dun & bradstreet

ECONOMY OBSERVER

FEBRUARY 2023

The reversal in the headline inflation along with flattening of the yield curve points to policy uncertainty

> *"There is a sustained momentum in economic activity supported by domestic drivers. However, the risk from the external crisis is far from over. India will not remain completely ...*

> There is a sustained momentum in economic activity supported by domestic drivers. However, the risk from the external crisis is far from over. India will not remain completely insulated from the external economy which is hardly out of the woods. Current account deficit, volatile foreign investment inflows, depreciating rupee, risk aversion of global investors and tightening of liquidity could impede India's growth momentum if the global economic environment deteriorates. Net profit growth (y-o-y) of non-financial corporates remained negative for the second consecutive quarter, according to the RBI's data. Dun & Bradstreet's survey of corporates across India also indicate that the optimism for both net sales and selling price for Q1 2023 were the lowest since Q3 2021.

Real Economy

Even as India remains the fastest growing economy globally, the intensity of global spillover remains uncertain. India's growth has remained resilient so far, but the external demand that supported its growth momentum will remain weak in the near term. However, consumer confidence survey by the Reserve bank of India points towards rising confidence of households both for the current situation as well as for the future (for a 1 year period) While rural demand is likely to be boosted by prospects for agricultural output, discretionary spending is expected to support urban consumption supporting industrial output. Domestic supply side pressures also continue to ease further. Resilient financial markets, sturdy growth in credit and the government's thrust on capital expenditure is expected to drive momentum in investment activity. Dun & Bradstreet expects Index of Industrial Production (IIP) grow by 3.5% - 4.0% in January 2023.

Price Scenario

The spike in the retail inflation in January 2023 have raised apprehensions about the inflationary trajectory. While food inflation continues to remain a challenge, inflation has become more broad-based. The rise in cereal inflation to 16%, highest since 2011 (since the new series was adopted) and particularly pronounced in rural areas, recording a rate of 17.2%, is a cause of concern. With the recovery in rural and informal sector demand, inflation is likely to remain elevated. Besides, impact of above normal temperatures on certain crops to be harvested in March could also impact food inflation. However, there is respite from easing of WPI inflation to 24-month low of 4.73%. The high and sticky core retail inflation, along with waning way of the moderation in domestic food prices remains a risk to the headline inflation. Dun & Bradstreet expects wholesale inflation to further ease out to 3.7% - 3.9%, while the retail inflation is likely to maintain the momentum and remain around 6.2%-6.4% in the month of February 2023

Money & Finance

Banks have revised their external benchmark-based lending rates upwards by 225 bps during May 2022 to January 2023. The 1-year median marginal cost of funds-based lending rate (MCLR) of SCBs has increased by 120 bps. Consequently, the weighted average lending rates (WALR) on fresh and outstanding rupee loans of scheduled commercial banks have increased to 137 bps and 80 bps, respectively, during May-December 2022. We had earlier expected the Central Bank to 'wait and watch' in its next policy meeting before signaling an end to its tightening cycle. However, the reversal in the headline inflation has raised concerns about the stance to be taken by the Central Bank on the policy rate hike when it meets in April 2023. The gap between the yields on 10-year and 30-year G-sec have narrowed significantly (7.36% for 10-year and 7.39% for 30-year G-Sec), indicating uncertainties regarding the direction of interest rate trajectory in the short term. The likely yield inversion, where the long-term papers trade at discount over short term papers suggest that market participants are less certain about economic activity in the short-term. The domestic market is witnessing tightening of liquidity and the lower appetite for the short-term securities – the spread between the one-year and 10-year yields are at four-year low. Dun & Bradstreet therefore expects the 15-91-day Treasury Bills yield to average at around 6.5% -6.6% and 10-year G-Sec yield at around 7.27%-7.32% during February 2023.

External Sector

Stronger dollar owing to concerns over higher interest rates for longer period amid higher inflation and upbeat economic data in USA is expected to keep rupee weak in the near term. Forex outflows from

capital markets and weak domestic market to add to the downward pressure on rupee. Risk aversion in global markets and year-end dollar demand from importers to weigh on the rupee. The current account deficit (CAD) is also expected to widen given the lackluster performance of exports. Dun & Bradstreet expects the rupee to be at around 82.6 per US$ during February 2023.

D&B's Economy Observer Forecast			
Variables	Forecast	Latest Period	Previous period
IIP Growth	3.5% - 4.0% Jan-23	4.3% Dec-22	7.3% Nov-22
Inflation WPI	3.7% - 3.9% Feb-22	4.73% Jan-23	4.95% Dec-22
CPI (Combined)	6.2% - 6.4% Feb-23	6.52% Jan-23	5.72% Dec-22
Exchange Rate (INR/US$)	82.6 - Feb-23	81.90 Jan-23	82.46 Dec-22
15-91 day's T-Bills	6.5% - 6.6% Feb-23	6.41% Jan-23	6.39% Dec-22
10 year G-Sec yield	7.27% - 7.32% Feb-23	7.39% Jan-23	7.31% Dec-22
Bank Credit*	15.5% - 15.8% Feb-23	14.9% Jan-23	12.9% Dec-22

Consumer Price Index (Rural, Urban and Combined)

Following the higher-than-expected rise in retail inflation, watch out Consumer Price Inflation (CPI) for the month of February to be released on 14th March.

US FOMC meeting (Federal Open Market Committee Schedule)

Watch out the US FOMC meeting to be held in March 2023 for the economic projections that can guide the further movement in interest rate as the US Fed appears to be more focused towards controlling inflationary situation in the country while the recessionary stances ease out.

Balance of Payments

Watch out the quarterly release of Balance of Payments (BoP) statement that is likely to depict the adequacy of Capital account items to cover the current account deficit. Should the BoP continue staying in defict, it could cause additional stress on the country's forex reserves.

Industrial Outlook Survey

RBI is expected to release Industrial Outlook Survey by March 2023 that assesses the business sentiment of Indian manufacturing industries for Q4 FY 2023 and their expectations for Q1 FY 2024 as well as outlook for the two subsequent quarters which can provide insights on the manufacturing sector

Research Team
Dr. Arun Singh | Dipshikha Biswas | Annie Mahajan

Please send your feedback to Dr Arun Singh, Global Chief Economist.
Dun & Bradstreet Information Services India Pvt. Ltd., 7th Floor, Godrej BKC, Bandra (East), Mumbai – 400051 | CIN - U74140MH1997PTC107813
Tel: 91-22-4941 6666 | Email: SinghArun@DNB.com | www.dnb.co.in