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ECONOMY OBSERVER

DECEMBER 2022

Domestic growth concerns accentuated as global trade slows down and geo-political risk remains elevated – Dun & Bradstreet

Domestic growth concerns have been accentuated as recession fears loom, global trade slows down and geo-political risk remains elevated. As consumers and corporates...

"Domestic growth concerns have been accentuated as recession fears loom, global trade slows down and geo-political risk remains elevated. As consumers and corporates turn cautious over global economic prospects, financial tightening raises debt burdens of both households and corporates and profitability deteriorates, demand is expected to be moderate going ahead. Moreover, there will be pockets of distress especially from the export-oriented sectors. Depreciation in the rupee, imported inflationary pressures and widening of current account deficit amidst volatile foreign investment inflows will subdue growth in FY24 as well."

Real Economy

Dun & Bradstreet expects industrial production to remain subdued as demand is expected to moderate from the levels witnessed during the first half of the fiscal year. While a slowdown in global trade is expected to hurt export demand, domestic consumers will become more cautious as global recession fears loom and financial tightening raises debt burdens of both households and corporates. Further, worries over layoffs and uncertainty over inflation trajectory will likely postpone consumption decisions. Dun & Bradstreet expects the Index of Industrial Production (IIP) to have grown by 1.3% -1.7% during November 2022

Price Scenario

Although both wholesale and retail inflation eased to 21 month and 12 months lows respectively in the month of November, uncertainty prevails over the inflation trajectory. The respite in the inflation data came from the fall in fruit and vegetable inflation, as these products are cheaper during the winter months. We expect headline retail inflation to remain higher and ease by early FY24 as energy prices remain elevated and geopolitical risks keep prices of essential commodities higher. As the gap between wholesale the retail inflation narrows, the magnitude of pass-through from wholesale to retail inflation in the coming months will be lower. Dun & Bradstreet expects Consumer Price Inflation (CPI) to be in the range of 6.0% - 6.2% and Wholesale Price Inflation (WPI) to be around 6.0% - 6.2% in December 2022.

Money & Finance

Dun & Bradstreet expects yields to remain elevated across the curve. The US Fed's hawkish tone and plans for continued tightening next year as per its December 2022 meeting will keep investor concerns elevated and have added to the rate hike expectations by the Central Banks of emerging markets including India. In India, despite the latest policy rate hike by 35 basis points, the real interest rates remain below the Reserve Bank of India's estimated natural rate of interest i.e. between 0.8% and 1%. This suggests that there is scope for a further rate hike. Dun & Bradstreet therefore expects the 15-91-day Treasury Bills yield to average at around 6.40% -6.45% and 10-year G-Sec yield at around 7.30%-7.35% during December 2022.

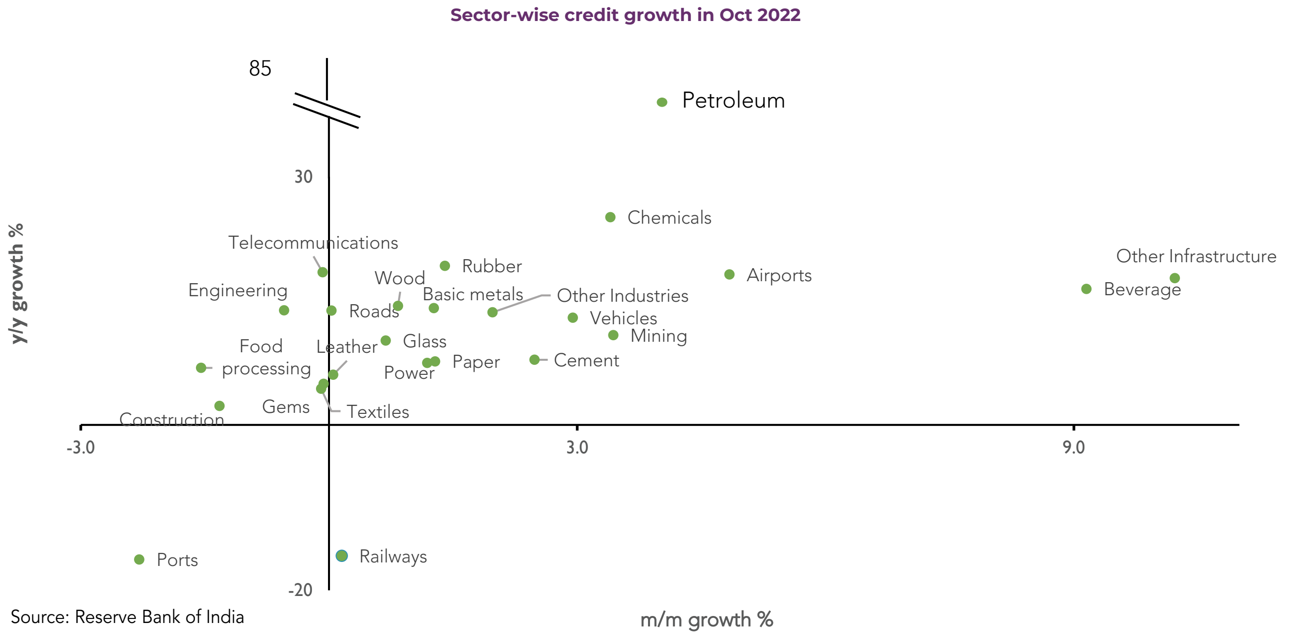
External Sector

As fears of recession keeps dollar elevated, trade deficit widens and the rising real effective exchange rate (REER) points to an overvalued rupee, the rupee will continue to depreciate. Although the return of FPIs to the equity market (net investment in equity market in November) bodes well for the rupee, the support might be temporary. Dun & Bradstreet expects the rupee to be at around 82.4 per US$ during December 2022.

D&B's Economy Observer Forecast

Variables	Forecast	Latest Period	Previous period
IIP Growth	1.3% - 1.7% Nov-22	-4.0% Oct-22	3.1% Sep-22
Inflation WPI	6.00% - 6.20% Dec-22	5.85% Nov-22	8.39% Oct-22
CPI (Combined)	6.00% - 6.20% Dec-22	5.68% Nov-22	6.50% Oct-22
Exchange Rate (INR/US$)	82.40 - Dec-22	81.81 Nov-22	82.34 Oct-22
15-91 day's T-Bills	6.40% - 6.45% Dec-22	6.46% Nov-22	6.29% Oct-22
10 year G-Sec yield	7.30% - 7.35% Dec-22	7.36% Nov-22	7.46% Oct-22
Bank Credit*	12.00% - 12.30% Dec-22	15.61% Nov-22	16.7% Oct-22

Momentum in credit growth remains weak only in few industrial sectors



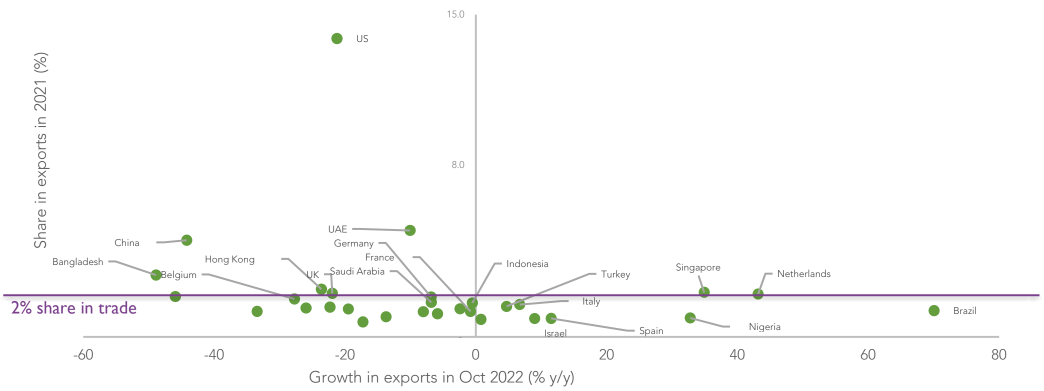
Source: Reserve Bank of India

Momentum in credit growth appears to have picked up pace both in m/m and y/y basis in majority of the industrial sectors as depicted by the right uppermost quadrant

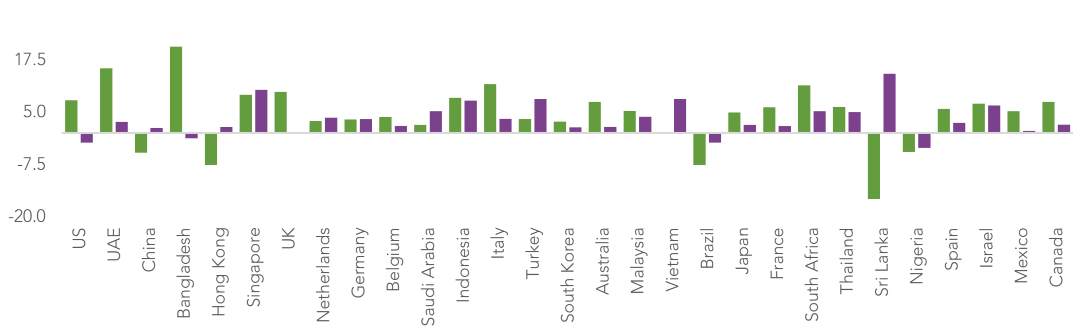
- Increase in credit growth in capital intensive sectors such as petroleum, airports, chemicals, mining, automobles and auto components and transport equipment, cement, metals etc. indicates investment activity to have gained some traction.
- Data also shows gross fixed capital formation has grown by around 10% during the period July to September 2022 and its share to GDP rose to 34.6%, highest since Q3 FY13, barring Q1 FY23.
- Weak momentum in credit growth to labour intensive sectors such as construction, textiles and food processing sectors are areas of concern. The index of industrlal production data shows that manufacturing activity has contracted strongly in textile and food processiong sectors and remains weak in construction activity.

Import demand for India's top 30 major trading partners to moderate strongly in 2023 indicating weak export growth

Share and growth in exports of India' top 30 export partners



Import forecast (IMF) for India' top export partners (arranged in the order highest share in India's export basket)

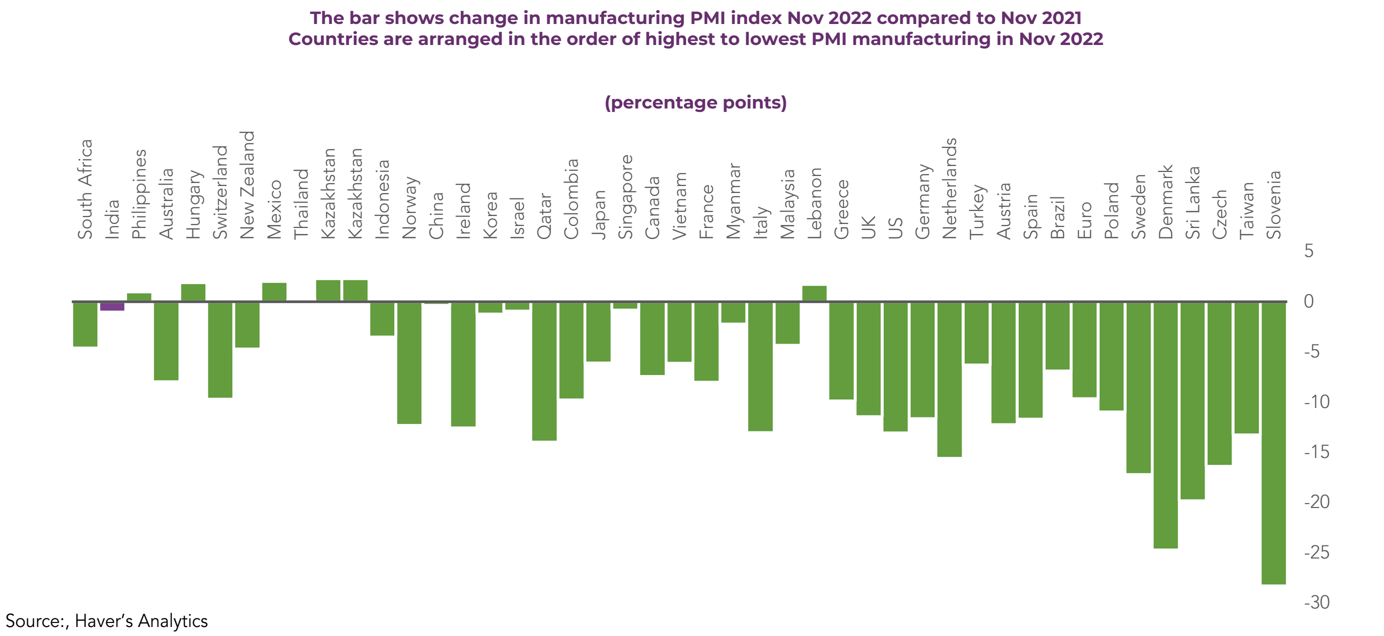


Source:, Haver's Analytics, Department of commerce

India's export outlook darkens as import demand of 60% of India's top 30 partners are expected to contract or witness a slowdown in 2023

- In October, India's export growth declined by more than 12%, while imports also fell to single digit growth of 9.7%.
- Country wise data reveals exports growth for 21 out of India's top 30 export partners had contracted in October, who had a 50% share in overall exports in 2021.
- Even as India's export growth picked up in the month of November 2022, the concern has not abated as the slowdown in exports is expected to continue well into 2023.
- Out of the top 30 export partners, import growth (in volume terms) is forecasted by IMF to contract or slowdown significantly in 18 countries in 2023 compared to 2022.
- Import volumes in five countries including US, UK, Bangladesh, Brazil and Nigeria which contributed to 21% of exports in 2022 is expected to contract in 2023 indicating exporters should remain cautious and vigilant about the developments in these countries and start planning for diversification.
- However, 11 countries, including China, Singapore, Saudi Arabia, Germany, and Brazil will clock higher import growth rates in 2023 compared to the previous year.

Manufacturing activity of India is one of the highest globally



Source:, Haver's Analytics

The PMI manufacturing index, which asseses the direction and strength of manufacturing activity, shows weak manufacturing activity across a number of countries compared to their level measured a year ago.

- 22 out of selected 43 countries, including major manufacturing hubs like Taiwana (41) and Germany (46) reported a manufacturing PMI reading of of below 50, where data below 50 indicates contraction.
- India reported a 3 month high index of 55.7, above its long term average around 54 as resilient demand supported the confidence level of firms.
- However, we expect the manufacturing activity to moderate from the levels witnessed during the first half of the fiscal year as slowdown in global trade is expected to hurt export demand, domestic consumers will become more cautious as global recession fears loom and financial tightening raises debt burdens of both households and corporates.

First advance estimates of national income, 2022-23

The First Advance Estimates of GDP, introduced in 2016-17 to serve as essential inputs to the Budget exercise, is based on limited data and compiled using the Benchmark-Indicator method i.e. the estimates available for the previous year (2021-22 in this case) are extrapolated using relevant indicators reflecting the performance of sectors. To be released on 6th January 2023

First revised estimates of national income, consumption expenditure, saving and capital formation, 2021-22

The First Revised Estimates of National Income, Consumption Expenditure, Saving and Capital Formation for the financial year 2021-22 to be released on 31st January. The First Revised Estimates for the year 2021-22 is compiled using industrywise/institution-wise detailed information instead of using the benchmark-indicator method employed at the time of release of Provisional Estimates.

Payroll Reporting in India: An Employment Perspective _ November 2022

Watch out for the payroll reporting data for November, which gives perspectives on the levels of employment in the formal sector in India but does not measure employment at a holistic level. Since April, 2018 this Ministry has been bringing out the employment related statistics in the formal sector covering the period September 2017 onwards, using information on the number of subscribers who have subscribed under three major schemes, namely the Employees' Provident Fund (EPF) Scheme, the Employees' State Insurance (ESI) Scheme and the National Pension Scheme (NPS).

Consumer Price Index (Rural, Urban and Combined)

Watch out for the Consumer Price Inflation (CPI) or retail inflation data for the month of December to be released on 12th January. CPI has eased below 6% i.e. RBI's upper target limit in November. The pace of moderation in the retail or headline inflation would further influence policy rate hike decision by the Central Bank.

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