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View from the top

As uncertainty over Omicron looms large, supply chain bottlenecks will not be the biggest challenge to growth. A demand downturn or fading optimism levels could be more painful. Omicron is becoming the dominant variant, spreading faster and forcing countries to close their borders or implement domestic restrictions. This will intensify supply bottlenecks further aggravating inflationary pressures and weigh upon the optimism levels and consumer demand. Both consumer spending and corporate earnings are thus at risk. Besides, the risk from faster policy normalisation by major central banks leading to tightening of financial conditions and stifling of growth impulses has increased. India will not remain decoupled if global growth weakens.

India has so far managed to recover strongly from the pandemic registering four consecutive quarters of positive GDP growth, however, recovery remains uneven across sectors and across regions. Rising inflationary pressures and faltering of growth momentum could widen this uneven growth. WPI inflation in November 2021 has reached the highest level in current series (2011-12), registering a double digit growth for eight months in a row, driven by largely by inflation in food and energy prices. Both core and manufacturing inflation stayed over 11% for the fifth successive month. While significantly high core inflation indicates input price pressures are eroding corporate earnings, sticky core inflation indicates that manufacturers are increasingly passing on the higher input costs to their output prices which will eventually impact consumer spending. High energy prices (oil, gas and coal) are driving the inflation in energy intensive products. Inflation in textiles, paper & chemicals, rubber & plastics, basic metals, fabricated metals has been in double-digits for several months. Moreover, increase in energy prices has already started impacted the credit performance of energy intensive sectors with increased risk of business closures, especially in the unorganised sector. Dun & Bradstreet Supplier Stability Indicator (SSI)™, which predicts the likelihood that a supplier in the sector will cease business operations or become inactive over the next three months has deteriorated since July and August 2021 for the energy-intensive sectors such as the primary and fabricated metal, cement, chemicals, and textiles sectors.

Notably, prices pressures are also visible in the consumer goods and services category under CPI inflation. Services inflation is expected to firm up as employment picks up. Dun & Bradstreet survey data show optimism of businesses for hiring employees rose to a 10-year high in Q4 2021. As demand for workers increase, wages will follow, especially in blue collar jobs. This is likely to lead to a wage price spiral putting further upward pressure on CPI inflation. Inflationary pressures might further dampen the confidence levels for spending and restrain the pace of revival in demand. Private consumption is still below pre-pandemic levels, as per the Q2 FY22 GDP data, while consumer sentiments on non-essential expenditure continue to be overall pessimistic in the current scenario and does not reflect improvement over the coming year according to the RBI's bi-monthly survey of consumer confidence. Given that inflation can be a drag on demand, investment should pick up driven largely by the government as low capacity utilization and uncertainty posed by the pandemic might keep private investment tepid at this juncture. The slew of infrastructure projects undertaken by the government, notably the PLI schemes, Gati Shakti project, inland waterways textile parks amongst others bodes well for India's growth.

Real Sector

GDP recovers to pre-pandemic levels while PFCE is yet to recover

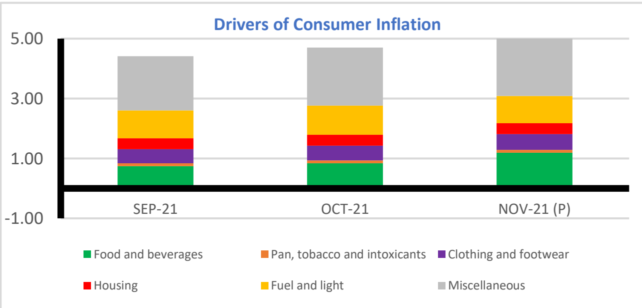
At 2011-12 prices		As % of FY2020 Numbers	
Recovery Trajectory		**Private Final Consumption Expenditure (PFCE)**	**GDP**
2020-2021	**Q1**	73.8	75.6
2020-2021	**Q2**	88.8	92.6
2020-2021	**Q3**	97.2	100.5
2020-2021	**Q4**	102.7	101.6
2021-2022	**Q1**	88.1	90.8
2021-2022	**Q2**	96.5	100.3

***Source**: MOSPI; D&B*

- Index of Industrial Production (IIP) grew by 3.2% (y-o-y) in Oct 21, as the favorable low base effect continued to wean off. Sep 21 y-o-y growth was 3.8%.
- GST revenue collection during Nov 21 stands at Rs 1,315 bn, a growth of 25.3% (y-o-y).
- India's Economic Policy Uncertainty Index decreased sharply to 30 in Nov 21 from 44 in Oct 21. It's the lowest since Jun 2007 when it was 28.
- Fiscal Deficit in Oct 21 is at 36% of the Budget Target on account of buoyant Tax Collection.
- Revenue Receipts in Oct 21 are 82% (y-o-y) higher than Oct 20.
- Net Tax Revenues are up by 83% (y-o-y) and Non-Tax Revenues are up by 78% (y-o-y). Apr-Oct 21 Customs Collections are up 122% (y-o-y). This is in tandem with the spurt in External Trade Volumes.

Price Scenario

Rising Food & beverages push up Consumer Inflation



***Source**: MOSPI, Office of Economic Advisor; D&B*

- **Consumer Price inflation in Nov 21 was higher** at 4.91%. compared to 4.48% the month before mainly on account of rise in Food & beverages.
- Food and beverage inflation was higher at 2.6% in Nov 21 from 1.8% in Oct 21. Inflation in oils and fats were the key reason for the rise.
- Inflation in services showed a marginal decline over Nov 21.
- Inflation in fuel and light was lower at 13.35% (y-o-y) in Nov 21 compared to 14.35%, (y-o-y) the month before.
- WPI moved higher to 14.23% (y-o-y) in Nov 21 compared to 12.54% in Oct 21. Sharp rise in inflation in Fuel & power and food articles contributed to the rise in wholesale inflation. It is the highest Wholesale Price Inflation number in the current series (2011-12).

Money & Finance

Bank Credit Deployment Oct 2021 vs. Oct 2019: Infra in Focus

Values in Rs 10 Million	Oct. 22 2021	Oct 25 2019	% Growth
Industries Total	**2,854,571**	**2,786,751**	**2.4**
Infrastructure	*1,081,059*	*1,019,784*	*6.0*
Basic Metal & Metal Product	*280,263*	*351,144*	*-20.2*
Other Industries	*232,056*	*222,620*	*4.2*
Textiles	*199,359*	*187,677*	*6.2*
Chemicals & Chemical Products	*185,374*	*176,120*	*5.3*
All Engineering	*147,637*	*166,861*	*-11.5*
Food Processing	*144,413*	*139,693*	*3.4*
Construction	*95,759*	*99,394*	*-3.7*
Vehicles, Vehicle Parts & Equipment	*82,822*	*82,552*	*0.3*
Gems & Jewellery	*70,162*	*62,792*	*11.7*

***Source:** RBI; D&B*

- Credit growth to industries picked up sharply in October (4.1%) across all sizes, with credit to large industries registering a growth rate after 13 months.
- Bank credit to services sector rose by 2.9% (y-o-y) in Oct 21 with Computer Software (10.7% y-o-y) and Shipping (35% y-o-y) registering high growth rates.
- Bank credit to wholesale trade grew by 13.9% % (y-o-y), while to retail trade it was just 0.7% (y-o-y) in Oct 21.
- Personal loans continued to grow in double digits; they grew by 11.7% (y-o-y) in Oct 21. Housing Loans declined by 3.5% y-o-y.
- **10-yr G-Sec average yield decreased** to 6.35% in Nov 21, marginally lower than the 6.36% average yield observed in Oct 21.

External Sector

Commodities driving India's imports in Apr-Nov 2021

Commodities Imported (Values in Billion USD)	Apr-Nov 2021
Petroleum, Crude & products	102.09
Electronic goods	44.56
Gold	33.29
Machinery, electrical & non-	24.88
Pearls, precious & Semi-precious	19.20
Organic & Inorganic Chemicals	19.15
Coal, Coke & Briquettes, etc.	18.82
Artificial resins, plastic materials,	12.81
Vegetable Oil	12.22
Non-ferrous metals	10.91
Iron & Steel	10.76

***Source**: Ministry of Commerce, Government of India, and D&B*

- **Merchandise trade deficit increased** to US$ 22.9 bn in Nov 21, highest ever (Data available since Jan 1968).
- Oil exports stood at US$ 3.96 bn in Nov 21, registering a growth of 154% (y-o-y) while oil imports grew by 132% (y-o-y) in Nov 21.
- Gold imports grew by 39.7% (y-o-y) in Nov 21.
- Foreign exchange reserves were at US$ 637.7 bn as on end Nov 21, US$ 58.4 bn higher than end March 2021 figures.
- FII investments in equities in Nov 21 saw an outflow of US$ 790 million while debt saw an inflow of US$ 131 million.
- Rupee appreciated to an average Rs 74.48 per US$ in Nov 21 as against Rs 74.93 per US$ during Oct 21.

Dun & Bradstreet's Macro Economic Forecasts			
Variables	**Forecast**	**Latest Period**	**D&B's Comments**
I.I.P Growth	7.0% - 7.5% Nov-21	3.2% Oct-21	Dun & Bradstreet expects growth in Index of Industrial production (IIP) to have picked up in the month of November 2021 partially owing to a low base and largely due to a pick-up in the economic activity. The rebound in demand is evident from the strong growth in revenue from tax collections. We believe that the traction in the construction sector in the upcoming months would add to the growth momentum of the IIP
Inflation W.P. I	14.6% - 14.8% Dec-21	14.23% Nov-21	High energy prices are increasing, feeding into core inflation. High and sticky core inflation indicates that manufacturers are increasingly passing on the higher input costs to their output prices. Retail inflation is thus likely to inch towards the upper limit of the Central Bank inflation target range. Moreover, price pressures are visible in the services category. We expect services inflation to firm up as employment picks up. As demand for workers increase, wages will follow, especially in blue collar jobs. This is likely to lead to a wage price spiral putting further upward pressure on Consumer Price Inflation **(**CPI) inflation
Inflation C.P.I (Combined)	5.9% - 6.1% Dec-21	4.91% Nov-21	
15-91 days T-Bills	3.55% - 3.65% Dec-21	3.56% Nov-21	While Central Bank's policy normalization measures will continue to keep yields on the short term bonds high, hike in interest rates by global central banks, increase in the pace of the taper of quantitative easing by the US Fed and hints that there might be three interest rate hikes in 2022 is pushing the yields on the 10-year benchmark higher. However, expectations of low government debt supply owing to buoyancy in revenues and Foreign Investment inflows in the debt market is likely to offset some of the upward pressures
10-year G-Sec Yield	6.4%-6.5% Dec-21	6.35% Nov-21	
Bank Credit	6.7%-6.9% Dec-21	6.98% Nov-21	
Exchange Rate INR v/s US$	76.0 Dec-21	74.48 Nov-21	Dun & Bradstreet expects stock market volatility, hike in interest rates by global central banks and strengthening of dollar to keep rupee subdued. Supply chain shocks are fueling inflationary pressures and exerting downside pressure on the domestic currency. Indian rupee may not come out of the bears grip in short-term. The 3 month and 6 month forward premia increased in the month of October (m-o-m) after three months of decline indicating depreciation pressures on rupee
All figures are monthly average			

Will supply and price shock of coal continue to impact India?

44% of the energy demand and 70% of the electricity generation of the US$ 2.7 trillion Indian economy is powered by coal. A supply or price shock of this commodity can create inflationary pressures, pose risk to businesses and in turn economic growth. While India is facing a supply shortage of coal, which the government is actively trying to alleviate, the bigger risk emanates from the increase in the global price of the commodity. Global coal prices (Australian coal) have increased by 300% (y-o-y) in October 2021 surging to an all-time high, as data available since 1970 with world Bank shows. Global supply and prices of coal are likely to remain under pressure which is tough to address only through domestic interventions. Data shows signs of stress have emerged in the energy-intensive sectors especially on the MSMEs players in the unorganised sectors as they were exposed to the shocks at a time when they were recuperating from the impact of the pandemic.

In all probability, India may not face disruptions at the scale experienced in China and Europe, thanks to the government's timely intervention in ramping up production and supply of coal, however, it is probable that the occurrence of similar episodes of supply constraints and price fluctuations might increase in times to come. We believe that there are three main factors, amongst others, which might lead to recurrence of such supply and price shocks and these needs to be addressed to restrain the overall impact.

To begin with, India's dependence on coal imports has grown over the years even as the domestic supply of coal has been growing at 5% annually (India is the 2nd largest producer of coal). Coal imports have doubled during the period FY13 to FY19, and imports meet one-fourth of the domestic demand. This is an area of concern because India will get only 50% of its energy requirements from renewables by 2030 and thus, coal remain an important source of energy supply to meet the energy requirements of the growing economy for at least until the 2030s.

Furthermore, unless coal production and despatches are not efficiently managed and financial conditions of the Indian distribution companies (DISCOMS) do not improve, India is likely to face similar episodes of supply constraints. Losses endured by DISCOMS have led to huge overdues to the power generators (as of March 2021 around Rs 680 bn was overdue to power plants), who in turn in turn have delayed payments to coal plants.

Finally, as countries start implementing the change in the energy mix from fossil fuels to renewables, to meet their commitments for net-zero carbon emissions as early as 2030, investment in coal production will decline. The global supply of coal, currently, is also likely to remain under pressure owing to large shortages of natural gas, geopolitical issues and supply concerns in key exporting countries. This will invariably result in surging coal prices in the interim and would continue to pose challenges for import-dependent countries like India. High prices and shortages in supply underscores the fact that the situation is unlikely to improve in the near term, potentially impacting competitiveness and broad-based revival in industrial activities in India.

Supply shortage impacted power plants

In the month of October 2021, out of India's 135 thermal power plants, an average of 53 thermal plants with 38% of total thermal power generation capacity, had only two days of coal stock left and power deficit during the same month turned out to be the worst in more than five and half years. Potentially, one percent annual increase in power deficit could wipe out more than 25 billion dollars of economic production, equivalent to the GDP of the state of Jammu & Kashmir or a country like Yemen. Although the supply situation has improved since then, risks remain. It will take another two to three months for the situation to normalize as till 28th November, thermal power plants had 9 days of coal stocks, an improvement from 4 days since end of September 2021. But as per the federal normative guidelines, pithead plants need to maintain stock for 15 days and non-pithead plants for 25-30 days depending on their distance from coal mines.

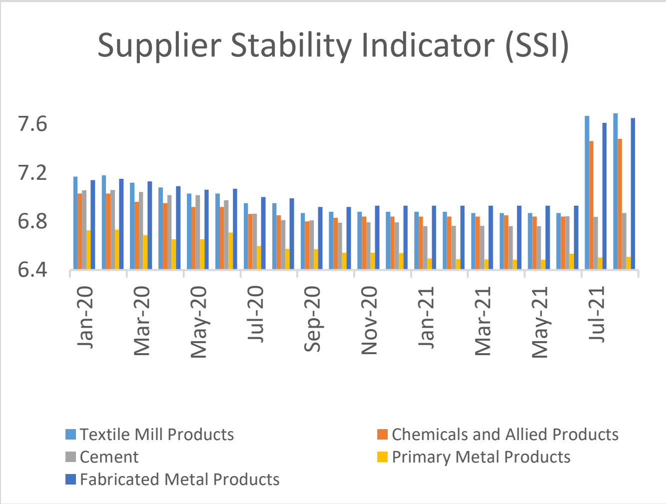
But inadequate planning led to a low supply of coal to non-power sectors disrupting production activity

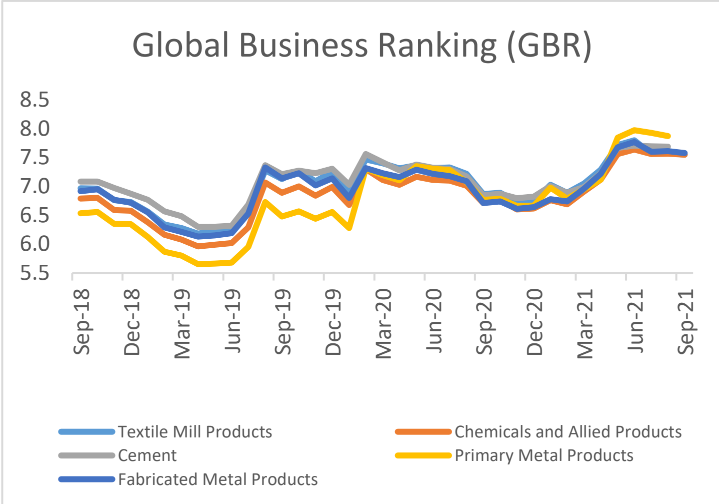
The interruption in supply to the non-regulated sectors is expected to have disrupted business activity. Non-power industrial sectors, cement, aluminum, steel, sponge iron and others, including the captive power plants faced a shortage of supply as Coal India Ltd and its subsidiaries, prioritized coal supply towards thermal power plants and refrained from conducting e-auctions. While coal supply to captive power plants improved in October, dispatches to other sectors registered a negative growth during October, the start of the festive season, and also during April to October (compared to the pre-pandemic period in 2019).

Increase in energy prices pose a bigger threat for energy-intensive sectors

While uncertainty of availability and power shortages can impact the production and supply decisions of firms, an increase in energy prices poses a bigger threat for importing countries like India. India is the 2nd largest importer of coal and its coal imports were almost double the quantity of coal European Union imported in 2019. Energy-intensive sectors like iron and steel, power, cement, and chemicals which account for almost 66% of total imports thus face erosion of profit margins. This has impacted their credit performance with increased risk of business closures, especially in the unorganised sector. The impact of the increased cost is, however, uneven across and within sectors depending on the grade of coal imported by firms. It we consider that firms in only two non-power energy-intensive sectors, cement and metals, decide to pass on the nearly a 4-fold rise in coal price, it would add a percentage point to WPI inflation

Signs of stress in these sectors have become pronounced. D&B Supplier Stability Indicator (SSI)™, which predicts the likelihood that a supplier in the sector will file for bankruptcy, cease business operations, or become inactive over the next three months has deteriorated since July and August 2021 for the energy-intensive sectors such as the primary and fabricated metal, cement, chemicals, and textiles sectors. The SSI assigns a score of 0 to 10 where zero (0) represents businesses that have the lowest probability of financial or operational stress, and ten (10) represents businesses with the highest probability of financial or operational stress.





Source: D&B data and analysis

Another indicator, D&B Global Business Ranking (GBR)™, which predicts the likelihood that a company will go out of business, become inoperable or inactive over the next 12 months, remains elevated for these sectors, despite re-opening of the economy. The GBR segment ranges from 1 to 15, with 1 representing least likelihood of going out of business, becoming inoperable or inactive and 15 representing the highest likelihood. The GBR projected out of business (failure) rates for segment 7 is estimated at 6.6% and for segment 8 it is 7.4%. Data showed that the average GBR segment for primary metals industry deteriorated from 7.08 to 7.87 year on year (Aug 2020 v/s August 2021).

Conclusion

Global shortages are affecting everything from metals to food. The current situation of supply shortages is becoming even more uncertain led by geopolitical factors which are often difficult to prognosticate. Supply chain planning and management has thus become the most critical factor of production and can be a major decisive factor for firm-level competitiveness and/or existence. Thus, signs of stress in sectors, effected by the supply shortage, should be monitored which would help in effective planning and distribution of the commodity. In the medium to long term, uncertainties are higher. Concerns around climate change have accelerated the shift to renewable energy and India must now aim to achieve its target for renewables much before its deadline to minimize the impact of the global supply or price shocks of this fossil fuel.