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ECONOMY OBSERVER



OCTOBER 2023

Geopolitical Conflicts Jeopardize Economic Gains – Dun & Bradstreet

“India’s economy continues to gain momentum, led by strong domestic factors such as private consumption and increased fixed investments. A significant advancement in freight transportation...”

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Dr Arun Singh, Global Chief Economist, Dun & Bradstreet said “Indian economy is gaining momentum driven by private consumption and investments. The completion of Dedicated Freight Corridors to significantly reduce transit duration and freight costs, spurring the establishment of new industrial hubs and attract foreign investments. These developments are crucial as current global uncertainties due to escalation of Hamas-Israel conflict could potentially impact economic activity worldwide, including India”.

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Real Economy

The festive season, spanning from August to November, to boost consumer spending. Coupled with public sector spending, this is poised to stimulate industrial activity. Nonetheless, the presence of geopolitical conflicts pose risk to global economic activity, potentially stalling the growth momentum seen in industrial activities. Dun & Bradstreet expects the Index of Industrial Production (IIP) to have grown by **9.0%** during September 2023.

Price Scenario

Worries about price pressure persist, especially due to geopolitical conflicts that could keep crude oil prices elevated. The instability in the Middle East introduces an element of uncertainty to the global commodity prices. The “fuel and light” category, which saw deflation in September, is anticipated to witness a minor upturn. Furthermore, inflation in cereals and pulses remains stubbornly high, while vegetable prices have begun to stabilize. Dun & Bradstreet expects the Consumer Price Inflation (CPI) to be **4.7%** and WPI to be around **(-)0.5%** for October 2023.



Money & Finance

Dun and Bradstreet expects that bond yields will stay elevated, as the Central Bank is set to sell bonds to keep liquidity tight. Besides, inflation will remain elevated due to the volatility in global energy and food prices. Weakness in Indian rupee coupled with surge in US bond yields appear to have instigated a shift in foreign investments towards US debt market which could keep yields under pressure. Dun & Bradstreet expects the 15-91-day Treasury Bills yield at **6.9%** and 10-year G-Sec yield to be **7.3%** for October 2023.



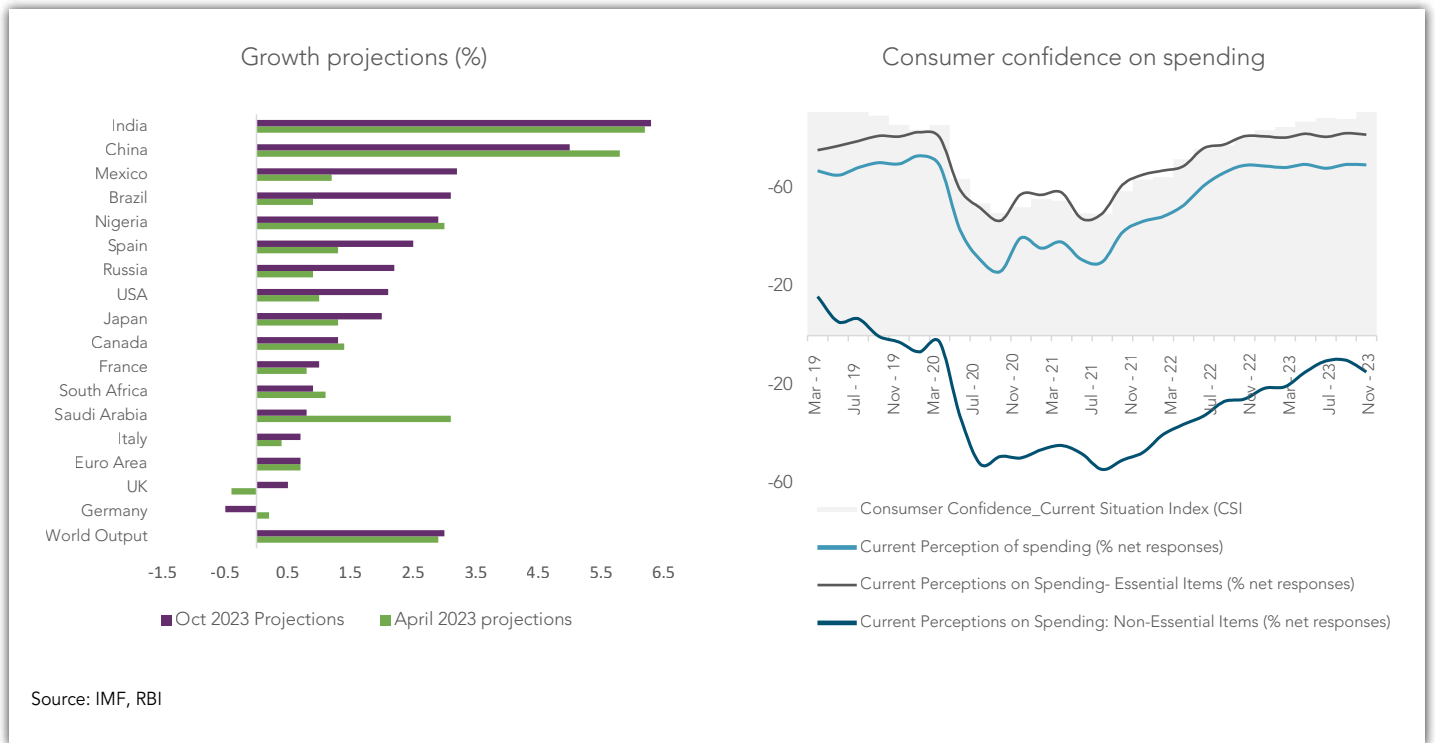
External Sector

Rupee to witness minimal relief as Federal Reserve is expected to maintain interest higher rates for longer period. The combination of elevated US Treasury yields, high crude prices and strength in the US dollar is likely to exert pressure on the rupee's strength. Additionally, the persistence of elevated headline inflation, although it moderated to a three-month low in September, contributes to downward pressure on the rupee. The Central Bank is expected to continue to intervene to stabilize rupee volatility. Dun & Bradstreet expects the rupee to remain at **83.3 per US\$** in October 2023 and **83.4 per US\$** in November 2023.

D&B's Economy Observer Forecast

Variables	Forecast	Latest Period	Previous period
IIP Growth	9.0% September-23	10.3% August-23	6.0% July-23
Inflation WPI	(-)0.5% October-23	(-)0.26% September-23	(-)0.52% August-23
CPI (Combined)	4.7%October-23	5.02% September-23	6.83% August-23
Exchange Rate (INR/US\$)	83.4 November-23	83.3 October-23 (est)	83.03 September-23
15-91 day T-Bills	6.9% October-23	6.6% September-23	6.49% August-23
10 year G-Sec yield	7.3% October-23	7.17% September-23	7.2% August-23
Bank Credit	19.2% October-23	20.0% September-23	19.8% August-23

Strong domestic growth amidst difficult external environment buoyed by domestic consumption and investment

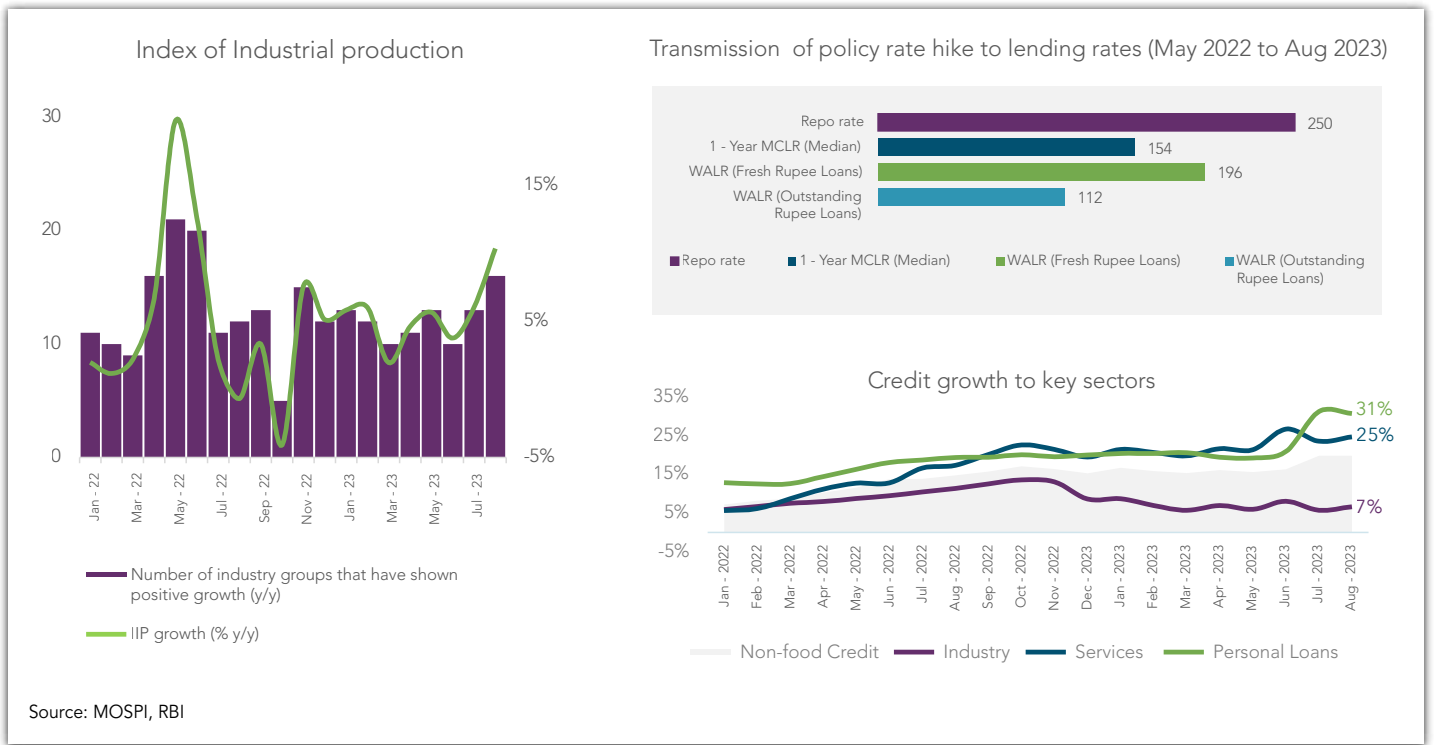


Source: IMF, RBI

Strong private consumption and uptick in public and private investment are expected to strengthen India's outlook.

- While, global growth appears to have lost pace from the third quarter of 2023 India's economy continues to gain momentum, led strong domestic factors such as private consumption and increased fixed investments, along with substantial public sector expenditure.
- The consumer confidence index (current situation index) reached a four-year high in September 2023. On a positive note, the consumer confidence for non-essential spending are also inching up.
- Key indicators reflecting demand conditions, such as e-way bill volumes, touched a historical high of 93.4 million units in August 2023. Additionally, the automotive sector, a key gauge of demand, continued to perform strongly.
- Passenger vehicle sales surged to a record high, and three-wheeler sales in August 2023 were the highest since October 2019.
- The broad based recovery in the industrial sector and the pickup in the construction and real estate sector augurs well for the domestic growth.

Growth Drivers: Industrial activity gains momentum and credit growth remains high despite high lending rates



The Index of Industrial Production (IIP) for August 2023 indicated broad-based acceleration in major industrial sub-sectors. IIP recorded double-digit growth of 10.3% in August 2023, the highest in the last 14 months.

- Riding primarily on the strength of public infrastructure spending and booming property market, the construction goods segments achieved a 15th month high growth of 14.9% in August. The pick-up in the growth of intermediate goods is an indication of strengthening order book positions. This is also reflected in the RBI's quarterly survey.
- As per the survey, manufacturing companies reported higher optimism on demand conditions during Q2:2023-24 and remained highly optimistic on production, order books, capacity utilisation and overall business situation till Q1 FY25.
- Despite the rise in lending rate, credit growth remains buoyant, signaling robust demand in the economy.

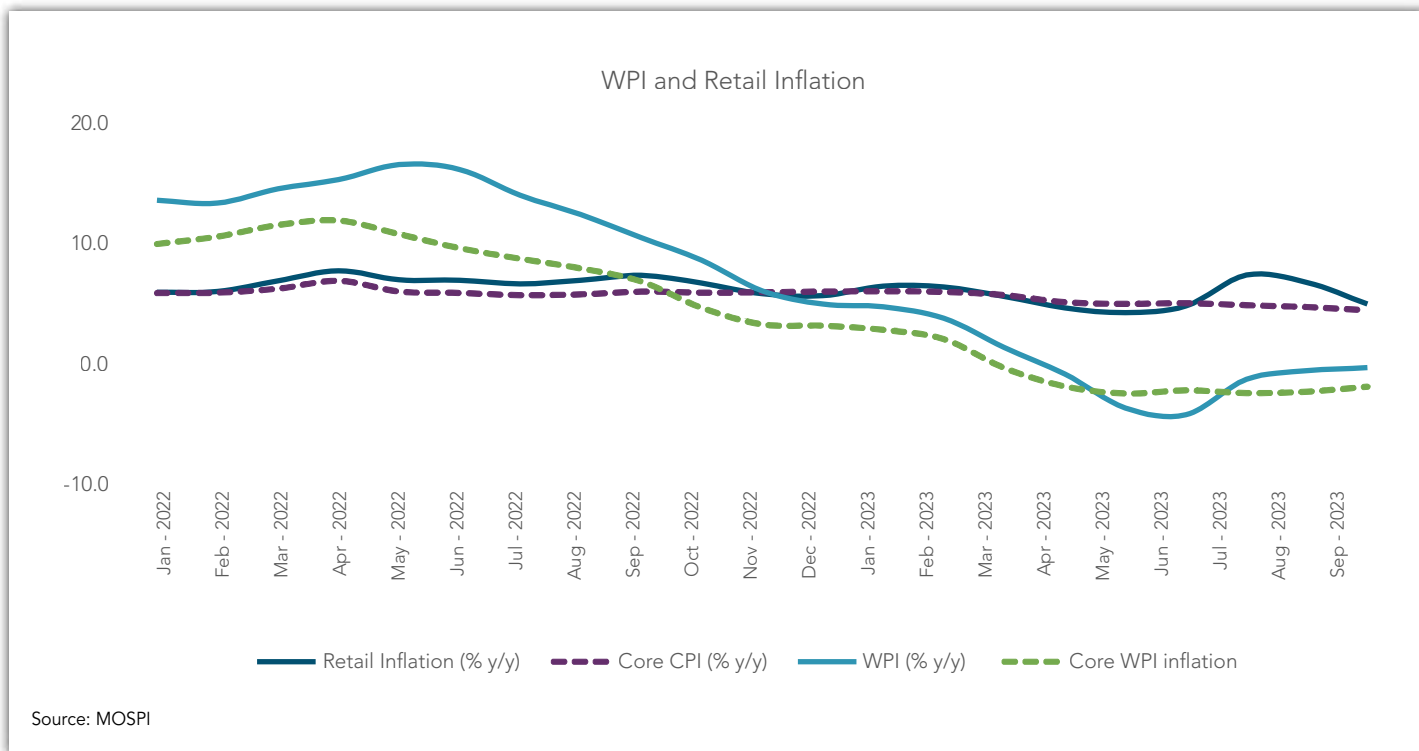
Growth drivers: Increase in construction activities and the resurgence of the real estate market to support growth momentum



The construction sector's momentum is likely to have been bolstered by government infrastructure projects. In September, key indicators in the construction industry remained robust, with a 10.9% year-on-year increase in steel production and an 18.9% year-on-year rise in cement production in August 2023.

- The growth in household investment, particularly in real estate, has been driven by pent-up demand. This is evidenced by the uptick in personal loans for housing and the increased sale of housing units. The rising demand for housing loans indicates households' confidence in their future employment and income prospects, reflecting strong consumer sentiments.
- Furthermore, the Future Expectations Index of the Consumer Confidence Survey conducted by the RBI reached a four-year high in the latest survey round, providing additional support to the positive consumer outlook.

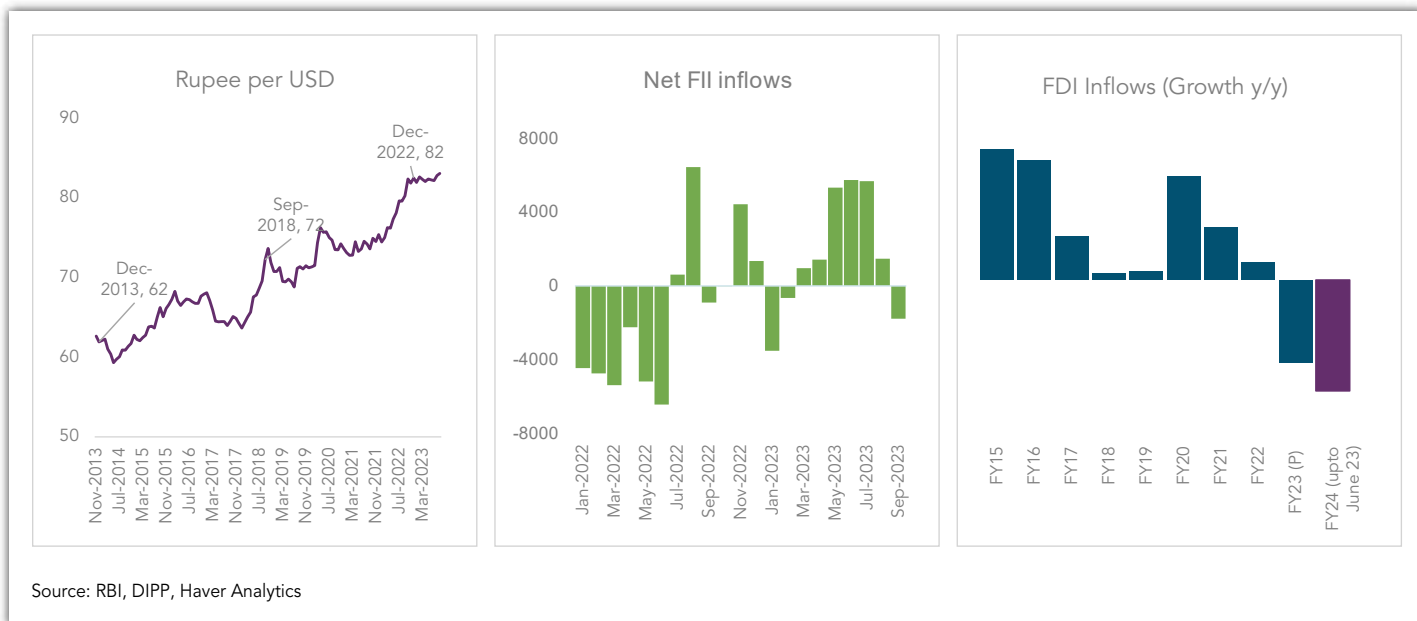
Risk to growth: Inflationary pressures are easing, but global crude oil and food prices price pressures pose upward risks



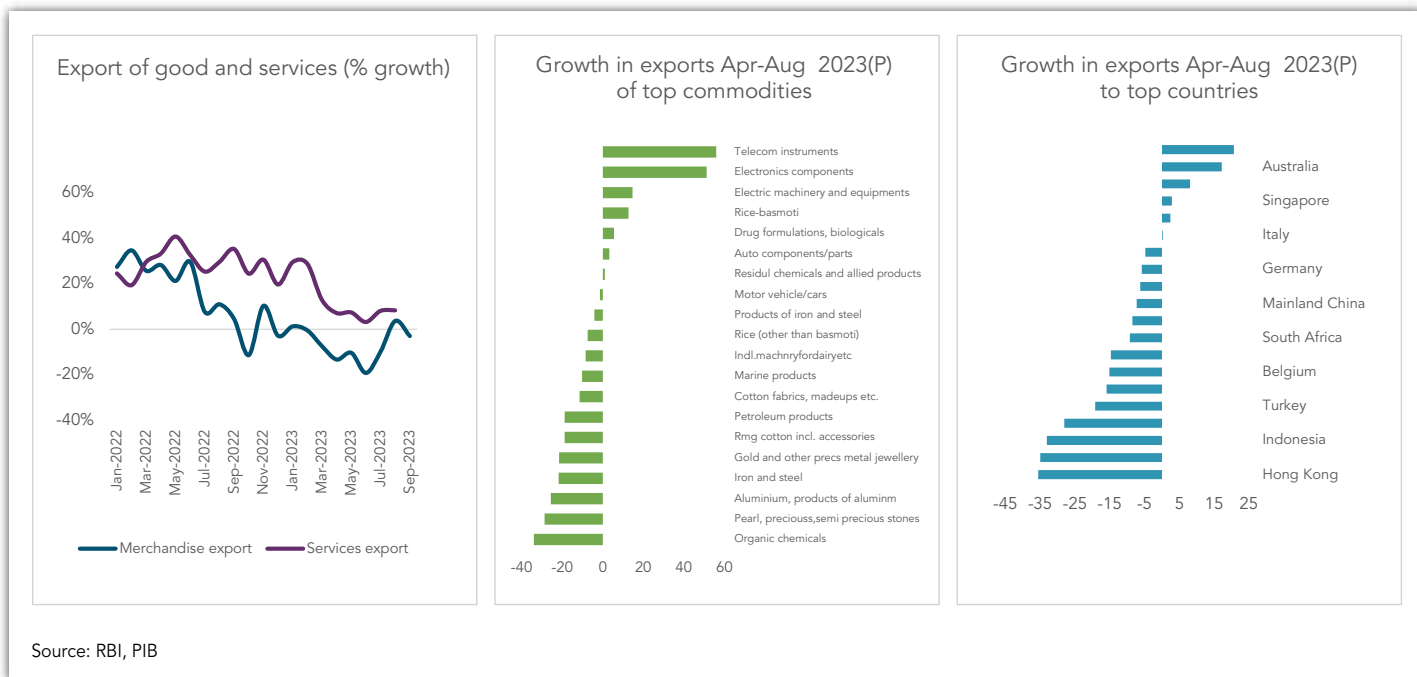
Elevated retail inflation poses risk to the consumption boost. Concerns over price pressures persist, as geopolitical conflicts threaten to keep crude oil prices high.

- Given the uncertainty surrounding over the price fluctuations given volatile global energy and food prices, the Central bank kept the monetary policy rates on hold for the 4th consecutive time.
- The unrest in the Middle East might introduces uncertainty to the global commodity price trends. The fuel and light category, which experienced deflation in September, is anticipated to see a slight increase.
- Retail core inflation moderated to 4.5% in September from 4.9% in August. The moderation was broad-based across most sub-groups. Inflation in personal care and effects, on the other hand, edged up after softening for three consecutive months due to a pick up in gold prices.
- In terms of regional distribution, rural inflation at 5.3% was higher than urban inflation (4.7%). Majority of the states registered inflation in the range of 4-6 per cent. Haryana, Karnataka, and Rajasthan recorded inflation between 6 to 8 per cent.
- Both Wholesale price inflation (WPI) and core WPI remained in deflation since April 2023.

Risk to growth: Rupee continues to depreciate, FII inflows turn volatile and FDI inflows moderate



Risk to growth: Pace of decline in merchandise exports moderates, but services export growth also tempers



- 13 of the top 20 commodities with an export share of 46% recorded a decline during April-August 2023.
- During the same period, growth in export to 14 of the top 20 countries with a 50% share in total exports witnessed a decline.

National accounts

Watch out for the Q2 GDP data which will be released on 30th November. According to the RBI's survey of professional forecasters India GDP is expected to grow by 6.3% in Q2 FY24. Real GDP grew by 7.8% in Q1 FY23 compared to 13.1% in Q1 2022-23.

HANDBOOK OF STATISTICS ON INDIAN STATES

Watch out for the 8th edition of the annual report released by the RBI which covers data on states for various dimensions – economic, social and demographic.

STATE FINANCES: A STUDY OF BUDGETS

Look out for the annual report which provides a compiled times series of the fiscal data of State governments in India and an analysis of the fiscal position. This edition will include the budget estimate for FY24.

REPORT ON MUNICIPAL FINANCES

To fill the gap of the absence of consolidated data on local governments comprising municipal corporations (MCs), municipal councils, municipalities/nagar panchayats and panchayati raj institutions the RBI released the maiden annual report on Municipal Finances in FY23. The report includes municipal finances, incorporating Municipal corporations (MCS) that account for around 70% of the finances of urban local bodies in India. This is going to be regular annual publication and will help India to align with the G20 Data Gaps Initiative, commencing from the year of its G20 Presidency.

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