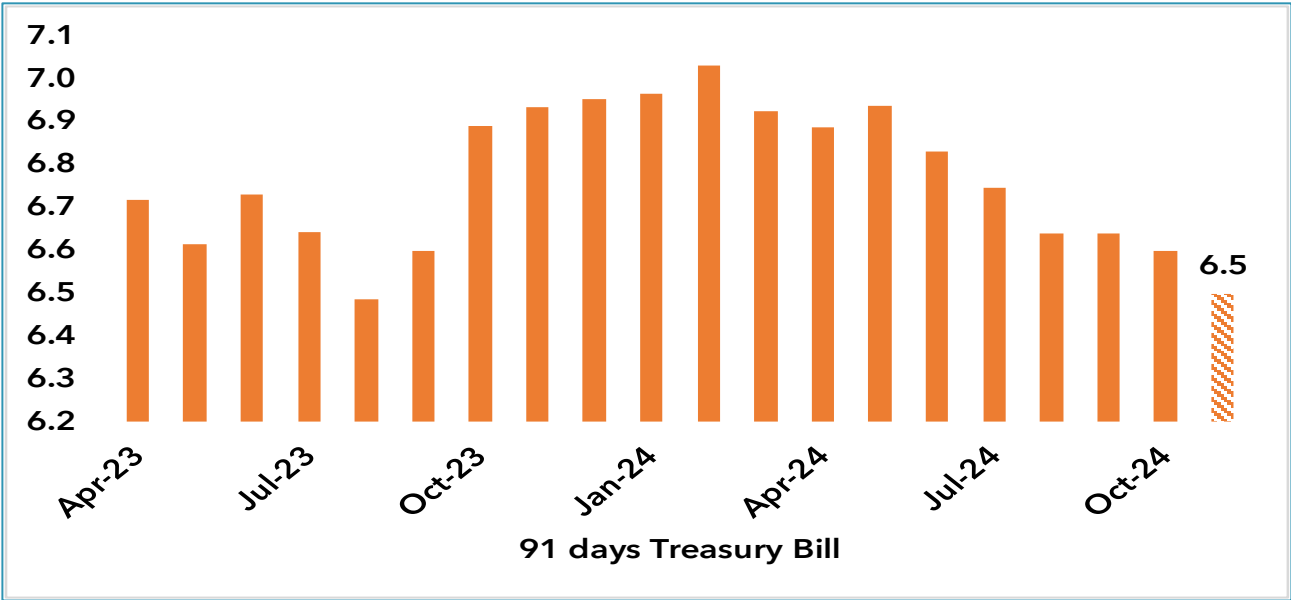
While for the US & EU, inflation trend is definitive downward and likely to reach to long-term average in next 12 months; for India inflation has been hovering around its long-term average for a while and should be moving in a close band subject to food prices and global commodity prices including oil and a balanced monetary policy.

Source: Havers, Dun & Bradstreet

Money Market



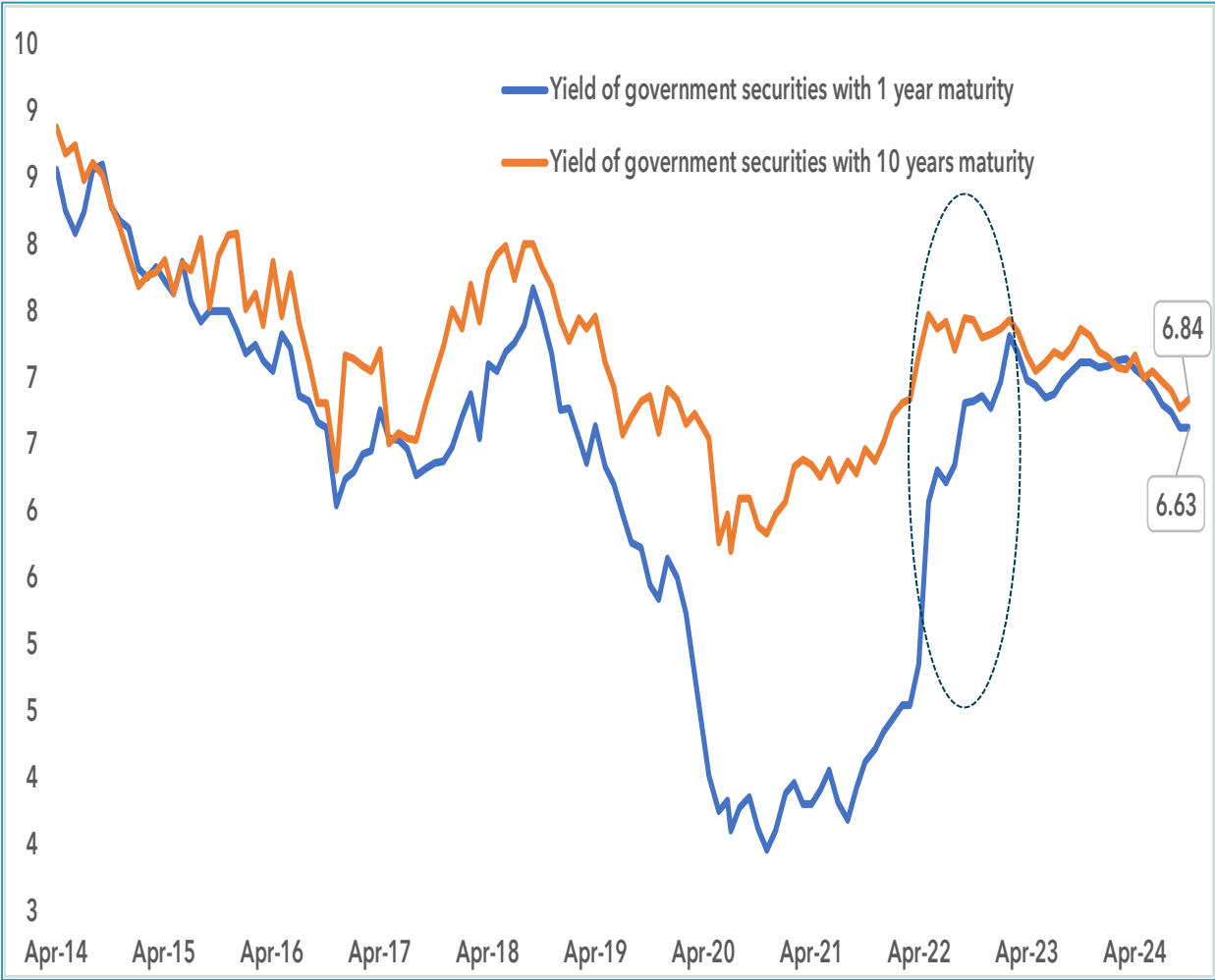
91 days Treasury bills & 10-year yield



Investor confidence remains steady amid global uncertainties and inflation. **Dun & Bradstreet** expects the 91-day Treasury Bill yield to stabilise at 6.5% in November 2024, while the 10-year G-Sec yield will likely stay around 6.8%. Short-term yields have eased slightly, but long-term yields remain stable, suggesting a cautious outlook with no immediate rate hikes. Meanwhile global economic factors and geopolitical risks will continue to influence India's bond market.

Source: RBI, Dun & Bradstreet

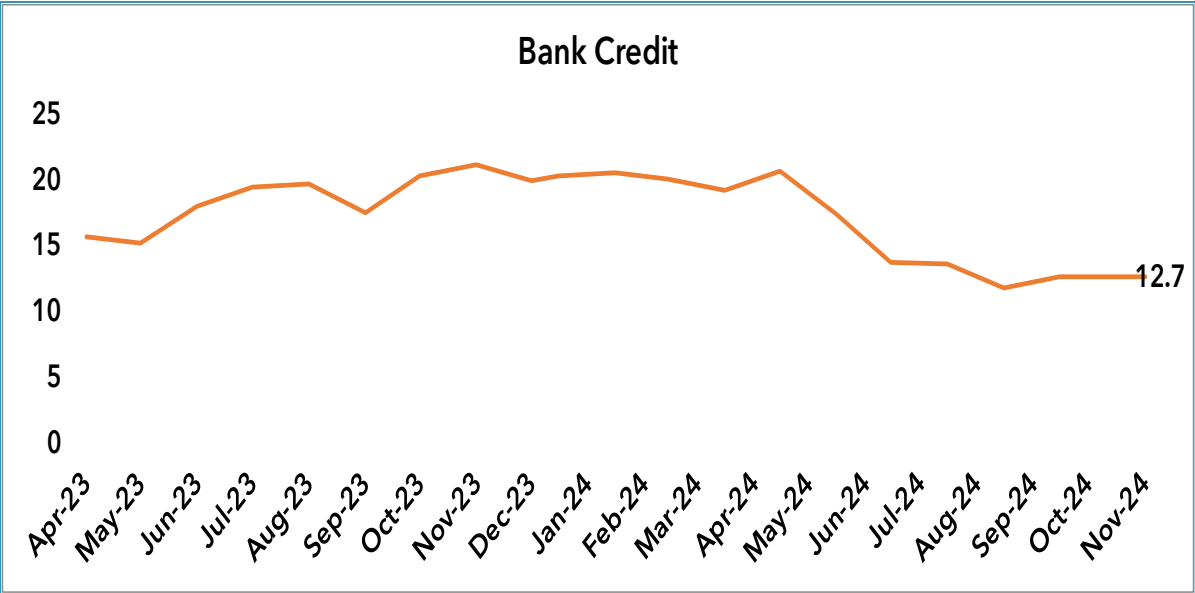
Policy Rates



The spread between short-term (1-year) and long-term (10-year) yield curves has narrowed over the past year reflecting the market's expectation that Indian economy is on the path of achieving long-term growth potential despite uncertain global outlook. The softening of the long-term yield curve suggests an improvement in the long-term growth prospects for the Indian economy, while the stability of short-term yields suggest sufficient credit flow into the economy and an unambiguous growth trajectory.

Source: Havers, RBI

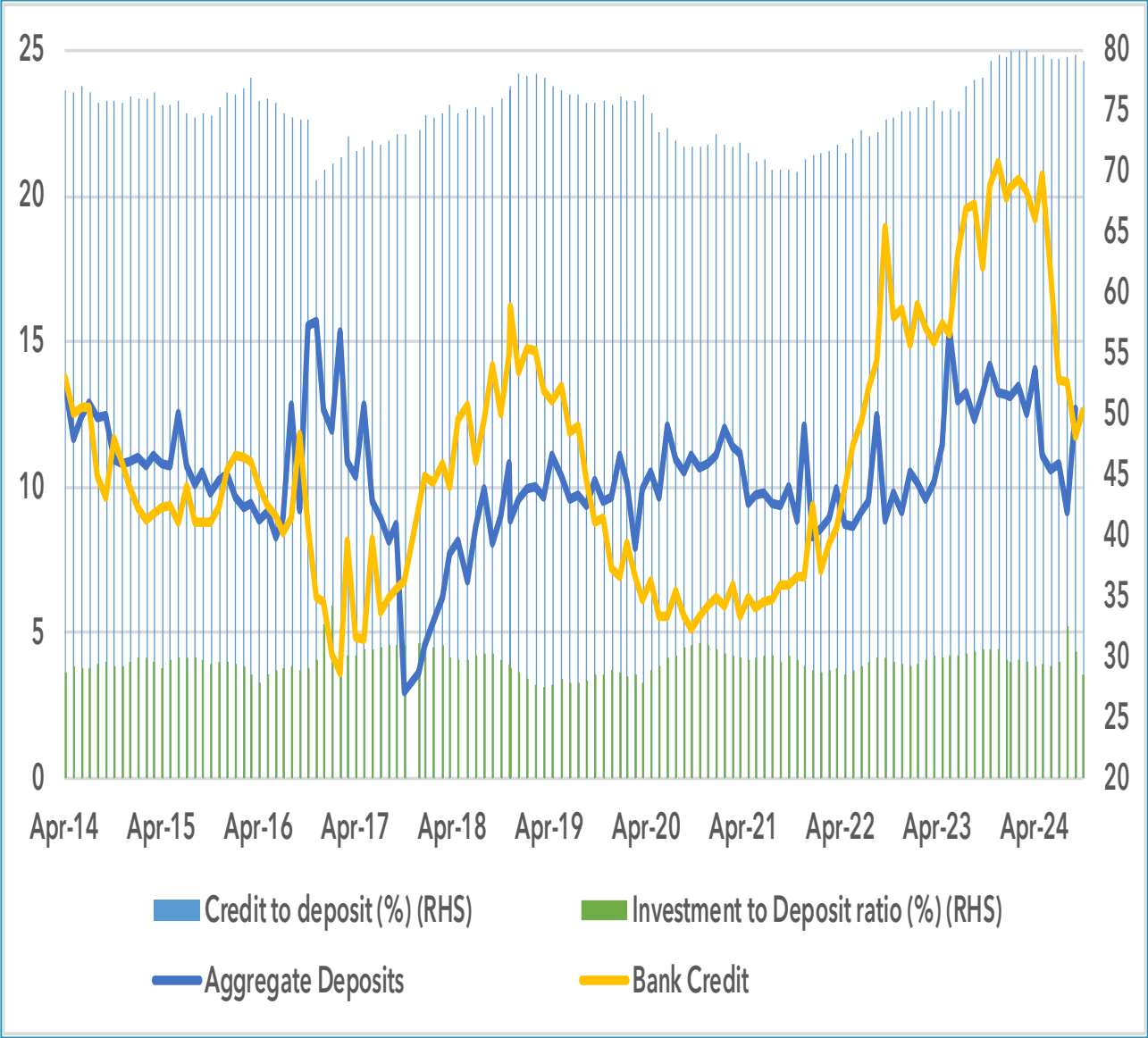
Bank Credit



Credit growth is projected to moderate to 12.7% in November 2024, as the RBI prioritizes inflation control and financial stability. Despite ample liquidity, tighter credit conditions are expected, reflecting the RBI's cautious approach to prevent overheating and maintain asset quality. This balanced policy is expected to support growth while managing inflation risks.

Source: RBI, Dun & Bradstreet

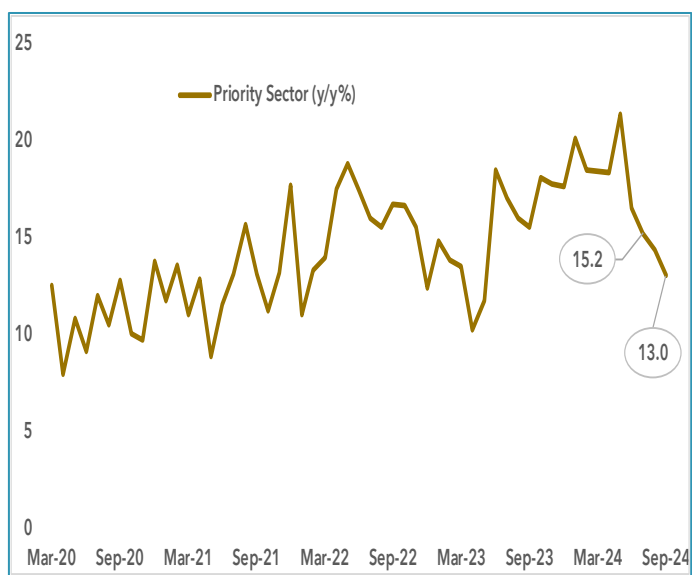
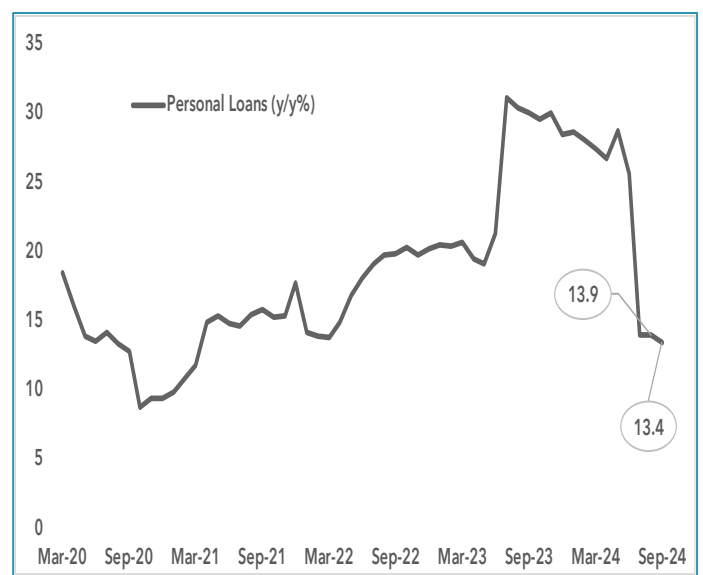
Tracking Banking sector resilience



Credit growth experienced a deceleration in September 2024, driven by a series of regulatory interventions, including a prohibition on new lending by specific regulated entities and more stringent funding conditions. These actions are anticipated to lead to a sustained contraction in credit expansion across both banks and non-bank financial companies. Concurrently, a slowdown in deposit growth may adversely affect the profitability of the banking sector by restricting liquidity and squeezing net interest margins.

Source: RBI, Dun & Bradstreet

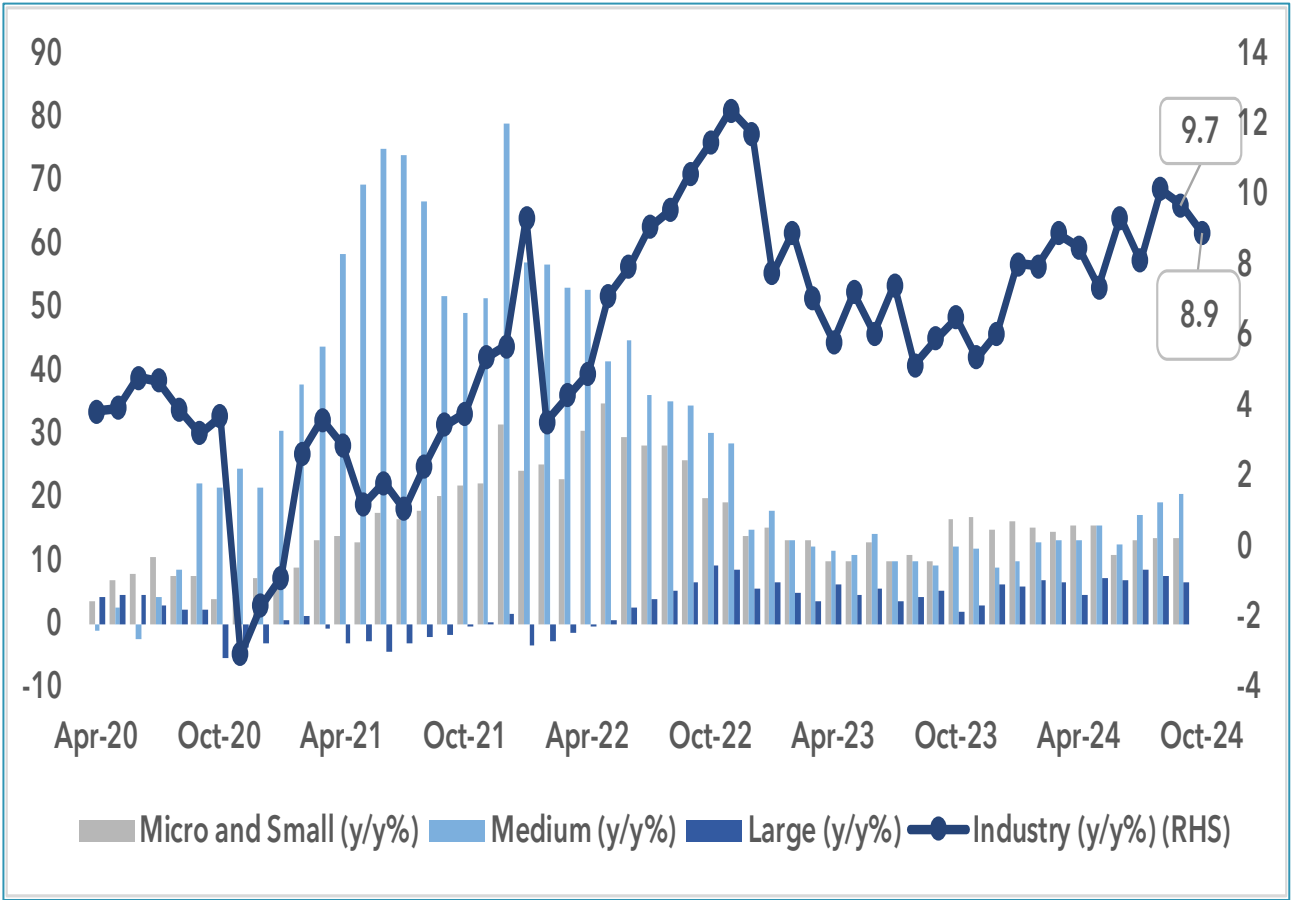
Sectoral Deployment of Credit



In Sep-24, credit growth showed a noticeable deceleration across various sectors. This slowdown is primarily attributed to regulatory interventions designed to curb potential overheating in certain retail segments, effectively moderating the demand for retail credit. Simultaneously, the tightening of credit conditions within the Non-Banking Financial Company (NBFC) sector has played a significant role in further constricting liquidity, limiting the ability of key market players to access necessary funding. These combined factors have contributed to the broader cooling of credit growth across the economy during the period.

Source: RBI, Dun & Bradstreet

Micro, Small, Medium and Large lending (%y/y)



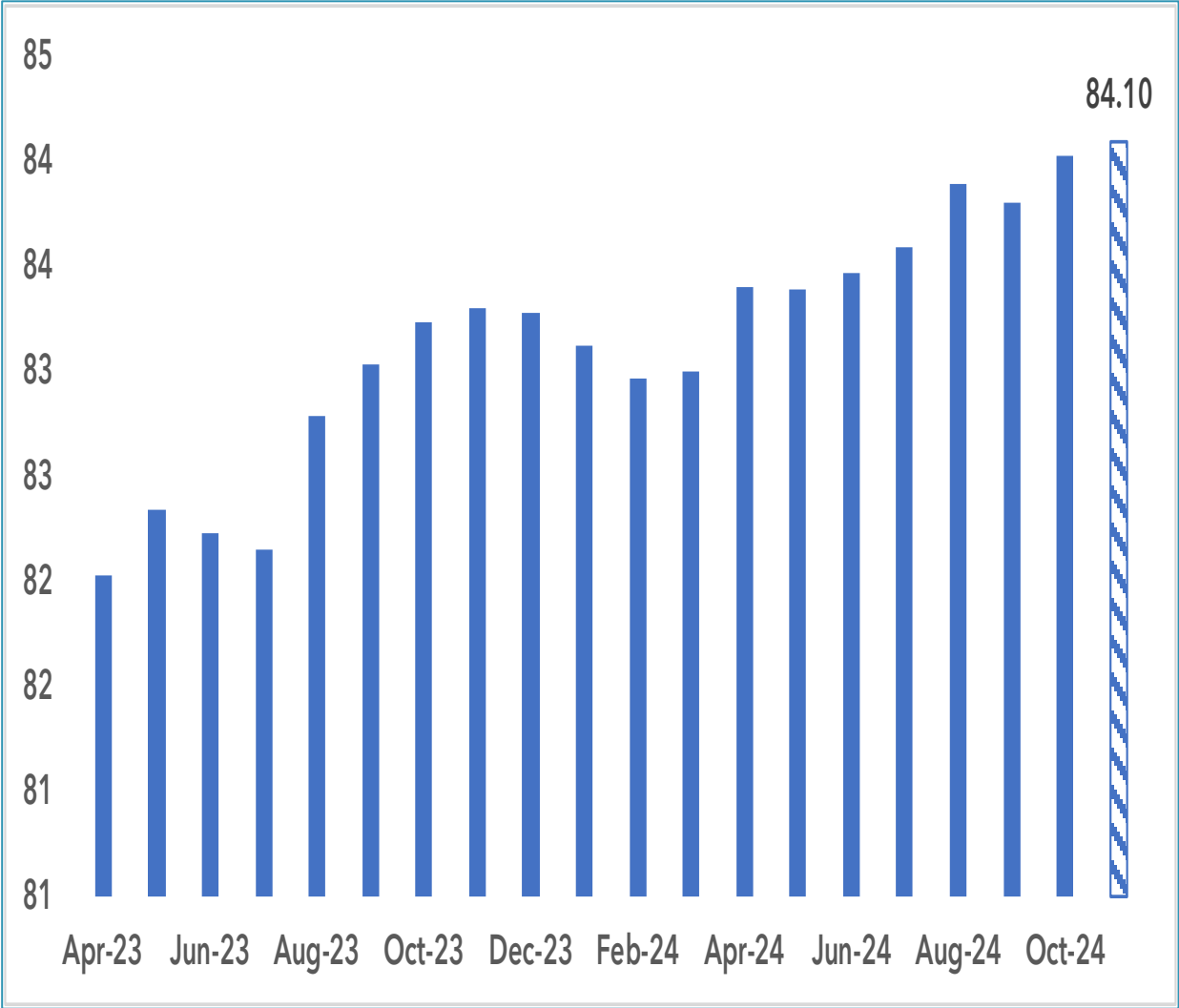
Industrial lending has moderated, declining from 9.7% to 8.9%, signaling a slowdown in credit flow to the sector. This trend is particularly pronounced among Micro, Small, and Medium Enterprises (MSMEs), where credit growth has notably decelerated. Contributing factors include the tightening of financial conditions, increased borrowing costs, and persistent demand pressures, all of which have strained the liquidity available to MSMEs. As these enterprises face challenges in accessing affordable financing, their capacity to invest in expansion, innovation, and modernization diminishes, potentially impeding their contribution to overall economic growth.

Source: RBI, Dun & Bradstreet



External Situation

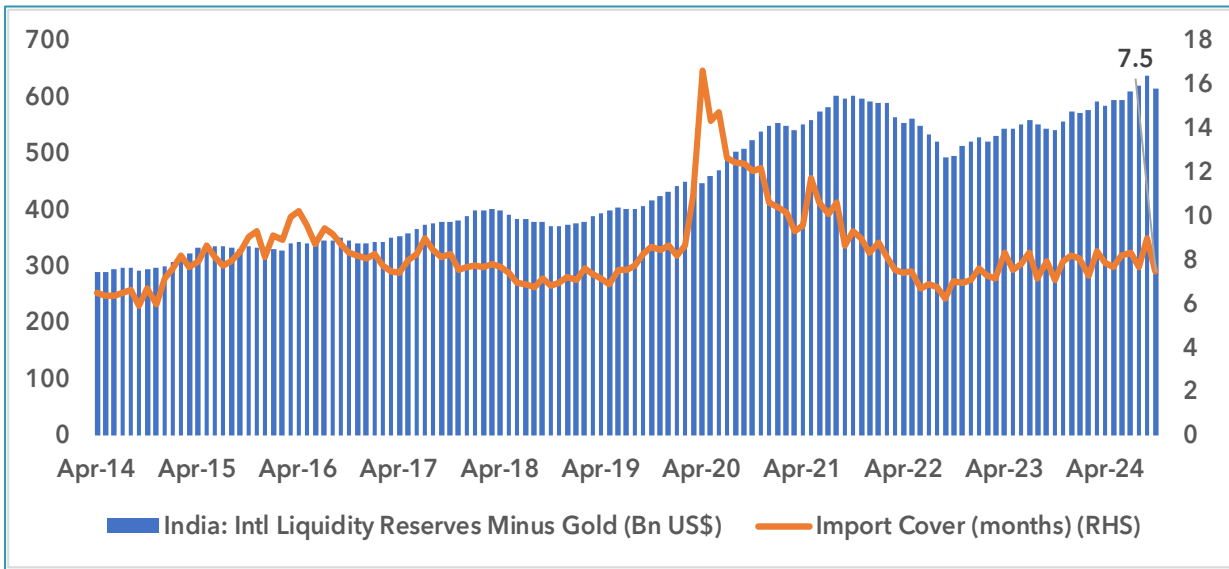
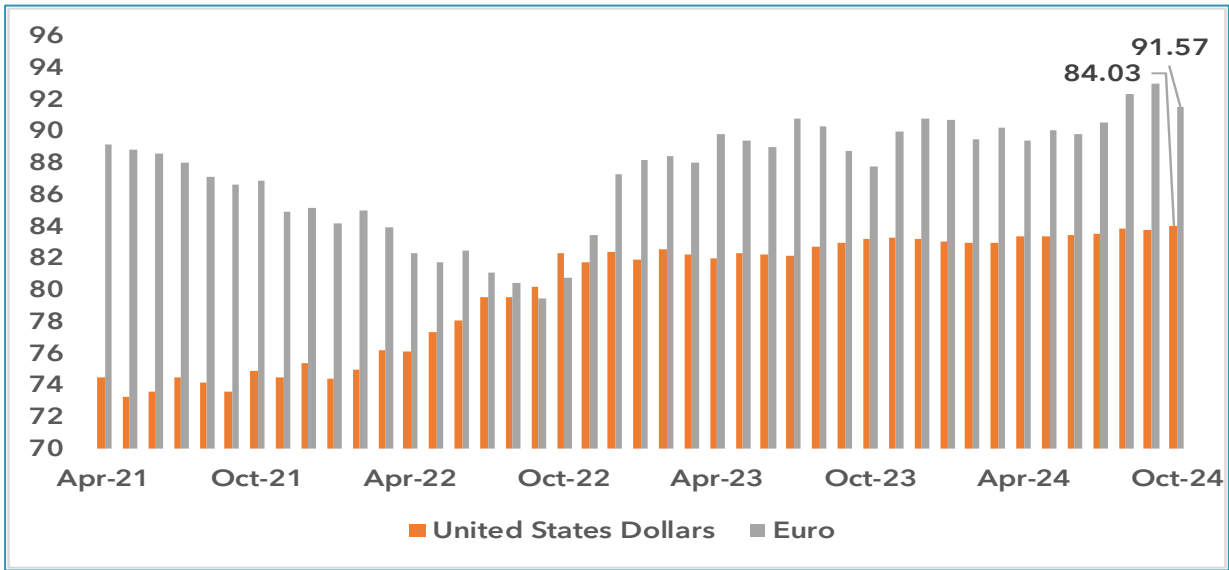
Exchange Rate



India's external sector faces pressures from decelerating foreign portfolio investment (FPI) inflows, constrained export growth due to global competition and weaker demand, and a widening fiscal and current account deficit driven by high oil and commodity imports. This has increased demand for foreign currencies, contributing to the depreciation of the Indian Rupee (INR) against the US Dollar (USD), **Dun & Bradstreet expects INR to reach 84.5 per USD by December 2024.** Factors such as slower global growth, rising commodity prices, and a stronger USD will continue to weigh on the currency. However, India's strong domestic growth prospects, resilient banking system, and diversified economy offer some protection against a sharper decline in the rupee.

Source: RBI, Dun & Bradstreet

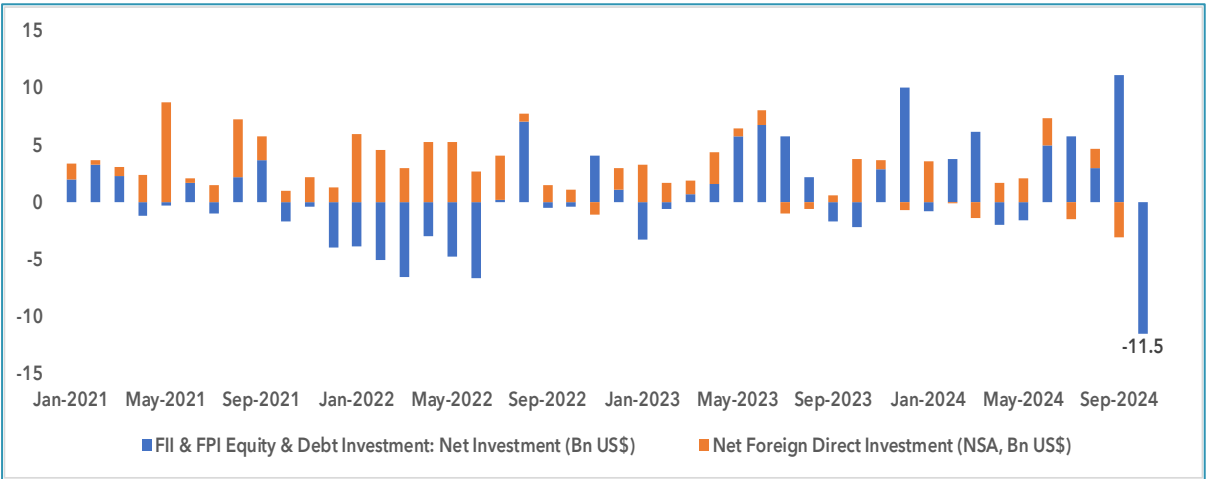
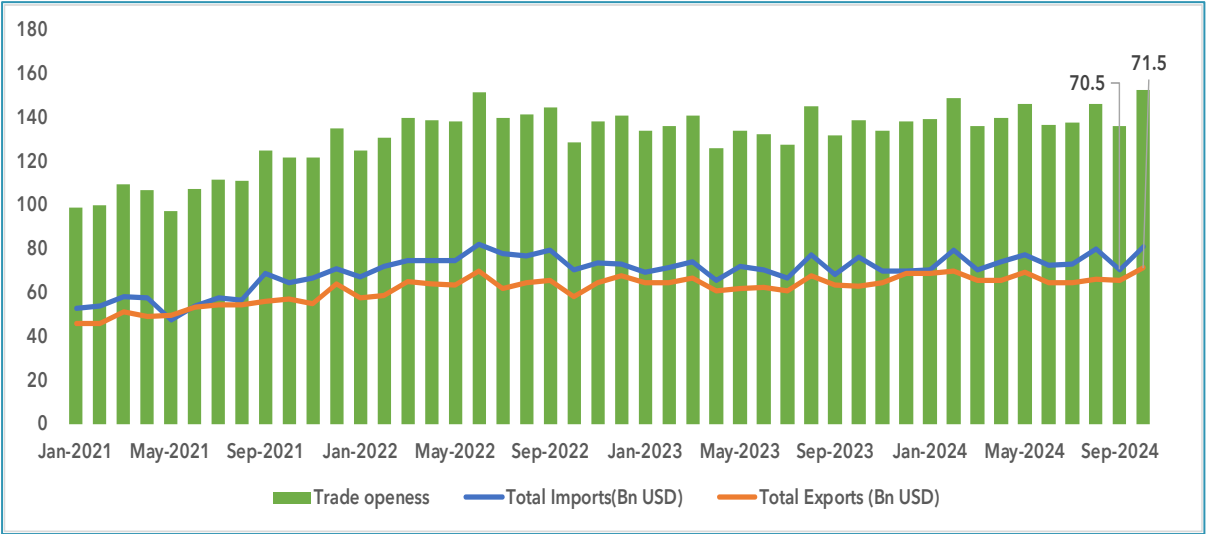
Indian currency movement viz a viz Dollar & Euro



In October 2024, India's external sector faced increasing challenges as the growth of foreign exchange reserves slowed to 7.5%, down from 9.0% in September. The decline was primarily driven by reduced Foreign Portfolio Investment (FPI) inflows, as global investors redirected capital due to monetary easing and expansionary policies in developed economies. This shift led to capital outflows from emerging markets, including India. Although reserves neared an all-time high in September, the recent slowdown signals potential vulnerabilities in the currency's stability. Going forward, the trajectory of India's foreign reserves will hinge on evolving geopolitical developments and shifts in global monetary policy, highlighting the need for prudent management of external sector risks.

Source: RBI, Dun & Bradstreet

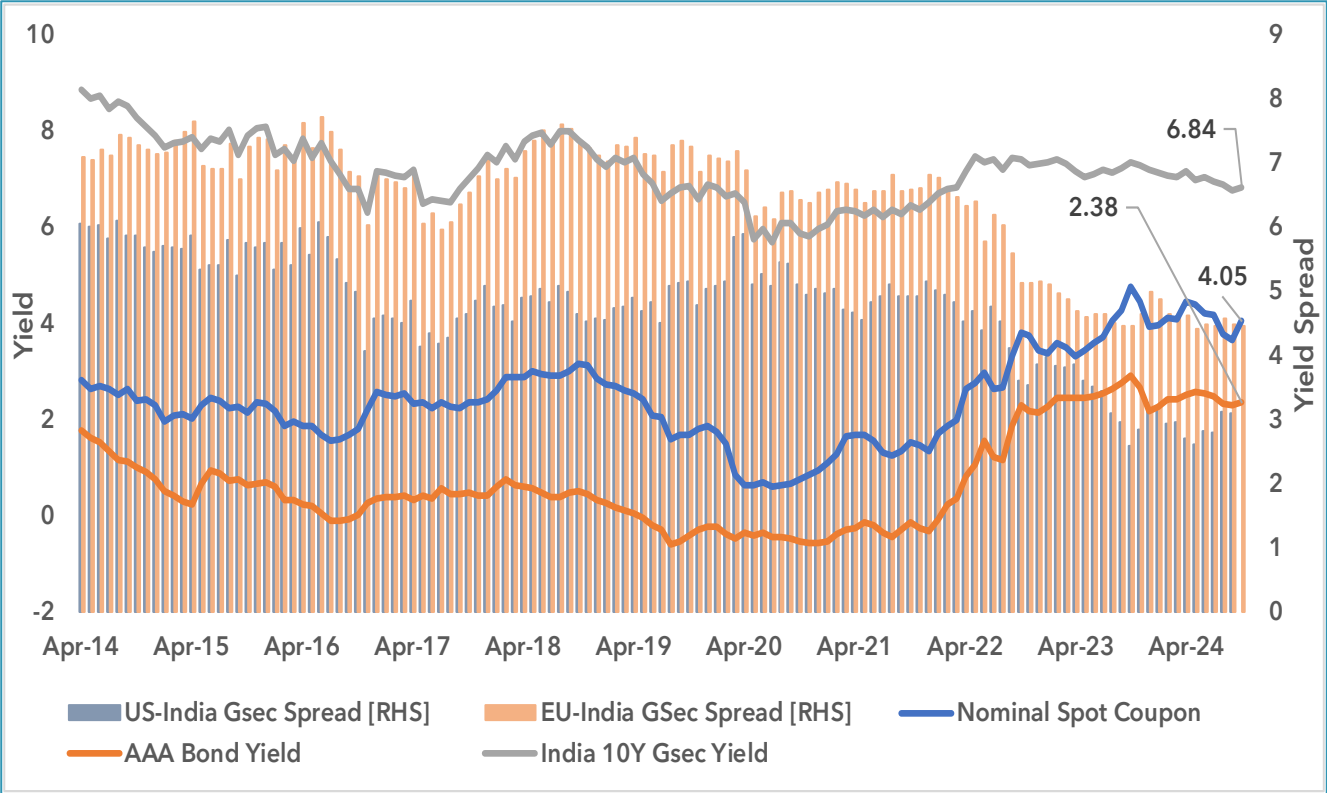
India's Trade position and dynamics of capital flows



India's trade deficit widened as import growth outpaced export gains, driven by rising domestic demand and higher global commodity prices. The persistent trade imbalance highlights challenges stemming from global economic uncertainty, fluctuating demand, and currency pressures. Meanwhile, capital inflows remained subdued, with both Foreign Institutional Investment (FII) and Foreign Direct Investment (FDI) showing declines. Weaker private investment further contributed to the slowdown, reflecting caution among investors amid tightening global financial conditions.

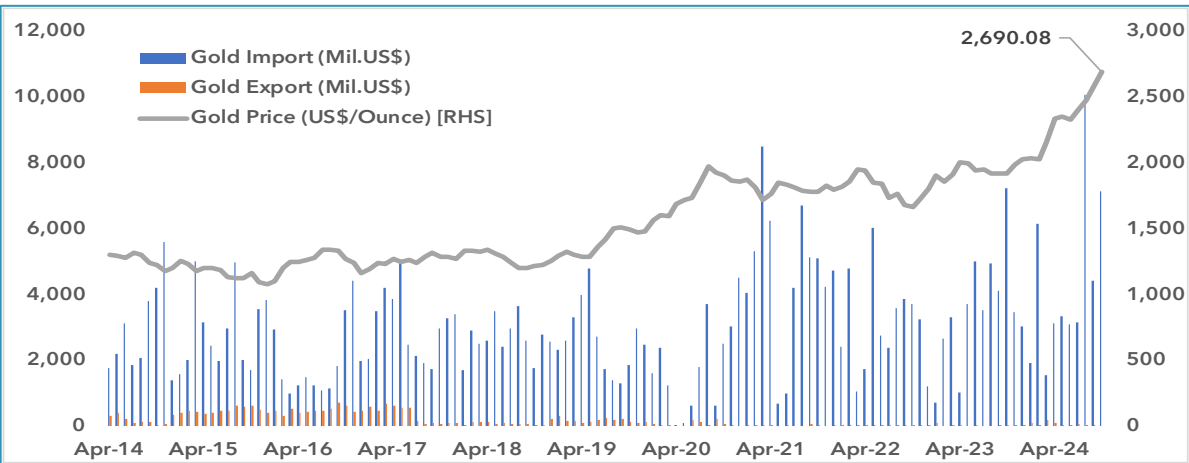
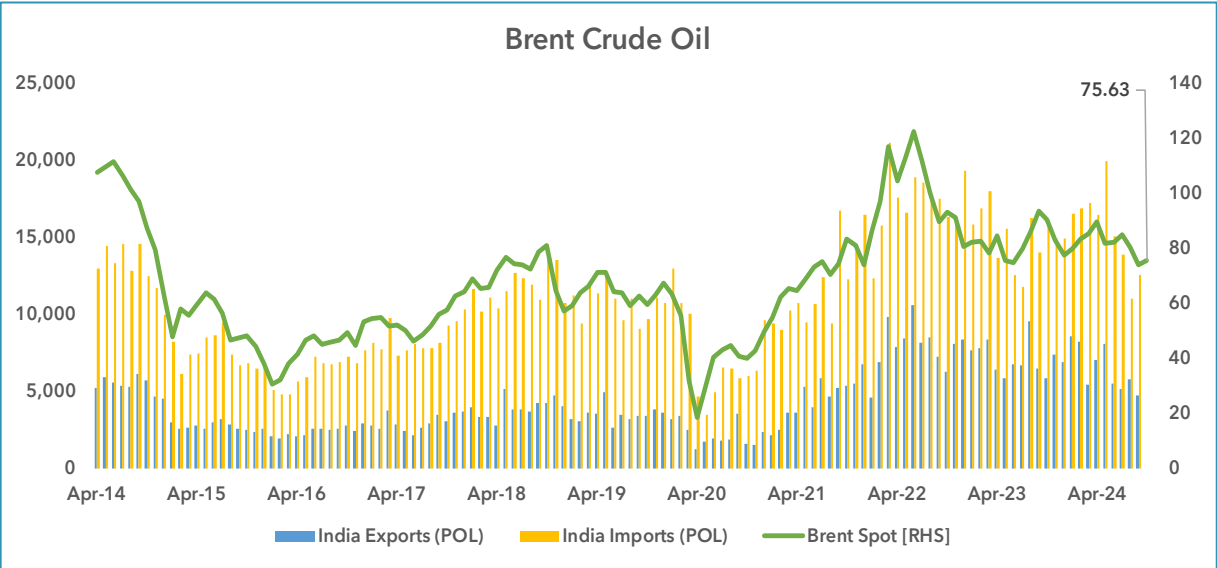
Source: Havers, Dun & Bradstreet

Yield Spread



India's bond market reflected a cautious yet stable outlook amid evolving global monetary dynamics. After a consistent decline earlier in the year, Indian government bond yields saw a slight uptick, signaling a cautious approach by the Reserve Bank of India (RBI) as inflationary pressures persisted. Meanwhile, US Treasury yields experienced a rebound, narrowing the yield spread but keeping India's bonds relatively attractive for investors. The stability of the AAA government bond yield curve in October highlights a favorable risk premium, suggesting continued confidence in India's economic fundamentals. Despite global monetary easing, the RBI's measured stance ensures India remains a resilient and appealing destination for foreign capital, balancing yield competitiveness with macroeconomic stability.

Crude Oil



India's trade dynamics reflected contrasting trends in petroleum and gold sectors. Brent crude oil prices stabilized slightly, rising from September's lows but remaining subdued compared to earlier months. Despite this, India's petroleum imports surged significantly, driven by increased domestic demand and stockpiling, while petroleum exports continued to decline, exerting pressure on the trade deficit. Concurrently, gold imports rebounded sharply after a dip in September, driven by rising global gold prices and strong domestic demand ahead of the festive season, while gold exports remained negligible. The rise in gold imports, coupled with elevated crude import costs, added strain to India's trade balance, highlighting the challenges of managing external pressures amid fluctuating global commodity prices.

Economy Observer is a monthly report that shares an in-depth analysis on key macroeconomic developments in India and provides a monthly forecast of key economic indicators, providing insight into the expected direction of the Indian economy.

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